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Estimating 2004 Federal and State Income Taxes

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Timely tax planning before year-end can increase after-tax income

Congress has recently passed and is awaiting the president's signature on legislation which will extend some of the tax provisions that are scheduled to expire at the end of this year. Should new legislation be passed that will extend any or all of the provisions set to expire, an additional current report will be made available that will explain the tax law changes.

The 30% and the 50% bonus depreciation for qualifying business property acquired after May 5, 2003 and before 2005 will expire after December 31, 2004. Taxpayers must keep in mind that qualifying assets must be purchased and placed in service on or before December 31, 2004 in order to take advantage of this bonus depreciation.

The §179 expensing election has been adjusted for inflation for the 2004 tax year. For 2004, up to $102,000 of qualifying property may be deducted. Keep in mind that the dollar limitation on the amount that can be deducted will revert back to the 2002 amount of $25,000 on January 1, 2006 unless it is increased through future legislation.

Laws continuing from 2003 into 2004

- The 10% bracket was expanded by $1,000 for singles and married persons filing separately and by $2,000 for married persons filing jointly and surviving spouses.
- For 2004, the reduction of the individual income tax brackets above 15% has been maintained so that for 2004 and later years the rates are 25%, 28%, 33%, and 35%.
- The child credit for 2004 remains at $1,000 for a qualifying child.
- Marriage penalty relief for joint filers in the form of a standard deduction increased to double the size of the standard deduction for single filers, and a 15% bracket widened to double the size of the 15% bracket for singles, which will expire in 2005.
- A boost in alternative minimum tax (AMT) exemption amounts will also expire in 2005.
- The 10% and 20% rates on adjusted net capital gain are reduced to 5% (zero, in 2008) and 15% respectively, for both regular tax and the AMT, for sales and exchanges (and payments received) after May 5, 2003, and before Jan. 1, 2009.
- Dividends received by an individual shareholder from domestic corporations are treated as net capital gain for purposes of applying the capital gain tax rates, effective for dividends received in tax years beginning after 2002 and before 2009. In other words, dividends are taxed at rates of 5% (zero, in 2008) and 15% for both regular tax and AMT purposes.

Again this year, weather has had a dramatic impact on Oklahoma agriculture. Weather has caused reduced yields and early sales of livestock. The USDA has declared many Oklahoma counties as eligible for some form of federal assistance. This declaration allows producers in these counties to use the weather related sale of livestock rules for 2004. See Current Report CR-788, "Tax Consequences of Weather Related Sales of Livestock" for more information.

A casualty loss is the damage or total loss of personal or business property from an event that is identifiable, sudden, unexpected, or unusual. Fire, flood, hail, storm, lighting, tornadoes, and auto accidents that are not the result of your negligence are examples of casualty losses. The tax benefit or deductible loss is limited to either the decrease in Fair Market Value (FMV) or your tax basis, whichever is less. This lesser amount must be further reduced by any insurance proceeds or other salvage value received. Crop insurance proceeds and qualified disaster payments can also be postponed until next year. See Current Report, CR-789, "Disaster and Casualty Losses" for more detailed information.

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 AMT. An income tax checklist is provided to call attention to infrequent tax events that may greatly affect your tax liability. This worksheet can be used as a guide. For specific questions, contact your local County Extension Director or Area Extension Agricultural Economics Specialist.

Income Tax Check List for Farmers and Ranchers

1. Will taxable income be above or below average? (Check before year-end.)
2. Have you sold land or other assets or had debt forgiven? You may owe tax on the sale and the amount of debt forgiven.
3. Have you purchased a farm this taxable year? If yes, consider the importance of allocating costs to land, growing crops, depreciable improvements, dwelling, etc.
4. Can drought sales of breeding livestock be treated as an involuntary conversion this year? Explore the consequences of replacing with similar type property within two years.
5. Have you sold easement or right-of-way this year?
6. If you are planning to sell land in the near future, consider use of the installment method to reduce taxes or a Like-Kind Exchange (spreading income among years)?
7. Leases of machinery and equipment not associated with land may be subject to self-employment tax.
8. Are you taking full advantage of the tax credits (earned income credit, credit for the elderly, child tax credit, and child care credit)?
9. Are payments of estimated tax required to avoid the underpayment penalty?
10. Consider a Traditional or Roth IRA.
11. If you have a loss this year, consider the optional method of paying social security tax to be covered for disability and survivors benefits.
12. Could a net operating loss be carried back 2 or 5 years to get a tax refund for those years?
13. Will the expensing election (Sect. 179) reduce your taxable income? The maximum amount is $102,000. W-2 wages can be used to offset a farm loss to qualify for the expense election.

Footnotes for 2004 Income Tax Estimate Work Sheet

A. 100% of gain above losses. (100% of gain resulting from depreciation taken on purchased breeding cattle, machinery and equipment sold.)

B. Off-farm employment, rent, oil income, etc. A depletion deduction may be allowed against oil income.

C. Exclude capital purchases and cost of cattle purchased for resale.

D. Use last years depreciation schedule as an estimate plus depreciation on new items.

E. Self-Employment Income = (line 1 + line 4) - (line 8 + line 9).

F. 100% of capital losses up to $3,000 in excess of short-term gains and capital gains may be deducted for years after 1989. ($3,000 net losses can be a current deduction that offsets other income)

G. Exemptions include yourself, your spouse, and your dependents.

H. If your itemized deductions are greater than the standard deduction ($4,850 single and married filing separate, $9,700 married filing joint) the larger amount should be deducted from your adjusted gross income before using the tax rate schedule.

2004 Income Tax Estimate Work Sheet

Total		(1) Amount to Date	(2) Estimate Rest of Year	(3) Estimate for Year
(01) Total Current Farm Sales	(01)			
(02) Sale of Items Purchased For Resale	(02)			
(03) Less Purchase Cost of Resale Items	(03)			
(04) Taxable Income from Resale Items (2-3)	(04)			
(05) Taxable Gain from Capital Assets (A)	(05)			
(06) Taxable Non-farm Income (B)	(06)			
(07) Total Taxable Income Lines (1+4+5+6)	(07)			
(08) Total Current Farm Expenses (C)	(08)			
(09) Annual Depreciation Expense (D)	(09)			
(10) Self Employment Income (E)	(10)			
(11) Capital Losses (F)	(11)			
(12) Total Deductions Lines (8+9+11)	(12)			
(13) Adjusted Gross Income Line (7-12)	(13)			
(14) Personal Exemptions (G) $3,100 x No. ________	(14)			
(15) Standard or Itemized Deductions (H)	(15)			
(16) Taxable Income Lines (13-14-15)	(16)			
(17) Estimated Income Tax (I)	(17)			
(18) Total Tax Credits (J)	(18)			
(19) Estimated Tax Due (17-18)	(19)			
(20) OK Income Tax Due (K)	(20)			
(21) Self-Employment Tax (L)	(21)			
(22) Alternative Minimum Tax (M)	(22)			
(23) Employment Taxes (N)	(23)			

I. Multiply line 16 by the appropriate value in the Federal Tax Rate Schedule Table 1.

J. Tax credits may include: Foreign tax credit, credit for child and dependent care expenses, credit for the elderly, education credits, retirement savings contributions credit, child tax credit, adoption credit, etc.

K. First calculate Oklahoma Taxable Income (OTI): Line 13 - (number of personal exemptions x 1,000) - ([the larger of federal itemized deductions] or [15% of Line 13 not to exceed $2,000]).

Then multiply OTI by the appropriate line in Table 2, Method 1,

Or

Subtract Federal Tax Line 19 from (OTI) and multiply by the appropriate line in Table 2, Method 2. Oklahoma tax due is the smaller tax calculated under Methods 1 and 2.

L. Self-employment tax = (line 10 x (1-.0765)) x 15.30%.

M. Alternative minimum tax = [(adjusted gross income, Line 13, + Tax Preference (Item 1) - Alternative minimum tax adjustments (Item 2) - alternative minimum tax exemption (Item 3)] * Tax rate (Item 4)

Item 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.

Item 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.

Table 1. 2004 Federal Income Tax Rate Schedules

Married Individuals Filing Joint Returns and Surviving Spouses

If taxable income is:	The tax is:
Not over $14,300	10% of taxable income
Over $14,300 but not over $58,100	$1,430.00 plus 15% of the excess over $14,300
Over $58,100 but not over $117,250	$8,000.00 plus 25% of the excess over $58,100
Over $117,250 but not over $178,650	$22,787.50 plus 28% of the excess over $117,250
Over $178,650 but not over $319,100	$39,979.50 plus 33% of the excess over $178,650
Over $319,100	$86,328.00 plus 35% of the excess over $319,100

Heads of Household

If taxable income is:	The tax is:
Not over $10,200	10% of taxable income
Over $10,200 but not over $38,900	$1,020.00 plus 15% of the excess over $10,200
Over $38,900 but not over $100,500	$5,325.00 plus 25% of the excess over $38,900
Over $100,500 but not over $162,700	$20,725.00 plus 28% of the excess over $100,500
Over $162,700 but not over $319,100	$38,141.00 plus 33% of the excess over $162,700
Over $319,100	$89,753 plus 35% of the excess over $319,100

Unmarried Individuals (Other than Surviving Spouses and Heads of Household)

If taxable income is:	The tax is:
Not over $7,150	10% of taxable income
Over $7,150 but not over $29,050	$715.00 plus 15% of the excess over $7,150
Over $29,050 but not over $70,350	$4,000.00 plus 25% of the excess over $29,050
Over $70,350 but not over $146,750	$14,325.00 plus 28% of the excess over $70,350
Over $146,750 but not over $319,100	$35,717.00 plus 33% of the excess over $146,750
Over $319,100	$92,592.50 plus 35% of the excess over $319,100

Married Individuals Filing Separate Returns

If taxable income is:	The tax is:
Not over $7,150	10% of taxable income
Over $7,150 but not over $28,400	$715.00 plus 15% of the excess over $7,150
Over $28,400 but not over $58,625	$4,000.00 plus 25% of the excess over $28,400
Over $58,625 but not over $89,325	$11,393.75 plus 28% of the excess over $58,625
Over $89,325 but not over $159,550	$19,989.75 plus 33% of the excess over $89,325
Over $159,550	$43,164.00 plus 35% of the excess over $159,550

Item 3. Alternative minimum tax exemption -
Single filers = $40,250
Joint return and surviving spouses =$58,000
Married filing separately = $29,000

Item 4. Tax rate = 26% on AMT income up to $175,000
28% on AMT income above $175,000

N. Congress passed legislation, which requires farmers to withhold Federal and state income tax from cash wages and salaries paid to agricultural employees. Under prior law, agricultural workers were not subject to income tax withholding after December 31, 1989. Wages paid to farm workers will generally be subject to income tax withholding if the cash wages earned by the agricultural workers are subject to FICA (Social Security) withholding. FICA withholding applies generally if the worker earns more than $150 or the employer pays $2500 to all agricultural workers. Wages paid to the family members under 18 years of age are exempt from FICA withholding. Thus, these family youth are also exempt from income tax withholding. Wages paid to a spouse employed on the family farm and children 18 and over are subject to FICA and are therefore subject to withholding.

Table 2. 2004 Oklahoma Tax Rate Schedule

Separate for Single Taxpayer and for Husband and Wife Filing Returns:

Method One: Taxable Income Before Federal Tax Deduction

If taxable income is:	
0 up to 1,000	Pay 1/2 of 1% of Taxable Income
1,000 up to 2,500	Pay 5.00 plus 1% over 1,000
2,500 up to 3,750	Pay 20.00 plus 2% over 2,500
3,750 up to 4,900	Pay 45.00 plus 3% over 3,750
4,900 up to 6,200	Pay 79.50 plus 4% over 4,900
6,200 up to 7,700	Pay 131.50 plus 5% over 6,200
7,700 up to 10,000	Pay 206.50 plus 6% over 7,700
10,000 and over	Pay 344.50 plus 7% over 10,000

Method Two: Taxable Income After Federal Tax Deduction

If taxable income is:	
0 up to 1,000	Pay 1/2 of 1% of Taxable Income
1,000 up to 2,500	Pay 5.00 plus 1% over 1,000
2,500 up to 3,750	Pay 20.00 plus 2% over 2,500
3,750 up to 4,900	Pay 45.00 plus 3% over 3,750
4,900 up to 6,100	Pay 79.50 plus 4% over 4,900
6,100 up to 7,500	Pay 127.50 plus 5% over 6,100
7,500 up to 9,000	Pay 197.50 plus 6% over 7,500
9,000 up to 10,500	Pay 287.50 plus 7% over 9,000
10,500 up to 12,500	Pay 392.50 plus 8% over 10,500
12,500 up to 16,000	Pay 552.50 plus 9% over 12,500
16,000 and over	Pay 867.50 plus 10% over 16,000

For Husband and Wife Filing Joint, Qualifying Widow(er) with Dependent Child, and Head of Household:

Method One: Taxable Income Before Federal Tax Deduction

If taxable income is:	
0 up to 2,000	Pay 1/2 of 1% of Taxable Income
2,000 up to 5,000	Pay 10.00 plus 1% over 2,000
5,000 up to 7,500	Pay 40.00 plus 2% over 5,000
7,500 up to 9,800	Pay 90.00 plus 3% over 7,500
9,800 up to 12,200	Pay 159.00 plus 4% over 9,800
12,200 up to 15,000	Pay 255.00 plus 5% over 12,200
15,000 up to 21,000	Pay 395.00 plus 6% over 15,000
21,000 and over	Pay 755.00 plus 7% over 21,000

Method Two: Taxable Income After Federal Tax Deduction

If taxable income is:	
0 up to 2,000	Pay 1/2 of 1% of Taxable Income
2,000 up to 5,000	Pay 10.00 plus 1% over 2,000
5,000 up to 7,500	Pay 40.00 plus 2% over 5,000
7,500 up to 8,900	Pay 90.00 plus 3% over 7,500
8,900 up to 10,400	Pay 132.00 plus 4% over 8,900
10,400 up to 12,000	Pay 192.00 plus 5% over 10,400
12,000 up to 13,250	Pay 272.00 plus 6% over 12,000
13,250 up to 15,000	Pay 347.00 plus 7% over 13,250
15,000 up to 18,000	Pay 469.50 plus 8% over 15,000
18,000 up to 24,000	Pay 709.50 plus 9% over 18,000
24,000 and over	Pay 1249.50 plus 10% over 24,000

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