

Brockett's Ag Advice
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Capital Purchases - Depreciation 1981 Style
 Due to the 1981 tax law changes, depreciation no longer offers the flexibility to tax planning it once did.

It is still an item that has some value, but the range in depreciation that can be used with new purchases has been severely curtailed. The new law has pretty well set the depreciation rates for all types of depreciable farm assets. Each item will fall into one of three predetermined categories as to depreciable (or cost recovery) life.

The new depreciation system is called an Accelerated Cost Recovery System. As far as I can tell from the literature, the old 20 percent first year option, both types of accelerated depreciation, and the option to set the life of an item based on historical use are no longer available. This new law is

effective for items purchased since January 1, 1981.

The ACRS method sets the percentage of the original cost of an item that can be taken each year. Thus an item in category 1, has a recovery allowance (depreciation) of 25 percent the first year, 38 percent the second year, and 37 percent the third year. Category one would include cars, trucks, and breeding hogs but not dairy cows. These items would have a life of 3 years.

A taxpayer can choose to use the ACRS straight line method and select a life of 3, 5 or 12 years (not 4 or 7 or 10). In this case, only 50 percent of the straight line annual depreciation can be used in the first year. For both the regular and straight line ACRS methods, it appears as though the same recovery allowance (depreciation) could be used regardless of when in the year the item was purchased.

Category two would include the bulk of farm assets. All machinery, equipment, and dairy and breeding livestock except hogs (and certain horses) would fit into this category. Also included in this category would be single purpose agricultural structures such as silos, milking parlors, etc.

Category two recovery (depreciable) life is 5 years. The regular ACRS percentages are 15, 22, 21, 21, 21 for the five years. Again the 15 percent can evidently be taken regardless of when in the year the item was put into service. A taxpayer can use the ACRS straight line method as with category 1 items. The straight line lives are 5, 12 or 25 years.

Category three would include all multipurpose buildings such as machine sheds, tenant house, etc. Cost recovery (depreciation) is a bit more complicated for this category than for the above two. For these items it does make a difference as to what month the item it put into use. The taxpayer may have to recalculate depreciation each year based on a percentage of the years allowable percentage dependent on when it was originally purchased. Recovery (depreciable) life is 15 years. The optional straight line lives are 15, 35 or 45 years.

One Life Per Class

It also appears as though the

taxpayer will have to set the same life and method for all items from a category purchased during a given year. This may be a problem.

Example: you purchase a manure spreader, a tractor, a dairy cow, and a silo in 1981. They are all in category two. This means that you can either use the regular ACRS method (15 percent recovery for 1982, 22 percent recovery for 1983, etc.); the straight line ACRS method with a life of 5 years (10 percent recovery for 1981, 20 percent recovery for 1982 thru 1985, 10 percent for 1986); the straight line ACRS method

with a life of 12 years or 25 years. you desperately need to maximize tax write offs, that will be fine. Use the regular ACRS method. What if this causes a loss of erosion of tax free money? Twelve years may be all right on the tractor and silo, but would leave a big depreciated balance for the dairy cow and spreader when those were sold.

This may possibly be changed dairy cows may be moved Category 1 status. Or regulation developed by IRS may not be as stringent as the literatures interpretation of the law implies.

Md. tobacco prohibited in quota states

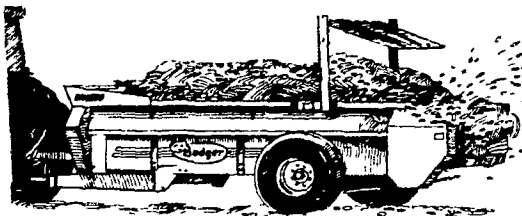
ANNAPOLIS, Md. — Maryland's 1982 tobacco auction season will open March 16 and run through May 6, making it the earliest in the state's history. The season dates have been set by the Maryland State Tobacco Authority at the request of growers, according to Agriculture Secretary Wayne A. Cawley Jr.

Bradley H. Powers, of the Maryland Department of Agriculture's Division of Agricultural Development and Marketing, says the crop of tobacco to be sold — grown in 1981 — is of "excellent quality and will come in at around 30 million

pounds, which will be up a good from the 1980 drought reduced crop sold at auction in 1981."

High demand and short supply of quality Type-32 leaf resulted record high prices being paid the 1981 auctions, with the average price at approximately \$1.70 per pound.

The 1982 auction season will begin Tuesday, March 16, and scheduled to close on Thursday, May 6. Sales will be held on Monday through Thursday. Auction sales take place on the Southern Maryland warehouse floors located at Wayson's Corner Upper Marlboro, Hughesville, LaPlata and Waldorf.



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