



Brockett's Ag Advice

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TAX LAW CHANGES

It is getting to that time of year when you should be preparing for tax season. The tax reform act of 1984 did not receive a lot of publicity, but is going to cause some problems. Let's take a look at some of these changes.

Imputed Interest

Most of you don't know what this means. I didn't either until I looked it up. It means that if you don't charge enough interest when you sell something on an installment sale, the IRS can call part of your principal income interest.

The 1984 act pegged this interest on a multiple of the so called federal rate (10 percent this year). This meant the imputed rate would be 12 percent. Recently I received a report that this action has now been postponed until July 1985. Hopefully your Congressmen will get enough mail on the subject to retract on that law.

Interest Free Loans

IRS has been fighting this for years. They are now getting their way by convincing Congress to pass a bill not allowing below market rate loans. Thus the money you lend a child or any one else will have to carry a certain interest rate. It will be interesting to see what the IRS regulations will call "market rate."

As is often the case with new tax laws, the wording of this law will result in a lot of court cases as well as upset and frustrated people. Over the next 3 or 4 years, the IRS and Tax Courts will develop a set of rules to govern the issue. At any rate, it will more than likely cause a hardship on families who are trying to help a child get started in farming.

Depreciation Recapture

From now on anyone who sells depreciable property on an installment sale will have a larger tax to pay in the year of sale. Previously you could pay tax on the gain as you received it. Now you will pay tax on the entire amount of gain the year you sell the item.

It hardly seems fair to do this since you are not allowed to depreciate the item off in the year you purchase it.

Investment Credit Change

You will have to be more careful

with items you purchase that are for both the business and personal use. If business use is less than 50 percent you will not be allowed to take investment credit on it. Some examples would be cars, computers and water wells. I don't know how anyone is going to prove percentage use of any item. You may be forced to keep a daily log of use. Example: On October 28, 1984 - used the car to go to church (10 miles) On October 29, 1984 - used the car to pick up parts at the dealers (10 miles), etc. That's 50 percent business use so far.

Mortgage Interest Reporting by Payee (starts in 1985)

For several years the person who pays interest to anyone other than a corporate being, was supposed to file a 1099 reporting it. Now in some cases the person who receives the money will also have to report it.

Do not treat this item lightly. At present, anyone who fails to file a 1099 reporting interest payments (as well as rent, contract work, etc) is subject to a fine of \$50 for each missed report. Once the new law takes effect, there will be the same penalty.

Estimated Tax Payments

The IRS is clamping down on estimated tax payments. For those who are supposed to pay quarterly estimates, the safest way to do it is to pay 25 percent of the previous years tax for each quarter. Full time farmers are not affected by this. They are under the same rules as before. One estimated payment by Jan. 15 then file final return by April 15 or pay total amount due by March 1.

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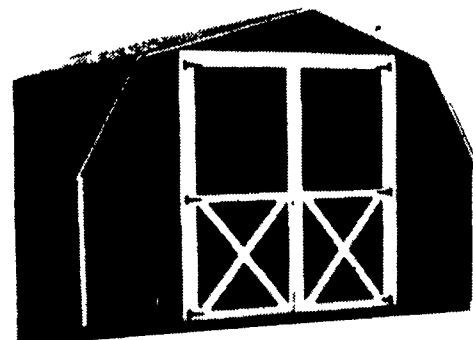
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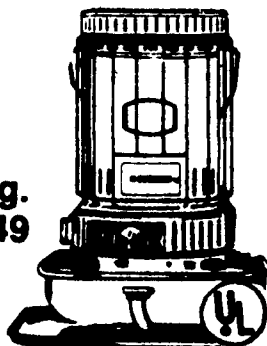
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