



Current Report

Cooperative Extension Service • Division of Agriculture • Oklahoma State University

Estimating 1987 Federal and State Income Taxes

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Plan Now to Avoid Tax Surprises Later

Mother Nature and the current agricultural economy may have combined to leave many Oklahoma Farmers and Ranchers without any Federal income tax liability for 1987. However, producers need to be aware of the sweeping changes in the tax law that will specifically affect their business.

Changes that affect agriculture include elimination of investment credit, income averaging, and the 60% capital gain deduction. Land clearing expenses are no longer deductible or depreciable. They must be capitalized into the cost of the land. Soil and water conservation expenditures are deductible only if they relate to improvements consistent with a conservation plan approved by the Soil Conservation Service. Most depreciable assets will have a longer life under the new law. Also, pre-productive period expenses for beef and dairy replacement heifers must be capitalized or elect an alternative depreciation method. For more information see OSU Current Report, 1987 Farm Income Tax Management.

Adequate tax planning is more important than ever before. A trip to see your tax consultant may mean the difference between profit and loss. Many legal tax planning alternatives are available to help reduce the tax liability. This current report is designed to help you estimate Federal, State, Self-employment, and Alternative minimum taxes. An income tax checklist is provided to call attention to infrequent taxable events that may greatly affect your tax liability. Use this worksheet as a guide, for specific questions contact your local County Extension director, Area Farm Management Specialist, or Farm Management Association Fieldman.

Income Tax Check List for Farmers and Ranchers

1. Will taxable income be above or below average? (Check before year end.)
2. Should steps be taken to reduce fluctuation in taxable income?
3. Income averaging was eliminated by the 1986 law. Net operating losses can still be carried back or forward.
4. Have you sold land or other assets or had debt forgiven? You may owe tax on the sale and the amount of debt forgiven.
5. Have you purchased a farm this taxable year? If yes, consider the importance of allocating costs to land, growing crops, depreciable improvements, dwelling, etc. Note: Would be helpful to consider this at the time of purchase.
6. Have you had any involuntary conversions this year? If yes, explore tax consequences of replacing with similar type property.
7. Have you sold easement or right-of-way this year?
8. Are you planning to sell land in the near future? If yes, consider the use of the installment method to reduce taxes and/or perhaps a trade.
9. The capital gain deduction (60%) has been eliminated.
10. Will you be forced to recapture investment tax credit on property disposed of prior to the end of the required holding period, i.e. 3, 5, or 15 years?
11. Are you taking full advantage of the tax credits? (Earned income credit, Credit for

the elderly, Political contribution credit, Child care credit and/or Residential energy credit).

- 12. Are payments of estimated tax required to avoid the underpayment penalty?
- 13. Should you consider an IRA or Keogh plan?
- 14. Should you consider the alternative method

of paying social security tax?

- 15. Could a net operating loss or unused investment credit be carried back 3 years to get a tax refund for those years?
- 16. Will the expensing election reduce your taxable income? The maximum amount allowed increases from \$5,000 to \$10,000 in 1987.

1987 Income Tax Estimate Work Sheet

	(1) <u>Amounts to To Date</u>	(2) <u>Estimated Rest of Year</u>	(3) <u>Estimated Years Total</u>
(01) Total Current Farm Sales	(01) _____	_____	_____
(02) Sale of Items Pur. for Resale	(02) _____	_____	_____
(03) Less Pur. Cost of Resale Items	(03) _____	_____	_____
(04) Taxable Inc. from Resale Items	(04) _____	_____	_____
(05) Taxable Gain from Capital Assets ^A	(05) _____	_____	_____
(06) Taxable Non-farm Income ^B	(06) _____	_____	_____
(07) Total Taxable Inc. Lines (1+4+5+6)	(07) _____	_____	_____
(08) Total Current Farm Expenses ^C	(08) _____	_____	_____
(09) Annual Depreciation Expense ^D	(09) _____	_____	_____
(10) Capital Losses ^E	(10) _____	_____	_____
(11) Total Deductions Lines (8+9+10)	(11) _____	_____	_____
(12) Adjusted Gross Income Line (7-11)	(12) _____	_____	_____
(13) Personal Exemptions 1900 x No.	(13) _____	_____	_____
(14) Taxable Income Lines (12-13) ^F	(14) _____	_____	_____
(15) Estimated Income Tax	(15) _____	_____	_____
(16) Total Tax Credits	(16) _____	_____	_____
(17) Estimated Tax Due	(17) _____	_____	_____
(18) OK Income Tax Due ^G	(18) _____	_____	_____
(19) Self-Employment Tax ^H	(19) _____	_____	_____
(20) Alternative Minimum Tax ^I	(20) _____	_____	_____

FOOTNOTES

- A 100% of gain above losses. (100% of gain resulting from depreciation taken after 1/1/70 on purchased breeding cattle.)
- B Off-Farm employment, rent, oil income, etc.
- C Exclude capital purchases and cost of cattle purchased for resale.
- D Last year, plus depreciation on new items.
- E 100% of capital losses up to \$3,000 in excess of short term gains and capital gains may be deducted for 1987. (\$3,000 net losses = \$3,000 current deduction)
- F If your itemized deductions are greater than your zero bracket amounts (\$3,760 on a joint return) the excess should be deducted from your adjusted gross income before using the tax rate schedule.
- G Multiply line 14 by the appropriate value in the Oklahoma Tax rate schedule table 2.
- H Self-employment tax = (line 1 + line 4) - (line 8 + line 9) x 12.3%.
- I Alternative minimum tax = [(adjusted gross income₂ Line 12, + Tax Preference Items¹)₃ - Alternative minimum tax itemized deductions² - alternative minimum tax exemption³] * Tax rate⁴

1 Tax preference items include, capital gain deduction, accelerated depreciation on real property and leased personal property, amortization of pollution control facilities in excess of normal depreciation, percentage depletion in excess of adjusted basis, intangible drilling cost, dividends excluded by the dividend - received exclusion, interest excluded by the all savers certificate, bargain element on exercise of an incentive stock option, rapid writeoffs in excess of amount allowable had the expenditure been capitalized for circulation expenses, research and experimental costs, mining development and exploration expenses.

2 Alternative minimum tax itemized deductions include medical expenses in excess of 10% AGI, casualty losses in excess of 10% floor, charitable contributions, estate tax deductions, housing interest, other interest to the extent that net investment income is included in alternative minimum taxable income, allowable wagering losses.

3 Alternative minimum tax exemption -
Single filers = \$30,000
Joint return and surviving spouses = \$40,000
Married filing separately = \$20,000

4 Tax rate = 21%

TABLE 1. 1987 INCOME TAX RATE SCHEDULES

1987 Schedule X Single Individuals					1987 Schedule Y --Married Individuals Joint Returns and Surviving Spouses					1987 Schedule Y - Married Individuals Separate Returns -- Married Persons					1987 Schedule Z - Heads of Households					
Taxable Income	But Not	Pay	% on	of the	Taxable Income	But Not	Pay	% on	of the	Taxable Income	But Not	Pay	% on	of the	Taxable Income	But Not	Pay	% on	of the	
Over	Over		+ Excess	amount	Over	Over		+ Excess	amount	Over	Over		+ Excess	amount	Over	Over		+ Excess	amount	
				over-					over-					over-					over-	
\$ 0--	\$1800	0	11%	0	\$ 0--	\$3,000	0	11%	0	\$ 0--	1,500	0	11%	0	\$ 0--	2,500	0	11%	0	
1800--	16,800	198	15%	1,800	3,000--	28,000	330	15%	3,000	1,500--	14,000	165	15%	1,500	2,500--	23,000	275	15%	2,500	
16,800--	27,000	2,448	28	18,800	28,000--	45,000	4,080	28	28,000	14,000--	22,500	2,040	28%	14,000	23,000--	38,000	3,350	28%	23,000	
18,800--	54,000	5,304	35	27,000	45,000--	90,000	8,840	35	45,000	22,500--	45,000	4,420	35%	22,500	38,000--	80,000	7,550	35%	38,000	
54,000--	.....	14,754	38.5	54,000	90,000--	.....	24,590	38.5	90,000	45,000--	.....	12,295	38.5%	45,000	80,000--	.....	22,250	38.5%	80,000

TABLE 2. 1987 OKLAHOMA TAX RATE SCHEDULE

METHOD 1

Schedule M
Married Filing Jointly and
Head of Household

Schedule N
Single or Married
Filing Separately

IF TAXABLE INCOME IS:

\$ -0- - \$ 2,000	Pay 1/2 of 1% of taxable income
2,000 - 5,000	Pay \$10.00 + 1% over \$ 2,00)
5,000 - 7,500	Pay 40.00 + 2% over 5,00)
7,500 - 10,000	Pay 90.00 + 3% over 7,50)
10,000 - 12,500	Pay 165.00 + 4% over 10,00)
12,500 - 15,000	Pay 265.00 +5% over 12,50)
15,000 and over	Pay 390.00 +6^ over 15,00)

IF TAXABLE INCOME IS:

\$ -0- - \$ 1,000	Pay 1/2 of 1% of taxable income
1,000 - 2,500	Pay \$ 5.00 + 1% over \$ 1,00)
2,500 - 3,700	Pay \$20.00 + 2% over \$ 2,50)
3,700 - 5,000	Pay 45.00 + 3% over 3,75)
5,000 - 6,250	Pay 82.50 + 4% over 5,00)
6,250 - 7,500	Pay 132.50 + 5% over 6,25)
7,500 and over	Pay 195.00 + 6% over 7,50)

Oklahoma Farm Management Associations

