



Brockett's Ag Advice

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The Complexity of Simplifying Taxes

Do you remember tax simplification? It was what was supposed to happen when Congress started to rewrite the tax laws. Well, in the process of simplifying the tax laws, Congress found that those laws became even more unfair than they are now. As a result the various committees and subcommittees responsible for tax laws started to build fairness into the system. End result, someone just quietly buried the simplification part of the tax law.

Now the Senate committees responsible for their part of the tax law are adding more fairness measures to their version of the new law. When it all gets done no one will be able to do his own income taxes. But do not be dismayed, because no one else will be able to prepare the tax return correctly either. That will leave a lot of room for negotiating between the IRS and the poor old taxpayer - so what else is new.

Some examples: Do you

remember how much you got this year as a personal exemption? That is right, each of us got \$1040 (an odd amount based on the inflation factor). Under the new proposed law it will be \$2000, maybe, under certain circumstances. The personal exemption may be a negotiable amount depending on whether you itemize deductions or not and on your income. The personal exemption may be reduced to \$1500

and for some people with high incomes may be eliminated.

Actually, personal exemptions are eliminated under the present law for anyone who runs into the alternative minimum tax. Over 65s and blind will not get an extra exemption any more. They may get \$600 extra standard deduction (probably via another tax table) if they do not itemize. Otherwise, no breaks at all.

Example number two: Itemizing appears to take on an extra dimension in complexity. Some things such as personal taxes may be eliminated. Those with high income (over \$57,000 for married couples and over \$35,000 for single people) may have to reduce all itemized deductions by 10 percent or so. In other words, at \$56,999 itemizing would be more advantageous than at \$57,000. Not many farm families will be affected by this, but it does illustrate how the tax reform law will continue to complicate things. So much for those who said the new

tax law would put tax practitioners out of business.

Others that might affect farmers -- All buildings would be depreciated for 30 years by the straight line method; investment credit would be eliminated as of 2-28-86; the excluded part of long term capital gains would be reduced from the present 60 percent to 52.94 percent in 1987 and 42.86 percent in 1988. The proposal to eliminate capital gains treatment for business assets such as dairy and breeding stock has not been publically discussed by the Senate committees. Nor has the provision that dairy farmers will have to start capitalizing expenses

due to raising heifers been discussed for public consumption. Capitalizing means not counting the expense until the animal freshens then depreciating that animal over a period of time.

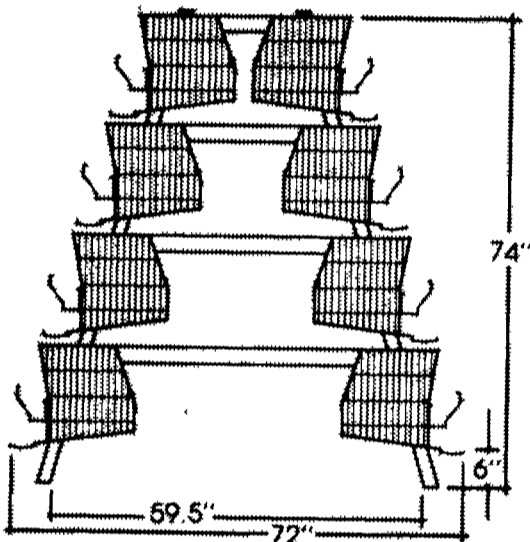
Those of you who do a lot of embryo transplants should be aware that the IRS is considering disallowing you the transplant expense. They are presently studying their previous position that did allow those expenses to be taken with the idea of telling you that those expenses will have to be capitalized in the future. This has not yet taken affect and the IRS may decide that it is more trouble than it is worth, but be aware that it may happen.



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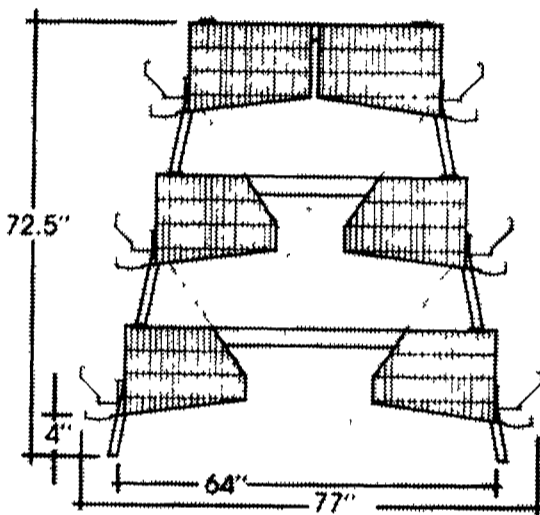
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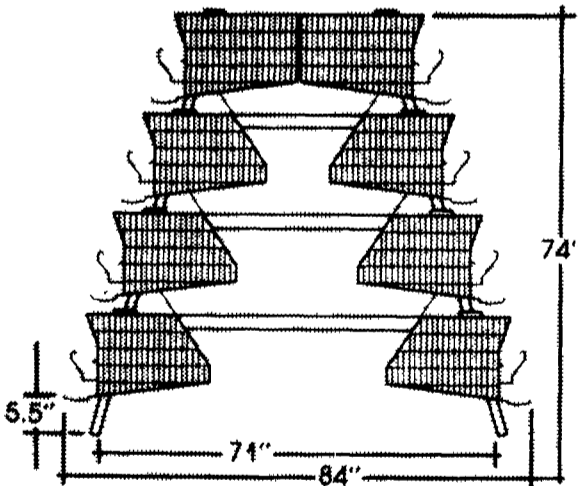
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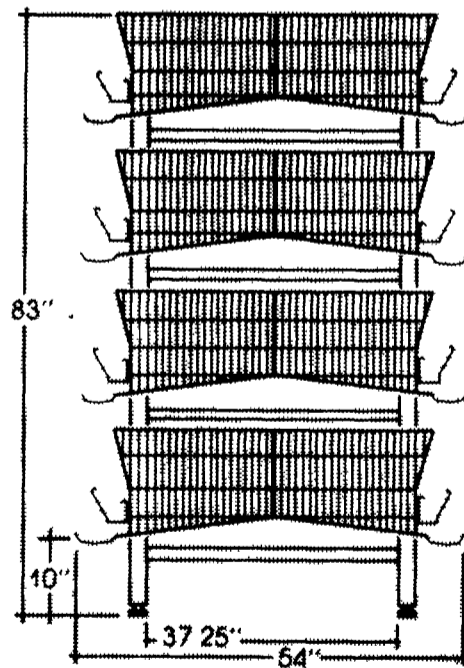
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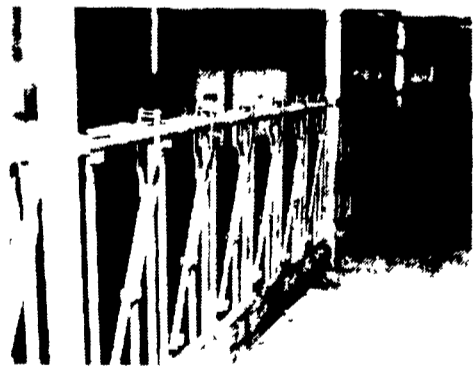
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