

Current Report

Cooperative Extension Service • Division of Agriculture • Oklahoma State University

Estimating 1989 Federal and State Income Taxes

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Plan Now to Avoid Tax Surprises Later

A slowly recovering agricultural economy and have driven up some prices received by farmers. Land prices are also increasing. Given the uneven distribution of drought impacts, and disaster payments 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.

As of January 1, 1989, farmers can buy diesel fuel tax exempt by obtaining a number from the Oklahoma Tax Commission. Farmers can also participate in a voluntary program to obtain a Sales tax exemption card.

Preproductive period expenses for beef and dairy raised replacement heifers must be capitalized or elect slower alternative depreciation methods for 1987 and 1988. Legislation has repealed this provision starting in 1989 for beef and dairy. Other plants and animals are still subject to these rules. Producers who elected to expense in 1987 and 1988 must change their election in 1989 to capitalization to avoid slow depreciation penalties. These beef and dairy producers should elect capitalization, but beef and dairy replacement heifers are exempt from those rules. Follow the instruction on Schedule F, Farm Income and Expense.

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 and investment tax credit 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.

1989 Income Tax Estimate Work Sheet

Amounts to Estimated	(1) Estimated <u>To Date</u>	(2) <u>Rest of Year</u>	(3) <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 ^(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 2000 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 ^(H)	(19) _____	_____	_____
(20) Self-Employment Tax ^(I)	(20) _____	_____	_____
(21) Alternative Minimum Tax ^(J)	(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 1989. (\$3,000 net losses = \$3,000 current deduction)
- F If your itemized deductions are greater than standard deduction (\$3,100 single, \$5,200 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 Items¹ Alternative minimum tax adjustments² - alternative minimum tax exemption³] * Tax rate⁴
- 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. 1989 INCOME TAX RATE SCHEDULES

**1989 Schedule X Single Individuals
No Dependents**

Taxable Income:				
Over	But Not Over	Pay	This % of	the amount over-
\$ 0-	\$18,550	0	15%	0
18,550-	44,900	2,782.50	28%	18,550
44,900-	93,130	10,160.50	33%	44,900
193130-			

**1989 Schedule Y - Separate Returns --
Married Persons**

Taxable Income:				
Over	But Not Over	Pay	This % of	the amount over-
\$ 0-	\$ 15,475	0	15%	0
\$ 15,475-	37,425	2,321.25	28%	\$ 15,475
37,425-	117,895	8,467.25	33%	37,425
117,895-			

**1989 Schedule Y: Married Individuals,
Joint Returns and Surviving Spouses**

Taxable Income:				
Over	But Not Over	Pay	This % of	the amount over-
\$ 0-	\$30,950	0	15%	0
\$30,950-	74,850	4,642.50	28%	30,950
74,850-	155,320	16,934.50	33%	74,850
155,320-			

1989 Schedule Z - Heads of Households

Taxable Income:				
Over	But Not Over	Pay	This % of	the amount over-
\$0-\$	24,8500		15%	\$0
24,850-	-64,200	3,727.50	28%	24,850
64,200-	128,810	14,745.50	33%	64,200
128,810			

TABLE 2. 1989 OKLAHOMA TAX RATE SCHEDULE

METHOD 1

Schedule M
Married Filing Jointly and
Head of Household

Schedule N
Single or Married
Filing Separately

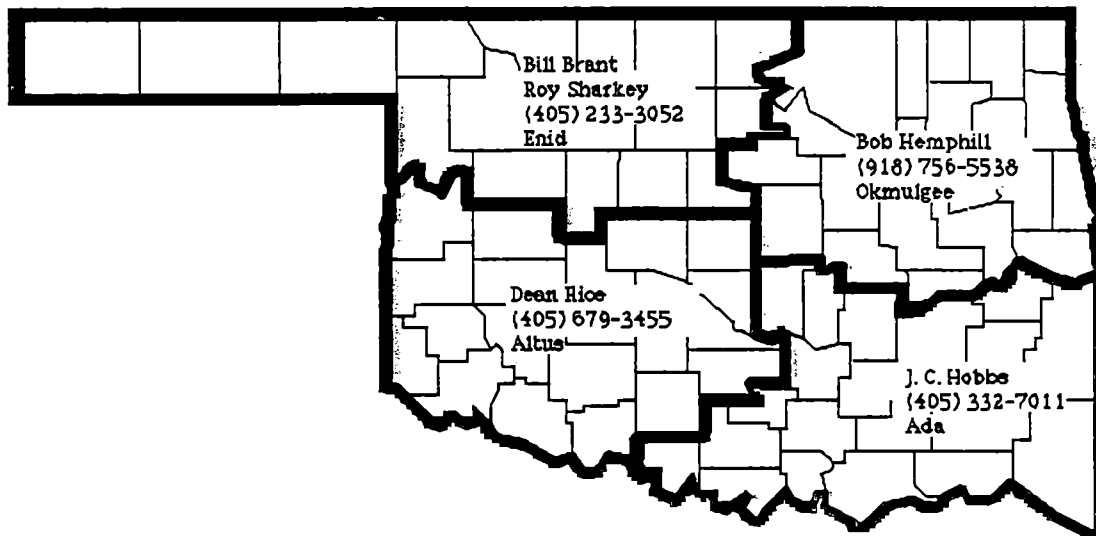
IF TAXABLE INCOME IS:

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

IF TAXABLE INCOME IS:

\$ -0-	\$ 1,000	Pay 1/2 of 1% of taxable income.
1,000 -	2,500	Pay \$ 5.00 + 1% over \$ 1,000
2,500 -	3,700	Pay \$ 20.00 + 2% over \$ 2,500
3,700 -	5,000	Pay 45.00 + 3% over 3,750
5,000 -	6,250	Pay 82.50 + 4% over 5,000
6,250 -	7,500	Pay 132.50 + 5% over 6,250
7,500	and over	Pay 195.00 + 6% over 7,500

Oklahoma Farm Management Associations



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