

Current Report

Cooperative Extension Service • Division of Agricultural Sciences and Natural Resources
Oklahoma State University

ESTIMATING 1992 FEDERAL AND STATE INCOME TAXES

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Tax Planning Now Can Avoid Surprises Later

The Oklahoma agricultural economy is ever changing with gross receipts from individual commodities both above and below last year's levels. Income changes are also affected by natural disasters and Government payments. Thus some producers will have higher than expected income while others will experience reductions in income. ASCS announced new procedures this year that treat farm spouses as separate persons for payment limitation purposes. The decision by husband and wife to split the farm creates a legal joint venture that can require a partnership tax return and possibly reduce Social Security benefits. 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, agricultural employers must withhold and remit state and federal income tax withholding on their employees' paid cash wages and salaries. An employer identification number is necessary to remit state and federal withholding. This I.D. number can be obtained by filing IRS form SS-4 or by calling (512-462-7843). Registration with the State of Oklahoma by requesting and completing a Business Tax Registration form (13-20). To obtain this form call (405-521-3279). Deposit requirements are detailed in IRS Publication Circular A.

Floods and other natural disasters have destroyed or damaged some agricultural crops and livestock. 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, storm, lightning, 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 an insurance or other salvage or value received.

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 paying a large or small amount of taxes.

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 tax 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. 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. Note: It would be helpful to consider this at the time of purchase.
4. Can drought sales of breeding livestock be treated as an involuntary conversion this year? Explore tax consequences of replacing with similar type property.
5. Have you sold easement or right-of-way this year?
6. 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)?
7. 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?
8. Are you taking full advantage of the tax credits (Earned income credit, Credit for the elderly, and Child care credit)?
9. Are payments of estimated tax required to avoid the underpayment penalty?
10. Should you consider an IRA or Keogh plan?
11. Should you consider the alternative method of paying social security tax?
12. Could a net operating loss or unused investment credit be carried back 3 years to get a tax refund for those years?
13. Will the expensing election (Sect. 179) reduce your taxable income? The maximum amount is \$10,000. W-2 wages can be used to offset a farm loss to qualify for the expense election.

1992 Income Tax Estimate Work Sheet

	(1) Amounts to To Date	(2) Estimated Rest of Year	(3) Estimated Years Total
(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 (2-3)	(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) 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 \$2,300 x No.	(14) _____	_____	_____
(15) Standard or Itemized Deductions ^(G)	(15) _____	_____	_____
(16) Taxable Income Lines (13-14-15)	(16) _____	_____	_____
(17) Estimated Income Tax ^(H)	(17) _____	_____	_____
(18) Total Tax Credits	(18) _____	_____	_____
(19) Estimated Tax Due (17-18)	(19) _____	_____	_____
(20) OK Income Tax Due ^(I)	(20) _____	_____	_____
(21) Self-Employment Tax ^(J)	(21) _____	_____	_____
(22) Alternative Minimum Tax ^(K)	(22) _____	_____	_____
(23) Employment Taxes ^(L)	(23) _____	_____	_____

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. A depletion deduction may be allowed against oil income.
- C Exclude capital purchases and cost of cattle purchased for resale.
- D Last year, 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 = \$3,000 current deduction)
- G If your itemized deductions are greater than standard deduction (\$3,600 single, \$6,000 married filing joint) the larger amount should be deducted from your adjusted gross income before using the tax rate schedule.
- H Multiply line 16 by the appropriate value in the Federal Tax Rate Schedule Table 1.
- I 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.
- J Self-employment tax = (line 10 x (1-.0765)) x 15.30%.
- K Alternative minimum tax = [(adjusted gross income, Line 13, + 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 = 24%
- L 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 1. 1992 INCOME TAX RATE SCHEDULES

Schedule X - Use if your filing status is Single

If the amount on Form 1040, line 37 is: <i>Over-</i>	<i>But not over--</i>	Enter on Form 1040, line 38	<i>of the amount over--</i>
\$0	\$21,450	-----15%	\$0
21,450	52,900	\$3,217.50 + 28%	21,450
51,900	-----	11,743.50 + 31%	51,900

Schedule Y-1 - Use if your filing status is Married filing jointly or qualifying widow(er)

If the amount on Form 1040, line 37 is: <i>Over-</i>	<i>But not over--</i>	Enter on Form 1040, line 38	<i>of the amount over--</i>
\$0	\$35,800	-----15%	\$0
35,800	86,500	\$5,370.50 + 28%	35,800
86,500	-----	19,566.00 + 31%	86,500

Schedule Z - Use if your filing status is Head of Household

If the amount on Form 1040, line 37 is: <i>Over-</i>	<i>But not over--</i>	Enter on Form 1040, line 38	<i>of the amount over--</i>
\$0	\$28,750	-----15%	\$0
28,750	74,150	4,312.50 + 28%	28,750
74,150	-----	17,024.50 + 31%	74,150

Schedule Y-2 - Use if your filing status is Married filing separately

If the amount on Form 1040, line 37 is: <i>Over-</i>	<i>But not over--</i>	Enter on Form 1040, line 38	<i>of the amount over--</i>
\$0	\$17,900	-----15%	\$0
17,900	43,250	\$2,685.00 + 28%	17,900
43,250	-----	9,783.00 + 31%	43,250

TABLE 2. 1992 OKLAHOMA TAX RATE SCHEDULE

METHOD I

Married Filing Jointly or Head of Household

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	-	9,800	Pay 90.00 + 3% over	7,500
9,800	-	12,200	Pay 159.00 + 4% over	9,800
12,200	-	15,000	Pay 255.00 + 5% over	12,200
15,000	-	21,000	Pay 395.00 + 6% over	15,000
21,000		over	Pay 755.00 + 7% over	21,000

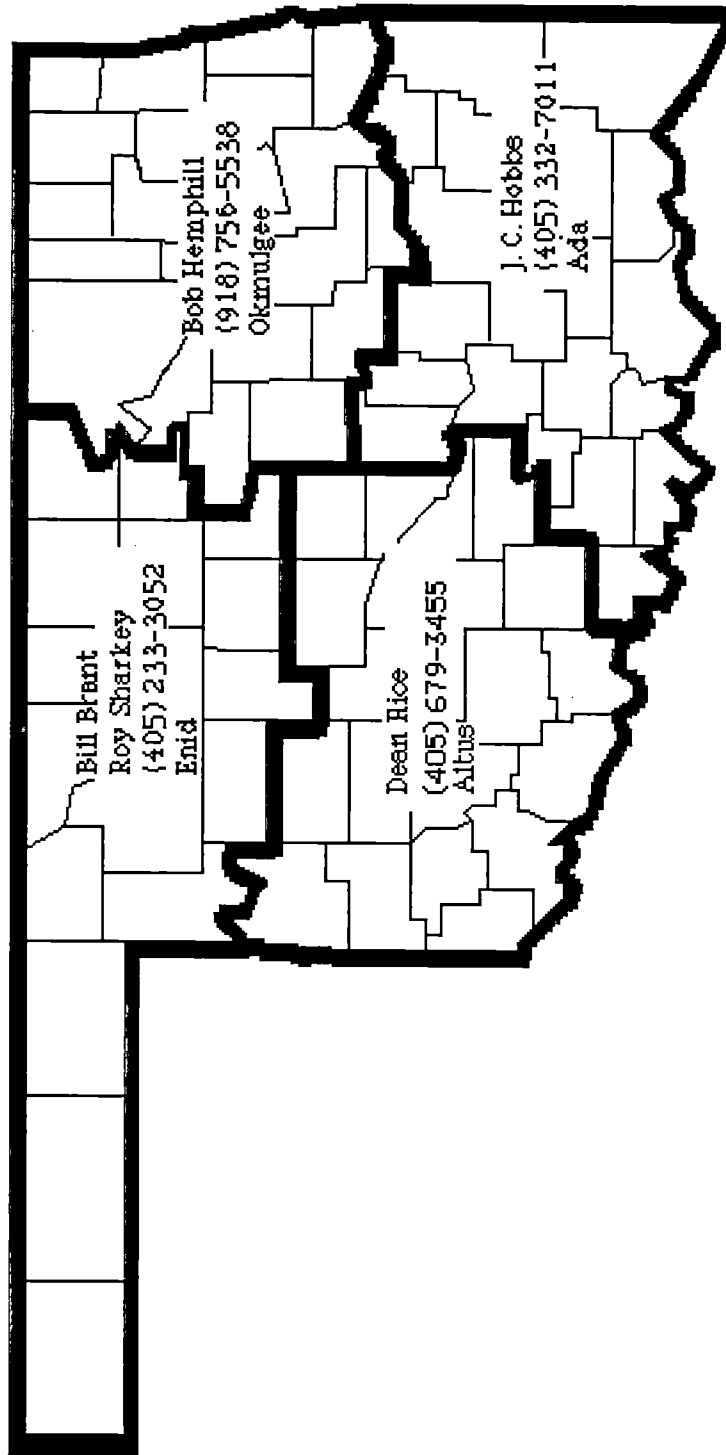
METHOD II

Married Filing Jointly or Head of Household

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	-	8,900	Pay 90.00 +3% over	7,500
8,900	-	10,400	Pay 132.00 +4% over	8,900
10,400	-	12,000	Pay 192.00 +5% over	10,400
12,000	-	13,250	Pay 272.00 +6% over	12,000
13,250	-	15,000	Pay 347.00 +7% over	13,250
15,000	-	18,000	Pay 469.50 +8% over	15,000
18,000	-	24,000	Pay 709.50 +9% over	18,000
24,000		over	Pay 1249.50 +10% over	24,000

Oklahoma Farm Management Associations



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