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RECORDS, INCOME, EXPENSES, CAPITAL GAINS, DEPRECIATION, INVESTMENT TAX CREDIT,
INSTALLMENT SALES, RECAPTURE, SECTION 1245, N.O.L., SELF EMPLOYMENT TAX, ACRS,
PIK PROGRAM PAYMENTS, FORM 1099, SOCIAL SECURITY, TAXMANSHIP, IRA, ALTERNATIVE
MINIMUM TAX, S REDUCTION,
CHILD CARE C G, ESTIMATED
TAXES, PARTN PITAL GAINS,
DEPRECIATION RE, SECTION
1245, N.O.L. FORM 1099,
SOCIAL SECUR LE F, KEOGH
PLANS, NYS I , CARRYOVER,

FARM INCOME TAX MANAGEMENT AND REPORTING

Reference Manual

CASUALTY & THEFT LOSSES, WITHHOLDING, ESTIMATED TAXES, PARTNERSHIPS, CORPORA-
TIONS RECORDS, INCOME, EXPENSES, CAPITAL GAINS, DEPRECIATION, INVESTMENT TAX
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REDUCTION, CHILD CARE LOSSES, WITHHOLDING,
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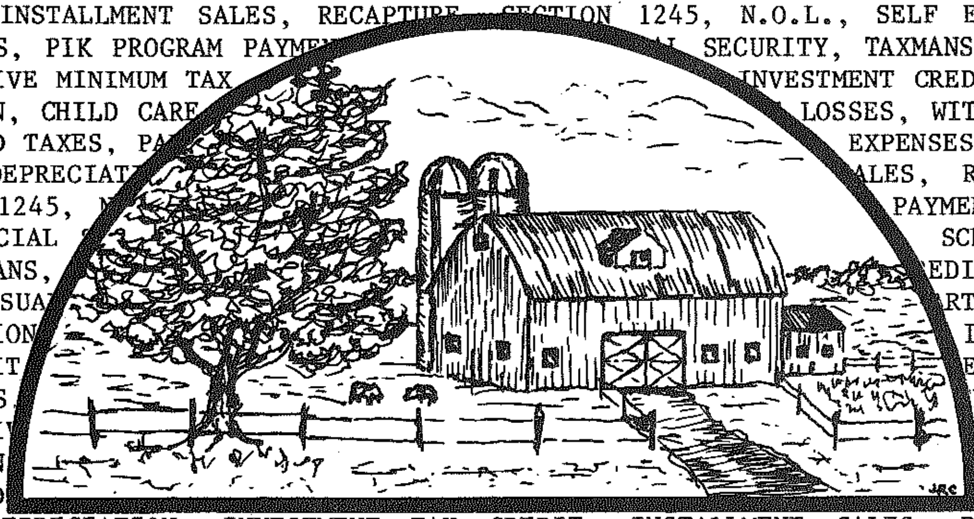

GAINS, DEPRECIATION, INVESTMENT TAX CREDIT, INSTALLMENT SALES, RECAPTURE,
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CASUALTY & THEFT LOSSES, WITHHOLDING, ESTIMATED TAXES, PARTNERSHIPS,

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1983 TAX FORMS NEEDED BY NEW YORK FARMERS

Here is a list of the more important 1983 income tax forms needed by farmers and some indication of those that have changed.

Federal Forms

1040 - U.S. Individual Income Tax Return. Some lines on page 2 have been eliminated and line numbers have changed.
- Schedule A & B - Itemized Deductions and Dividend and Interest Income.
- Schedule D - Capital Gains and Losses. Some line numbers changed.
- Schedule E - Supplemental Income Schedule.
- Schedule F - Farm Income and Expenses. Continues to be criticized by budget cutting agencies. Minor changes.
- Schedule G - Income Averaging.
- Schedule R & RP - Tax Credit for Elderly.
- Schedule SE - Computation of Social Security Self-Employment Tax. Attach to both C & F.
- Schedule W - Deduction for Married Couple when both work.

1040A - Can now be used to report IRA deductions and the child care credit.

1040EZ- For single filers with no dependents, income under $50,000, wage income only, interest under $400 and no dividends.

1040X - Amended U.S. Individual Income Tax Return.

943 - Employer's Annual Tax Return for Agricultural Employees.

1099 - Information returns to be filed by person who makes certain payments of $600 or more: 1099-INT interest payments; 1099-MISC to report rents, royalties, prizes, awards, payments to fishing boat crews, medical and health care payments, and nonemployee compensation; 1099-G statement for recipients of certain government payments (new in 1983).

1096 - Summary and transmittal form for 1099's and 1087's.

W-2 - Wage and Tax Statement. W-3 - Transmittal of Income and Tax Statement.

1065 - U.S. Partnership Return.

3468 - Computation of Investment Credit and Business Energy Property Credit (3468B). Lines added on 3468 for the IC reduction option.

4136 - Computation of Credit for Federal Tax on Gasoline, Special Fuels, and Lubricating Oil.

4255 - Investment Credit Recapture (undated).

4562 - Depreciation: Use to report depreciation, cost recovery, and Section 179 expense election.

4684 - Casualties and Thefts. Revised to include the 10 percent rule.

4797 - Supplemental Schedule of Gains and Losses. Line added for Section 179 recapture, some lines renumbered.

5695 - Residential Energy Credit.

6251 - Alternative Minimum Tax Computation. Revised.

New York State Forms

IT-201 - Income Tax Resident Return (individual, joint, or separate).

IT-201ATT - Summary of Other Credits and Taxes.

IT-204 - Partnership Return

IT-212 - Investment Credit and Recapture Schedule.

IT-214 - Real Property Tax Credit.

IT-220 - Minimum Income Tax Computation Schedule.

IT-250 - Maximum Tax on Personal Service Income.

IT-2102 & IT-2103 - Wage and Tax Statement, and reconcilation form.

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1983 FARM TAX AND INCOME SITUATION

Recent Legislation

The major changes that will affect the tax bills and tax reporting of farmers for 1983 result from laws passed in 1981 (ERTA) and 1982 (TEFRA, the Subchapter S Revision Act, and the Technical Corrections Act of 1982). Income tax rates are down 10 percent in 1983 from 1982 as a result of ERTA. Farmers must choose between reducing the basis of property acquired in 1983 and later by one-half the investment credit or reducing the IC by two percentage points. The Sub-S act will require changes in the way income items are reported but will not change the tax bills of most S Corporation farmers.

Social Security Act amendments passed in 1983 will increase 1984 self-employment taxes nearly three percent.

Future Legislation

There are a dozen or more tax bills plus several proposed regulations currently pending in Washington. Most of the 1983 tax bills introduced to date would have minor impact on farmers if approved. The Economic Equity Bill would liberalize earned income credit and make changes in IRA's and pension plans. The Tax Simplification Bill would give IRS more flexibility in applying underpayment of estimated tax penalties. The rules on claiming deductions for using part of the home for business would be modified under a new regulation. Tax credit for some of the tuition paid to qualified private schools has been approved by the Senate Finance Committee.

Most tax experts predict no major income tax increases prior to the 1984 elections. Modification of the plans to adjust individual tax rates for inflation starting in 1985 may be one of the first changes made.

1983 Farm Income

Dairy farm incomes in 1983 will generally be lower than in 1982 because of the milk assessments and higher feed prices. Records from 76 CAMIS dairy farms indicate that January-August operating margins per cow are about the same as in 1982 and up slightly on a per farm basis because of increased herd size, but the worst is yet to come. Incomes almost surely will drop in the fall of 1983 because of the $1.00 assessment and higher feed prices. In 1984, the $1.00 assessment will be in effect for the full year unless Congress changes the law.

Grain farmers are enjoying substantially higher prices, particularly for corn, but in some areas yields are down because of the dry weather. Those who participated heavily in PIK have the high prices without the low yields and also have low expenses. Depending on timing of sales, and PIK related factors, some grain farmers may have high enough incomes in 1983 to need help with tax management.

Most grape farmers will have lower incomes than in 1982 because of sharply lower prices for many varieties. Apple prices are higher than last fall but many growers' incomes will depend largely on sales of the 1982 crop. Hog prices have been below 1982 levels for much of 1983. Egg prices have been above year earlier levels since May but feed prices are also above last year's levels.

Carry overs and carry backs of net operating losses will be important tax management tools for some New York farmers.

HIGHLIGHTS OF 1983 TAX LEGISLATION AND ANNOUNCEMENTS

Social Security Amendments

Important changes in the Social Security Act effective starting in 1984 are:

1) Major increases in self-employment tax rates.

2) A more complex system of computing social security tax involving a credit.

3) The earnings base will be tied to inflation.

4) Some social security benefits will be taxable.

Rates

Currently (1983) self-employed individuals pay on a maximum earnings base of $35,700 at 9.35 percent or $3,338 of self-employment taxes. The effective rate for 1984 is 11.3 percent. The self-employed taxpayer earning $35,700 in 1984 will pay $4,034 for an increase of $696 in self-employment taxes.

Social security rates (FICA) for employers and employees have also increased. The specified FICA tax rate for 1984 is 7.0 percent but employees receive a credit equal to 0.3 percent of income subject to social security. The refundable credit will convert into a lower withholding rate resulting in an effective rate of 6.7 percent for 1984 only.

Social Security Tax Table

		FICA Tax Rate		Self-Employment Tax		
Year	Earnings Base	Employer	Employee	Specified Rate	Credit	Effective Rate
1983	$35,700	6.7 %	6.7 %	9.35%	---	9.35%
1984	37,800	7.0	6.7*	14.0	2.7%	11.3
1985	?	7.05	7.05	14.1	2.3	11.8
1986 & 87	?	7.15	7.15	14.3	2.0	12.3

*Specified rate of 7.0 percent less 0.3 percent credit.

Self-Employment Tax Credit

The rates specified by 1983 law for self-employed individuals are double the FICA rates. However, credits against the tax will be taken into account in computing self-employment tax liability. The credit rates are applied to self-employment income not exceeding the earnings base. For practical purposes the effective rates can be used in place of the specified rates.

Taxation of Benefits

Starting with 1984, individuals with more than $25,000 of AGI, tax-exempt interest plus 50 percent of their social security benefits will pay income tax on part of those benefits. The base amount is $32,000 for married couples filing joint returns. The smaller of 50 percent of the social security benefits or 50 percent of the amount the taxpayers' combined income exceeds the base amount would be taxable.

Income Tax Changes

Withholding Repeal (HR 2973)

Provisions imposing 10 percent withholding on dividends and interest payments to individuals was repealed. Refunds of amounts already withheld were not required but were allowed. However, IRS can impose a 20 percent backup withholding starting in 1984 under these conditions:

1) The payee doesn't report interest and dividend income properly.

2) The payee doesn't furnish a correct ID (social security) number.

3) Payee fails to certify that he is exempt from backup withholding.

Net Interest Exclusion

Starting in 1985 taxpayers can exclude some interest received from gross income. The exclusion is limited to 15 percent of the first $6,000 of interest on a joint return ($3,000 on individual returns), or 15 percent of the excess of interest received over qualified interest deduction excluding home mortgage interest, whichever is less. An individual who does not itemize deductions is not subject to the second rule.

Informational Returns

Form 1099-MISC is revised for 1983 and replaces 1099-F, 1099-MED, and 1099-NEC. From 1099-MISC will be used to report rents, royalties, prizes, awards, fishing boat proceeds, medical and health care payments, and nonemployee compensation, when payments total $600 or more to one individual. The penalty for unintentional noncompliance is $50 per failure to file. Intentional noncompliance carries a greater penalty.

Reporting payments to nonemployees has the greatest impact on farm taxpayers. A 1099-MISC must be filed on each person receiving $600 or more for services performed during the year. Service is the same as charges for labor or time and excludes charges for materials and goods. If a farmer pays $600 to custom operator A for spraying crops and the bill shows $300 for labor and $300 for spray materials, no 1099-MISC is required. But, if the $600 bill is not allocated between labor and materials the 1099 MISC should be filed.

The instructions that are provided with the 1983 1099-MISC clearly state that payments made to corporations are excluded. Many independent contractors and agribusiness firms that farmers do business with are incorporated. The list includes DHIC, Artificial Breeding Coops, Agway, and marketing firms. Although new regulations may change this exclusion in future years, farmers need not report compensation paid incorporated businesses in 1983. However, IRS may try to make a distinction between a corporation and individuals that work for a corporation. To be safe, the taxpayer should make sure his records show the payments were made to the incorporated firm, not to the individual employed by the firm.

A copy of the complete 1099-MISC must be provided the recipient by January 31, 1984 and the IRS copy must be filed no later than February 28, 1984. Taxpayers are subject to penalties if they do not comply.

Form 1099-MISC also will be used to report direct sale payments of $5,000 or more when the purchase is made for resale purposes. The dollar amount of such sales does not have to be reported.

A new informational return, 1099-G, must be used by federal, state, and local government units to report unemployment compensation, state and local tax refunds, taxable grants and agricultural payments. Farmers that receive agricultural program payments as "payees of record", and in turn pass along $600 or more of the payment to someone else, must file 1099-G and give a copy to the payee.

Form 1040A Expanded

Form 1040A can now be used to report IRA deductions and the child care credit. It is still a two page form but an additional two page schedule is required to compute the child care credit, the deduction for working married couples, and report interest and dividend income over $400. Taxpayers who itemize deductions or have fully taxable pensions still cannot use 1040A.

Partnership and S Corporation Audits

What TEFRA did for partnership audits the Subchapter S Revision of 1982 did for S corporation audits. Partnership audits now begin at the partnership rather than at the partner level for all but the most elementary of partnerships. For tax years beginning after 1982, S corporation audits also will begin at the corporation level. In either case the tax treatment of income, losses, credits, etc., will be determined at the partnership or corporation level and the partners or shareholders must treat these items in a manner consistent with that used at the entity level.

REVIEW OF FEDERAL INCOME TAX REDUCTIONS AND CHANGES FROM ERTA AND TEFRA

The number and complexity of the changes in tax laws included in the Economic Recovery Tax Act of 1981 and The Tax Equity and Fiscal Responsibility Act of 1982 are still difficult to comprehend. Those changes of most importance to farm taxpayers are reviewed here.

Reductions In Individual Tax Rates

The Economic Recovery Tax Act of 1981 provided for a 23 percent, four step reduction of individual income tax rates starting in 1981 and extending through 1984. The first step was a 1.25 percent tax reduction in 1981.

In 1983, individual tax rates dropped an additional 10 percent bringing the total reduction to 19 percent by the end of 1983. A five percent reduction scheduled for 1984 will make the cumulative total reduction equal to 23 percent.

ERTA also includes indexing provisions to adjust individual tax rates for inflation. Starting with 1985, tax rate schedules will be revised annually to prevent a taxpayer from being pushed into a higher bracket by inflation. The adjustments will be based on the increase in the average 12-month Consumer Price Index on September 30, 1984 compared with the 1983 CPI. Indexing will continue each year in which the CPI exceeds the 1983 CPI.

The zero bracket amount (standard deduction) is unchanged for 1983 and the personal exemption stays at $1,000. Indexing adjustements will apply to the $1,000 personal exemption starting with 1985.

Tax Reduction For Double Wage Earner Couples

Married couples filing joint returns now receive a gross income deduction based on a percentage of the lower earning spouse's "qualified earned income". The deduction is made and claimed by filing Schedule W, Deduction for a Married Couple When Both Work. The deduction will be the lesser of $3,000 or 10 percent of earned income beginning in 1983.

Qualified earned income includes wages, salaries, tips, commissions, and income from self-employment. Income from pensions, annuities, individual retirement plans, and deferred compensation payments are excluded. Wages the lower earning spouse received from working for his or her spouse do not qualify as earned income for computing this deduction. The following deductions made from total income to arrive at AGI also reduce qualified earned income: trade or business expenses, employee business expenses and payments to an IRA, or Keogh retirement plan.

The marriage deduction will provide some tax relief for the self-employed farmer who files a joint return with his or her outside income earning spouse. The maximum savings is $1,500 for 1983. There is no deduction for the farm couple whose income consists of farm profits plus the farm wages paid the spouse but married business partners could benefit providing the profits are not evenly divided. No credit is allowed if both spouses report the same income. Here is an example of how the deduction is determined:

M.C. Farmer and his spouse file a joint return. He has $14,000 of self-employment income from farming and she has $16,000 of earned income from teaching school. They also have joint interest (taxable) income of $3,500. For 1983 Mr. and Mrs. M.C. Farmer may deduct $1,400 (10 percent of $14,000) from their gross income if there are no deductions such as payments to an IRA. If we assume they are in the 30 percent marginal tax bracket the $1,400 gross income deduction will save them $420 in federal income taxes.

Dividend Exclusion

For 1983 the dividend exclusion is $200 ($100 on individual returns). The interest exclusion on tax-exempt savings certificates can be claimed through 1983.

New Charitable Contribution Deduction Option

A charitable contribution deduction for nonitemizers allows a taxpayer who does not itemize deductions to use 25 percent of the first $100 of charitable contributions to reduce taxable income for 1982 and 1983. This limits most taxpayers to a maximum annual deduction of $25 and married taxpayers filing separate returns to only $12.50 in 1982 and 1983. The maximum deduction allowed will increase to $75 for 1984 and 50 percent of all charitable contributions for 1985. All charitable contributions may be deducted for 1986. The general limitation of 50 percent of adjusted gross income applies for all years. This special deduction for nonitemizers is scheduled to end after 1986.

Child and Dependent Care Tax Credit

Taxpayers with AGI of $10,000 or less may now earn credit equal to 30 percent of qualified child care expenses not exceeding $2,400, ($720 of credit), for the care of one individual. The maximum for two or more children is $4,800 of expenses or $1,440 of credit. As AGI increases above $10,000, the credit percentage is reduced one percent for each $2,000 (or fraction thereof) of income above $10,000, until income reaches $28,000. Taxpayers with over $28,000 of AGI will receive a maximum of $480 of credit, (20 percent of $2,400), for one child or dependent.

Qualified employment related expenses continue to be limited to the earned income of the lower-earning spouse. Expenditures for out-of-the-house, noninstitutional care of a disabled dependent or spouse are eligible providing the care centers are in compliance with state and local regulations.

ACRS and Investment Tax Credit

The most significant business tax changes included in ERTA and modified by TEFRA are the new Accelerated Cost Recovery System and corresponding changes in Investment Tax Credit. Both of these are extremely important to farmers and are examined in depth in later sections of this manual.

Targeted Jobs Tax Credit

The targeted jobs tax credit has been extended two years and changes have been made in eligibility for the credit.

Corporate Tax Reductions and Changes

Rates on corporate income in the two lowest tax brackets have been reduced two percentage points over the last two years.

Corporate Tax Rates

Taxable Income	1981	1982	1983 & after
$ 0 - $ 25,000	17	16	15
25,001 - 50,000	20	19	18
50,001 - 75,000	30	30	30
75,001 - 100,000	40	40	40
100,001 and over	46	46	46

Noncalendar year corporations must prorate taxes according to the number of days that fall in each year, if they are affected by these changes.

The minimum accumulated earnings credit has been increased from $150,000 to $250,000 starting with 1982. Certain personal service corporations, such as law and accounting firms, will remain at $150,000.

Accrual basis corporations and other accrual taxpayers may benefit from new LIFO inventory rules contained in The Tax Act. Few small businesses have used LIFO because of its complexity. The new rules are suppose to help simplify the dollar-value method and make LIFO easier to use.

Charitable contributions by corporations are deductible up to a limit of 10 percent of the corporation's taxable income starting in 1982. The previous limitation was five percent of taxable income.

The tax benefits of certain corporate tax preferences will be cut by 15 percent for transactions after 1982 in tax years ending after 1982. This will apply to the portion of Section 1250 gains that now are treated as capital gain as well as to many other corporate tax preferences. This cut in benefits will be accompanied by a reduction in the amount of tax preference items used to calculate corporate minimum tax.

Corporate Estimated Tax Payments have increased to 90 percent. In general, for tax years beginning after 1982, corporations will be required to deposit quarterly 90 percent (rather than 80 percent) of their final tax liability in order to avoid the test for underpayment penalties. They will also be required to pay the full amount of any unpaid tax by 2 1/2 months after the end of the tax year.

Employer Gift Deduction Increased

An employer may now deduct up to $400 of the cost of gifts given to an employee for length of service, productivity, or safety achievement. The business gift deduction applies to income taxes and is not to be confused with the annual gift tax exclusion which applies to the unified estate and gift tax.

Carry Over Period Extension

Net operating losses from tax years ending after 1975 may now be carried forward for 15 years rather than seven. The new carry over period also applies to unused investment credit and WIN credit for years ending after 1973, and new jobs credit for years ending after 1977.

Repeal of Minimum Tax and Expansion of Alternative Minimum Tax

The add-on minimum tax was repealed for tax years beginning after 1982. The alternative minimum tax was expanded to prevent high-income individuals who have tax preference income from avoiding all tax liability. The new AMT will be payable to the extent it exceeds the taxpayer's regular tax. The tax preferences for add-on minimum tax purposes will be added to the list to which AMT applies. See later section for details.

Medical Expenses Deduction

For tax years beginning on or after January 1, 1983, the three percent floor for deductible medical expenses has been increased to five percent and the separate deduction for one-half of medical insurance premiums has been eliminated. In 1984, the one percent floor for deductible drug expenses will be eliminated but only prescription drugs and insulin will be deductible.

Nonbusiness Casualty and Theft Losses

For tax years beginning after 1982 casualty and theft losses will be deductible only to the extent that the total amount of such losses (after reduction for the $100 floor for each loss) exceeds 10 percent of adjusted gross income.

Withholding on Pensions, Annuities, and Deferred Income

In general, a 10 percent withholding will be required on all nonperiodic payments after December 31, 1982. Withholding will apply to periodic payments as if such payments were wages. However, an individual may elect, for any reason, not to have the tax withheld from either periodic or nonperiodic distributions.

Interest Rate on Underpayments and Overpayments

Effective January 1, 1983 the rate of interest on underpayments and overpayments will be redetermined twice a year. The rate will be the average prime rate charged by commercial banks during the six months ended September 30 for the following January through June and the six months ended March 31 for the following July through December. The rate for July 1, 1983 through June 30, 1984 is 11 percent.

Federal Unemployment Tax

Effective January 1, 1983 the FUTA wage base was increased from $6,000 to $7,000 and the tax rate will be increased from 3.4 to 3.5 percent.

Declaration of Estimated Tax

There is no change in the 1040-ES reporting system for 1983 as was anticipated last year.

Taxation of Unemployment Insurance Benefits

The portion of unemployment benefits includible in gross income was increased for benefits paid on or after January 1, 1982. The base amount above which part of unemployment benefits are included in gross income was lowered from $20,000 to $12,000 for single taxpayers and $25,000 to $18,000 for married taxpayers filing jointly.

Safe Harbor Leases and Finance Leases

The "Safe-Harbor" leasing rules were changed for leases entered into after July 1, 1982 to limit the benefits derived by the lessor. Few farmers are "safe-harbor" lessors. Farmers who are safe-harbor lessees may be affected indirectly in terms of lease payments, and in some cases may be directly affected by the "lessee limitation" rules.

In 1982 and 1983, the amount of a lessee's property that the lessor may treat as "qualified leased property" may not exceed 45 percent of the cost of the lessee's "qualified base property". Qualified base property includes property placed in service by the taxpayer during any calendar year which (1) is new Section 38 property owned by the taxpayer or (2) is safe-harbor lease property or (3) is "designated leased property". Designated leased property is other new Section 38 property of which the taxpayer is the lessee.

Safe-harbor leases will not be available after December 31, 1983. After that date, a new creature called "finance leases" will be available. There are limitations on the benefits that lessors may receive from finance leases (lessor cap and spreading of investment credit). The lessee may not lease more than 40 percent of the property placed in service during each of the calendar years 1984 and 1985.

Farm Finance Leases

Leases of new Section 38 property used for farming purposes entered into after July 1, 1982, may qualify for finance lease treatment if the cost basis of the leased property when added to the cost basis of all other farm property subject to a finance lease that was entered into by the lessee (or a related person) during the calendar year does not exceed $150,000. These leases of farm property are not subject to the lessor cap, the 40 percent lessee cap, or the spread of the investment credit. However, those limitations apply for leases entered into after December 31, 1983 of property exceeding the $150,000 amount.

Review of New Penalties Imposed by TFRA

1) For understatement of tax liability the penalty is 10 percent of the underpayment.

2) For aiding and abetting understatements, $1,000 ($10,000 for corporations).

3) Abusive tax shelter promoters, $1,000 or 10 percent of gross income from activity.

4) Frivolous returns, $500.

THE SUBCHAPTER S REVISION ACT OF 1982

The Subchapter S Revision Act, passed on October 19, 1982, made major changes in the laws that govern S corporations. Most of the changes became effective for tax years beginning on or after January 1, 1983 but the provision relating to passive income became effective on January 1, 1982.

The major change that will affect all S corporations is reporting of income. S corporations will report in a manner very similar to partnerships: The shareholders will report their pro-rata share of components of corporate income rather than reporting their share of net income or loss. This means that each shareholder will report his/her share of operating profit or loss, interest income, depreciation, tax credits, capital gains and losses, 1231 gain and losses, etc.

For many existing S corporations the income tax effect of the new rules will be minimal or nonexistent. The major change will be in the forms to be completed and the lines on which income from the S corporation will be reported.

As with prior law the S corporation will, under some circumstances, be subject to a tax on capital gains and a minimum tax on capital gains.

Before the 1982 law, the S election was automatically terminated if more than 20 percent of the corporation's gross receipts were from "passive investment income". The 1982 law eliminates this passive income rule for S corporations that do not have pre-election accumulated earnings and profits and such corporations will not be subject to a special tax on passive income.

An S corporation with "excess net passive income" (ENPI) and accumulated earnings and profits from its C days will pay a tax at the 46 percent corporate rate on that ENPI, or on its taxable income, if lower.

An S corporation now may have 35 rather than 25 shareholders and shareholders may have different voting rights. There may be only one class of stock. All shareholders must consent to the S election but owners of more than half the voting stock may revoke the election. Formerly all the shareholders had to consent to a revocation.

New S corporation firms will not be able to deduct as business expenses the fringe benefits for owner-employees that corporations are allowed to deduct. Existing S corporations may continue to deduct these fringes until 1988.

Such fringes include payments on behalf of stockholder-employees owning more than two percent of the stock for life insurance, health insurance, and meals and lodging furnished for the convenience of the employer.

New S corporations must file on a calendar year basis unless a business purpose for a noncalendar year can be justified to IRS. Existing S corporations using a noncalendar year are not required to change to a calendar year unless there is a 50 percent shift in ownership due to reasons other than death or family transactions.

Some corporations which elected S status and established a noncalendar year between October 19, 1982 and January 1, 1983 apparently were notified, incorrectly, by IRS that they must use a calendar year.

While the immediate tax effect on most existing S corporations is likely to be minimal, the 1982 law may have large effects on whether some C corporations or new corporations will want to elect S status. It is also possible that some S corporations may want to terminate the election, particularly as we approach 1988 when fringe benefits will no longer be deductible.

The credit for tax on gasoline, special fuels, and lubricating oil may not be passed through to shareholders. As under the old rules, this credit may only be taken against tax due at the corporation level.

Soil and water conservation expenses are passed through to the shareholders.

Only a small part of the many possible ramifications of the 1982 Subchapter S Act have been covered here. Practitioners are encouraged to become proficient on S corporations.

THE TECHNICAL CORRECTIONS ACT OF 1982

Amendments that could affect some farm businesses:

1) When ACRS property is converted to personal use before the end of its second taxable year, most of the Section 179 expense deduction claimed must be recaptured. The amount subject to recapture is the Section 179 expense claimed less that proportion of the deduction that would have been allowable depreciation if Section 179 was not used.

2) When property qualifies for the 15 or 20 percent rehabilitation tax credit and the credit is claimed (it doesn't have to be used), the basis must be reduced by the full amount of the credit. Certified historic structures that qualify for the 25 percent rehabilitation credit must have basis reduced by one-half the credit claimed if placed in service after 1982. A taxpayer must also elect the straight-line option of depreciation on all qualifying rehabilitation credit property.

3) TCA clarifies the definition of straight-line depreciation for recapture purposes on Section 1250 property. Straight-line depreciation for ACRS property is straight-line for the recovery period (i.e., 15 years), not straight-line over its useful life.

4) A partner's gain on the sale of a partnership interest is treated as ordinary income to the extent that the sale of assets would have produced ordinary income.

REPORTING PIK INCOME

In 1983, the U.S. government created a Payment in Kind (PIK) program which was intended to reduce excess supplies of grain and cotton. Under this program, farmers were provided the opportunity to receive corn, sorghum, and wheat from the Commodity Credit Corporation (CCC) in return for leaving part or all of their grain acreage idle in 1983. Participating farmers were given certificates in the spring of 1983 representing the amount of grain that CCC would release to them in the fall of 1983.

Under the tax laws that existed when farmers signed up for PIK, grain received from CCC in 1983 would have been income in 1983, regardless of when it was sold. Under those laws, farmers participating in PIK who had sold 1982 grain in 1983 would have been caught with a doubling up of income in 1983. To alleviate this problem, Congress passed a law (the Payment in Kind Tax Act of 1983) that will make income received from PIK grain taxable in the year it is sold. As a result, farmers will have more flexibility in tax planning.

Now more potential tax problems associated with PIK have cropped up: (1) Loan forgiveness on a farmer's own grain that was received as a PIK payment, (2) the CCC program of acquiring loan collateral for PIK (the so-called Bid for PIK plan), and (3) assignments of PIK certificates to a third party. The remainder of this section is based on our current interpretation of the tax situation related to these problems.

PIK Grain

Grain received by a farmer from the government as a result of the PIK program will produce taxable income in the year the grain is sold. If no PIK grain is sold in 1983, there will be no income from this grain in 1983.

Loan Forgiveness for PIK

If CCC forgave a loan on a farmer's grain that he was given as his PIK benefit, there will be income in 1983 equal to the amount of the loan forgiven unless the loan had been reported as income in the year the loan was received. In effect, the grain was "sold" to CCC and income equal to the loan which was cancelled must be reported on the 1983 tax return unless the loan had been reported as income at the time the loan was received. When the PIK grain received is sold, there will be taxable income from the sale of the grain, in either 1983 or a later year. If the cancelled loan produced 1983 income and the PIK grain is sold in 1983, there will be double income from this grain in 1983.

For example, suppose A. Farmer put 10,000 bushels of corn under loan at the loan rate of $2.90 per bushel and received a loan of $29,000 in 1982 but did not report the loan as income. The government forgave the loan in the spring of 1983 so A. Farmer has $29,000 of income in 1983 from this transaction. He now has 10,000 bushels of corn which he received as his PIK benefit for idling land that would have been planted in corn. If the corn is sold in 1983, say for $3.65 per bushel, he will have $36,500 of reportable income.

The PIK grain will be available to participating farmers on an "entitlement date" that varies from June 1 to November 1, 1983 depending on commodity and location. Farmers may elect to defer receipt of the grain for up to five months after the entitlement date. If a farmer delays receipt of the grain until 1984, apparently the cancellation of the CCC loan would not have to be reported as income until 1984.

Bid for PIK

Farmers were encouraged to bid to exchange grain under CCC loan for forgiveness of the loan. A farmer who bid zero simply exchanged the grain for cancellation of the loan and interest. If a bid to keep part of the grain was entered and accepted, the loan and interest were forgiven on the grain kept as well as on the grain turned over to CCC.

A farmer who had grain under loan that was turned over to CCC in return for forgiveness of the loan will have income in 1983 equal to the amount of the loan that was forgiven unless the loan had been reported as income. The portion the farmer kept (the bid portion) will be income in the year it is sold.

For example, suppose that B. Farmer had 10,000 bushels of corn under a 1982 loan ($29,000) and entered a bid of five percent which was accepted. The 9,500 bushels of corn was delivered to CCC and the loan was cancelled. B. Farmer has $29,000 of 1983 income due to the cancellation of the loan. If the 500 bushels is sold in 1983 for $3.65 per bushel, there will be $1,825 of reportable income from the sale.

Assignments

It is possible for a farmer holding a PIK certificate to assign it to a third party by using CCC Form 479, PIK Assignment and Power of Attorney. Whether an assignment of PIK certificates to a third party is 1983 income depends on the circumstances of the case. If the assignment was made in return for money or for goods or services such as feed, seed, fertilizer, or equipment, the value of the assignment is income in 1983. If the assignment was made in return for a good used as an operating expense, there will be an offsetting expense so there should be no income tax problem resulting from the assignment. If an assignment was made to reduce, for example, a feed bill carried over from 1982, the taxpayer would have an offsetting feed expense because the unpaid bill could not have been claimed as an expense in 1982. If the assignment was made in return for money, there could be a significant tax problem. If the assignment was for a capital item, the value of the assignment could easily exceed the depreciation that could be claimed on the item in 1983. Even with the investment credit that could be claimed there may be a tax problem.

For example, suppose a $50,000 certificate was assigned for a $50,000 tractor. This year's depreciation (15 percent) would be $7,500 leaving $42,500 to be added to taxable income. Even if taxable income was zero without this transaction, the assignment would add $9,471 to the federal tax bill. Investment credit from the tractor would not offset this tax bill.

If a PIK certificate was assigned to a lender purely as collateral (the farmer neither received money nor reduced the loan balance) most authorities believe the assignment did not produce income. If the assignment reduced the loan balance, there will be income from the assignment in 1983. If the certificate was assigned purely as collateral, it would be a good idea for the farmer to have a signed agreement to this effect with the lender in case of an IRS audit.

Tax Planning

There is nothing that can be done about the PIK transactions already made. However, a farmer who had a loan cancelled on PIK grain or who participated in Bid for PIK and had not reported these loans as income or had assigned a PIK certificate in a way that produced 1983 income should do some tax planning before selling more grain or entering into other transactions that would produce large amounts of taxable income this year.

A farmer who will have a high taxable income even without additional grain sales should consider strategies, such as purchasing next year's fertilizer this fall, to reduce this year's taxable income. Keep in mind that 1984 tax rates will be lower than 1983 rates.

On the other hand, a farmer with a net operating loss to carry forward from 1982 may find it wise to concentrate income into 1983 where it can be absorbed in the NOL.

Character of PIK Income

Income from the sale or exchange of PIK commodities will be treated as income from the trade or business of farming for all purposes of the Internal Revenue Code. For example, it will be considered self-employment income. Participation in the 1983 PIK program will not affect the qualification of the land for current use valuation under Sec. 2032A.

DROUGHT SALES OF LIVESTOCK

Held for Sale

If a farmer sells livestock held primarily for sale because of drought conditions, he may defer reporting the sales to the following year. Only drought affected sales of livestock numbers greater than normal sales will qualify. The farmer must also be on the cash method of accounting, have evidence to prove that the sale was caused by drought conditions, and be in a designated federal disaster area.

Held for Dairy or Breeding

Dairy cattle and livestock held for draft or breeding purposes and sold because of drought conditions may qualify as involuntary conversions under IRC Sec. 1033(e). Qualified gain may be reinvested in replacement livestock within two years from the end of the tax year in which the drought sale occurred. If not reinvested, it must be reported on 4797 within this same time period. Qualified gain is that resulting from the sale of livestock in excess of the number that would have been sold in a normal year.

Unlike the deferral rule for livestock held for sale, this rule does not require an official disaster area designation. The sale or exchange must have occurred solely because of drought conditions that affect the water, grazing, or other requirements of the farmer. Other requirements should include the available supplies of forage and grain at affordable prices.

DEPRECIATION AND COST RECOVERY

The Economic Recovery Tax Act of 1981 provided for the replacement of depreciation by cost recovery under the Accelerated Cost Recovery System (ACRS) for most depreciable property placed in service after 1980. Property acquired before 1981 will continue to be depreciated under the depreciation rules rather than under the ACRS rules. Some property acquired after 1980 will not be eligible for ACRS and, therefore, will fall under the depreciation rules (see Anti-Churning Rules below). The discussion here will concentrate on ACRS because depreciation decisions have already been made on property acquired before 1981. Those who need information on depreciation rules should consult pre-1981 editions of Farm Income Tax Management and Reporting or the Farmers Tax Guide. Keep in mind that some parts of the old depreciation rules do not apply to post 1980 acquisitions that are not eligible for ACRS. New York State will not recognize ACRS claimed for federal purposes in 1982 through 1984.

Recognizing depreciable assets, determining the basis for cost recovery, placing property in the correct cost recovery class and understanding the tax consequences of various cost recovery elections are important ingredients for accurate tax reporting and successful business management.

Depreciable Assets

A farm operator is allowed cost recovery or depreciation on machinery, equipment, buildings, and on purchased livestock acquired for dairy, breeding, draft and sporting purposes unless he is reporting on the accrual basis and such livestock are included in his inventories. Depreciation or cost recovery must be claimed by the taxpayer who owns the depreciable asset. A farmer cannot depreciate property that he is renting or leasing from others. He may depreciate the cost of most capital improvements made to leased property.

Depreciation or cost recovery is not optional. It should be claimed each year on all depreciable property. An owner who neglects to take depreciation when it is due is not allowed to recover the lost depreciation by claiming it in a later year. Lost depreciation may be recovered by filing an amended return.

Accurate Records Needed

Accurate and complete depreciation records are basic to reliable farm income tax reporting and good tax management. Depreciation and cost recovery must be reported on Form 4562. A complete depreciation and cost recovery record is needed to supplement Form 4562. It is not necessary to submit the complete list of items included in the taxpayer's depreciation and cost recovery schedules.

One important reason for adequate depreciation records is the computation of any depreciation or cost recovery recapture upon the disposition of property used in the farm business. This requirement is discussed elsewhere in the manual in more detail.

Cost Recovery Period

Depreciable assets purchased after December 31, 1980 that qualify for ACRS must be placed in one of four cost recovery classes regardless of the expected useful life of the asset in the farm business. (There is a fifth class, 15 year public utility property that will not be applicable to farm property.) The Accelerated Cost Recovery System (ACRS) introduced as part of the Economic Recovery Tax Act of 1981 provides for placing depreciable assets in one of the four ACRS classes depending primarily on the Asset Depreciation Range (ADR) class lives as of January 1, 1981. The ACRS classes are also defined in terms of Section 1245 and Section 1250 property.

Three year property. The 3-year class includes:

1) Section 1245 property with an ADR class life of four years or less. This includes automobiles, light duty trucks (less than 13,000 pounds), and over-the-road tractors. It also includes hogs for breeding purposes but not cattle or goats held for dairy or breeding purposes or sheep held for breeding purposes because the ADR class life of these animals is greater than four years.

2) Section 1245 property used in connection with research and experimentation. Few farmers will have this type of property.

3) Race horses more than two years old when placed in service and any other horses more than 12 years old when placed in service.

Five year property. Section 1245 property that is not 3-year property, 10-year property, or 15-year public utility property, is considered 5-year ACRS property. For farm businesses the 5-year class includes almost all 1245 property that is not 3-year property because farm businesses will have little or no 10-year property and 15-year public utility property.

The 5-year class includes the following farm property:

1) All farm machinery and equipment except light trucks.

2) All purchased breeding, dairy and sporting livestock (except hogs and any horses which are included in the 3-year class).

3) Silos, grain storage bins, fences, paved barnyards, water wells, and drain tiles.

4) Orchards, groves, and vineyards when they reach the production stage.

5) Single purpose livestock and horticultural structures. These structures were classified Section 1245 property by the Economic Recovery Tax Act of 1981.

Ten-year property. The only farm property included in the 10-year class appears to be mobile homes (residential manufactured homes).

<u>Fifteen year property</u>. The 15-year class includes Section 1250 property with an ADR class life of more than 12.5 years. This class will include all depreciable farm real estate that is not 1245 property included in the 5-year class. Examples are general purpose buildings such as tool sheds, machine shops, and multipurpose barns. Tenant houses will also be included in the 15-year class. If fast recovery is used on 15 year property it will become 1245 property when sold.

Cost Recovery Options

The taxpayer must choose one of four cost recovery options for each of the four classes of depreciable farm property which qualify for ACRS. If fast recovery (the regular ACRS option) is chosen, the percentage recovered each year will be the amount shown in the table below. For 3, 5, and 10-year property, these rates approximate 150 percent declining balance with switchover to straight line and a half-year convention applied in the year of acquisition (see section below). The rates shown in the table for 15-year property are based on 175 percent declining balance with switchover to straight line and will not use the half-year convention.

FAST (REGULAR) RECOVERY PERCENTAGES UNDER ACRS

Recovery Year	Type of Property			
	3-Year	5-Year	10-Year	15-Year[1]
	Percentage			
1	25	15	8	12
2	38	22	14	10
3	37	21	12	9
4	--	21	10	8
5	--	21	10	7
6	--	--	10	6
7	--	--	9	6
8	--	--	9	6
9	--	--	9	6
10	--	--	9	5
11-15 (per year)	--	--	--	5

[1]Percentage deductions in this column apply only to 15-year property placed in service during the first month of the tax year. Fifteen-year property placed in service later in the tax year will earn one percent per month in the first year. See table on next page for percentage recovery for acquisitions in months other than the first.

ACRS FAST RECOVERY TABLE FOR REAL ESTATE EXCEPT LOW-INCOME HOUSING

If the Recovery Year is:	Month in First Year the Property is Placed in Service											
	1	2	3	4	5	6	7	8	9	10	11	12
	The applicable percentage is:											
1	12	11	10	9	8	7	6	5	4	3	2	1
2	10	10	11	11	11	11	11	11	11	11	11	12
3	9	9	9	9	10	10	10	10	10	10	10	10
4	8	8	8	8	8	8	9	9	9	9	9	9
5	7	7	7	7	7	7	8	8	8	8	8	8
6	6	6	6	6	7	7	7	7	7	7	7	7
7	6	6	6	6	6	6	6	6	6	6	6	6
8	6	6	6	6	6	6	5	6	6	6	6	6
9	6	6	6	6	5	6	5	5	5	6	6	6
10	5	6	5	6	5	5	5	5	5	5	6	5
11	5	5	5	5	5	5	5	5	5	5	5	5
12	5	5	5	5	5	5	5	5	5	5	5	5
13	5	5	5	5	5	5	5	5	5	5	5	5
14	5	5	5	5	5	5	5	5	5	5	5	5
15	5	5	5	5	5	5	5	5	5	5	5	5
16	0	0	1	1	2	2	3	3	4	4	4	5

The entire range of straight line options is shown below:

Straight line Option	1st Year	Intermediate Years	Last Years
<u>3-year class options</u>			
3 years	1/6	1/3 in each of next 2 years	1/6
5 years	1/10	1/5 in each of next 4 years	1/10
12 years	1/24	1/12 in each of next 11 years	1/24
<u>5-year class options</u>			
5 years	1/10	1/5 in each of next 4 years	1/10
12 years	1/24	1/12 in each of next 11 years	1/24
25 years	1/50	1/25 in each of next 24 years	1/50
<u>10-year class options</u>			
10 years	1/20	1/10 in each of next 9 years	1/20
25 years	1/50	1/25 in each of next 24 years	1/50
35 years	1/70	1/35 in each of next 34 years	1/70
<u>15-year class options</u>			
15 years	1/180 per mo.	1/15 in each of next 14 years	balance
35 years	1/420 per mo.	1/35 in each of next 34 years	balance
45 years	1/540 per mo.	1/45 in each of next 44 years	balance

Half-Year Convention

The 3-year, 5-year, and 10-year ACRS classes have a built-in half year convention for the first year of depreciation. In other words, a farmer will receive six months of depreciation on all depreciable assets placed in the three, five, and 10-year classes regardless of the actual month of purchase. The month of purchase cannot be ignored, however, for it will affect investment tax credit recapture. Recapture is discussed under Investment Credit. First year depreciation on 15-year real property is based on the month of acquisition.

ACRS Property Class Rules

For three, five, and 10-year ACRS property, the same recovery option must be used for all the property acquired in a given year that belongs in the same ACRS class. Taxpayers do not have the option to establish subdivisions of a property class. For example, if a farmer purchased dairy cows, a new tractor, a silo, and built a dairy barn in 1983, all belong in the 5-year property class. The farmer may not recover the cows over five years and the single purpose agricultural structure over 12 or 25 years. However, the taxpayer may choose a different recovery option for property in the same ACRS class acquired in a subsequent year. For example, a farmer could choose fast recovery for a farm auto purchased in 1983 (3-year property) but choose straight line for three or five years for a pickup truck purchased in 1984. Keep in mind that fast recovery would be used on any other 3-year property purchased in 1983 and the same straight line option used on the pickup would be required on all 3-year property purchased in 1984.

A taxpayer may select different recovery options for different ACRS classes established for the same year. For example, he could select fast recovery on 3-year property, straight line over 12 years on 5-year property, and straight line for 10 years on 10-year property.

In the case of 15-year property, the recovery options may be chosen on a property-by-property basis; that is, different options may be chosen on items in this class purchased in the same year. If a substantial improvement is made to 15-year property, the taxpayer may choose a recovery option different from the option chosen on the original building. An improvement is substantial if it is made at least three years after the building was placed in service and the amount of the improvement over a two year period is at least 25 percent of the adjusted basis of the building as of the first day of that period.

Reduction in Basis Due to Investment Credit

The basis of property on which the 15 or 20 percent credits for rehabilitation were taken must be reduced by the full amount of such credits. If investment credit is recaptured on such property, the basis will be adjusted upward for 100 percent of the recapture amount.

For property placed in service after 1982, the basis for cost recovery must be reduced by 50 percent of the regular investment tax credit, 50 percent of the allowable energy investment credit, and 50 percent of the 25 percent credit for rehabilitating certified historic structures. The taxpayer will have the alternative of reducing the regular investment credit by two percentage points rather than reducing the basis. This applies only to the regular credit. The basis would need to be reduced by 50 percent of allowable energy investment credit and 50 percent of the 25 percent credit for rehabilitating certified historic structures even if the election to take a reduction in regular investment credit was made.

If the taxpayer elects to reduce the regular investment credit rather than reduce the basis, the IC will be four percent for 3-year property and eight percent for other recovery property that is eligible. The election will be made on a property-by-property basis.

If investment credit is recaptured on an asset on which the basis reduction was taken, the basis will be adjusted upward by 50 percent of the recapture amount.

The basis reduction will be treated as a deduction for depreciation for purposes of calculating the amount of deprecition to be recaptured as ordinary income.

The IC downward basis adjustment will be disregarded in computing depreciation and amortization for purposes of calculating corporate earnings and profits.

Election to Expense Depreciable Property

An expense deduction is provided for taxpayers (other than trusts, estates, or certain noncorporate lessors) who elect to treat the cost of qualifying property, called Section 179 property, as an expense rather than a capital expenditure. To qualify for Section 179, property must be both ACRS recovery property and Section 38 property. The old 20 percent additional first year depreciation option was eliminated beginning January 1, 1981. Section 179 formerly applied to AFYD but now applies to the expense election.

The Section 179 election is $5,000 for 1982 and 1983, will increase to $7,500 in 1984, and to $10,000 in 1986. Although it is intended to replace the old additional first-year depreciation, Section 179 property is not treated exactly like depreciable property. No investment credit is allowed on the portion of any item of property placed under the Section 179 election. There are also restrictions on the use of Section 179 for property acquired from relatives and other businesses controlled by the taxpayer.

Gains from the sale of Section 179 assets are treated just like Section 1245 gains. The amounts expensed are recaptured as ordinary income in the year of sale. If property on which the Section 179 election was taken is converted to personal use before the end of its second taxable year, the difference between the 179 deduction and the depreciation that would have been allowable if 179 had not been used must be recaptured as ordinary income. The major disadvantage of using the election is loss of investment credit, New York as well as federal. While the Section 179 election usually will be to the taxpayer's advantage in the first year, many will be better off in the long run by claiming the investment credit and ACRS deductions. The only depreciable assets that most farmers should consider for the Section 179 election are those that will be held for short periods of time. Farmers in high tax brackets and with high opportunity cost of capital might want to consider expensing rather than depreciating dairy cattle, particularly if they are likely to be held only three or four years.

Anti-Churning Rules

A set of anti-churning rules are designed to prevent a taxpayer from taking advantage of ACRS on property acquired before 1981. These rules are complex and will not be completely covered here.

The rules prevent a taxpayer from using ACRS on property previously used in his or in a related (as defined by IRS) person's business prior to 1981. A young farmer buying personal and real property from his or her parents in 1981 or later that was originally non-ACRS property cannot use the ACRS system but must use the depreciation rules that apply to used property. Tax free exchanges between a taxpayer's business organizations (e.g., incorporation transfers), and leasebacks do not qualify for ACRS depreciation unless the property was originally ACRS property. ACRS property that is sold or transferred from one member of a family to another is not eligible for a new recovery option.

Mass Asset Election

The mass asset election does not appear to offer any advantage to most farm taxpayers.

Additional Rules

Salvage value is disregarded when computing ACRS recovery. No recovery deduction is allowed in the year 1245 property (all 3-year and 5-year class property) is disposed of. Recovery may be claimed in the year of disposition (based on the months held in that year) on ACRS buildings (1250 property).

Gain (or loss) will be calculated and recognized when a depreciable asset is sold much as it is on non-ACRS property. Gain to the extent of ACRS deductions on all Section 1245 three and 5-year ACRS property is ordinary income. ERTA leaves no doubt about how single purpose livestock structures, horticultural structures, silos and grain storages will be handled. When these post 1980 depreciable 1245 assets are sold, all ACRS deductions previously claimed will be recaptured as ordinary income. General purpose buildings and tenant houses in the 15-year real property class are still eligible for capital gains treatment if straight line recovery is used. (There is a special rule for corporations for disposals in 1983 and later.) If ACRS fast recovery is used on nonresidential buildings, <u>all</u> gain to the extent of recovery deductions claimed is ordinary income. In effect, the asset becomes 1245 property. If fast recovery has been chosen on either a building or a substantial improvement to it, any gain from disposition of the entire building will be recaptured as ordinary income to the extent of the fast recovery taken on either part of the building. Any remaining gain will be treated as capital gain.

Choosing Recovery Options

Taxpayers will always be better off using rapid recovery on three, five, and 10-year property, assuming the recovery deductions can be used to reduce taxable income. The taxpayer who will not be able to use all the deductions in the early years may want to consider one of the straight line options.

The choice of recovery option is much more difficult for 15-year nonresidential property for two reasons: (1) The excess of 15-year rapid recovery over 15-year straight line is subject to the alternative minimum tax. (2) <u>All</u> gain due to fast ACRS recovery is subject to recapture as ordinary income when the real estate is sold at a gain while none of the straight line recovery is recaptured (except for corporations). In other words straight line recovery, whether 15, 35, or 45 year SL is chosen, will result in capital gain (if there is a gain) while fast recovery will result in ordinary gain.

An analysis published in the Journal of Taxation suggests that 15-year straight line recovery is the preferred option on nonresidential 15-year property that is likely to be sold in the future for at least its original cost unless the taxpayer's opportunity cost of capital is extremely high or the holding period will be very long (more than 20-25 years). Most farmers, even those who will not be subject to minimum tax on the excess recovery, probably should select 15-year SL rather than fast recovery if there is a potential for substantial capital gain from sale of the real estate in the next 15 years or so.

Reporting Depreciation and Cost Recovery

Form 4562 will be used to report the Section 179 expense election (Part IA), depreciation of recovery property (Part IB), depreciation of nonrecovery property (Part IC), and amortization (Part II). The only recovery property that may be excluded from ACRS (Part IB, line 3) is property on which depreciation can properly be computed under the unit-of-production method or any method not expressed in terms of years. Depreciation, cost recovery, and Section 179 expenses are combined on 4562 and entered on line 53 of Schedule F. However, partnerships will transfer the 179 expense election to Form 1065 rather than combining it with other items on 4562.

FEDERAL INVESTMENT CREDIT

Federal investment tax credit is one of the most important features of farm tax reporting and tax management. The credit is a direct reduction against income tax liability. If the credit cannot be used in the year it is earned, it can be carried back and carried forward to offset tax liability in other years. If property is disposed of before credit claimed is fully earned, the credit must be recomputed to determine the amount to recapture.

Form 3468 is used for computing the credit, but records showing credit claimed on individual property should be a part of the depreciation record. Filing a 3468 for every year that a taxpayer has investments in eligible property is the only way to claim the credit even though the potential credit may be used against another tax year. Copies of prior years forms can be used to keep track of the running balance of credit available. Eligible property includes:

- Farm machinery and equipment.

- Livestock (other than horses).

- Fences, paved barnyards, roadways, unloading areas, water wells, drain tiles, irrigation systems, and depreciable reservoirs and dams.

- Orchards and vineyards in the year production starts.

- Storage facilities such as silos, grain bins, corn cribs or manure storages used principally for the bulk storage of fungible (interchangeable) commodities.

- Single purpose livestock and horticultural structures.

- Expenditures for rehabilitating buildings 30 or more years old if 75 percent of the exterior walls are retained.

- The cost of certified pollution control facilities that are rapidly amortized (60 months) and have actual useful lives of at least five years is 100 percent eligible.

- Used as well as new property counts. When used property is acquired to replace used property, only the boot qualifies unless investment credit is recomputed on the disposed property.

- Maximum qualifying investment in used property is <u>$125,000 (joint return) in any one year</u> for 1981-84 and will be $150,000 after 1984.

<u>Amount of Credit</u>

The credit is 10 percent of the amount of qualified investment but there are more liberal allowances for rehabilitated buildings. Maximum credit allowed in one year is the tax liability on line 40, Form 1040 or $25,000 plus 85 percent of tax liability in excess of $25,000, whichever is less.

Qualified Investment

For Accelerated Cost Recovery (ACRS) Property acquired after 1980, the extent to which eligible property becomes qualified investment depends upon its ACRS class. Five year property is 100 percent qualified and 3-year property is 60 percent qualified. Ten and 15-year property that is eligible is 100 percent qualified. For eligible property acquired before 1981 and for non-ACRS property acquired in 1981 and later, the qualified investment depends on useful life: Three or four years, one-third qualifies; five or six years, two-thirds qualifies; seven or more years, 100 percent qualifies. Capital purchases expensed under Section 179 are not eligible for investment credit.

Reduction in Credit

For assets acquired after 1982, the taxpayer has the option of reducing the regular investment credit by two percentage points rather than reducing the basis by one-half the investment credit. Thus the qualified investment is 40 percent for three year and 80 percent for other property. This option does not apply to the credit for rehabilitated buildings nor to the business energy credit.

If the investment credit for which the downward basis adjustment was made remains unused at the end of the 15 year carry over period, the taxpayer will be allowed a 50 percent deduction for the unused credit. In the case of rehabilitated buildings, a 100 percent deduction will be allowed.

In the case of leased property where the lessor passes the investment credit to the lessee, the lessee must include in income ratably over the ACRS recovery period an amount equal to 50 percent of the investment credit allowable. As an alternative, the lessee may elect the two point reduction in the regular investment credit.

Buildings

Buildings are not eligible for investment credit. However, the Revenue Act of 1978 specifically extended investment credit to cover "single purpose livestock and horticultural structures" effective for taxable years that end after August 15, 1971. The IRS will not accept amended returns for closed tax years. Tax years ending in 1979 and earlier are closed for most farmers.

The 1978 Act did not make all buildings eligible for investment credit. For example, a machinery shed is not eligible nor is a general purpose structure that can be used to house various types of livestock.

Single Purpose Livestock and Horticultural Structures

Regulation 1.48-10, adopted July 18, 1983 contains the rules for single purpose agricultural (livestock) structures and single purpose horticultural structures. Some excerpts from Reg. 1.48-10 follow:

A single purpose agricultural structure may be used only for: "Housing, raising and feeding a particular type of livesock, and, at the taxpayer's option, its produce. ...The structure may also be used for storing feed or machinery, but more than strictly incidential use for these purposes will disqualify the structure". If more than one-third of a structure's volume is devoted to feed storage, the structure will be disqualified but "this presumption may be rebutted with clear and convincing evidence".

If the taxpayer changes the type of livestock (say from dairy cows to hogs) housed in the structure, it no longer qualifies for investment credit.

"A single purpose agricultural structure must also house equipment necessary to house, raise and feed livestock... Required equipment must be an integral part of the structure, and includes, but is not limited to, equipment necessary to contain the livestock, to provide them with water or feed, and to control the temperature, lighting and humidity of the interior of the structure. For purposes of this section, equipment is an integral part of the structure if it is physically attached to or part of the structure. The useful life of the structure, however, need not be contemporaneous with the life of the equipment it houses. A structure without required equipment is not a single purpose agricultural structure."

A single purpose horticultural structure must be used for "the commercial production of plants (including plant products such as flowers, vegetables or fruit) in a greenhouse, the commercial production of mushrooms ... and may, but is not required to, house equipment necessary to carry out these permissible purposes".

"... a single purpose agricultural or horticultural structure may contain workspace only if it is used for:

(i) stocking, caring for, or collecting livestock, plants, or mushrooms,
(ii) maintenance of the structure, or
(iii) maintenance or replacement of the equipment or stock enclosed by or contained in the structure.

Thus, for example, an eligible structure may not contain space devoted to processing or marketing or other nonpermissible purposes."

Those with questions about single purpose agricultural and horticultural structures should read the entire five-page Reg. 1.48-10.

Rehabilitated Buildings

Changes in 1982 eliminated the investment credit for rehabilitating buildings less than 30 years old. Rehabilitation expenditures after December 31, 1981 will earn 15 percent investment credit if the building is at least 30 years old, 20 percent if the building is at least 40 years old, and 25 percent if the building is a certified historic structure.

The rehabilitation must be "substantial", that is, qualified rehabilitation expenditures during the 24-month period ending on the last day of the taxable year must exceed the greater of the adjusted basis of the property or $5,000. The expenditures must have been incurred after 1981. The physical rehabilitation work must begin at least 30 years after the date the building was first placed in service. A transitional rule allows credit for expenditures after 1981 on buildings 20 to 30 years old if the rehabilitation began before 1982.

Expenditures for the interior or exterior renovation, restoration or reconstruction of the building qualify for the credit only if the rehabilitation improvements have a recovery period of 15 years. Furthermore, the credit is available for all types of buildings that are used in business or productive activities except buildings that are used for residential purposes. However, the credit may be earned on a certified historic structure that is used for residential purposes. The use of a building is determined on the basis of its use when placed in service after rehabilitation. Thus, rehabilitation of an apartment building for use as an office building would render the expenditure eligible for credit.

Costs for acquiring or completing a building or for the replacement or enlargement of a building do not qualify. If more than 25 percent of the exterior walls are replaced, the rehabilitation does not qualify for the credit.

The credits are available only if the taxpayer elects ACRS straight line recovery. The basis for recovery must be reduced by the amount of the credit except in the case of certified historic structures where the basis must be reduced by 50 percent of the 25 percent credit.

Special Rules on Livestock Investments and Replacements

Determining the qualified investment in eligible livestock sometimes is complicated. If purchased livestock replaces "substantially identical" livestock within six months, the price paid must be reduced by the price received when no recapture of I.C. is required. The used property substitution rule also affect livestock. When used property is purchased to replace used property sold, qualified investment is price paid less unrecovered cost of the replaced property. It is important to note that both the "substantially identical replacement" (S.I.R.) rule and the "used property substitution rule" do not apply if the I.C. is recomputed.

The following guidelines will help in determining qualified investment.

- The age and the use to which animals are suited will help determine whether livestock purchased are "substantially identical" to those sold. A mature dairy cow is not substantially identical to a two year old heifer. A cull dairy cow sold because she no longer is suitable for milk production is not substantially identical to a cow bought to replace her in the herd. Purchased dairy cows are substantially identical to cows sold for dairy or breeding purposes which were of approximately the same age.

- The substantially identical replacement period rule (S.I.R.) covers replacements bought within a period of six months before or six months after a disposition.

- The S.I.R. livestock rule is not applicable if purchased cattle replace those lost in involuntary conversion.

- A used dairy cow is generally one which has been milked. A used beef cow is one which has calved, and a used bull is one which has bred a cow.

At-Risk Limitations

Investment tax credit is not allowed for investments in qualified new or used property to the extent that the invested amount is not "at risk". This limitation is effective for property placed in service after February 18, 1981 unless the property was acquired under a binding contract entered into on or before February 18, 1981. This limitation applies to individuals, partnerships, S corporations, and closely held corporations engaged in business activities that are subject to the at-risk rules of Code Section 465. The taxpayer who has amounts not "at risk" should carefully study the rules or seek competent advice. A separate set of "at-risk" rules apply to business energy investment credit property.

Unused Investment Credit

It is important to maintain an accurate accounting of investment credit. If allowable credit for the tax year exceeds the limitation based on tax liability, the unused credit should be carried back to offset tax paid in the three previous years, then carried forward to offset tax in 15 future years.

The FIFO rule, in effect for tax years ending after 1975, provides that carry over credits are used first starting with the oldest, current year credits are used next, carry backs are used last starting with the oldest.

Recapture of Credit

Disposition of an asset before the expiration of the estimated useful life or the ACRS class life may result in recapture of part or all of the credit taken. A disposition occurs when the taxpayer ceases to own the property or uses it in a nonqualifying manner. Just about any method of disposing of the property requires recomputation and possible recapture. An exception occurs when the taxpayer dies. In that case, no adjustment is necessary.

To recompute the credit, substitute the actual years the asset was held for the estimated life (or the ACRS class life). If the recomputed credit is less than the credit actually used, the difference must be recaptured using Form 4255. If some of the credit originally claimed has not been used (is part of unused balance), reduce the unused balance. If acquisitions in more recent years have changed the balance of unused credits applicable to any year the unearned credit was used, those credits may be used to reduce the recapture.

The recapture provisions for ACRS property acquired after 1980 are different from those for qualified property acquired before 1981 and for post 1980 non-ACRS property. Disposition of non-ACRS property requires recomputation of investment credit if the property was held for a period which placed it in a life-category shorter than the category used in the original computation of investment credit.

The recapture for ACRS property depends on year-by-year calculations rather than on life-categories as used in non-ACRS property. The investment credit holding period for ACRS property depends on the date actually placed in service, not July 1 as assumed by the half-year convention for depreciation purposes.

Disposition of ACRS property requires recapture according to the percentages in the following table:

If the recovery property ceases to section 38 property within the period:	The recapture percentage is: For 15-year, 10-year and 5-year property	For 3-year property
One full year after placed in service	100	100
More than one but less than two full years after placed in service	80	66
More than two but less than three full years after placed in service	60	33
More than three but less than four full years after placed in service	40	0
More than four but less than five full years after placed in service	20	0

The following is a recomputation illustration based on non-ACRS property:

A tractor was purchased 9/79 for $20,000, estimated life seven years. $2,000 of I.C. was claimed on the 1979 return, $600 was used in 1979, and $1,400 was used in 1980. The 1979 tractor was traded for a new tractor 9/83. The cost basis of the new tractor is $30,000, it is 5-year property, and investment credit is $3,000. The old tractor was held four years and earned only one-third of $2,000 or $667 of I.C. The earned credit is first applied to 1979 and the balance, $67, is applied to 1980. That used in 1980 but not earned, $1,333, does not need to be paid back because that amount of the 1983 credit can be carried back to the 1980 return in the taxpayer's recomputation.

Additional examples of how to recompute investment credit to determine how much credit must be recaptured can be found in the Farmer's Tax Guide.

The recapture rule causes confusion in the case of farm property transferred between father and son or other related parties. Generally, when a father disposes of property on which he has taken investment credit by selling it to his son (or giving it to his son) the father must recompute the credit and the amount not earned will be recaptured. Since property purchased or received from lineal descendents does not qualify for investment credit, the son who purchases otherwise eligible property from his father cannot claim the investment credit.

Investment Credit for Cooperatives

Most limitations on the use of investment credit by cooperatives have been eliminated and cooperatives are permitted to use investment credit in the year property is placed in service to the same extent as corporations, except that unused amounts cannot be carried back or forward. If a cooperative cannot use investment credit because of dollar limitations, any unused amount can be allocated to patrons on the same basis as allocation of patronage dividends. If the cooperative must recapture investment credit because of early disposition of property the recapture will apply at the cooperative level even if credit had originally been allocated to the patrons. This provision applies for taxable years ending after October 31, 1978.

Reforestation Expenditures

Effective January 1, 1980, a taxpayer may elect seven year amortization on up to $10,000 of qualifying reforestation expenditures each year. Under previous law, such expenditures were capitalized and recovered through a depletion allowance when the timber was harvested 15 or more years later. Under the new law, the taxpayer may also claim 10 percent investment credit on qualifying reforestation expenditures that could be amortized, even if the taxpayer does not amortize the expenditures. The credit does not apply to Christmas trees.

Purchase of Leased Property

Tax court decisions have clearly stated that if a taxpayer purchases property otherwise eligible for investment credit that he was formerly leasing, that property will be ineligible for investment credit. The reason is that the same person is using the property after the purchase who was using the property previously. These decisions suggest, for example, that if a farmer purchased a farm with a single purpose livestock structure that he had previously been leasing, the structure would not be eligible for investment credit. Similarly, if a farmer had leased a silo or tractor and subsequently purchased it, the item would not be eligible for investment credit. This would be true whether or not the taxpayer had, as the lessee, received a pass-through of investment credit.

FEDERAL BUSINESS ENERGY INVESTMENT CREDIT

The computation of the business energy credit is made on Schedule B, Form 3468, Business Energy Investment Credit. The eligibility of several types of energy property expired for property purchased after December 31, 1982. Expired property includes: a) alternative energy property, b) specially defined energy property, c) recycling equipment, d) equipment for producing natrual gas from geopressured brine, and e) cogeneration equipment.

Qualifying Energy Property

Qualifying energy property includes three groups based on the amount of credit:

- The 10 percent group includes: a) biomass property, and b) qualified intercity buses.

- The 11 percent group includes qualified hydroelectric generating equipment.

- The 15 percent group includes solar and wind equipment, ocean thermal equipment, and geothermal equipment.

In general, eligibility for the business energy credit applies to property described above and purchased through 1985.

Few farmers will be able to collect BEIC on property acquired after 1982. Active solar devices for either space heating or water heating and wind devices for water heating would qualify under the solar and wind category.

Property eligible for the business energy investment credit that is also ACRS property will have the same rules for qualified investment and recapture that apply to regular investment credit on ACRS property. There are some special recapture rules for the business energy credit related to failure to make adequate repayments of loan principal.

Previous to 1981 the extent to which eligible property became qualified investment for the business energy tax credit followed the same rules as for the regular investment credit (3-4 years: 33 1/3 percent, 5-6 years: 66 2/3 percent, seven years or more: 100 percent). Recapture rules for property acquired prior to 1981 also are the same as for regular investment credit.

Amount of Credit

The business energy credit is limited to 100 percent of tax liability. If both regular investment credit and the business energy credit are being claimed (on the same or separate property), the regular investment credit is applied first, subject to the limitation for that credit. The business energy credit then is applied against 100 percent of any remaining tax liability. Any unused business energy credit is treated as unused credit carry back or carry over.

RESIDENTIAL ENERGY CREDITS

Residential Insulation and Other Energy-Saving Expenditures

The Energy Tax Act of 1978 provided a tax credit for insulation and other energy-conserving expenditures on the principal domestic residence of a taxpayer. The credit is 15 percent of the first $2,000 of qualifying expenditures (maximum credit of $300). Construction of the residence on which the expenditures are made must have been substantially complete before April 20, 1977.

The credit applies to qualifying energy-conserving components: (1) insulation specifically and primarily designed to reduce the heat loss or gain of a dwelling or water heater, (2) a storm or thermal exterior window or door, (3) caulking or weatherstripping of an exterior door or window, (4) a furnace replacement burner which is more energy efficient, (5) a device for modifying flue openings designed to increase efficiency of the heating system, (6) an electrical ormechanical furnace ignition system that replaced a gas pilot light, (7) an automatic energy-saving setback thermostat, (8) a meter which displays the cost of energy usage, and (9) an item of the kind which the Secretary specifies by regulations as increasing the energy efficiency of a dwelling. To be eligible the original use must begin with the taxpayer, the insulation or compoennt must reasonably be expected to remain in operation for at least three years, and must meet the performance of quality standards (if any) stated by regulations.

Residential Renewable Energy Source Expenditures

The Energy Tax Act and the Crude Oil Windfall Profits Tax Act (COWPTA) also provided an income tax credit for qualifying solar, geothermal, and wind energy property expenditures on the principal domestic residence of a taxpayer. The credit is 40 percent of the first $10,000 of eligible property for a maximum crdit of $4,000. Original use of the property must commence with the taxpayer and the property must reasonably be expected to remain in operation for at least five years. The credit applies to solar systems, to equipment using geothermal enrgy, and to other equipment items which rely upon renewable energy resources for the purpose of heating or cooling the residence or providing hot water. Credit may be claimed for those expenditures installed on a new residence. No credit will be allowed for a swimming pool used as a storage medium or for any other energy storage medium which has a primary function other than the function of such storage. Solar panels will not be disqualified solely because they are structural components of a roof.

Claiming the Credits

The credits may be claimed for items installed on or after April 20, 1977 and before January 1, 1986. The maximum credit amounts discussed above ($300 and $4,000) apply to the maximum total credits that a taxpayer can take on the same residence. The tax basis for the property must be reduced by the amount of the credit. A credit carry over is provided to the extent that the credit exceeds the taxpayer's tax liability. Unused credit can be carried forward through taxable years ending before January 1, 1988. Among those eligible for the credit are owners, renters who pay for the expenditure, individuals owning stock in a cooperative housing association, and members of a condominium management association. The taxpayer must complete Form 5695. Residentail energy credits are then claimed on line 47 of Form 1040. To be claimed the total of the two credits must be at least $10.

CASES AND RULINGS

Investment Credit Recapture on Transfer of Assets to New Corporation

In the Loewen case (76 TC90, CCH Dec. 37,619), the taxpayers transferred all their farm assets (market value $1,200,000) except the real estate (market value $1,000,000) to a newly formed corporation. The real estate was leased to the corporation under a year-to-year oral lease. IRS argued that substantially all of the assets necessary to operate the business had not been transferred to the corporation and, therefore, investment credit should be recaptured on the assets transferred. The Tax Court disagreed and held that the lease of the land along with the transfer of other assets necessary to operate the business was sufficient to satisfy Sec. 1.47-3(f)(1)(ii)(c) of the regulations.

Subsequent to this decision, IRS revoked Rev. Rul. 76-514 which dealt with our old friend, the dentist, who was required to recapture IC on his dental equipment transferred to his corporation when he didn't transfer his building to the corporation.

Investment Credit and Leasing

1) A taxpayer was not entitled, either as a manufacturer or as a producer, to an investment tax credit for the costs incurred in developing an almond orchard since he was not in the business of farming. It was the taxpayer's wholly owned corporation, which leased land and the orchard from the taxpayer, that was in the trade of farming. The fact that the taxpayer was involved in the corporate farming activity as president and manager was irrelevant because the corporation's business was not considered a business carried on by the taxpayer individually (IRS Letter Ruling 8220004, January 29, 1982).

   The taxpayer in question was an individual. Individuals are not entitled to investment credit as lessors unless the individual is the manufacturer or producer of the Sec. 38 property [Sec. 46(e)(3)(A)].

2) The mere leasing of property by a lessor who claimed the investment credit will not trigger recapture unless it ceases to qualify in the hands of the lessor, lessee or sublessee. In Rev. Rul. 83-109, IRS says investment credit property will cease to qualify in the hands of the lessor if the property is used (1) predominantly outside the U.S., (2) for lodging, (3) by certain tax-exempt organizations, or (4) by government units.

   Autos purchased by lessor and used by lessee for personal nonbusiness purposes were not disqualified as investment credit property.

3) In L.M. Carlson versus Com., August 8, 1983, Carlson was denied investment credit on apple bins he leased to Welch Apples, Inc. on the grounds that he failed to qualify as the manufacturer of the bins. The bins were bought and paid for by Carlson but ordered and assembled by Welch Apples. IRS claimed (1) assembling was not manufacturing, and (2) Carlson did not carry out the manufacturing function. The tax court agreed with the second point and ruled in favor of IRS.

4) An individual who leased real and tangible personal property and who used the leased property in his farming operations could not claim an investment tax credit for the used personal property in the year he purchased the farm from the lessor because the use he made of the property before and after the sale was substantially identical. Although the leasing agreement assigned no fixed rental to the personal property, there is no requirement that rent be separately stated for a transaction to qualify as a lease (Carl A. Kleuskens and Helen R. Kleuskens vs. Commissioner, T.C. Memo 1982-216).

Hay Lofts and Sawdust Storage

LR 8323011 ruled that a dairy structure with hayloft qualifies for investment credit under 48(p)(2). Because the milking operations structure was specifically designed for the housing, raising, and feeding of dairy cows and their produce, and for housing necessary equipment, it clearly qualified as a single purpose livestock structure. The memorandum also found that the equipment was an integral part of the structure. The loft occupied less than 11 percent of the structure.

LR 8324009 held that a hay storage room and a sawdust storage section meet the 48(p)(2) usage test because they occupy only 29 and three percent of the total volume of the structure and the storage is incidental to the primary use as a dairy facility. A vacant room in the milking equipment wing will not disqualify the structure.

No Recapture on Ineligible Property in Closed Year

Tech Memo (IRS LR 8319001) prohibited an IRS agent from making a taxpayer recapture investment credit on an ineligible asset on which investment credit was claimed in a tax year now closed by statute. The Memo states that recapture is triggered only by disposition or cessation. In this case the taxpayer still owned and was still using the property in his business.

Deduction of Interest Paid by a Loan from the Original Lender

Cash basis taxpayers will have deductions claimed for interest paid disallowed if the payment was made with funds obtained from the original creditor through a second loan, an advance, or any other financial arrangement similar to a loan. IRS is following the decisions in the Battelstein and Wilkerson cases.

In Battelstein, 631 F. 2d 1182 (5th Cir. 1980), as interest became due, the borrower issued a check to the lender and the lender loaned the borrower an amount sufficient to cover the interest payments. In Wilkerson, 655 F. 2d 980 (9th Cir. 1981), the loan agreement provided that the financing fee would be advanced from loan proceeds if not otherwise paid by the borrower. The lender deposited loan proceeds in the borrower's checking account and the borrower issued a check to the lender to pay the financing fee. In both cases, the courts disallowed the claimed interest deductions because the interest had not been paid in cash or its equivalent.

News Release IR-83-93, dated July 6, 1983 states:

"The Internal Revenue Service reminded taxpayers who use the cash receipts and disbursements method of accounting that it will disallow any deduction claimed for interest paid on a loan if the payment was made with funds obtained from the original creditor through a second loan, an advance, or any other financial arrangement similar to a loan."

In the Franklin case, 683 F. 2d 125 (5th Cir. 1982), the taxpayer was allowed to deduct interest when he had borrowed from a second lender to pay the interest on a loan from the original lender.

An interesting question not answered by the courts is whether interest paid with a loan from the original lender will ever be deductible. For example, will it be deductible in a future year when the entire loan balance is paid by the borrower?

Tile Drainage and Concrete Ditches

Rev. Rul. 83-13 states that tile drainage systems and concrete ditches are 5-year recovery property for purposes of Sec. 168 of the Code if placed in service after December 31, 1980.

Embryo Transplants

LR 8304020 held that fees for embryo transplants are a deductible expense and do not have to be capitalized. A reproduction center makes separate charges for the embryo, transplanting the embryo, preparing the cow for transplant, and either the fair market value of the cow or a rental charge for the cow. The charges become the obligations of the taxpayer if the cow is pregnant 90 days after the transplant. There is no guarantee of a healthy calf. IRS distinguished this from Rev. Rul. 79-176 which applied to a case where a calf is guaranteed and, therefore, the cost of the calf is a capital expenditure. In the 1983 letter ruling, IRS did not express an opinion on the lease fee. It seems obvious that the purchase of the recipient cow would be a capital expenditure.

Standard Allowance for Business Meals

Rev. Proc. 83-71 - Taxpayers may now elect to claim a standard business meal allowance when working away from home in lieu of substantiating the actual cost. The allowance is:

- $14 per day if less than 30 days in one place.

- $9 per day if more than 30 days in one place.

Energy Credit Denied on Wood Stove

The Tax Court has upheld Reg. 1.44C-6(c)(2)(i) that excludes wood and wood byproducts from the list of renewable energy sources. Taxpayers were not entitled to a residential energy credit for costs incurred in connection with the installation of a wood burning stove.

Business Mileage

The optional business mileage allowance is now (after 1982) 20.5 cents per mile for the first 15,000 miles and 11 cents per mile for additional miles.

A REVIEW OF FARM BUSINESS PROPERTY SALES

The reporting of gains and losses on the disposition of property held for use in the farm business is a complicated phase of farm tax reporting. Form 4797 must be used to report gains and losses on farm property items. This form must be completed before completing Schedule D. The treatment of gains and losses on disposition of property used in the farm business can be better understood after a review of IRS classifications for such property.

1) Section 1231 - Includes gains and losses on farm real estate and equipment held at least 12 months, cattle and horses held 24 months, other livestock held 12 months, casualty and theft losses and other involuntary conversions, and unharvested crops sold with farmland which was held 12 months. There are instances, however, when gain on livestock, equipment, land, buildings, and other improvements is treated specifically under Section 1245, 1250, 1251, 1252, and 1255.

2) Section 1245 - The purpose of this section is to recapture depreciation, cost recovery, Section 179 expense election, and basis reduction as ordinary income. Farm machinery, dairy and breeding cattle held for the required period and sold at a gain are reported under this section.

   Tangible real property (except some buildings and their structural components) used as an integral part of farming is 1245 property. Single purpose livestock and horticultural structures are 1245 property if placed in service after 1980. Nonresidential 15 year ACRS property becomes 1245 property if fast recovery has been used. Other tangible real property includes silos, storage structures, fences, paved barnyards, orchards and vineyards.

   Gain will be ordinary income to the extent of depreciation or cost recovery taken after December 31, 1961 for equipment and December 31, 1969 for cattle. Gain will also be ordinary income to the extent of Section 179 expense deductions and the basis reduction required after 1982.

3) Section 1250 - Farm buildings and other depreciable real property held over 12 months and sold at a gain are reported in this section unless the assets are 1245 property. If other than straight line depreciation was used on non-ACRS property, a portion of any gain may be recaptured as ordinary income. If regular (fast) recovery has been used on ACRS 15 year real property other than residential property, all gain due to depreciation or cost recovery will be ordinary. In effect, this property becomes 1245 property.

4) Section 1251 - The old EDA account disposition rule required that gain from the sale of certain farm assets be classified as ordinary gain to the extent of the balance in the EDA account. Few, if any, EDA accounts remain since no additions have been made since 1975.

5) Section 1252 - When soil and water conservation costs have been expensed rather than capitalized, and the land so improved is sold at a gain after having been held less than 10 years, Section 1252 is applicable. Part or all of the gain will be ordinary gain.

6) Section 1255 - When government soil and water conservation payments are not required to be reported as income and the land so improved is sold at a gain after being held less than 20 years, Section 1255 is applicable. Part of all of the gain will be ordinary gain.

Livestock Sales

The majority of livestock sales in New York State are animals that have been held for dairy, breeding or sporting purposes. Income from such sales is always reported on Form 4797. Dairy cows culled from the herd and cows sold for dairy and breeding purposes are the most common of these sales. Sales of horses and other livestock held for breeding, draft or sporting purposes also go on 4797.

Only income from livestock held primarily for sale is reported on Schedule F. The most common is the sale of "bob" veal calves from the dairy herd. Receipts from the sale of feeder livestock, slaughter livestock, and dairy heifers raised for sale are entered on Schedule F, lines 4 through 8. Sales of livestock purchased for resale produce income which is entered on line 1 of Schedule F, and for a cash basis farmer the purchase price is recovered in the year of sale.

Breeding, Dairy, Draft or Sporting Livestock

Livestock held for breeding, dairy, draft or sporting purposes may be classified into two groups according to length of holding periods:

1) Cattle and horses held two years or more, and other breeding livestock held one year of more. Animals in this group are 1231 livestock.

2) Cattle and horses held less than two years, and other breeding livestock held less than one year.

Most dairy animals will meet the two year holding period requirement. Major exceptions are raised youngstock sold with a herd dispersal and the sale of cull cows that were purchased less than two years prior to sale. The age of raised animals sold will determine the length of the holding period. The date of purchase is needed to determine how long purchased animals are held. The holding period begins the day after the animal is born or purchased and ends on the date of disposition.

Reporting Sales of 1231 Livestock

Sales of 1231 livestock will be entered in Part I and Part III of Form 4797. Since Part III is for recapture, only purchased 1231 livestock that produce a gain upon sale will be entered in Part III where they become 1245 property. Sales of raised 1231 livestock will be entered in Part I. This will include all raised cattle and horses two years of age and older that are held for breeding, dairy, draft or sporting purposes. All purchased 1231 livestock that result in a loss when sold are also entered in Part I.

Reporting Sales of Livestock Not Meeting Holding Period Requirements

Breeding, dairy, draft or sporting livestock that are not held for the required period whether sold for a gain or loss will be entered in Part II of 4797. This will include raised cattle that are held for dairy or breeding but sold before they reach two years of age and purchased cattle held for dairy or breeding but held for less than two years.

Tax Management Considerations

The holding period on livestock, and depreciation and cost recovery recapture on purchased 1231 livestock, have a direct effect on the amount of tax liability produced by many farm businesses. Dairy farmers and other livestock producers should consider various alternative methods of acquiring and disposing of livestock in order to decrease their tax liabilities. Following are some tax management suggestions that may be recommended if consistent with successful farm management practices used on the farm.

1) Farmers planning to disperse their herds should consider holding raised yearlings until they become two years old.

2) If purchased dairy, breeding, and sporting livestock are to be sold sometime near the 24 month holding period, the tax consequences of the sale should be estimated before the sale decision is made. The goal should be to make transactions that result in a loss before the animals are held 24 months (ordinary loss) and delay sales that are going to produce substantial gains (capital gain) until after holding the animals 24 months. Exception: If the total loss from animals held more than 24 months and other business assets held at least 12 months will exceed the total gain from animals held more than 24 months and other business assets held at least 12 months then the net loss becomes an ordinary loss.

3) Dairy farmers who now buy all their replacements might consider hiring replacements raised on contract. Such animals qualify as raised animals and when sold the entire sale price will be capital gain.

Records of livestock pruchases and sales must be adequate to substantiate tax return entries relative to depreciation and holding periods as well as gains and losses.

Recapture of Real Estate Depreciation and Cost Recovery (1250 Property)

The sale of depreciable real property used in the business may result in a gain. This gain usually receives at least partial capital gain treatment. If rapid depreciation has been used on non-ACRS 1250 property, some or all of the gain will be classified as ordinary gain. Attention to some basic facts may remove some of the confusion relative to this recapture rule as it applies to non-ACRS property.

1) If only straight line depreciation has been used on depreciable real estate, and it has been held 12 months or more, no recapture of depreciation takes place and all the gain is treated as 1231 gain.

2) The key is the amount of depreciation which has been taken in excess of that which would have been taken using only straight line. It is only this excess which may be classified as ordinary gain.

3) One-hundred percent of excess depreciation taken after December 31, 1969 will be used to convert gain to ordinary gain.

4) A taxpayer may shift to straight line depreciation from either a declining balance or sum-of-digits method without special consent for real estate depreciation in any tax year commencing after July 24, 1969.

5) Where the property is held less than 12 months, all depreciation - straight line or rapid - will be considered excess and recaptured.

In the case of ACRS property if fast (regular) recovery has been used, the asset becomes 1245 property and all gain due to recovery deductions will be recaptured as ordinary income regardless of holding period. If one of the ACRS straight line options is chosen, all gain will be capital. However, the law allows a different ACRS option to be used on a substantial improvement than on the original building. If fast recovery has been used on either the building or a substantial improvement to it, gain will be ordinary on the entire building to the extent of fast recovery and any remaining gain will be capital gain. For residential real estate, gain will be ordinary only to the extent that fast recovery deductions exceed 15 year straight line.

Corporate dispositions of ACRS real property after 1982 are subject to a recapture as ordinary income of 15 percent of straight line depreciation claimed.

Recapture of Soil and Water Conservation or Land Clearing Expenditures (1252 Property)

Gain on the sale of land held less than 10 years will be part ordinary and part capital gain when soil and water or land clearing expendiures after December 31, 1969 have been expensed. If the land was held five years or less, all soil and water or land clearing expenses taken will be "recaptured" as ordinary gain. If the land was held more than five and less than 10 years, part of the soil and water and land clearing expenses will be recaptured. The percentages of soil and water conservation or land clearing expenses subject to recapture during this time period are: 6th year after acquisition of the land 80 percent, 7th year 60 percent, 8th year 40 percent, and 9th year 20 percent.

Here is an illustration:

Farmland acquired, 1980 cost	$20,000
Soil and water expenses deducted on 1981 tax return	$1,000
Land was sold, 1983 for	$28,000

During the time the land was owned, no capital improvements were made other than the soil and water expenses, so the adjusted tax basis at time of sale was $20,000. The gain of $8,000 would normally be all capital gain. But, the land was not held for more than five years, so the gain is divided; $7,000 qualifies as capital gain, $1,000 is ordinary gain.

Excluded Cost-Sharing Payments (Section 1255)

If government cost sharing payments for conservation have been excluded from gross income under the provisions of Section 126, the land improved with the payments will come under Section 1255 when sold. The excluded income will be entirely recaptured as ordinary income if the land has been held less than 10 years after the last government payment has been excluded. Between 10 and 20 years, the recapture is reduced 10 percent for each additional year the land is held. There is no recapture after 20 years.

Farmer's Use of 4797 and Schedule D

All sales of farm business properties (except casualties and thefts) are reported on Form 4797 to separate 1231 gain and loss from recapture of depreciation, cost recovery, and Section 179 expense deduction and basis reduction. Casualty and theft gains and losses are reported on 4684 and transferred to 4797. If the 1231 gains and losses reported on 4797 result in a net gain, the gain is transferred to Schedule D where it is combined with capital gain or loss, if any, from disposition of capital assets. If the 1231 items result in a net loss, the loss is combined with ordinary gains and losses on 4797 and then transferred to Form 1040.

SUMMARY OF REPORTING MOST COMMON FARM BUSINESS PROPERTY

Type of Farm Property	Tax Form and Section
1. Cattle and horses held for breeding, dairy, draft or sporting purposes and held for two years or more; plus other breeding or sporting livestock held for at least one year.	
a) Raised (1231 Property)	4797, Part I
b) Purchased, sale results in gain (1245 Property)	4797, Part III
c) Purchased, sale results in loss (1231 Property)	4797, Part I
2. Livestock held for breeding, dairy, draft, and sporting purposes but not held for the required period.	4797, Part II
3. Livestock held for sale.	Schedule F, Part I
4. Machinery held for one year or more	
a) Sale results in gain	4797, Part III
b) Sale results in loss	4797, Part I
5. Buildings, structures and other depreciable real property held for one year or more	
a) Sale results in gain	4797, Part III
b) Sale results in loss	4797, Part I
6. Farmland, held for one year or more, sold at a gain	
a) Soil and water expenses were deducted or cost sharing payments excluded	4797, Part III
b) If 6.a. does not apply	4797, Part I
7. Machinery, buildings and farmland held for less than one year	4797, Part II

INSTALLMENT SALES

The Installment Sales Revision Act of 1980 modified the tax laws concerning installment sales. All qualifying sales will be reported on the installment basis unless the taxpayer elects otherwise. The election is made by reporting all of the gain the year of sale on a tax return. You report income from an installment sale each year on Form 6252, Computation of Installment Sale Income.

The two payments in two separate years requirement has been eliminated. The 30 percent limit on payment in the year of sale has also been eliminated, but assuming the liabilities of the seller in excess of the basis is still a payment in the year of sale. The $1,000 minimum sales requirement for casual sales of personal property has been eliminated. Farmers' sale of their products will qualify for installment reporting as casual sales of personal property as long as those products are not required to be inventoried under their method of accounting (accrual accounting).

The receipt of like-kind property is not included in determining the contract price, gross profit, or payments for installment sale pruposes. Under the old law, like-kind property received was treated as part of the contract price for determining the gross profit percentage and as a payment in the year of sale. Selling expenses are to be added to the seller's basis instead of subtracted from the selling price for purposes of determining the gross profit ratio. The use of a wraparound mortgage is treated as an assumption.

Distribution of installment sale obligations to shareholders in a Section 337 liquidation would not be taxed to them until the shareholders receive payment on the installment obligation. Shareholders must satisfy the new restrictions on sales to related parties discussed later. Installment reporting is allowed with a contingent selling price. The methods of computing basis recovery are in the new law.

Installment Sales Between Family Members

Installment sales between closely related parties will not be barred as installment sales. Instead, gain will be triggered for the initial seller when there is a second disposition by the initial buyer. The amount of gain accelerated is the excess of the amount realized on the resale over the payments made on the installment sale. Except for marketable securities, the resale recapture rule will not generally apply if the second sale occurs two or more years after the first sale and it can be shown that the transaction was not done for the avoidance of federal income taxes. The two year period will be extended if the original purchaser's risk of loss was lessened by holding an option of another person to buy the property, or by any short sale.

In no instance will the resale rule apply if the second sale is also an installment sale where payments extend to or beyond the original installment sale payments. Also exempt from the resale rule are dispositions (1) after the death of either the installment seller or buyer, (2) resulting from involuntary conversions of the property (if initial sale occurred before threat or imminence), (3) nonliquidating sales of stock to an issuing corporation. Closely related person would include spouses, parent, children, and grandchildren, but not brothers and sisters.

If tax deferral or avoidance results, then installment sale treatment is not available for sales of depreciable property between a taxpayer and (a) his or her spouse, or (b) a trust treated as owned by the taxpayer or the taxpayer's spouse, or (c) a partnership or corporation which is 80 percent owned by the taxpayer and/or spouse, and between partnerships and corporations which are 80 percent owned by the taxpayer and/or the taxpayer's spouse. An installment sale is allowed in the above cases if no significant tax deferral or avoidance benefits will be derived from the sale. An installment sale between a taxpayer and his or her spouse would be allowed if the sale is incident to a divorce or separation.

The rules covering sales between closely related parties should not be detrimental to farm family transactions. In most instances it could easily be shown that the purpose of the sale was to transfer ownership of the family business and not to defer taxes.

The cancellation of an installment obligation, including a gift or bequest to the obligor, is now a taxable disposition. If parents forgive a $5,000 installment sale debt owed by their child, they have to report the taxable gain on the forgiveness as if they had received the $5,000. The $5,000 forgiveness would also be a gift that could be subject to gift tax. The recipient of an installment obligation at the death of the original seller is taxed as would have been the decedent. Previously if the obligation was left to the buyer (obligor) the payment and receipt would cancel and no taxation would occur. Now a taxable disposition occurs to a decedent seller's estate if the payment obligation is transferred to the buyer (obligor). This rule is effective for deaths after October 19, 1980.

The income tax treatment to a decendent's estate of an installment sale obligation left to the obligor may have serious repercussions to farm family transactions. Parents will be reluctant to sell the farm to a child during their lifetime when the installment obligation may pass to that child by inheritance. The motivation will be greater to retain the real estate until death so that the property receives a stepped up tax basis with no income tax.

Unstated and Imputed Interest

Regulation 1.483-1 requires that for installment sales after June 30, 1981 that qualify for capital gain, nine percent simple interest must be charged or the IRS will impute interest at 10 percent compounded semi-annually.

The Economic Recovery Tax Act of 1981, however, places a maximum imputed seven percent interest rate (computed semi-annually) on sales of land between related persons. This implies that the required minimum stated interest rate on these transactions may be six percent simple interest when regulations are released. Up to $500,000 a year in land installment sales to a spouse, sibling, ancestor, or lineal descendant, is eligible for the reduced interest rate. The law specifically states land, not real estate, and it appears the IRS may restrict the eligibility for the lower interest rate to land only.

ALTERNATIVE MINIMUM TAX

There now is only one minimum tax for individuals. For tax years beginning on or after January 1, 1983 the new alternative minimum tax replaces the old AMT and the add on minimum tax. TEFRA expanded the base of the alternative minimum tax to include more tax preference items, and exclude some deductions.

The term alternative minimum tax means that it is paid by noncorporate taxpayers only when it exceeds regular income tax. Technically the term refers to the "net" amount of AMT that exceeds the regular tax. Many farmers and other taxpayers will need to compute alternative minimum taxable income (AMTI). If AMTI exceeds $40,000 ($20,000 if married filing separately, or an estate or trust), Form 6251 must be completed to determine AMT liability. Fewer farmers will be required to complete Form 6251 since the base exemption has been increased from $20,000 to $40,000 on the joint return.

Tax Preference Income

The 60 percent capital gains exclusion continues to be the most important tax preference income item for farmers. In total there are now 12 tax preference items that must be added to AGI to determine AMTI. Here are the most common items:

1. The 60 percent capital gain exclusion.

2 & 3. Accelerated depreciation on real property and on leased personal property.

4 & 5. The dividend and interest exclusions.

Other tax preference items include: excess amortization of certified pollution control facilities, excess mining development costs, excess circulation or research expenditures, excess depletion deduction, and excess oil and gas drilling costs. Adjusted itemized deductions are no longer a tax preference item.

Determining Alternative Minimum Taxable Income (AMTI)

The first step in computing AMT is to determine AMTI. AMTI is adjusted gross income less AMT deductions plus tax preference items. The tax preference items are identified above. The allowable AMT deductions have changed from 1982. They are:

1) AMT Net Operating Loss Deduction. For 1983 the AMT NOL deduction will be the same as an NOL carried forward to 1983 from a previous loss year. Starting in 1984, modifications described in IRC Sec. 55(d)(1) must be applied to calculate the AMT NOL deduction and the AMT NOL could be different than the regular NOL carry back.

2) AMT Itemized Deductions. Taxpayers may no longer deduct personal exemptions, some itemized deductions, and taxpayers who do not itemize may not deduct the ZBA from AGI. The AMT itemized deductions are limited to:

   a. Casualty and theft losses and the wagering loss deduction.

b. Charitable deductions.

c. Medical expenses to the extent they exceed 10 percent of AGI.

d. Qualified interest. (Interest paid on principal residence mortgage and other interest to extent of investment income).

e. Estate tax deduction.

3) Accumulation Distributions From Trusts. A beneficiary's share of an accumulation distribution from a trust is an allowed deduction from AGI even though it is never added to AGI.

Here is an AMTI determination example:

A.B. Farmer's 1983 AGI is $40,000. He files a joint return, has no AMT NOL deduction, itemized deductions are $3,500 but only $1,800 qualifies as AMT itemized deductions ($1,700 was State income and sales taxes). His only tax preference income is $24,000 of capital gains deduction. AMTI is computed as follows:

Adjusted gross income	$40,000
AMT itemized deductions	- 1,800
Tax preference income	+24,000
Alternative Minimum Taxable Income	$62,200

Alternative Minimum Tax Rates

The old progressive AMT rate schedule is gone. Beginning with 1983, all AMTI above a base exemption will be taxed at 20 percent. The base exemption varies according to taxpayer classifications as follows:

Married; joint return & surviving spouse	$40,000
Single taxpayer	30,000
Married, separate return & estate or trust	20,000

AMT Computation and Liability

The 20 percent rate times AMTI that exceeds the base deduction results in a computed or gross alternative minimum tax. Only the amount of gross AMT that exceeds the individual's regular income tax becomes the net AMT or AMT liability. Regular income tax must be net of investment credit and other nonrefundable credits deducted on line 48, Form 1040.

A.B. Farmer's 1983 net AMT is computed as follows:

Alternative Minimum Taxable Income	$62,200
Less base deduction (joint return)	-40,000
AMTI exceeding base	$22,200
Gross AMT @ 20 percent	$ 4,440
Regular income tax net of $3,000 investment credit	- 3,465
Net AMT	$ 975

A.B. Farmer pays $3,465 of regular income tax plus $975 of alternative minimum tax in 1983. The investment tax credit used to reduce regular income tax cannot be used to reduce A.B.'s AMT (see treatment of credits).

Treatment of Credits

Investment credit and other nonrefundable credits can no longer be used to offset AMT attributable to ordinary income. Part II of Form 6251 has been eliminated. It is now possible for a taxpayer to have an AMT liability without having tax preference income. For example; a taxpayer with $60,000 of AGI, $15,000 of investment credit, no tax preference income, filing a joint return, would pay no regular federal income tax but could pay as much as $2,000 of AMT.

If the tax benefit of investment credit and other nonrefundable credits is lost because of the AMT, the credit can be carried to another tax year to the extent of the lost benefit. The previous A.B. Farmer example can be used to illustrate this rule. A.B. Farmer would have had $0 net AMT in 1983 if he had not been able to reduce regular tax with investment credit. The use of IC reduced A.B. Farmers regular income tax liability to a point $975 below his gross AMT causing the $975 net AMT. A.B. has lost $975 of IC tax benefit that should be added to the balance of unused IC for carryback or carryforward.

Impact of AMT on Farmers

Farmers in two different income situations will most likely be subject to the AMT.

1) Farmers with large amounts of capital gains preference income and very little Schedule F income.

   Example: C.G. Farmer sold all his raised dairy cows on November 1, 1983 for $90,000. No other business assets were sold and regular farm and other income was $2,000. Adjusted gross income, including $36,000 from the cow sales, was $38,000. Assume regular income tax liability with four exemptions and the standard ZBA equals $5,660. There are no credits to offset tax.

   C.G.'s AMTI and AMT are computed as follows:

Adjusted gross income	$38,000	AMTI	$92,000
less deductions	0	base deduction	40,000
plus tax preference income from		Taxable AMTI	$52,000
sale of cows, $90,000 x .60 =	54,000	Gross AMT	$10,400
Total AMTI	$92,000		

   C.G.'s 1983 federal income tax liability is $10,400. He must pay $5,665 of regular income tax plus $4,735 of AMT, the amount that computed AMT exceeds regular income tax.

   A very similar alternative minimum tax situation can occur in the year a retired farmer sells farm real estate.

2) Complete farm dispersals are likely to trigger an alternative minimum tax liability because the capital gain exclusion is usually high relative to ordinary income. Fortunately, the capital gain deduction attributable to the sale of a principal residence is excluded from tax preference income.

NET OPERATING LOSSES

Some farmers have incomes which fluctuate widely from year to year. As a result, they are frequently entitled to net operating loss deductions, a form of tax relief which is often overlooked. Many New York farmers will sustain a net operating loss in 1983 which may be carried back to recover taxes paid in former years, or carried forward to reduce taxes to be paid in future years. The calculation of a net operating loss, and its application to recover taxes in another year, is a complex process governed by strict rules of procedure.

How to Report a Net Operating Loss

A farmer who has a net business loss - that is, a minus figure on line 56 of 1040F - should enter the loss on line 19 of page 1, 1040, as a minus figure. If, as a result, deductions exceed all ordinary income for the year this taxable loss, after adjustments, may be used to offset taxes paid in other tax years. The amount of the loss which may be carried forward or back is called a net operating loss. The net operating loss is not to be considered when calculating net earnings from self-employment for the year to which the NOL is carried.

A NOL is usually carried back before it is carried forward. If it is carried back it must be carried back three years, then to each succeeding year, if necessary, to use it up. A 1983 NOL would be first carried back to 1980, then to 1981, 1982, and then forward to 1984 and in order to 1998 if necessary. The carry forward provision is now 15 years. A taxpayer may now elect to forego the entire carry back period. The election must be made by the due date for the return of the NOL year for which the election is made by attaching a statement to the return. If there is more than one operating loss to be carried to the same tax year, the loss from the earliest year is applied first.

In making a claim for a NOL, a concise statement showing the amount of the deduction and how it was computed must be filed with the return for the year the NOL is used. For a carry back year the statement can be filed with a Form 1045 or 1040X. Form 1045 must be filed within one year after the close of the NOL year. Form 1040X may be filed within three years of due date for the NOL year return.

A partnership (or small business corporation) is not allowed to claim a NOL, but each partner may use his or her share of the partnership's NOL to determine his individual loss. A regular corporation's NOL is basically the same as an individual's.

Step One - How to Calculate a Net Operating Loss

To determine NOL for the year, adjustments must be made by adding the following items to the taxable loss reported on Form 1040. This is the first step and must be done before you know how much loss can be applied to another year's return. Schedule A (Form 1045) is provided to compute net operating losses.

1) Personal exemptions.
2) Nonbusiness deductions (ZBA or itemized deductions) that exceed nonbusiness income.
3) The long-term capital gain exclusion.
4) Capital losses in excess of capital gains.
5) NOL carry overs or carry backs from other taxable years.

D.T. Farmer shows an $18,900 loss on Schedule F. The farm loss is combined with other income and deductions on Form 1040 to show a taxable income on line 37 of ($20,200).

Income:		
Part-time salary		$ 1,000
Interest income		600
Dividends (net of exclusion)		300
Capital gain from Schedule D (1040)		2,400
Supplemental gains (Form 4797)		900
Farm loss		(18,900)
Total Income		$(13,700)
Deductions:		
Itemized deductions	$3,500	
Personal exemptions (3)	3,000	
Total Deductions		- 6,500
Taxable Income		$(20,200)

No net operating loss was carried over to 1983 from a prior year.

The following adjustments are made to compute the current year's NOL:

Taxable Income		($20,200)
Personal exemptions	$3,000	
Capital gain exclusion	3,600	
Excess of nonbusiness deductions over nonbusiness income ($3,500 - 900 = $2,600)	2,600	
Total adjustments		$ 9,200
Net Operating Loss, 1983		$11,000

The above example does not illustrate the adjustment required when capital losses exceed capital gains. Also note that because of the required adjustments the $18,900 Schedule F loss was trimmed to a $11,000 NOL.

Step Two - How to Use the NOL

The full NOL must be carried to the earliest eligible year. If the NOL is equal to or less than the AGI less the ZBA (or itemized deductions) for that year, deduct the full NOL as in Step 3. However, if the NOL is greater than the AGI adjusted, the NOL must be compared to <u>modified taxable income</u> to determine how much of the available NOL may be used.

Modified taxable income is taxable income for that eligible year adjusted as follows:

1) The capital loss deduction is limited to the amount of capital gains included in gross income. If excess capital losses were claimed, add them back in.

2) The long-term capital gain exclusion must be included in income.

3) Personal exemption deductions are not allowed.

4) Modified taxable income must be computed before any NOL deduction from the loss year and all later years.

5) Itemized deductions based on a percentage of income (e.g., medical deductions) must be recomputed based on the adjusted AGI after modifications 2, 3 and 4 above.

6) The charitable deduction must be recomputed using a limit based on a modified AGI.

If D.T. Farmer carries his 1983 NOL of $11,000 back to 1980 where he had a taxable income of $18,780, the full NOL will be used. If 1980 taxable income had been less than $11,000 the adjustments listed above would have been applied to determine the modified taxable income. If 1980 modified taxable income was $8,000, D.T. would deduct only $8,000 of his 1983 NOL on the 1980 return.

Step Three - Determining Amount of Refund

In determining the amount of refund due when a carry back is made to a prior year, the taxable income for that year must be recomputed. After the NOL is deducted, itemized deductions based on a percentage of AGI must be recomputed. The income tax liability for that year, minimum tax, alternative minimum tax, and tax credits claimed must be refigured.

D.T. Farmer determines his 1980 refund as follows:

Adjusted gross income on 1980 return	$18,780
Less 1983 NOL	-11,000
Adjusted gross after carry back	$ 7,780
Minus zero bracket amount	- 3,400
Tax table income after carry back	$ 4,380
Tax liability on $4,380 after carry back	0
Tax liability on 1980 return	1,504
Tax paid on 1980 return (net of IC)	$ 504
Less tax liability after carry back	0
Refund on 1980 return	$ 504

D.T. Farmer paid no minimum tax or AMT in 1980 but $1,000 of investment credit was used to reduce the 1980 tax liability. If there had been no investment credit used in 1980, the tax paid would have been $1,504 and D.T. would be eligible for a $1,504 refund. Since only $504 of income tax was actually paid in 1980, that is the extent of the 1980 NOL refund. However, the $1,000 investment credit originally used is freed by the NOL and is now an unused investment credit balance of $1,000 that may be carried back to 1977.

Step Four - Carry Over Unused NOL to Subsequent Year

Under the alternative assumption, D.T. Farmer's 1980 modified taxable income was $8,000 which limited 1983 NOL used in 1980 to $8,000. The amount of unused NOL, $3,000, is carried over to the 1981 return.

TAX DEFERRED RETIREMENT PLANS

Noncorporate farmers have two tax-deferred retirement plans available to them: the Keogh or HR-10 plan and the individual retirement account plan (IRA). An individual may take an income tax deduction for an IRA even if that taxpayer is an active participant in another qualified retirement plan, including a Keogh. Thus, a farmer may have an IRA in addition to a Keogh plan. To encourage the establishment of a retirement plan, tax is deferred on the contributions and fund earnings until retirement. When the retirement fund is liquidated the entire amount of the fund would normally be subject to taxation--both the original principal and any accumulated earnings from the principal.

Keogh Plans

TEFRA combined the provisions of Keogh and Corporate plans so that they will be, for the most part, indistinguishable beginning in 1984. The purpose was to eliminate the incentive to incorporate a business or practice solely because of the more lucrative corporate pension plan provisions.

For 1983, the maximum annual contribution to a Keogh plan is the lesser of $15,000 or 15 percent of earned income (net earnings from self-employment). If adjusted gross income is less than $15,000, the taxpayer may contribute the lesser of 100 percent of earned income or $750. The maximum annual contribution for a Keogh plan beginning in 1984 (defined contribution) has been raised to $30,000 or 20 percent of compensation (or 25 percent of compensation less plan contribution), the new lower limit for corporate plans. The maximum annual retirement benefit under a defined benefit plan will be $90,000. Cost-of-living adjustments for defined benefit plans have been frozen three years until 1986.

Various restrictions apply to top-heavy plans to prevent discrimination in favor of owner-employees. A defined contribution plan is top-heavy if the sum of the account balances of participants who are key employees for the plan year exceeds 60 percent of the sum of the account balances of all employees under the plan. Multiple plans of a single employer are aggregated to determine top-heaviness. Most farm plans would probably be classified as top-heavy.

Most of the old Keogh plan restrictions apply to top-heavy plans (i.e., distribution by age 70 1/2, 10 percent tax on premature distribution). Some of these restrictions are relaxed for non-top-heavy plans. Employee vesting under top-heavy plans can be either (a) 100 percent for employees at least 25 years old who have completed at least three years of service, or (b) a six-year graduated vesting schedule (20 percent a year after one year).

Also, Keogh plans now qualify for the "perks" that previously only corporate plans qualified for--items such as loans, nonfinancial trustees, integration with social security, more flexible profit sharing, and $5,000 income exclusion for death benefits to beneficiary.

Farmers who have Keogh plans, especially if they have covered workers, should study the changes to see what adjustments or modifications are necessary in their plans.

Individual Retirement Accounts

A farmer may establish an IRA for himself or herself and a nonworking spouse if desired without covering employees. The maximum annual contribution to an IRA is $2,000 and there is no percentage of earnings limitation. If a taxpayer has $2,000 or less in earnings, the entire earnings can be deposited in an IRA. If the IRA also covers a nonworking spouse, total deductions are limited to the lesser of: (1) $2,250 and (2) 100 percent of the working spouse's earnings. Although the contribution between the two IRA's (working and nonworking spouse) can be unequal, the maximum amount contributed to either IRA cannot be more than $2,000.

The last day a taxpayer may set up a new IRA or make a payment is the due date for filing his or her tax return (including extensions). There is a six percent penalty tax imposed on excess contributions until the excess contribution is eliminated. Retirement benefit payments can begin after age 59 1/2 and must begin by age 70 1/2. At age 70 1/2, payments must not be distributed for a period longer than the life expectancy of the participant or spouse. Any premature distribution before age 59 1/2 is subject to a 10 percent penalty tax. However, the restriction does not apply in the event of death or disability. The funds in the plan may not be used to secure a loan without the 10 percent premature distribution tax applying.

Money received from an IRA is included in gross income as ordinary income in the year received. A taxpayer can use income averaging but not the special 10-year averaging rate that applies to lump-sum distributions from qualified employer plans.

The law permits a divorced taxpayer to continue a spousal IRA that had been established at least five years before a divorce, if contributions were made for three of those five years. The annual deduction for the divorced taxpayer is limited to the lesser of $1,125, or the divorced taxpayer's compensation and alimony received during a year.

If an employee is covered under a Simplified Employee Pension (SEP)-IRA, either the employee or the employer may contribute. The maximum employer contribution is 15 percent of compensation or $15,000, whichever is less. Beginning in 1984, it will be increased to 25 percent and $30,000. The employer's payments to the taxpayer's SEP-IRA are not subject to income tax withholding and are not taxed under the Federal Insurance Contributions Act (FICA) or the Federal Unemployment Tax Act (FUTA) if it is reasonable to believe that the taxpayer will be able to deduct the payments. The employee enters the deductible amount on Form 1040. The employee may also contribute $2,000 to an IRA which is part of a SEP. Or, the employee may establish a separate IRA.

Many taxpayers do not understand that they are allowed to move their IRA fund from one trustee to another (i.e., from one bank to another bank) as often as they want without any limitations, restrictions, or tax implication. However, if they receive the money themselves, various restrictions apply to their rollover of the funds to another eligible retirement plan.

Estate Tax on Retirement Plans

For individuals dying after 1982, only the first $100,000 value of an annuity left to heirs will be excluded from a decedent's estate. For deaths before 1983, there was a full exclusion when benefits were paid as an annuity. A lump sum payment to heirs is still fully includable in a decedent's estate.

NEW YORK STATE INCOME TAX

Review of New York State Tax Laws Affecting Individual Taxpayers

1) The New York standard deduction is 17 percent of New York adjusted gross income, with a maximum of $2,500. The minimum standard deduction is $1,500 for a single individual and $2,000 for married filing jointly, unmarried head of household or qualifying widows and widowers.

2) The New York personal exemption stays at $800 for 1983.

3) Itemized deductions and separate returns

   If the taxpayer does not itemize deductions on the federal return, he or she cannot itemize on the New York State return.

   A husband and wife may determine their incomes separately and divide the 17 percent or $2,500 standard deduction as they elect on separate returns. Each must claim at least one personal exemption. If a farmer's spouse has income greater than personal exemptions, it will usually pay them to file separately. Working, married couples cannot claim a Schedule W (1040) deduction on their New York State return.

4) Household credit is available to New York taxpayers whose household gross income is less than $25,000 providing they cannot be claimed as a dependent on another taxpayer's return. Household gross income is total New York State AGI for both spouses plus additional minimum taxable income, if any. Household credit continues as a direct tax reduction on IT-201.

New York Household Tax Credit, 1982 and After

Household Gross Income	Household Credit 1982 and After
less than $ 5,000	$70
$5,000 - 5,999	55
6,000 - 6,999	45
7,000 - 24,999	40

5) New York State now recognizes the 60 percent federal capital gains deduction. The New York capital gain modification has been eliminated. The subtraction modification that applied to federal capital gains income in computing New York State Minimum Tax was also eliminated.

6) New York State solar and wind energy credit amounting to 55 percent of qualified costs up to $2,750 of credit, is available to homeowners for 1981 through 1986. The credit is a direct reduction of tax liability and may be carried forward if it exceeds tax liability in any year. The maximum credit limitations apply to each principal residence owned by a taxpayer during this eight year period.

   The credit is earned on the costs of purchasing and installing qualified solar and wind energy systems first used in the taxpayer's principal residence. Qualified systems include passive as well as active solar energy systems, and systems that convert wind energy into mechanical or electric energy. Solar water heaters are the most common example of active solar systems. Passive solar systems are more difficult to define. One example may be a solar room or greenhouse attached to the residence.

The energy credit is not allowed on equipment and insulation that is part of the conventional heating, cooling, insulating or electrical systems of a home. It may be prorated between two or more owners of a home or condominium providing the home is their principal residence.

If the solar or wind energy system qualifies for federal residential energy credit, the New York State energy credit will be reduced by the amount of federal credit allowed until the combined energy credits do not exceed 55 percent of the qualified investment or $6,750, whichever is less. A taxpayer investing $5,000 in a solar hot water system for the home will be limited to ($5,000 x .55) = $2,750 of combined credits. The federal credit is ($5,000 x .40) = $2,000 and the New York State credit is ($2,750 - $2,000) = $750. A taxpayer with an investment of $12,273 or more that qualifies for federal and NYS energy credits will get the $6,750 maximum credit.

Federal, state, and local energy grants received by a taxpayer to finance solar or wind energy systems do not count as qualified expenditures unless the income from the grant is taxable. The amount of New York State energy credit allowed must be deducted from the costs being used to determine the new basis of the home.

7) The Real Property Tax Credit received a two step increase effective in 1981 and 1982. The household gross income limitation increased from $12,000 to $13,500 for 1981 and to $16,000 for 1982 through 1984. The credit is based on residential real estate taxes paid, or 25 percent of adjusted rent paid, less a deduction ranging from four to 6.5 percent of household gross income. Following are the deduction rates and maximum credit limitations for 1983 and after for qualifying taxpayers. Excluded are individuals whose residences are wholly exempt from taxation, owners of real property valued in excess of $65,000, persons claimed as a dependent by another taxpayer and tenants paying more than $300 per month.

Real Property Tax Credit For Qualified Taxpayers, 1982-1984

Household Gross Income	Deduction Rate 1983	Maximum Credit Under 65	Maximum Credit 65 & Over
$ 0 - $ 3,600	.040	$45	$250
3,601 - 5,400	.045	45	250
5,401 - 7,200	.055	45	250
7,201 - 10,000	.055	45	100
10,001 - 16,000	.065	45	100

The maximum credit allowed qualified taxpayers under age 65 has been increased from $20 to $45. New York State residents not required to file an income tax return may now claim the credit and receive a refund.

8) The maximum tax rate on New York personal service income continues at 10 percent for 1983 and the capital gains deduction will not be subtracted in determining personal service income.

9) Child and Dependent Care Credit

Twenty percent of the federal child care credit may be used to offset New York State personal tax liability. The amount of credit used may not exceed the tax liability for the year. The credit is not allowed against the minimum tax. When a couple filing a joint federal return elect to file separate New York State returns, the child care credit may only be used by the spouse with the lower taxable income.

10) Modification of AGI Related to New Business Investments. If a New York taxpayer realizes long-term capital gains from the sale of investments in new businesses in New York State, the taxpayer may be eligible for a reduction of federal AGI. To qualify, the new business investment must have been made after June 30, 1981 and held for at least four years. Only corporations and partnerships can issue qualified business investments. A qualified investment held four years will earn a 25 percent reduction, five years 50 percent, and six years or more 100 percent.

Beginning with 1982, a taxpayer may elect to subtract from federal AGI reinvested long-term capital gain realized from a capital asset which is not a business investment. The capital gain must be reinvested in a New York new business within one year from date of sale to qualify.

Review of Recent Changes in New York State Business Taxes

1) New York remains uncoupled from ACRS. Chapter 55 of the New York State Laws of 1982 uncoupled the computation of New York net income from the deduction for cost recovery claimed by a taxpayer under ACRS. In the place of the ACRS deduction, New York State allows a deduction for depreciation equal to the deduction which would have been allowed under IRC Section 167 depreciation rules. Section 167 includes the old depreciation rules excluding AFYD. The required adjustment to federal taxable income will be made as follows:

Step 1: add the amount allowable as a deduction under IRC Section 168 (ACRS)

Step 2: subtract the depreciation allowable under IRC Section 167 as if it were still in effect.

Chapter 15 of the Laws of 1983 extends the uncoupling provision for another year. New York State will not conform to ACRS for taxable years beginning in 1982, 1983, and 1984 and the new amendment re-emphasizes that New York State depreciation must be determined under the rules of IRC Sec. 167.

New York State law still makes no provision to allow a taxpayer to adjust the cost basis of an asset. The federal basis must be used to compute New York depreciation and to determine gain or loss on disposition. However, Chapter 15 amends the law to allow a modification to federal AGI in the year of disposition on an asset where New York depreciation has been different than federal cost recovery. The modification enables a taxpayer claiming less New York State depreciation than allowed under ACRS to decrease federal AGI for state purposes in the year of disposition. If New York State depreciation were greater than federal, the modification would be an increase in AGI.

There is still one major problem associated with the uncoupling amendment. The adjustment implies that separate non-ACRS calculations are required. There is a second problem associated with the federal option to reduce basis by 50 percent of investment credit claimed. The basis for federal depreciation is the basis used for NYS depreciation. Taxpayers electing to reduce basis to gain the full amount of federal investment credit will give up an equal amount of NYS depreciation.

Farmers and their tax advisors are encouraged to use initiative and wisdom in computing and documenting acceptable state depreciation deductions that will be the same as federal ACRS deductions.

Here is an example:

John C. Farmer purchased $40,000 of Section 1245 property in 1983, placed it in the federal ACRS five year property class, reduced the basis by 50 percent of IC claimed ($40,000 - $2,000 = $38,000), elected rapid cost recovery (15 percent) and claimed a $5,700 deduction on his 1983 federal return. The property included a used tractor, $26,000; new plow, $10,000; and four dairy cows, $4,000. The items were purchased at mid-year.

The maximum deduction allowed for New York must be determined from old depreciation rules. John selects a five year life and 150 percent decline balance depreciation (used machinery and breeding cattle are eligible for 150 percent DB). The basis for federal depreciation must be used.

> $38,000 basis ÷ 5 years = $7,600 x 1.5 = $11,400 (30% of basis) x 0.5 year = <u>$5,700</u>.

The depreciation deduction computed for New York State is equivalent to the federal deduction. In 1984 John can take 30 percent of the remaining basis ($38,000 - $5,700 = $32,300; x .30 = $9,690) or less, to make his New York deduction equivalent to federal.

2) <u>Subchapter S Corporations</u> are no longer subject to the New York Corporate franchise tax if shareholders have unanimously elect to be taxed as individuals (Form CT-6).

3) <u>New York State Minimum Tax</u>

Federal items of tax preference after adjustments and exemptions are subject to the New York State minimum tax rate of six percent. Now that New York recognizes the 60 percent capital gains exemption, tax preference income subject to state minimum tax has increased. The exemption is $5,000 ($2,500 for a married taxpayer filing separately).

New York dairy farmers who sell 20 or more cows annually will find that they probably will have to file and many will pay some minimum tax. A farmer who has over $5,000 of preference items must complete Form IT-220 but may not be subject to minimum tax. New York personal income tax (less credits) and carryover of net operating losses are used to reduce minimum taxable income. Investment tax credit cannot be used to reduce the minimum income tax.

4) Corporation Franchise Tax

Regular farm corporations organized under the laws of New York must file a New York Corporation Franchise Tax Report CT-3 or CT-4. CT-3 is the long form and is supposed to be used when tax is over $1,000, optional depreciation is used, or investment tax credit is claimed. Form CT-4 is a simplified form.

A declaration of estimated tax must be made by every corporation if New York State tax liability can be expected to exceed $1,000. The first installment is due when the previous year's final return is filed, is based on 25 percent of the previous year's tax, and must be paid even if tax liability is expected to be less than $1,000. Form CT-400 must be filed with the second installment on or before the 15th day of the seventh month of the tax year if a declaration is required. The payment is one-third of the estimated tax balance. Another one-third installment is due on October 15.

The minimum tax is $250. The maximum for successful farm corporations is usually 10 percent of taxable income. Small corporations (less than $1,000,000) are no longer required to use the total capital method of tax computation during their first two years.

Investment credit is claimed on CT-46. Claims for refunds resulting from net operating loss and capital loss carry backs are made on CT-8.

5) Payment of New York State income taxes withheld. Although income tax withholding is not mandatory for agricultural employers, an April 1, 1983 change in the payment rules may make withholding more attractive. An employer who expects to withhold less than $600 semiannually is required to file and deposit the tax on July 31 and January 31. Monthly returns and deposits are required by employers withholding from $600 to $7,500 semiannually.

6) Information returns. New York State has also increased its penalty for failure to file information returns from $1 to $50 for each missing statement. The New York State law is essentially identical to the federal law regarding payments of $600 or more to New York taxpayers.

New York State Business Credits

1) New York State investment credit continues at six percent on qualified tangible personal property acquired, constructed, reconstructed or erected on or after July 1, 1982.

ACRS property placed in service after December 31, 1980 qualifies for New York State investment credit. This means light trucks and breeding hogs in the ACRS three year class and used primarily for farm production will qualify for NYIC. There is no reduction in the amount of credit allowed for three year property.

For purposes of recapture, useful life is the ACRS class life for three and five year property. In other words, three year ACRS property that qualifies for NYIC and is kept in use for three years will earn the full six percent NYIC. Five year ACRS property that qualifies for NYIC earns full credit after five years, even if a straight line 12 or 25 year recovery period is elected.

Ten year ACRS property and 15 year real property, excluding buildings and structural components, that qualifies for NYIC must be held only five years (60 months). Building and structural components and all non-ACRS properties that qualify for NYIC must still be held 12 years.

The remainder of the formula used to determine the amount of NYIC earned or allowable when investment credit is disposed of remains the same. Multiply the original credit claimed by the ratio of months of qualified use over months of useful life to determine earned or allowable credit. Credit claimed less credit earned is subject to recapture.

New York investment credit must be taken by the lessee/user of qualified property involved in a Safe Harbor lease for taxable years beginning after December 31, 1981. NYIC cannot be claimed by the lessor.

New York investment credit covers qualified building rehabilitation expenses incurred by certain retail enterprises in New York State, on or after June 1, 1981. Retail enterprises must be a business selling tangible property to consumers and the owner must be a registered vendor. The credit is computed on the cost or other basis of an investment that qualifies for the federal investment credit on qualified rehabilitated buildings. The regular New York State IC rates apply.

Unused New York State investment tax credit claimed by a new business is refundable for tax years beginning on or after January 1, 1982. But, the election to claim a refund of unused credit can be made only once in one of the first four years. A business is new during its first four years in New York State. Only proprietorships and partnerships qualify. This refundable credit is not an additional credit for new businesses. A business that is substantially similar in operation and ownership to another business that has operated in the state will not qualify.

2) Employment incentive tax credit is still available to regular corporations that qualify for NYIC and increase employees one percent during the year. The credit is an additional one-half of the regular investment credit for each of the three years following the taxable year in which NYIC was allowed. The additional credit is available to newly formed as well as continuing corporations. The credit may not be used to reduce the franchise tax below the flat-fee minimum ($250).

3) Research and Development Tax Credit is now in effect on qualified property purchased after June 30, 1982. Although this 10 percent tax credit will not apply directly to commercial farmers, they may receive some long run indirect benefits if agribusiness firms are encouraged to invest in qualified property.

4) A credit for the special additional mortgage recording tax is still allowed for any taxpayer subject to the tax.

TAX MANAGEMENT

Individual 1983 tax rates are 10 percent below 1982 and will decrease five percent in 1984. The scheduled rate reduction for 1984 provides an incentive to farmers to defer taxable income to later years when it will be taxed at a lower rate. To defer taxable income, a farmer must defer receipts or increase deductions. Many farmers will have incomes low enough in 1983 so that there will be little incentive to defer taxable income to future years.

ACRS for 1983

Selecting rapid depreciation methods has been a way for farmers to shift expense deductions to earlier years. Unfortunately, first year ACRS on machinery and equipment does not provide most farmers a good opportunity to maximize 1983 deductions to minimize 1983 taxes. The $5,000 expense election will reduce taxes in the first year but is not a good option for many farmers in the long run because of the loss of investment credit. Farmers who chose rapid recovery on ACRS property acquired in 1982 will have much larger recovery deductions on that property in 1983 than in 1982 and should keep this in mind when choosing recovery options on 1983 acquisitions and when managing other components of taxable income. The basis reduction option will usually provide more 1983 tax savings from depreciation plus investment credit than will the reduced IC option.

The best options for items acquired in 1983 will be fast recovery for three and five year ACRS property. To maximize recovery of general purpose farm buildings, they should be put on a 15 year straight line method. Buildings can be recovered even faster under ACRS but favorable capital gains would be lost if the buildings are sold. Farmers who have purchased single purpose agricultural structures, silos, and grain storage facilities in 1983 are in the best position to maximize 1983 deductions. A $50,000 investment will provide as much as $7,500 of 1983 deductions in the ACRS five year property class. Any farmer who has a low 1983 taxable income and has prospects of large taxable incomes in future years should probably use one of the straight line options in 1983.

Other Techniques to Defer Income

While many farmers will not be concerned with reducing 1983 taxable incomes, those who are should consider any legal management move that can be made to postpone receipts until next year and to bring expenditures planned for early 1984 into the 1983 tax year. Increasing year-end expenditures for needed feed and supplies and delaying sales of cash crops and livestock are important alternatives.

Plan personal deductions. Many medical expenses and contributions that are normally spread out over two years can be paid in one year and itemized as deductions. In the next year, the standard deduction (zero bracket) may be taken if greater than itemized deductions.

Pay reasonable wages to children for farm work. Social security tax does not have to be paid on wages to children under 21.

Sales of PIK commodities can be delayed until 1984. Installment sales of property can be used to spread income over a period of years.

Be sure to take investment credit on all eligible property. Do not overlook unused investment credit balances or net operating losses from previous years. If this is the first year you are completing a taxpayer's return, ask to see previous years' returns. Note deficiencies in the farm record system that prevent or hinder effective tax management. Suggest Changes.