



Brockett's Ag Advice

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Changes In The 1986 Tax Law

The 1986 tax law will have an effect on everyone in this country plus a few from other lands. No one from a newborn child to the oldest American will escape. There are good aspects as well as bad parts to the new law for farmers. One potentially good affect for farming in general will be to take farming out of the "tax-shelter" category. Even this has somewhat mixed blessings. The worst effect the new law has for everyone is that filing tax returns will be more complicated than ever. It may become especially complicated for farmers if the new rule on capitalizing pre-productive expenses is interpreted rigidly. In the next few columns, I will attempt to interpret the parts of the new law that affect the majority of farmers.

Items to be Eliminated

1. Investment tax credit is essentially a dead issue for now. There will be no new investment

credit for anything purchased after Dec. 31, 1985. This is one of the changes that takes effect in 1986. Before 1961 there was no investment credit. For a period of time in 1969 and 1970 there was no investment credit. Until 1975 investment credit was 7 percent not 10 percent. So do not consider it as dead for ever. It may come back in during the next tax law change or be phased in as a technical correction. Do not plan on it through 1988.

2. The long-term capital gains 60 percent exemption from federal income tax was also eliminated. The effective date is Jan. 1, 1987. This includes the income from installment sales even if those sales were from a previous year. Interestingly enough the framework for the capital gains exclusion was left intact so it could

be brought back in at some time in the future.

3. Land clearing expenses are no longer deductible as of Jan. 1, 1987.

4. Charitable contributions will not be deductible by non-itemizing taxpayers after 1986.

5. State sales taxes will no longer be deductible after this year by anyone.

6. Interest that is considered personal, other than mortgage interest on two homes, will be phased out as a deductible item starting in 1987. Personal interest would include interest on a personal car, credit card interest, interest on an IRS bill, interest on an insurance loan where the money was borrowed for personal items, interest on personal loans, and interest on educational loans.

7. The two-earner deduction will be eliminated for now. As with the investment credit, there may be enough "back home" support for this one that it could come back in later.

8. Income averaging will no longer be available after 1986.

9. Double exemptions for those over 65 or blind have been eliminated. That group of people

will receive a higher standard deduction to partly compensate for the loss. Since our population is gradually getting older this is another elimination that could come back into the picture down the road ways.

10. The \$100 dividend exclusion from tax has been terminated. It was more valuable for the retired person than for most farm families.

Children May Be Big Losers

Dependent children face a rather complicated situation. There will be a lot of children who will have to start filing taxes under the new law.

1. Dependents will not be able to use their own personal exemption if they are eligible to be claimed on someone else's return. The implications are serious for several reasons. (a) The past law said that the standard deduction could not be used to offset unearned income such as interest - fortunately the new law did show a little mercy and allow up to \$500 of the standard deduction to offset unearned income. (b) Under the previous law, the personal exemption could be

used to offset unearned income and earned income - since the new law eliminates the personal exemption for dependents, there will only be the standard deduction to offset both with a limit of \$500 on unearned income. Example: For 1986, a child would be able to have up to \$3560 of non-taxable income as long as the unearned portion was \$1080 or less. For 1987, the amount of income that a child could receive without paying taxes will be \$2540 as long as the unearned portion was \$500 or less.

2. After the 1987 tax season, taxpayers will have to record on their returns the TIN (social security number) of all dependents over the age of 5. Furthermore, children taxpayers will have to report their parents' TIN on their returns. 1984 may be coming late.

Dependents Other Than Children

The rules that apply to children will evidently also apply to other dependents such as elderly parents. People with dependent parents should re-examine their parents' tax status in light of the new law.

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