

Tax changes most massive since 1954

Individuals should become familiar with new laws

By JOHN HOINSKI
Staff Writer

Although most changes in the new tax law will not go into effect until 1987, businesses, corporations and individuals should begin as soon as possible to become familiar with those reforms.

"People won't have many problems with filling out their tax forms this year," said Gerald Bernstein, CPA and partner in the J.H. Williams & Co. Certified Public Accountant Firm, Kingston. "But they should become aware of some of the changes for next year so they know what they can and

cannot deduct."

Those changes are seen as the most massive reforms since the 1954 revenue code and, in fact, are so voluminous that J.H. Williams & Co. offers its clients a 45-page "guideline" of those changes.

Despite the abundant changes, the average person should be able to fill out tax returns in 1987 without much difficulty.

"There will be some mechanical changes for the average guy on treatment of certain items," Bernstein noted. "But unless they are involved in tax shelters and other preferences, most individuals should be able to handle their forms with relative ease.

"Basically, the reforms are a revenue neutral act that won't create or take away tax money from the government. It is the shifting of taxes from one segment of taxpayers to another."

The new law will eliminate several million people from the tax rolls, but will not necessarily hurt individuals in the higher income bracket while those in the middle income range should benefit only slightly. The reforms are really aimed at businesses and for those individuals who utilize tax shelters and other tax preferences. Those individuals who don't avail themselves to those preferences will benefit.

"You are going to see people

investing in things because of economic reasons and not because of tax advantages," Bernstein said.

Some of the general changes on items that will provide revenue allowing others to enjoy tax breaks include: 1) strict rules on passive losses, resulting in curtailment of most losses; 2) elimination of investment tax credits; 3) elimination of capital gains treatment of certain income; 4) elimination of consumer interest at individual level; 5) depreciation changes whereby longer lives will be required to be used to write off business assets; 6) reduction of deductibility of certain meal

and entertainment expenses for business purposes; 7) new requirements for methods of reporting income and certain business deductions.

"There have been a lot of technical changes made already on the new tax laws," Bernstein said. "And there will probably be many more before the majority of those laws go into effect. But I really believe they pushed them in too fast."

Although the average person will see more of a financial return with the new code, Bernstein says he feels they will probably have to pay in the long run.

"A lot of these laws are aimed at businesses," Bernstein explained. "If they are losing

profits because of increased taxes, I think it's only logical to believe there will be an increase in prices in some areas to make up for those losses. I don't see it as a far-reaching problem or as an overruling problem. But it is something to think about.

"Eventually, I think we are going to see a national sales tax," he added. "Not on food or clothes, but on other items as a supplement to the income tax. In 1980, our national debt was \$1 trillion and we have added another \$1 trillion since that time.

"How else are we going to raise money? Raise taxes? Maybe. But we are going to have to do something just to slow the pace down."

Some tax areas of considerable interest

(EDITOR'S NOTE: The areas listed below are of the most concern to individuals regarding the changes in tax laws, which will become effective January 1, 1987. Because of the volume of tax changes that will be made, space prohibits a complete listing of all the changes. The reforms listed here are comprehensive for the most part, but should not be construed as a total picture of the overall changes.)

CAPITAL GAINS AND LOSSES

PRIOR LAW — An individual was able to exclude 60 percent of his net capital gains (the excess of net long-term capital gains over net short-term capital losses) from his adjusted gross income. The result was a maximum effective tax rate of 20 percent of such income. Regarding net capital losses, short-term losses were deductible in full and 50 percent of long-term losses were deductible against other income up to \$3,000 per year with any excess being carried forward.

NEW LAW — 1. Beginning in 1987, the 60 percent net long-term capital gain exclusion is repealed. All capital gains, whether short-term or long-term, will be taxed dollar for dollar as ordinary income. It should be noted that the top rate on such transactions in 1987 will be 28 percent even though the top individual rate that year will be 38.5 percent. Thereafter, capital gains will be taxed at the same rate as other income, either 15 percent or 28 percent, depending upon the individual's income level.

2. Net capital losses will continue to be deductible against other income subject to the \$3,000 per year maximum as under prior law except that long-term losses will no longer have to be reduced by 50 percent. Any excess may be carried forward.

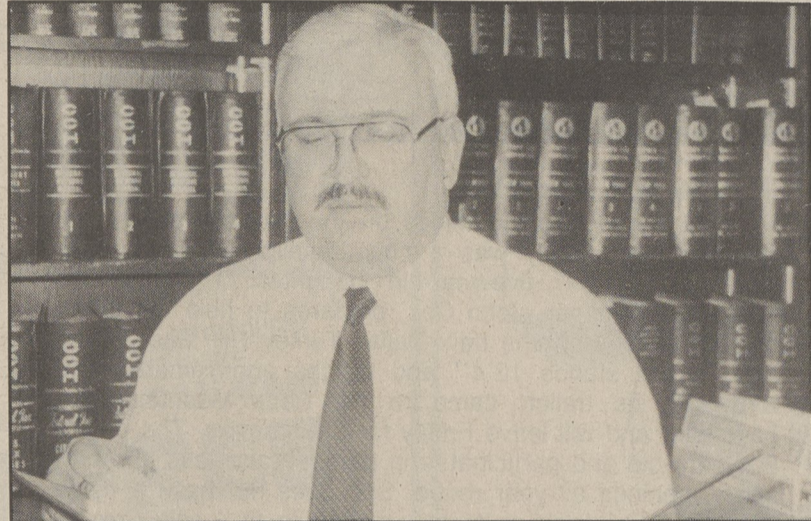
CHARITABLE CONTRIBUTIONS
PRIOR LAW — Charitable contributions were able to be deducted in full by both itemizers and non-itemizers alike in 1986.

NEW LAW — 1. The treatment of charitable contributions by itemizers is unaffected by the Act.

2. Beginning in 1987, those who do not itemize their expenses will no longer be able to deduct their charitable contributions.

STATE AND LOCAL SALES TAX
PRIOR LAW — State and local taxes were deductible as an itemized expense.

(See TAX, page 4)



Dallas Post/John Hoinski

Checking changes

Gerald Bernstein, CPA, goes through a folder explaining the forthcoming changes in the tax laws. Behind Bernstein are hundreds of volumes of tax laws.

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