

Farmers can find worthwhile benefits in 1981 tax cut package

KANSAS CITY, Mo. — The Economic Recovery Tax Act, which will mean lower taxes for everyone, also holds extremely important opportunities for the nation's farmers who are more than ever concerned with the necessity of solid tax planning strategy.

Look for tax breaks, say tax specialists from H & R Block, Inc., in areas including estate tax regulations, lowered corporate tax rates, investment tax credits, and equipment and vehicle depreciation. Most dramatic are the changes forthcoming in estate taxation, whereby taxes will be completely eliminated for estates up to \$600,000 in value — a critical plus for families owning farms.

While the effects of any one of these cuts may not be as much as hoped, they will become meaningful to today's farmer, whether large- or small-scale, when considered with the general tax cuts such as the 25 percent reduction of rates over the next two and a half years," says

Thomas A. Bloch, president, tax operations, H & R Block, Inc.

An area of general interest which will impact the farmer favorably is the increased ceiling on the amount of money the self-employed farm operator will be able to contribute to Individual Retirement Accounts which are currently tax-free to \$1,500. The allowable amount, effective January 1, will be \$2,000, or \$2,250 for spousal accounts (accounts for families with one working and one non-working spouse). Also increased are maximum total contributions, which will be \$15,000, up from \$7,500, for self-employed (Keogh) Retirement Plans.

Farmers will also be positively affected by new rules regarding depreciation write-offs, which should be generally favorable to farmers.

As a result, points out Bloch, the farmer will benefit from taking a close look at those tax opportunities which have been made available through the Accelerated

Cost Recovery System.

Sometimes referred to as "10-5-3," the legislation establishes new, clearly outlined recovery periods for eligible categories of buildings, equipment and vehicles, along with longer 15-year periods for certain real estate holdings. This system will replace the current "useful life" method of depreciation.

With each recovery period are delineated specific percentage tables. The effective rate for assets placed into use in years 1981 through 1984 is 150 percent declining balance, switching to straight-line to take maximum advantage of the deduction.

In 1985, this rate will increase to 175 percent, with another increase in 1986 to 200 percent. Those who will not benefit or who do not wish to use an accelerated writeoff will be allowed to use a straight line writeoff over the specified recovery period or over a longer specified period.

• Three-year property is defined as cars, light trucks, and

machinery used in research and development activities. For assets placed in service in tax years 1981-84, you can deduct 25, 38, or 37 percent of the unadjusted basis, respectively, over the three-year period.

• Five-year property covers all other machinery and equipment, grain bins, fences, etc. Five-year property placed in service in 1981-84 will be written off at 15 percent the first year, 22 percent the second, and at 21 percent the next three years.

• Ten-year property category includes owner-occupied business property. For farmers this includes barns, outbuildings, livestock structures, and so on. The writeoffs for ten-year property placed in service in 1981-84 are 8 percent for the first year, 14 percent for the second, 12 percent for the third, 10 percent for each of the next three years and nine percent for each of the four remaining years.

Farmers should note that each of these percentages will increase in

1985 and again in 1986, noted Bloch.

Rules for recapture of unearned investment credit have also been made more favorable. A percentage of the credit will be allowed for each full year that an asset remains in service. The total credit allowable for a year's period will be 33 1/3 percent of the total for three-year property, and 20 percent of the total for 5-, 10-, and 15-year property.

The present period for carry-over of unused job credits, investment tax credits and net operating losses has been extended retroactively. Farmers may carry over for up to 15 years — as opposed to the current seven — those NOLs sustained in tax years after 1975, WIN (Work Incentive Credits), and investment credits earned in years after 1973, and job credits earned after 1976.

For those farmers using alcohol or gasoline as fuel, note that a 15-year carryover period will apply where such credits total more than

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