The New Tax Rates: How Much Will You Pay?

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UNIVERSITY PARK – Change in the structure of tax rates was a primary selling point for the Tax Reform Act of 1986 as Congress debated the new legislation. Lower rates and few rate brackets were lauded as major benefits that would reduce taxes and make the tax laws more simple and fair.

The Tax Reform Act of 1986 does reduce the 14 tax rates under old law to two rates of 15 and 28 percent in 1988. But a 5 percent rate adjustment in effect produces a third rate bracket of 33 percent for some taxpayers.

The alleged two-rate system is really a three-rate system for those taxpayers affected by the highest rate bracket.

Transition rules for 1987 provide five tax rates for that year only. The 1987 rates for couples filing a joint return range from a low of 11 percent on an income of $3,000 to 38.5 percent on an income of $90.000. Single taxpayers pay the 11 percent rate on income up to $1,800 and the 38.5 percent rate on income over $56,000.

In 1988, taxpayers will pay a 15 percent tax on an income up to $29,750 for couples, $17,850 for single taxpayers, and $23,900 for heads of households. They will pay a 28 percent tax on income above those levels.

Higher-income taxpayers will be subject to an additional 5 percent tax on income above a second level, phasing out the benefits of the lowest tax for them.

For joint returns, the 5 percent rate adjustment applies to income between $71,900 and $149,250. Couples with an income above $149,250 pay a 28 percent flat rate on all taxable income. To prevent high-income couples from avoiding the 5 percent adjustment, married couple who file separate returns are required to calculate the adjustment based on their joint income.

The 5 percent adjustment for single taxpayers begins at an income level of $43,150 and extends to $89,560. Singles pay the 28 percent flat rate on all taxable income in excess of $89,560. Heads of households experience the 5 percent rate adjustment beginning at an income level of $61,650 and extending to $123,790. The 28 percent flat rate applies to income above $123,790 for heads of households.

The effect of the 5 percent adjustment (to remove the benefit of the 15 percent tax rate) and the second 5 percent added tax (to remove the effect of the larger personal exemption), is to convert the alleged two-rate tax system to a three-rate system. The first adjustment actually produces a 33 percent marginal tax rate on an income between $71,900 and $149,250 for couples and between $43,150 and $89,560 for single taxpayers. The overall tax rate for these taxpayers does not exceed 28 percent but the true rate structure under which they are taxed consists of marginal rates of 15, 28, and 33 percent.

In the case of a couple filling a joint return, the first $29,750 is taxed at a 15 percent rate; an income between $29,750 and $71,900 is taxed at a 28 percent rate; and an income between $71,900 and $149,250 is taxed at a rate of 33 percent. At a taxable income of more than $149,250 the tax rate for couples is a flat 28 percent of all taxable income. However, the marginal tax rate for these high income couples is 33 percent because they pay the 28 percent flat rate plus a 5 percent added tax on taxable income above $149,250, to offset the benefit of the larger personal exemption.

The 15, 28, and 33 percent rate brackets become effective January 1, 1988 and are indexed to inflation. The brackets will change based on changes in the general price level in future years.

Three Crops Versus One

It may be time for some farmers to turn back the clock and reconsider the advantages of diversification, according to economist Michael Salassi of USDA's Economic Research Service.

Producing three or four commodities in place of one or two will not guarantee a profit, but it is one method of reducing price risk in an uncertain economic environment, according to Salassi.

Mixed-enterprise agriculture — a mix of crops, livestock, or both — used to be the norm for the traditional American family farm. Since World War II, however, the typical farm has been gradually transformed into a highly specialized production unit.

Salassi admits that specialization has its place. It's an efficient way to concentrate the resources of the farm and its manager on one or two commodities for maximum volume and productivity.

Analysts expect to see farmers experimenting with many different management strategies to cope with the increased risks. One of the strategies that can work for some farmers is diversification.

If properly planned, diversification can help stabilize farm income and reduce the danger that a period of low prices for one commodity will threaten the survival of the entire farm business.

In developing a diversification strategy and choosing a new crop or livestock enterprise to add to an existing operation, Salassi offers some common sense guidelines:

Select commodities that have different price patterns. Two crops may be no better than one if the prices for both plunge together because both are tied to the same basic market fundamentals.

To the extent possible, new enterprises should complement existing enterprises. For example, a new crop that can be produced with existing, easily borrowed, or inexpensively leased equipment may be a better alternative than a crop that requires expensive, specialized equipment. Similarly, resource use will be more efficient and conflicts can be avoided by choosing alternative commodities with labor requirements that are not concentrated in the same peak months of the year when current enterprises require the most attention.

Before departing from the commodities already produced in your part of the country, evaluate the marketing outlets available and your own entrepreneurial skills. The financial position of a farm business probably won't be strengthened by adding an enterprise that requires special production and marketing practices about which the farm manager and workers have little or no knowledge.

Lebanon Co. DHIA

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Roy E Nolt						
145	3	4-5	302	21,846	3 8	826
Bucher Brother's						
Sheri	3	7-5	305	25,247	3 3	821
Hope	3	5-2	298	23,488	3 6	851
Lloyd Burkholder Jr						
Dot	3	4-1	305	22,667	3 8	863
Marlin D Heisey						
2	3	0-0	305	26,907	3 9	1053
James Z Brubaker						
584	3	5 5	305	18,137	4 5	812
Irvin Z Brubaker						
144	3	6 10	305	19,512	4 5	878
29	3	3 9	305	22,314	3 7	834
Gary Lentz						
Daisy	3	7-4	294	25,075	3 9	973
Star	3	5-1	305	22,062	4 1	902
Eugene Gingrich						
9	3	0-0	305	23,496	3 5	833
Clifford & Fay Berger						
Diann	3	7 4	305	21,016	3 9	817
Ramona Holsteins						
Althea	3	8 2	305	25,722	3 5	895
White Birch Farm						
45	3	7 7	305	23,050	3 6	840
David Himmelberger						
Margie	3	3 7	305	22,462	4 1	910
Earl & Marilyn Smith						
Anita	3	4 1	305	21 591	4 1	893
Edward L Heagy						
109	3	6 10	305	24 632	4 1	1009
Luke Brubaker						
64	3	3-4	305	23 653	3 4	811
Aaron Weaver						
108	3	4 4	305	20,245	4 1	831
Daryl Balmer						
Hazel	3	4 2	299	19 626	4 1	806
Hoover Farms						
Fuzzy	3	7 11	305	23 799	3 6	864
Fannie	3	3 11	305	23,013	3 5	816
Amber	3	4 1	305	21 892	3 7	811
Twin Gro Holsteins						
330	3	6 0	305	19 238	4 3	818
Kenneth Mase						
Tops	3	3-5	305	23,288	3 5	807
Melvin M Nolt						
21	3	6 1	305	21 819	3 8	824
15	3	6 1	305	24 877	3 6	888
54	3	4 0	282	22 312	3 7	833
Phares Z Musser						
54	3	4 5	305	19,152	4 4	844
Wernerway Farms						
49	3	5 1	305	28 025	2 9	826
132	3	4 4	305	28,762	3 1	897
Raymond & Marlin Getz						
Total	3	4 3	305	23 833	3 7	870