

New tax laws affect hog farmers

NEWARK, Del. — The new income tax laws are having an important impact on the tax burden of hog producers in several ways, according to Don Tilmon, Extension farm management specialist at the University of Delaware.

Reductions in personal income tax rates are being phased in through 1984. By then the marginal tax brackets will be reduced by 23 percent. After this phase-in period, Tilmon says taxes will be indexed to the rate of inflation so farmers and others won't suffer from bracket creep — the phenomenon of rising tax rates because of inflation.

Tax brackets for corporations also will be reduced. By 1983 corporations will pay 15 percent on the first \$25,000 of taxable income and 18 percent on the next \$25,000, compared to current rates of 17 percent and 20 percent respectively. Tax rates for corporate

income above \$50,000 were not changed in the new laws.

Tilmon says new depreciation rules will allow pork producers to construct single-purpose, specialized confinement facilities and charge off the entire cost of the structure against taxable income in five years. Equipment can also be put on a five-year depreciation schedule. Depreciation rates for new investments made during the 1981-84 period (as a percent of purchase price) are: first year of service, 15 percent; second year, 22 percent; and the third through fifth years, 21 percent each year.

A new procedure, called expense method depreciation, allows producers to write off the cost of equipment and machinery purchases. This deduction is limited to \$5,000 per year in 1982 and 1983, \$7,500 in 1984 and 1985, and \$10,000 in 1986 and thereafter. These faster depreciation allowances will further reduce the tax bill for those

who make new investments in specialized livestock facilities.

Another change may be important to producers using a gilt program to increase the amount of income taxed as capital gain. It is the reduced tax on capital gains. Tilmon says for all long-term capital gains resulting from sales since June 9, 1981, the maximum tax is 20 percent. As reduced tax brackets are phased in, the tax bite on capital gain items will also be reduced for those in the lower tax brackets.

New rules on investment credit allow 6 percent credit for items that go on a three-year write-off schedule (light trucks and breeding hogs), and 10 percent for items that go on a five-year schedule (most other equipment).

For purchases in 1983 and after, producers, will be required to reduce the amount of depreciation they may take if the full investment credit is used.

Tilmon says depreciation and investment credit deductions will encourage hog producers with taxable income to replace worn-out facilities and/or put up new units. The economist warns, however, that the same write-off cannot be obtained by constructing open lot and pole barn production facilities. Such facilities do not qualify as specialized single-purpose units and must be put on a 10-year depreciation schedule. They do not qualify for investment credit.

Compared to previous tax provisions, these rules make hog production more attractive as a tax shelter. Over time these laws should result in more after-tax income that can be used for expansion or a higher standard of living.

The long term impact of the new rules may hold a few surprises for pork producers, according to Tilmon. Reduced tax burdens may benefit some producers in the short term. But they may also encourage expansion and increased supplies without stimulating aggregate demand for pork products. The result could be excess supplies and more depressed profit margins.



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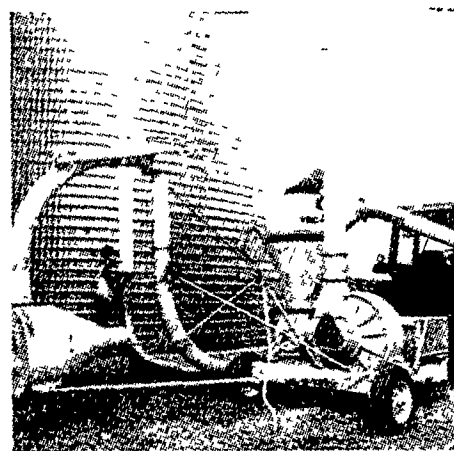
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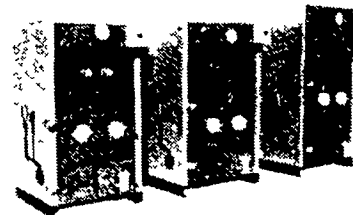
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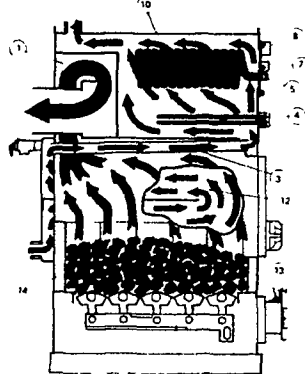
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