Understanding the Tax Reform Act of 1986

Special Report 789/November 1986

OREGON STATE UNIVERSITY EXTENSION SERVICE

REVISED
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This publication is a collection of the news stories describing the provisions and implications of the Tax Reform Act of 1986. A worksheet and instructions for use by individuals, farmers, and small business managers is also included. This material was prepared by A. Gene Nelson, Extension Farm Management Specialist, and Alice Mills Morrow, Extension Family Economics Specialist. Although the information is based on several sources deemed reliable, the IRS has yet to issue its interpretations and regulations. You are advised to consult with your tax adviser, accountant, or attorney for the latest information and for help in assessing the implications for your tax situation.

HOW INDIVIDUALS WILL BE AFFECTED BY THE 1986 TAX REFORM ACT

Most Americans have heard about the much-touted two-bracket tax rate system to be established by the Tax Reform Act of 1986. However, the new law also makes several other changes that will affect how all of us figure and pay our income taxes.

All taxpayers should be aware of these changes as they consider their year-end tax planning alternatives.

Although one of the major goals of reform was simplification, the new law complicates tax planning and reporting in the short run, at least, as we have to deal with the phase-out of the old rules and the phase-in of the new provisions. Furthermore, the IRS has yet to interpret and explain all the features of the new law. So, it may be sometime before taxpayers are convinced of its simplicity.

Tax Rates. Beginning in 1988, joint filers will pay 15 percent tax on all taxable income up to $29,750, then the 28 percent rate will be applied to taxable income up to $71,900. In addition to these two rates with which most are familiar, there is also a third rate of 33 percent. Above $71,900 taxable income, the 33 percent rate will be used on taxable income up to the level where the benefits of the 15 percent rate bracket and the exemptions have been eliminated for higher-income taxpayers. Then the rate drops back down to 28 percent. For a family of four, the 33 percent tax rate would apply to income between $71,900 and $192,930.

For the 1987 transition year, there will be five tax brackets, ranging from 11 percent to 38.5 percent.

Standard deduction. The standard deduction for joint filers will increase from $3,670 to $5,000, effective January 1, 1988. For single taxpayers, the standard deduction (presently called "zero bracket amount") will increase to $3,000 in 1988, compared to $2,480 now. Elderly and blind persons will get an extra $600 added to the standard deduction if married, and $750 if single.

Personal exemption. The current personal exemption of $1,080 for you, your spouse, and each dependent child will go to $1,900 in 1987, to $1,950 in 1988, and $2,000 in 1989.

The increases in the standard deduction and personal exemption will increase the taxable income a family of four can earn without paying federal income taxes. For 1986, this amount is $7,990. It will increase to as much as $13,000 in 1989.

The indexing of rate brackets, the personal exemption, and standard deduction to adjust these amounts for inflation will continue under the new tax law.

Calculating Taxable Income. Other changes in the tax law will affect how we calculate taxable income.

The elimination of the 60-percent exclusion of long-term capital gains income after 1986 will have important implications for personal investment strategies. The Tax Reform Act, however, retains the exclusion of capital gains income on the sale of a home when the owner is 55 or older.

The tax act will constrain the use of individual retirement accounts after 1986. Deductions for IRAs will be limited if the taxpayer or spouse is covered by an employer's retirement plan and their gross income on a joint return is over $40,000. Self-employed people and those not covered by their employer's plan will still be able to take advantage of the $2,000 deduction for IRA contributions and the $250 spousal IRA deduction for a nonworking spouse, which is also retained.

Workers who are covered by an employer's pension plan will be able to claim the full $2,000 deduction if joint family income is less than $40,000. Between $40,000 and $50,000 income, the deduction for a couple will be reduced. Although, covered taxpayers with $50,000 or more income will not be allowed to deduct the IRA contributions, they may still invest in IRA's to gain the tax deferral on the interest earned.

Here are some other changes in taxable income calculations:

* The exclusion for dividend income ($200 for joint filers) will be available for the last time in 1986.

* The deduction for married couples, when both work, is repealed after 1986.

* Income averaging, an option that levels the tax rates in years of high income, is repealed after 1986.

* The deduction for charitable contributions is repealed for nonitemizers after 1986, as is the tax credit for political contributions.

* A new provision limits the deduction of interest on loans for investing in stocks, limited partnerships, mutual funds, and real estate where the investor does not materially participate in management. This provision which will limit the deduction to the amount of net investment income will be phased in beginning with the 1987 tax year.

* Business expenses paid by employees can be deducted from taxable income under the old law but, after 1986, these expenses will be deductible only as an itemized deduction on Schedule A. In addition, these employee business expenses and other miscellaneous deductions will be limited to the amount above 2 percent of the adjusted gross income. Moving costs will be exempt from this 2-percent limitation.

Itemized deductions. The higher standard deduction and new restrictions on itemized deductions will mean that fewer people will gain by itemizing on Schedule A. Following are some of the changes and new restrictions:

Medical deductions will be allowed only to the extent that medical expenses exceed 7.5 percent of adjusted gross income. Currently, the medical expenses above 5 percent of adjusted gross income are deductible. The deduction for medical expenses has been reduced from the amount above 5 percent of adjusted gross income to the amount above 7.5 percent.

A change that won't affect Oregon taxpayers is the elimination of the deduction for state and local sales taxes. Income and property taxes will continue to be deductible.

The interest paid on mortgages on a first and second home will continue to be deductible, but the total amount of mortgage interest on these two homes will be limited to that on the original cost plus improvements unless the money borrowed is used for educational or medical expenses.

The deduction for interest on consumer credit, such as auto loans and credit cards, will be phased out over 5 years. In 1986, all consumer interest is deductible, in 1987, 65 percent of consumer interest expense will be deductible.

Charitable contributions will continue to be deductible if the taxpayer itemizes deductions on Schedule A. As indicated earlier, only those miscellaneous expenses and employee business expenses in excess of 2 percent of the adjusted gross income will be deductible.

Another change in the tax law that may affect your personal tax return is the earned-income credit for low-income families with children. It will be expanded to pay 14 percent of earned income up to a maximum credit of $800. THen between $9,000 and $17,000 income, the credit is phased out. This change will be effective January 1, 1988.

The new law will restrict the transfer of income to children to avoid taxes. The income, such as interest, of a minor child will generally be taxed at the parents' rate when that income exceeds $1,000. Clifford Trusts will be eliminated.

RECORDS NEEDED TO DEDUCT MORTGAGE INTEREST EXPENSES

The Tax Reform Act limits deductions of interest paid for consumer loans, credit card accounts, and automobile loans after 1986. The new laws, however, makes an important exception for mortgage interest.

In general, homeowners itemizing deductions will be able to deduct the mortgage interest they pay on both a first and second home. There will be restrictions, however. After 1986, the mortgage interest deduction will be limited to the amount borrowed on the original cost plus improvements for the two homes. Interest above this limit is deductible if the loan is used for educational or medical expenses.

To substantiate the deduction of mortgage interest expense, taxpayers will need records of the home's purchase price and the cost of improvements. Also if the limit is exceeded, taxpayers must be able to show that loan was used for educational or medical purposes.

To illustrate how the restriction on the mortgage interest deduction will work, suppose you paid $70,000 for a home several years ago and today it is worth $120,000. Also, assume you have spent $10,000 for improvements. Most financial institutions would lend up to 80 percent of the home's value or $96,000 in this case.

Under the new tax law, only the interest paid on $80,000 would be deductible. This $80,000 is the original price of $70,000 plus the $10,000 in improvements.

As the deduction for interest on consumer loans is phased out, as called for by new tax regulations, many taxpayers will consider using home equity loans to purchase automobiles and other expensive consumer items.

The interest paid on these home equity loans that are secured by mortgages will be deductible on the federal income tax return, if the amount of the loan doesn't exceed the purchase price of the home plus improvements.

If audited, however, if audited, the taxpayer will need proof of the purchase price plus the cost of improvements to support the deduction for home equity loan interest.

An improvement is a replacement or addition that adds to the value or prolongs the life of your house. For example, new plumbing, landscaping, a new furnace, or storm windows are improvements. But the costs of painting, cleaning, and repair are ordinary maintenance expenses, not improvements.

Most homeowners have a copy of the original purchase contract which is proof of the purchase price. They are less apt to have a record of the improvements added over the years. Now is the time to pull those records together, so you will have them if at some future time when you are considering a home equity loan or need to substantiate your mortgage interest deduction.

CHARITABLE DEDUCTIONS FOR NONITEMIZERS IN 1986

Depending on whether you itemize deductions on your tax return, there is good news and bad news concerning charitable contributions this tax year.

First the bad news. This year, 1986, is the last in which taxpayers who do not itemize deductions can deduct contributions to charity. The good news is that the amount nonitemizers can deduct in 1986 has increased.

Volunteers are reminded that they may claim a charitable deduction for contributions to, and for expenses incurred while performing volunteer service for, religious, educational, public, or scientific organizations. Both your dollar contributions and your volunteer expenses are charitable contributions for 1986 federal income tax purposes, even if you use the standard deduction.

The value of volunteer service (money that you would earn if employed) does not qualify for a charitable deduction. Expenses incurred during the volunteer service, however, such as travel expenses and teaching materials, qualify. Expenses are deductible if related solely to the performance of the service and must not be primarily for the personal benefit of the taxpayer.

If you deduct these charitable contributions, you must have record of the expenses that you deducted. Keep a list of travel, date, purpose, mileage, and expenses. Also, keep letters that verify your involvement in training, teaching, participating on advisory boards, and other related activities.

SOCIAL SECURITY NUMBERS FOR CHILDREN REQUIRED IN 1987

When you begin preparing your 1987 federal income tax return (due on April 15, 1988), you will find that social security numbers will be required for children claimed as dependents that are 5 years of age and older.

The year 1988 may seem a long way off, but applying for your child's social security number now will insure that you have it when needed. As more and more people become aware of this new regulation, the number of new social security accounts will increase considerably and processing time is apt to take longer.

There have been reports of private business charging a fee of $10 to furnish children with the required social security number. There is no reason to pay any fee. You can open your child's social security account yourself.

Social security accounts for children can be opened by mail or at a Social Security office. Call your nearest Social Security office for more information.

FINANCIAL RECORDS NEEDED

As you are thinking about future income taxes, review your financial record keeping system.

Information related to your 1986 returns is mailed to you in January. This includes statements showing interest paid on loans, statements showing interest and dividends earned, W-2 forms, and the Oregon and federal instruction books and filing forms. As these arrive, store them in one place. If you have moved, be sure your employers have your current address.

Develop a filing system for the 1987 income and expense receipts you will use when filing your 1987 return in 1988. Knowledge of deductible expenses and careful record keeping throughout the year makes tax preparation easier. These records will also help to ensure that you won't overlook any deductions.

As you project the income tax you will owe for the 1987 year, review the amount of tax being withheld from your paycheck. To avoid penalties, you must have at least 80 percent of your actual bill withheld and to avoid having to pay additional taxes, you probably want enough withheld each month to pay the actual tax bill. If you are overwithholding, you will receive a tax refund. If a comparison of your projected tax due and withholds show that you are overwithholding, you can decrease the amount withheld by filing form W-4 with your employer. If you owed no tax the prior year and anticipate owing no tax the current year, you can avoid any withholding on your wages. Form W-4 is used for this.

As you review your record keeping, remember there are some tax records you may not need for several years.

For example, if you own assets which pay dividends that are reinvested, you need a record of the amount of dividends reinvested. When you sell those assets to determine loss or gain on the sale you need to know your "basis," that is, you original investment plus the dividends reinvested over the years.

When you sell your home, you also need to know the basis, in this case, it is the purchase cost plus improvements made over the years, less gain deferred on the sale of a prior residence. Good record keeping now will help you in the future.

IRAs LIMITED FOR SOME TAXPAYERS

Taxpayers have until April 15, 1987 to contribute to a 1986 individual retirement account (IRA) and defer the income taxes on that amount until the money is withdrawn from the account.

Under the new tax law, deferral of taxes on money contributed to an IRA will be continued for some individuals, reduced for some, and eliminated for others.

Taxpayers who can no longer defer the taxes on money contributed to an IRA may still invest in an IRA and not pay income tax on the interest or income earned on the IRA account until the money is withdrawn from the account.

Taxpayers who have some years in which IRA monies were deducted from gross income and some years in which IRA monies were not deducted from gross income need to keep careful records. When you start withdrawing money from IRAs, you will need to know the proportion of the IRAs on which taxes have been deferred and the proportion of the IRAs on which taxes have been paid. Careful record keeping now will help you in the future.

Self-employed people and those not covered by their employer's plan will still be able to take advantage of the $2,000 deduction for IRA contributions, and the $250 spousal IRA deduction for a nonworking spouse which is also retained.

Workers who are covered by an employer's pension plan will be able to claim the full $2,000 deduction if joint family income is less than $40,000. Between $40,000 and $50,000 income the deduction for a couple will be reduced. Covered taxpayers with $50,000 or more income will not be allowed to deduct the IRA contributions.

PAY PROPERTY TAXES TO POSTPONE TAXABLE INCOME

If you paid only the first installment of your property tax bill due on November 15, you should consider paying the second and maybe the third installment before December 31, 1986.

Decide now which is best for you--to pay the entire amount in 1986, or to pay the last two installments in February and May, 1987.

Before you decide, consider your 1986 and 1987 income tax rates. If you believe your 1987 income tax rate will be lower than 1986, consider paying the remaining balance before the end of the year and taking the entire amount as a deduction on your 1986 tax return.

If you believe your 1987 income tax rate will be higher than 1986, wait and pay the two installments when they are due in February and May, 1987.

If your property taxes are paid by your lending institution, normally the entire tax is paid on or before November 15. If you would rather pay in installments, you need to talk to the lender and change the agreement under which the lender collects taxes as part of your monthly payment.

TAX LAW CHANGES AFFECTING BUSINESSES

The Tax Reform Act of 1986 is a comprehensive overhaul of federal tax law that will affect almost everyone. In particular, the repeal of the investment tax credit and several other provisions will affect the management of most businesses.

Past tax laws provided incentives for various business activities, especially investment. The Tax Reform Act of 1986, however, eliminates many of these incentives.

Although it will still be important to understand the income tax implications of any decision, profitability, and financial feasibility will play a more important role in future business decisions.

Following are the main features of the 1986 Tax Reform Act that directly affect businesses.

Corporate tax rates will be lowered for businesses. Under the new tax law, the first $50,000 of taxable income will be taxed at 15 percent; between $50,000 and $75,000, the tax rate will be 25 percent; and income over $75,000 will be taxed at 34 percent. Previously, the top rate was 46 percent. There also will be a 5 percent surcharge applied to taxable income between $100,000 and $335,000 to offset the benefits of the lower bracket rates.

The effective date for the new corporate tax rates is July 1, 1987. The old and new corporate rates will be blended for 1987.

Because of the lower tax rates for individuals and the elimination of many corporate tax breaks, many smaller businesses will find it less advantageous to incorporate.

Another change that will discourage incorporation is that self-employed taxpayers will be able to deduct 25 percent of their cost of health insurance in 1987, 1988, and 1989.

The Tax Reform Act eliminates the 60-percent exclusion of long-term capital gains income after 1986. The old law allowed individuals to deduct 60 percent of the gain and pay tax on only 40 percent. The changes means that when assets are sold, all the gain will be taxable as ordinary income. The new tax law also eliminates the preferential alternative tax rate on net capital gains for corporations.

The investment tax credit is repealed retroactive to January 1, 1986. Thus, the tax credit of up to 10 percent formerly available for machinery and equipment will not be available for business property placed in service after December 31, 1985, unless it meets the transition rules.

Before the law change, if you bought $40,000 worth of machinery and equipment, the 10 percent tax credit would cut your federal income tax by $4,000.

Although the new tax law eliminates the investment credit on property acquired after December 31, 1985, it does allow claiming unused credits that could not be used in prior years because of low income. This unused credit can be carried forward--100 percent of it can be applied against 1986 income taxes, 82.5 percent against 1987 taxes, and 65 percent against taxes in 1988 and later years.

The Tax Reform Act of 1986 also makes important changes in the Accelerated Cost Recovery System (ACRS) that is used to depreciate machinery and equipment. In general, these changes will stretch the depreciation out over more years. Automobiles, trucks, and other business property in the three-year class will now be depreciated over 5 years.

The depreciation period for five-year property, such as machinery and equipment will be seven years. Buildings and real estate improvements which were formerly classified as nineteen year property, will now be on a 31.5-year depreciation period.

The 1986 Act also revises the ACRS recovery rates. In the past, these rates were based on the 150 percent declining balance method. The new law calls for using the 200 percent declining balance method. As a result, the amount of depreciation claimed during the first two years will be essentially unchanged when the new system becomes effective on January 1, 1987.

Taxpayers have a depreciation option for equipment placed in service after July 31, 1986 and before January 1, 1987. They can depreciate it using either the old or new system. Property acquired on or before July 31, 1986 will be depreciated under the system in effect when the property was placed in service.

The expensing option for machinery and equipment purchases is improved for smaller businesses. Through 1986, taxpayers can deduct, as a current expense, up to $5,000 of the cost of purchasing equipment. Beginning in 1987, taxpayers investing $200,000 or less in equipment during the year, can write off up to $10,000. This additional $10,000 can be deducted in the year the equipment is acquired, in addition to the regular depreciation.

Although investment and consumer interest deductions will be limited under the new tax law, there is no change in the deductibility of interest expenses for financing business activities where the borrower materially participates in the management of the business. It may be necessary, however, to have records to substantiate that the loans were for business and not consumption purposes.

Business managers should begin now to study how these changes in tax law will affect their operations. Between now and the end of the year, there will be tax planning opportunities as the new laws are phased in. Managers should meet with their tax advisers to explore the specific implications of the Tax Reform Act for their businesses.

SOME TAX PROVISIONS RELATE SPECIFICALLY TO AGRICULTURE

The Tax Reform Act of 1986, signed into law by President Reagan on October 22, is the most extensive overhaul of our income tax system in the past 40 years. The changes will have a major impact on agriculture.

Many of the new provisions are general, affecting all taxpayers, but there are several that relate specifically to farmers and ranchers.

Most farmers will be able to continue to use the cash method of accounting. The previous restrictions on the use of cash accounting by nonfamily corporations with $1 million gross receipts, farm syndicates, and tax shelters will continue. This means that bona fide farmers can shift taxable income by prepaying expenses, such as feed, seed, and fertilizer, but there is a new limitation. The total amount deducted as prepaid expenses cannot exceed 50 percent of the nonprepaid expenses--expenses for items purchased and used in the same year.

In other words, if the total expenses are $90,000, no more than $30,000 can be deducted as prepaid expenses because the remaining $60,000 of expenses would be nonprepaid. This new restriction applies to expenses prepaid after March 1, 1986. Farmers will need to keep additional records as evidence, in case they are audited, that they have not exceeded this limit on prepaid expenses.

Under current law, farmers are permitted to claim current deductions for soil and water conservation expenditures, which are limited to $5,000 or 25 percent of taxable income for farming, whichever is less. Under the new law, these deductions for soil and water conservation practices will be allowed only if the activities are approved by the Soil Conservation Service (or a comparable state agency) or covered by an area plan.

Investment tax credit will not be available for property placed in service after December 31, 1985, unless there was a written contract to acquire the property. All taxpayers have the option of carrying the unused credit forward, applying 100 percent of it against 1986 income taxes, 82.5 percent of the unused credit against 1987 taxes, and 65 percent of it against taxes in 1988 and after. Qualifying farmers, however, also have the option of carrying back the smaller of $750 or 50 percent of unused credit to apply against the taxes paid in the previous 15 years, including 1986.

The 1986 Tax Reform Act eliminates the 60-percent exclusion for long-term capital gains income effective January 1, 1987. This will increase the taxable income of livestock producers whose sale of raised breeding stock previously qualified for capital gains treatment. Also, farmers planning to sell land or those who have already sold on installment sales contracts will be affected. A special exception will temporarily allow the 60-percent exclusion for dairy cattle sold under a valid contract through the USDA's milk production termination program until August 31, 1987.

There will be new regulations and options for handling the preproduction costs of developing assets, such as raising dairy and beef heifers and caring for orchards and vineyards. It will be a while, however, before the IRS issues regulations and clarifies requirements for capitalizing these costs versus claiming them as current deductions.

After all the provisions of the Tax Reform Act become effective, agricultural producers as a group are expected to pay less in federal income taxes. In the meantime, there is bad news for 1986 because the investment tax credit has been eliminated and the lower tax rates are not yet effective.

How individual farms and ranches will be affected depends on their situations. There will be good news for those in low tax brackets. Because of the higher standard deduction and personal exemptions, some will not have to pay taxes under the new tax law. Farmers with higher levels of income because of outside sources and low debt should also benefit. On the other hand, farmers who have been waiting to replace machinery will lose the tax benefits of investment tax credit and faster depreciation write-offs. Livestock producers with income from sales of raised breeding stock will lose the capital gains exclusion.

Farmers and ranchers should continue to monitor the announcements and interpretations regarding the Tax Reform Act of 1986. By keeping informed and acting now, they can take advantage of those provisions that favor agriculture and adjust their tax situation to minimize the impact of those provisions that are not favorable.

THE TAX REFORM ACT CHANGES AGRICULTURAL INVESTMENT INCENTIVES

The 1986 Tax Reform Act will significantly change how farmers, ranchers, and other business managers look at decisions about when to buy machinery and equipment.

The new tax law reduces the incentives that were previously available to businesses for replacing machinery and buying new equipment.

These changes will have important implications for agricultural producers, as well as machinery and equipment manufacturers. Under the new tax law, future investment decisions will be based more on profitability and less on income tax considerations.

Probably the most significant change is the elimination of investment tax credit for property placed in service after December 31, 1985. This credit, which is subtracted directly from the tax liability, amounts to as much as 10 percent of the qualifying property's cost. The investment tax credit has been an important incentive, encouraging investments in machinery and equipment.

Because net income to farmers and ranchers has been down in recent years, many may still have investment credit that they have been unable to use because it must be written off against the tax liability. If there is no income, there will be no tax liability from which to subtract the tax credit.

All taxpayers can carry forward this unused investment tax credit, applying it against future tax liabilities. One hundred percent of the unused credit can be claimed in 1986, but this drops to 82.5 percent in 1987 and 65 percent in 1988 and later years.

Farmers also have another option. They can carry back the unused investment tax credit and obtain a refund of taxes paid over the past 15 years, including 1986. This refund, however, is limited to $750 or one-half the unused investment tax credit, whichever is less.

There are also some important changes in the Accelerated Cost Recovery System (ACRS) that was introduced by the 1981 tax law. These changes take effect January 1, 1987, but equipment placed in service after July 31, 1986 can be depreciated using either the old or new system. Property acquired on or before July 31, 1986, will continue to be depreciated under the system in effect when it was placed in service.

In general, the new law has modified the ACRS, lengthening the number of years over which the property is written off and changing the recovery rates from the 150-percent declining balance method to the 200-percent declining balance method.

Most farm business property is classified at 3-, 5-, 7-, or 31.5-year property under the modified depreciation system. The major items in the 3-year class are swine breeding stock, racehorses and horses over 12 years old. Automobiles, trucks, and dairy, beef, and other breeding stock are depreciated as 5-year property.

The new 7-year classification includes tractors, farm machinery, irrigation systems, single-purpose structures (such as grain storage and milking parlors), and horses that are 12 years or less. Orchards and vineyards will be written off over 15 years. The depreciation period for general-purpose buildings and most land improvements is extended to 31.5 years.

Because of the change to the 200-percent declining balance method, the amount of depreciation claimed for the first two or three years will not change much. For farm machinery, the recovery rates for the first two years under the old, 5-year system are 15 and 22 percent. The rates to be used under the modified depreciation system will be 14.3 and 24.5 percent. Although the depreciation for the first two years will be about the same, the new system stretches the cost recovery over seven years compared to the five years used previously.

A change in the expensing option will allow most agricultural producers to speed up depreciation on machinery purchases. Under current law, taxpayers can deduct, as a current expense, up to $5,000 of the cost of purchasing machinery. Under the new law, taxpayers investing $200,000 or less in machinery during the year, can write off up to $10,000. The expensing limit is reduced dollar for dollar when the annual investment exceeds $200,000.

Of course, the amount that is expensed is then subtracted from the cost of the property before depreciation is calculated.

Another change will discourage the practice of putting off purchase of new machinery until the end of the year when you know what your income will be. Under the old law, regardless of when the machinery was purchased, depreciation was calculated as if it were bought in the middle of the year. This is called the half-year convention.

The new law says that if more than 40 percent of the cost of property purchased during the year is placed in service during the last three months, then each item is depreciated from the midpoint of the quarter in which it was placed in service. If less than 40 percent of the year's purchases is placed in service the last three months, the half-year convention is used for all the machinery purchased.

More information will be available later as the IRS develops the regulations explaining exactly how these new laws will be applied. It is important, however, to consult with your tax adviser now before making any major decisions to buy business property covered by this new depreciation system.

YEAR-END TAX PLANNING IDEAS FOR AGRICULTURAL PRODUCERS

Farmers and ranchers still have time to take advantage of the phase-in stage of the 1986 Tax Reform Act. Between now and the end of the tax year, they have the opportunity to manage tax situations by shifting ordinary and capital gains income among years.

Begin now by estimating your potential income taxes for 1986, 1987, and 1988, and working with your tax adviser to plan for the changes to be made by the new law.

It appears that it will be generally wise to reduce taxable income in 1986, pushing it into 1987 and 1988 to take advantage of the lower rates. But each tax situation is different. You need to know your own income situation before you can make decisions about what to do.

To provide a perspective for planning, estimate your taxable income for 1986 and then make projections for 1987 and 1988. Begin by bringing your records of taxable transactions up to date and projecting taxable income and deductible expenses for the remainder of 1986. Then look into the future and predict your 1987 and 1988 income and expenses.

Use the tax schedules that will be in effect for 1986, 1987, and 1988 to find your marginal tax rates for the taxable incomes you estimated. The marginal tax rate is the amount of tax paid on the last dollar of taxable income. Be sure to include the self-employment social security tax and state income tax in this marginal tax rate.

Your objective should be to shift taxable income to the year with the lowest marginal tax rate. If you anticipate that your marginal tax rate in 1987 will be lower than for 1986, you should consider postponing income and prepaying expenses to shift taxable income into the future. With lower tax rates in 1987 and 1988, this strategy will reduce the total tax liability over the three years combined.

Farmers and ranchers will be able to continue to use the cash method of accounting under the new tax law. Because this accounting method allows income to be reported when received and expenses to be deducted when paid, it facilitates the shifting of taxable income between years. Taxable income can be moved from 1986 to 1987 by (1) postponing sales, (2) prepaying expenses, and (3) moving up the purchase of machinery.

Several factors should be considered before postponing crop and livestock sales. Will there be storage losses? What will it cost to continue to feed the livestock? Will prices go down? To avoid the risk of getting a lower price by postponing sales, consider contracting to lock-in a price now with payment due in 1987.

Farmers have the additional option of reporting income from CCC crop loans when the crop is sold, rather than when they receive the loan.

This may require IRS approval depending on what you have done in the past.

Prepaying expenses to shift taxable income will be subject to a new limitation imposed by the 1986 tax act. Farmers can prepay and deduct as prepaid expenses up to 50 percent of the total expenses that are not prepaid. In other words, if the total expenses for the year amount to $90,000, up to $30,000 can be deducted as prepaid expenses. This provision is effective for expenses prepaid after March 1, 1986.

To meet IRS scrutiny, these prepaid expenses should be nonrefundable payments, have a legitimate business reason, and not materially distort income.

Purchasing machinery in 1986 that you plan to purchase in 1987 will increase depreciation deductions and defer taxable income. The expensing option, which allows an immediate deduction of up to $5,000 of the machinery's cost, is available for 1986 purchases (it increases to $10,000 in 1987). Machinery placed in service after July 31, 1986, and before January 1, 1987, can be depreciated using either the old ACRS depreciation or the new ACRS as modified by the Tax Reform Act.

If more than 40 percent of the year's machinery purchases are in the last three months, the old ACRS system will allow more depreciation to be claimed. Under the new system, if this 40 percent limit is exceeded, depreciation will be figured from November 15 (midquarter) rather than from July 1 (half-year convention) which is allowed with the old system.

The basic guideline--if you expect your taxable income to be relatively constant over the next three years--is to shift taxable income from 1986 into 1987 and 1988 when the tax rates will be lower.

Don't go too far in shifting taxable income. Don't decrease your 1986 taxable income below the level that will allow you to use the standard deduction (zero bracket amount) and personal exemptions. In 1986, husband and wife with two dependent children filing a joint return can earn $7,990 tax-free income. This benefit is lost unless you have enough taxable income to use it. So, if 1986 will be a low-income year, be sure you have enough taxable income to offset these deductions.

The taxable income that a family of four can earn without paying federal income taxes increases to $11,360 in 1987 and $12,800 in 1988.

The repeal of the 60-percent long-term capital gains exclusion will have important implications for producers who sell breeding livestock and those who are planning to sell land in the near future. The tax planning question is whether to sell appreciated assets that qualify for long-term capital gains treatment before the exclusion expires at end of 1986. To qualify, assets must generally be held for more than six months, but there are exceptions. Cattle used for breeding or dairy purposes must be held two years or more, and other breeding livestock must be held for one year or more.

Livestock producers who raise their own breeding stock may want to do some extra culling to take advantage of more favorable capital gains tax treatment that will be available in 1986. Farmers and ranchers should be cautious, however, not to rush sales to get long-term capital gains income. If you plan to keep the asset for four or five years, the loss of the lower tax rate may be made up by the additional earnings from the asset and a higher sale price later on. Also, if a large amount of money is involved, be careful not to trigger the alternative minimum tax.

Remember there is no tax due until appreciated assets are actually sold and you can avoid the capital gains tax altogether by keeping appreciated assets until they pass through your estate. The decision of whether to sell appreciated assets in 1986 to benefit from capital gains treatment is not easy. If you plan to sell anyway within the next year or two and the prices are favorable, you should talk it over with your tax adviser.

Here are some additional tax planning tips:

* Income averaging will be available for the last time in 1986. If income from capital gains or other sources will boost your 1986 taxable income, income averaging may be advantageous.

* If you have unused investment tax credit, don't overlook the options available for using it to offset taxes in 1986, as well as past and future years.

* If you are projecting a loss for 1986, take advantage of net operating loss carry back provisions of the tax law.

* If you don't itemize deductions on Schedule A, make your 1987 charitable contributions in 1986 so you won't lose this deduction.

Your plans for tax management should not be set in concrete. The provisions of the new tax law still need interpretation and new regulations will be issued by the IRS. Also, there is the possibility that Congress may revise some of the provisions. Based on past experience, we can expect more tax law changes in the next 2 years.

The new tax law is complicated. Farmers and ranchers are well advised to consult their tax consultant, accountant, or attorney to design a plan that fits their unique situations. But don't wait--see your tax adviser now while there is still time to act.

TAX HANDLING OF PREPRODUCTION EXPENSES UNDER THE TAX REFORM ACT

Beef, dairy, tree fruit, and wine grape producers are facing important changes in how they handle the expenses for raising replacement heifers, orchard trees, and vineyards until they start producing.

The Tax Reform Act of 1986, signed into law by President Reagan in October, gives these agricultural producers two options in handling preproduction expenses for assets requiring two years or more to reach a productive state.

Under the old law, most producers could deduct the out-of-pocket costs of developing assets as current expenses. This simplifies record keeping, as there is no need to keep separate records of the feed used by growing heifers, for example. Likewise, there is no need to separate the costs of spraying a newly established orchard block from one that is already bearing fruit.

This tax treatment of preproduction costs is also advantageous when it comes time to sell the asset. Because these costs have already been deducted, the cows and trees (with the exception of planting costs) have a zero cost basis. As a result, the income from the sale of the breeding stock and trees qualified as capital gains income, 60 percent of which was excludable from taxable income.

The new tax law repeals the 60-percent capital gains exclusion effective January 1, 1987. It also provides two options for handling preproduction expenses.

One option is to continue treating these expenses as current deductions each year, as producers have done in the past. The disadvantage of continuing to use this approach is that the new tax law will require producers to use an alternative (slower) method of depreciation for all farm assets acquired in years when preproduction expenses are deducted.

The second option is to capitalize the preproduction costs. This involves keeping track of costs and then, when the asset comes into production, the total cost is recovered by deducting depreciation over the life of the asset. Using the Modified Accelerated Cost Recovery System, this would be 15 years for orchards and vineyards, and five years for breeding and dairy cattle.

If the second option is used, the income subject to tax when the asset is sold would be the difference between the net sale proceeds and the book value (total preproduction cost less depreciation).

These options are specified in the tax act, but it will be some time before the IRS issues regulations and clarifies the requirements. As a result, it is difficult for producers to decide which will be the best alternative for their situation. Even so, it is important to start considering alternatives now and to plan ahead.

For example, although the alternative of capitalizing the preproduction expenses (keeping track of them and depreciating them later) has the disadvantage of more complicated record keeping, it might be advantageous in certain situations. For example, the producer expecting little or no taxable income for the next two or three years and higher taxable income in later years may want to capitalize because the depreciation deduction will provide a greater tax savings later than the current deduction will now. The option of capitalizing allows the deductions to be deferred until they are worth more (when the taxpayer's income is in a higher bracket).

Another decision to reconsider is whether to buy replacement animals, rather than raise them, or whether to buy established orchards, rather than grow them to maturity. It might be advantageous to contract with a producer in a higher tax bracket who would like to have the preproduction expenses to write off against other farm income.

Livestock, orchard, and vineyard producers should consult with their tax advisers to see if these law changes represent opportunities for tax planning. Because each producer has a different income tax situation, there is no general answer as to which option to choose.

WORKSHEET FOR ESTIMATING FEDERAL TAXES

These instructions and the accompanying worksheet will help you estimate your taxes for the next three years. Use your 1985 tax return as a starting point for making the estimates to list on the worksheet. Be sure to update the figures to reflect your expected income for 1986 through 1988. The worksheet items that have asterisks will be affected by the new law and are explained in these instructions.

Line 3: Dividends. The $200 dividend exclusion for joint filers will be eliminated after 1986, so you should list your total anticipated dividend income for 1987 and 1988.

Line 4: Taxable capital gains (or losses). Use last year's Schedule D and Form 4797 to estimate your net short-term capital gain (or loss) and your net long-term capital gain (or loss) for 1986. How you should combine gains and losses depends on the situation:

* If you have both a net short-term gain and net long-term gain, you can exclude 60 percent of the net long-term gain before entering the total combined gain on line 4.

* If your net long-term gain exceeds your net short-term loss, enter 40% of excess gain on line 4.

* If your net short-term loss exceeds your net long-term gain, enter on line the excess loss but no more than $3,000. If your net short-term gain exceeds your net long-term loss, subtract the loss and enter the excess gain on line 4.

* If your net long-term loss exceeds your net short-term gain, enter one-half the excess loss on line 4, but no more than $3,000.

* If you have both a net short-term loss and net long-term loss, the combined loss on line 4 is the net short-term loss plus one-half the long-term loss, but no more than $3,000.

Next predict your gains and losses for 1987 and 1988. The 60 percent exclusion for long-term gains will disappear in 1987, as will the 50 percent reduction of long-term losses. Enter the combined net gain or loss on line 4. The deduction for a combined net loss will continue to be limited to $3,000.

Line 5: Complete the worksheet for estimating farm income and expenses. For instructions, see last year's Schedule F and Farmer's Tax Guide. Another worksheet is provided to help you estimate depreciation deductions.

Line 6: Rental and partnership income (or loss). See instructions for Schedule E. In 1986, you can deduct all your losses from rental-

WORKSHEET FOR ESTIMATING FEDERAL TAXES

Income	1986	1987	1988
1. Wages, salaries, tips, etc.			
2. Interest income			
3. Dividends*			
4. Taxable capital gains (or losses)*			
5. Farm income (or loss) (see worksheet)*			
6. Rental and partnership income (or loss)*			
7. All other income*			
8. TOTAL INCOME (add lines 1 through 7)			
Adjustments			
9. Employee business expenses*			
10. Two-earner deduction*			
11. Keogh contributions			
12. Adjusted gross income before IRA contributions (subtract total of lines 9 through 11 from line 8)			
13. IRA contributions*			
14. ADJUSTED GROSS INCOME (subtract line 13 from 12)			
Itemized Deductions (if you itemize)			
15. Medical expenses*			
16. State and local income and property taxes			
17. State and local sales taxes*			
18. Mortgage interest*			
19. Other deductible interest expenses*			
20. Charitable contributions			
21. Miscellaneous and employee business expenses*			
22. Casualty and theft losses			
23. TOTAL ITEMIZED DEDUCTIONS (add lines 15 through 22)			

WORKSHEET FOR ESTIMATING FEDERAL TAXES
(Continued)

Taxable Income

24. Adjustment for standard deduction*	______	______	______
25. Charitable contributions for nonitemizers*	______		
26. Exemptions*	______	______	______
27. Total deductions and exemptions (add lines 24 through 26)	______	______	______
28. TAXABLE INCOME (subtract line 27 from line 14)	______	______	______
29. Special capital gains tax for 1987*		______	
30. Taxable income minus capital gains for 1987*		______	
31. INCOME TAX LIABILITY (see tax tables)*	______	______	______

Credits

32. Unused investment tax credit*	______	______	______
33. Child and dependent care credit	______	______	______
34. Political contributions credit*	______		
35. Total credits (add lines 32 through 34)	______	______	______
36. FEDERAL INCOME TAX (subtract line 35 from 31)	______	______	______

Social Security Self-Employment Tax

37. Self-employment earnings*	______	______	______
38. Social Security Self-Employment Tax*	______	______	______
39. TOTAL FEDERAL TAXES (add lines 36 and 38)	______	______	______
40. MARGINAL TAX RATE*	______	______	______

*See instructions

property investments, limited partnerships, or tax shelters. Beginning in 1987, these losses will be phased out to the extent that they exceed income from such passive investments. You will be able to subtract only 65 percent of any net losses in 1987 and 40% in 1988.

Line 7: Include other income such as alimony, taxable pensions, and business income (Schedule C).

Line 9: Employee business expenses. After 1986, most of these adjustments to income will be considered miscellaneous deductions and deductible only to the extent that they exceed 2 percent of your adjusted gross income on line 14. For 1986, enter these adjustments on line 9; for 1987 and 1988, see line 21.

Line 10: Two-earner deduction. This deduction for a married couple when both work will be eliminated after 1986. To compute it for 1986, see the instructions in last year's tax return.

Line 13: IRA contributions. For 1986, taxpayers can deduct up to $2,000 for contributions to an Individual Retirement Account. If you have a nonworking spouse, you can deduct a an additional $250 for total of $2,250.

In 1987 and 1988, you will still be able to write off the full amount of your IRA contributions if your income on line 12 is less than $40,000 for married couples and $25,000 for singles. No matter how much you earn, you will also be entitled to deduct your entire IRA contribution if you aren't covered by a company pension plan or a Keogh plan. If the amount on line 12 is more than $50,000 for married couples or $35,000 for singles and if you are covered by a pension plan, you will no longer by able to deduct your IRA contributions. Couples with earnings between $40,000 and $50,000 and singles with incomes between $25,000 and $35,000 will lose $200 of their IRA deduction for each $1,000 of additional income.

Line 15: Medical expenses. In 1986, you can deduct medical expenses that exceed 5 percent of your adjusted gross income on line 14. Beginning in 1987, you can deduct only the excess above 7.5 percent of adjusted gross income.

Line 17: State and local sales taxes. The sales tax deduction is eliminated after 1986.

Line 18: Mortgage interest. The mortgage interest that you pay for your primary residence and a second home will continue to be deductible under the new tax law. Interest on a second mortgage or home-equity loan can also be written off provided the total amount of these loans is no greater than the price you paid for the property, plus the cost of any improvements. Interest on mortgages that exceed that amount will be deductible only if you use the money to pay for educational or medical expenses. Otherwise, interest on second mortgages will be subject to the phase-out limitation explained for the next line.

Line 19: Other deductible interest expenses. After 1986, the deduction for any interest you pay on car loans, credit-cards, or other consumer loans will be phased out. In 1987, you can write off only 65 percent of the interest; in 1988, 40 percent. Interest on money you borrow for investments, such as margin loans, will be deductible up to the amount of net income you receive from the investments. You can deduct 65 percent of the excess interest above net income in 1987, and 40 percent in 1988.

Line 21: Miscellaneous and employee business expenses. After 1986, you will be able to deduct miscellaneous and employee business expenses only to the extent that the total exceeds 2 percent of your adjusted gross income on line 14. Only moving costs will be exempt from this limit. The instructions for last year's Form 1040 list the expenses that are deductible in this category.

Line 24: Adjustment for standard deduction. For 1986 only, subtract $2,480 for singles and heads of households, or $3,670 for joint filers, from line 23 (if the resulting number is negative, write zero and complete line 25; otherwise, fill in the amount and skip to line 26). The zero-bracket amount is already in this year's tax tables, so those who don't itemize don't have to subtract it from their taxable income. If you do itemize, subtract it from line 23.

For 1987 and 1988, write in the amount on line 23 or your standard deduction, whichever is higher. The new standard deductions will not be incorporated into the tax tables, so you must subtract the amount from the figure you wrote on line 14 unless your itemized deductions are greater than the standard deduction. In 1987, the standard deduction is $2,540 for singles and household heads, and $3,760 for joint filers; in 1988, $3,000 for singles, $4,400 for household heads, and $5,000 for married couples filing jointly.

Line 25: Charitable deductions for nonitemizers. If you do not itemize your deductions on Schedule A, you can still deduct your charitable contributions for 1986 on line 25. Only those who itemize will be allowed to write off their gifts to charity after 1986.

Line 26: Exemptions. In 1986, multiply the number of exemptions you can take by $1,080. Next year, the personal exemption will increase to $1,900 and then to $1,950 in 1988. You will, however, be able to take exemptions only for yourself, your spouse, and your dependents.

Line 29: Special capital-gains tax for 1987. Fill in this blank only if your taxable income on line 28 exceeds $27,000 and you are single or $45,000 and you are married and filing jointly. If either is true, multiply any net long-term gains on line 4 by 28 percent and write the amount on line 29. Otherwise, enter zero. This calculation is necessary because the maximum long-term capital gains rate in 1987 will be 28 percent. If you anticipate a loss or net short-term gain on line 4, skip to line 31.

Line 30: If you calculated the special capital gains tax for 1987 on line 29, then subtract line 4 from line 28 and enter the difference on line 30. If line 29 is blank or zero, enter the taxable income from line 28 on line 30.

Line 31: INCOME TAX LIABILITY. For 1986 and 1988, use the amount on line 28 to compute your tax from the tax tables. In 1987, use the figure on line 30. To illustrate how tables work, a single taxpayer with 1986 income of $40,000 would pay $8,102 plus 38 percent of the difference between $36,800 and $40,000. The result a tax before credits of $9,318.

In 1987, add your capital-gains tax on line 29 to the tax from the appropriate table for your income on line 30 and put the sum on line 31.

In 1988, the 33 percent tax rate will apply up to a taxable income of $149,250, plus $10,920 times the number of exemptions claimed (for singles $89,560 plus $10,920 times the number of exemptions). Income above this maximum will be taxed at 28 percent. For example, a couple with two dependent children would be taxed at 33 percent on income from $71,900 to $192,930 [$149,250 + ($10,920 x 4)]. The effect of this provision is to phase out the benefits of the 15 percent tax bracket and personal exemptions for upper-income taxpayers.

Note: If you have a large amount of capital gains income, use accelerated depreciation, or take advantage of other tax preference items, you may be subject to the alternative minimum tax. See instructions for Form 1040 and the Farmer's Tax Guide. If your taxable income for 1986 is higher than usual, you should consider the income averaging option for figuring your tax liability.

Line 32: Unused investment tax credit. All taxpayers can carry forward unused investment tax credit applying 100 percent against the 1986 tax liability, 82.5 percent against the 1987 liability,and 65 percent against the 1988 liability. Qualifying farmers can also carry back up to the lower of $750 or half the unused credit to obtain a refund of taxes paid over the past 15 years including 1986.

Line 34: Political contributions credit. This tax credit will be eliminated after 1986. See last year's Form 1040 for instructions.

Line 37: Self-employment earnings. List your self-employment earnings for 1986 through 1988. This will be the total of farm income (line 5), partnership income (line 6), and business income (line 7). Enter no more than the following maximum amounts subject to Social Security Self-Employment taxes: 1986, $42,000; 1987, $43,800; and 1988, $45,700 (estimate).

Line 38: Social Security Self-Employment Taxes. Multiply the amounts on line 37 by 12.3 percent for 1986 and 1987 and by 13.02 percent for 1988.

Line 40: Marginal tax rate. The marginal tax rate is the amount of tax paid on the last dollar of farm and nonfarm self-employment income. It regular federal income tax rate plus the self-employment tax rate.

To complete line 40, first find the percentage rate from the tax table that you used to figure your income tax liability on line 31. Then, if your self-employment earnings on line 37 are less than the maximum subject to social security tax, add the social security tax rate. If your self-employment earnings exceed the maximum, add nothing.

By comparing the marginal tax rates for the three years, you can determine which tax management strategy to follow. Your objective should be to shift taxable income to the year with the lowest marginal tax rate. If you anticipate that your marginal tax rate in 1987 will be lower than for 1986, you should consider postponing self-employment income and prepaying expenses to shift taxable income into the future.

Your strategy for long-term capital gains income will be different because of the repeal of the 60 percent exclusion after 1986. You should consider selling appreciated assets that qualify for the exclusion before year-end, but do not rush to sell these assets.

Remember that there is no tax due until appreciated assets are actually sold. If you plan to keep the asset for four or five years, the loss of the lower tax rate may be made up by the additional earnings from the asset and a higher sale price later on. Also, if a large amount of money is involved, be careful not to trigger the alternative minimum tax. Because of the complexity of the new tax law, it is important that you consult with your tax adviser.

FARM INCOME AND EXPENSE WORKSHEET (Schedule F)

Farm Income (cash method)[a]	1986	1987	1988
1. Sales of livestock bought for resale			
2. Cost of livestock bought for resale			
3. Subtract line 2 from line 1			
4. Sales of livestock and crops raised			
5. Net distributions from cooperatives			
6. Agricultural program payments			
7. Commodity credit loans			
8. Crop insurance proceeds			
9. Machine work			
10. Other income			
11. GROSS INCOME (add lines 3 through 10)			
Farm Expenses			
12. Breeding fees			
13. Chemicals			
14. Conservation expenses			
15. Depreciation (from worksheet)			
16. Feed purchased			
17. Fertilizers and lime			
18. Freight, trucking			
19. Gasoline, fuel, oil			
20. Insurance			
21. Labor hired (include benefits & pension)			
22. Land clearing			
23. Machine hire			
24. Interest paid			
25. Rent of farm, pasture			
26. Repairs, maintenance			
27. Seeds, plants purchased			
28. Storage, warehousing			
29. Supplies purchased			
30. Taxes			
31. Utilities			
32. Veterinary fees, medicine			
33. Other expenses (specify)			
____________			
____________			
____________			
____________			
34. TOTAL EXPENSES (add lines 12 through 33)			
35. NET FARM INCOME (OR LOSS)			

[a] Include sales of livestock held for breeding or dairy purposes as taxable capital gains on Worksheet for Estimating Federal Taxes, line 4 (see Form 4797 for instructions)

DEPRECIATION WORKSHEET

	Cost or Other Basis	1986	1987	1988
1. Property placed in service in 1986				
a. Amount expensed (max. $5,000)	________	________		
b. 3-year property (old ACRS)[a]	________	________	________	________
c. 5-year property (old ACRS)[a]	________	________	________	________
d. 19-year property (old ACRS)[b]	________	________	________	________
e. 3-year property (new ACRS)[c]	________	________	________	________
f. 5-year property (new ACRS)[c]	________	________	________	________
g. 7-year property (new ACRS)[c]	________	________	________	________
h. 31.5-year prop. (new ACRS)[d]	________	________	________	________
2. Property placed in service in 1987				
a. Amount expensed (max $10,000)	________		________	
b. 3-year property[c]	________		________	________
c. 5-year property[c]	________		________	________
d. 7-year property[c]	________		________	________
e. 31.5-year property[d]	________		________	________
3. Property placed in service in 1988				
a. Amount expensed (max $10,000)	________			________
b. 3-year property[c]	________			________
c. 5-year property[c]	________			________
d. 7-year property[c]	________			________
e. 31.5-year property[d]	________			________
4. Depreciation for property placed in service prior to 1986.		________	________	________
5. TOTAL DEPRECIATION (enter on line 15 of Farm Income and Expense Worksheet)		________	________	________

Footnotes on next page.

Footnotes for Depreciation Worksheet

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a/ The old ACRS must be used for property placed in service before August 1, 1986; it is optional for property acquired after July 31, 1986. The recovery rates for the old system are:

	3-year	5-year
1st year	.25	.15
2nd year	.38	.22
3rd year	.37	.21
4th year	0	.21
5th year	0	.21

b/ The recovery rates for 19-year property depend on when the property is placed in service and are in IRS publication 534.

c/ Taxpayers have the option of using the new system for property placed in service after July 31, 1986. The new ACRS must be used for property placed in service after December 31, 1986. The IRS has not yet published the recovery rates for the new system. The estimated rates are as follows:

	3-year	5-year	7-year
1st	.333	.20	.143
2nd	.444	.32	.245
3rd	.148	.192	.175
4th	.075	.115	.125
5th	0	.115	.089
6th	0	.058	.089
7th	0	0	.089
8th	0	0	.045

These rates use the midyear convention. If more than 40 percent of all property is placed in service the last 3 months of the year, calculate depreciation for each item from the midpoint of the quarter it is placed in service.

d/ Figure depreciation for 31.5-year property using the straight-line method starting with the midpoint of the month placed in service.

TAX TABLES FOR MARRIED COUPLES FILING JOINTLY

If taxable income on line 28 exceeds:	You will pay:	Plus this percent of taxable income above the amount in first column:
1986		
$ 3,670	$ 0	11.0%
5,940	250	12.0
8,200	521	14.0
12,840	1,171	16.0
17,270	1,879	18.0
21,800	2,695	22.0
26,550	3,740	25.0
32,270	5,170	28.0
37,980	6,769	33.0
49,420	10,544	38.0
64,750	16,369	42.0
92,370	27,970	45.0
118,050	39,526	49.0
175,250	67,554	50.0
1987		
$ 0	$ 0	11.0%
3,000	330	15.0
28,000	4,080	28.0
45,000	8,840	35.0
90,000	24,590	38.5
1988		
$ 0	$ 0	15.0%
29,750	4,463	28.0
71,900	16,265	33.0[a]

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a/ This 33% rate applies to taxable income up to a maximum of $149,250 plus $10,920 times the number of exemptions claimed. Above this maximum, the tax rate is 28%.

TAX TABLES FOR SINGLE FILERS

If taxable income on line 28 exceeds:	You will pay:	Plus this percent of taxable income above the amount in first column:
1986		
$ 2,480	$ 0	11.0%
3,670	131	12.0
4,750	261	14.0
7,010	577	15.0
9,170	901	16.0
11,650	1,298	18.0
13,920	1,707	20.0
16,190	2,160	23.0
19,640	2,954	26.0
25,360	4,441	30.0
31,080	6,157	34.0
36,800	8,102	38.0
44,780	11,134	42.0
59,670	17,388	48.0
88,270	31,116	50.0
1987		
$ 0	$ 0	11.0%
1,800	198	15.0
16,800	2,448	28.0
27,000	5,304	35.0
54,000	14,754	38.5
1988		
$ 0	$ 0	15.0%
17,850	2,678	28.0
43,150	9,762	33.0[a/]

a/ This 33% rate applies to taxable income up to a maximum of $89,560 plus $10,920 times the number of exemptions claimed. Above this maximum, the tax rate is 28%.

TAX TABLES FOR HEADS OF HOUSEHOLD

If taxable income on line 28 exceeds:	You will pay:	Plus this percent of taxable income above the amount in first column:
1986		
$ 2,480	$ 0	11.0%
4,750	250	12.0
7,010	521	14.0
9,390	854	17.0
12,730	1,422	18.0
16,190	2,045	20.0
19,640	2,735	24.0
25,360	4,107	28.0
31,080	5,709	32.0
36,800	7,539	35.0
48,240	11,543	42.0
65,390	18,746	45.0
88,270	29,042	48.0
116,870	42,770	50.0
1987		
$ 0	$ 0	11.0%
2,500	275	15.0
23,000	3,350	28.0
38,000	7,550	35.0
80,000	22,250	38.5
1988		
$ 0	$ 0	15.0%
23,900	3,585	28.0
61,650	14,155	33.0a/

a/ This 33% rate applies to taxable income up to a maximum of $123,790 plus $10,920 times the number of exemptions claimed. Above this maximum, the tax rate is 28%.

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