

# Current Report

Cooperative Extension Service • Division of Agriculture • Oklahoma State University

## Estimating 1988 Federal and State Income Taxes

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### Plan Now to Avoid Tax Surprises Later

A slowly recovering agricultural economy and 1988 drought conditions have driven up prices received by farmers faster than prices paid by farmers. Given the uneven distribution of drought impacts, that means that some producers will have higher than expected income while others will see severe reductions. Tax planning then becomes critical to making the most of varied situations. Tax planning opportunities exist to reduce taxes this year and in future years. Contact your tax preparer or extension specialist for detailed information.

Beginning April 1, 1988 farmers must pay tax on diesel fuel used for farm purposes. A refund of this tax can be obtained by filing Form 4136, credit for federal tax on gasoline and special fuels, with your personal tax return for 1988. It is important to keep good records for the number of gallons purchased. The refund is calculated by multiplying the number of gallons purchased times 15 cents per gallon. Legislation is being considered to repeal this provision, but has not become law.

Preproductive period expenses for beef and dairy raised replacement heifers must be capitalized or elect slower alternative depreciation methods for 1987 and 1988. Legislation is being considered that would repeal this provision starting in 1989. Watch for additional information if these bills become law.

Drought sales of breeding livestock sold in excess of normal sales can qualify as involuntary conversion, and the tax on gain postponed, if like animals are bought within two years. Other sales of livestock in excess of normal sales can be postponed to next year. Crop insurance proceeds and qualified disaster payments can also be postponed until next year.

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: It would be helpful to consider this at the time of purchase.
6. Drought sales of breeding livestock can be treated as an involuntary conversions this year? 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 (spreading income among years).
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, 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 (Sect. 179) reduce your taxable income? The maximum amount is \$10,000. This deduction cannot be used to reduce trade of business net income below zero.

### 1988 Income Tax Estimate Work Sheet

| Amounts to<br>Estimated                            | (1)<br>Estimated<br><u>To Date</u> | (2)<br><u>Rest of Year</u> | (3)<br><u>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 <sup>A</sup> | (05) _____                         | _____                      | _____                     |
| (06) Taxable Non-farm Income <sup>B</sup>          | (06) _____                         | _____                      | _____                     |
| (07) Total Taxable Inc. Lines (1+4+5+6)            | (07) _____                         | _____                      | _____                     |
| (08) Total Current Farm Expenses <sup>C</sup>      | (08) _____                         | _____                      | _____                     |
| (09) Annual Depreciation Expense <sup>D</sup>      | (09) _____                         | _____                      | _____                     |
| (10) Capital Losses <sup>E</sup>                   | (10) _____                         | _____                      | _____                     |
| (11) Total Deductions Lines (8+9+10)               | (11) _____                         | _____                      | _____                     |
| (12) Adjusted Gross Income Line (7-11)             | (12) _____                         | _____                      | _____                     |
| (13) Personal Exemptions 1950 x No.                | (13) _____                         | _____                      | _____                     |
| (14) Standard or Itemized Deductions (F)           | (14) _____                         | _____                      | _____                     |
| (15) Taxable Income Lines (12-13-14)               | (15) _____                         | _____                      | _____                     |
| (16) Estimated Income Tax(G)                       | (16) _____                         | _____                      | _____                     |
| (17) Total Tax Credits                             | (17) _____                         | _____                      | _____                     |
| (18) Estimated Tax Due                             | (18) _____                         | _____                      | _____                     |
| (19) OK Income Tax Due <sup>H</sup>                | (19) _____                         | _____                      | _____                     |
| (20) Self-Employment Tax <sup>I</sup>              | (20) _____                         | _____                      | _____                     |
| (21) Alternative Minimum Tax <sup>J</sup>          | (21) _____                         | _____                      | _____                     |

## 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 1988. (\$3,000 net losses = \$3,000 current deduction)
- F If your itemized deductions are greater than standard deduction (\$3,000 single, \$5,000 married filing joint) the larger amount should be deducted from your adjusted gross income before using the tax rate schedule.
- G. Multiply line 15 by the appropriate value in the Federal Tax Rate Schedule Table 1.
- H Multiply line 14 by the appropriate value in the Oklahoma Tax rate schedule table 2.
- I Self-employment tax = (line 1 + line 4) - (line 8 + line 9) x 13.02%.
- J Alternative minimum tax = [(adjusted gross income, Line 12, + Tax Preference Items<sup>1</sup> Alternative minimum tax adjustments<sup>2</sup> - alternative minimum tax exemption<sup>3</sup>]\* Tax rate<sup>4</sup>
- 1 Tax preference items include, accelerated depreciation of real property, accelerated depreciation of leased personal property, amortization of certified pollution control facilities, appreciated property charitable deduction, incentive stock options, tax exempt interest from private activity bonds, intangible drilling costs, depletion, and reserves for losses on bad debts of financial institutions.
- 2 Alternative minimum adjustments include, standard deduction, medical and dental expense, miscellaneous itemized deductions, taxes, interest, other interest adjustments, depreciation of property, circulation and research and experimental expenditures, mining exploration and development costs, long-term contracts, pollution control facilities, installment sales, basis adjustment, certain loss limitations, tax shelter farm loss, passive activity loss, and beneficiaries of estates and trusts.
- 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. 1988 INCOME TAX RATE SCHEDULES**

**1988 Schedule X Single Individuals  
No Dependents**

| Taxable Income: |              |          |           |                  |
|-----------------|--------------|----------|-----------|------------------|
| Over            | But Not Over | Pay      | This % of | the amount over- |
| \$ 0-           | \$17,850     | 0        | 15%       | 0                |
| 17,850--        | 43,150       | 2,677.50 | 28%       | 17,850           |
| 43,150--        | 89,560       | 9,761.50 | 33%       | 43,150           |
| 189,560--       | .....        |          |           |                  |

**1988 Schedule Y - Separate Returns --  
Married Persons**

| Taxable Income: |              |          |           |                  |
|-----------------|--------------|----------|-----------|------------------|
| Over            | But Not Over | Pay      | This % of | the amount over- |
| \$ 0-           | \$14,875     | 0        | 15%       | 0                |
| 14,875--        | 35,950       | 2,231.25 | 28%       | 14,875           |
| 35,950--        | 113,300      | 8,132.25 | 33%       | 35,950           |
| 113,300--       | .....        |          |           |                  |

**1988 Schedule Y: Married Individuals,  
Joint Returns and Surviving  
Spouses**

| Taxable Income: |              |           |           |                  |
|-----------------|--------------|-----------|-----------|------------------|
| Over            | But Not Over | Pay       | This % of | the amount over- |
| \$ 0-           | \$29,750     | 0         | 15%       | 0                |
| 29,750--        | 71,900       | 4,462.50  | 28%       | 29,750           |
| 71,900--        | 149,250      | 16,264.50 | 33%       | 71,900           |
| 149,250--       | .....        |           |           |                  |

**1988 Schedule Z - Heads of  
Households**

| Taxable Income: |              |           |           |                  |
|-----------------|--------------|-----------|-----------|------------------|
| Over            | But Not Over | Pay       | This % of | the amount over- |
| \$ 0-\$         | 23,900       | 0         | 15%       | 0                |
| 23,900--        | 61,650       | 3,585.00  | 28%       | 23,900           |
| 61,650--        | 123,790      | 14,155.00 | 33%       | 61,650           |
| 123,790         | .....        |           |           |                  |

**TABLE 2. 1988 OKLAHOMA TAX RATE SCHEDULE**

**METHOD 1**

Schedule M  
Married Filing Jointly and  
Head of Household

Schedule N  
Single or Married  
Filing Separately

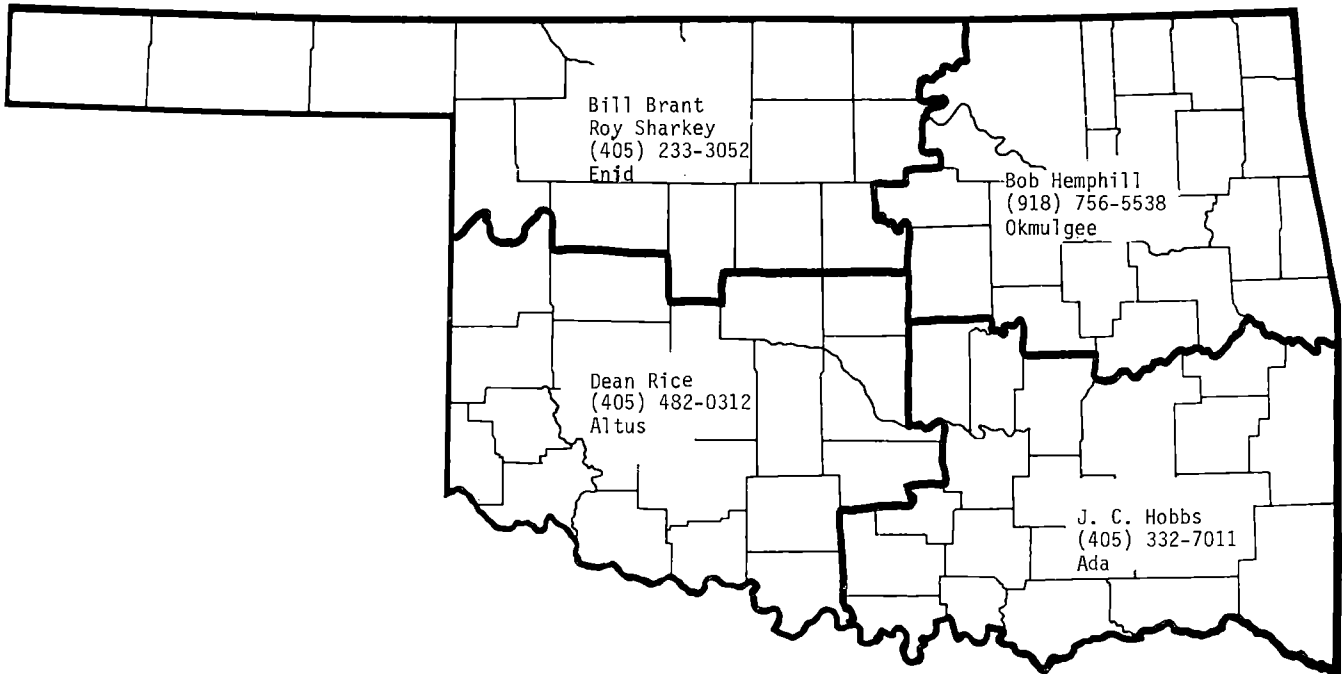
IF TAXABLE INCOME IS:

|                  |                                 |
|------------------|---------------------------------|
| \$ -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**



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