Foreclosures may affect tax filing

Farmers may have a Federal income tax liability if a bank or other lender forecloses on their mortgage or repossesses their property, but tax relief from at least part of the liability may be available, according to the Internal Revenue Service.

The tax liability may arise because, under the tax law, a foreclosure or repossession generally is treated like any other sale or exchange. A taxable gain may result, if the amount realized by the owner of property transferred through foreclosure or repossession exceeds the property's adjusted basis.

The adjusted basis of property generally is its cost, increased by improvements and certain other items, and decreased by depreciation and similar items.

If personally liable for repayment of a debt secured by the farm property, a farmer may have taxable income from cancellation of the debt, in addition to any gain or loss from the transfer of the property. However, the cancelled debt need not be included in income if:

- The cancellation takes place in a bankruptcy case under Title 11 of the United States Code; or
- The farmer is insolvent when the debt is cancelled, and the amount excluded is not more than the amount by which the farmer is insolvent; or
- The debt is discharged after April 9, 1986, by an unrelated lender and was incurred in connection with the operation of the farming business or is secured by land or equipment used in the farming business; or
- The debt is discharged before 1987 and was incurred or assumed in connection with property used in a business.

A farmer who wishes to exclude income from a cancelled debt must meet certain other conditions as well, the IRS said.

More detailed information is contained in the free IRS Publication 225, *Farmer's Tax Guide*, which can be obtained by calling or writing the IRS.

IRAs — Key to Retirement Planning

Tax-Deferred Retirement Savings and Many Other Benefits Keep IRAs Attractive

Despite changes imposed by the new tax laws, individual retirement accounts (IRAs) will remain a cornerstone of retirement planning, according to Fidelity Investments, one of the nation's leading providers of IRAs. A recent survey conducted by Fidelity revealed that 77% of Midwesterners listed income for retirement as their number one financial goal.

Although a lot of attention has been focused on the fact that the IRA deduction will be eliminated or scaled back for some wage earners, many people will still be able to take a full or partial deduction. In addition, IRAs will retain their tax-deferred status for *all* wage-earners who wish to make contributions after the 1986 tax year.

"Three realities about today's society explain the current importance of retirement planning to the average American," said Mitchell Glazier, a Fidelity retirement specialist. "First, people realize that they shouldn't be overly reliant on Social Security for their retirement income.

"Second, many people change jobs frequently, which can result in lower retirement benefits, if not exclusion, from employer-sponsored retirement plans.

"Finally, people are living longer and retiring earlier which increases the need to ensure a reliable source of retirement income."

Greater Savings

An IRA can supplement or replace benefits from an employer-sponsored plan. For those who retire early, change jobs frequently, or leave a job before becoming fully vested in an employer-sponsored retirement plan, an IRA can make the difference between a comfortable or reduced standard of living in their retirement years. And because the earnings in an IRA are allowed to grow on a tax-deferred basis, an IRA can become a substantial nest egg.

Flexibility

Individuals may invest their IRA money in many types of investments including bank certificates of deposit, insurance products, mutual funds, stocks, bonds, or precious metal coins minted by the U.S. Treasury. Contributions may also be made in one of these investments or a combination of them.

In addition, individuals may choose to make their IRA investment in one lump sum or choose to make smaller contributions throughout the year.

New Deductibility Rules For 1987 Tax Year

All wage-earners are eligible for an IRA deduction for the 1986 tax year. In the 1987 tax year and beyond, the following groups are still eligible for a full IRA deduction.

- wage-earners not covered by an employer-sponsored plan
- married couples with combined incomes under $40,000
- single individuals with incomes under $25,000.

Partial deductions will still be allowed for:

- married couples with combined incomes between $40,000 and $50,000
- single individuals with incomes between $25,000 and $35,000.

For all other wage-earners, IRA deductions will be eliminated, but the most important feature of all, tax-deferral, will remain intact.

Use form...............

Continued from Page 3

professional journals and trade magazines; and, expenses incurred in seeking new employment in the same occupation. Job hunting expenses are not deductible if seeking employment in a new field of work.

The rent on a safe deposit box can be deducted if income-producing items are kept in it, such as stocks and bonds. Taxpayers who hire someone to prepare their tax returns can deduct the fee paid to the preparer.

If a taxpayer legally adopts a child with special needs, up to $1,500 of qualified adoption expenses may be deductible as a miscellaneous deduction. A child with special needs is one who the state determines is described in the Social Security Act adoption assistance program. This is a child who the state determines cannot or should not be returned to his or her parental home, who is difficult to place because of a specific factor or condition, and who has been the subject of an unsuccessful placement effort.

Qualified adoption expenses include reasonable and necessary adoption fees, court costs, attorney fees, and other expenses that are directly related to the adoption of the child. Adoption expenses do not include any expenses for which a credit can be received or that may otherwise be deductible. In addition, any expenses for which a taxpayer received payments from a federal, state, or local program to pay for the adoption cannot be deducted.

For more information about miscellaneous expense deductions, see Publication 529, *Miscellaneous Deductions.*

Tax prep.................

Continued from Page 1

substantiating your tax return. He said paying by check is a good way to keep track of expenses.

"Even if you don't write it all down in a book, at least keep everything (receipts) together in a box," suggested Blair.

He said some choose to leave even that part to the tax preparer, not wanting to be bothered with any record keeping at all.

"That's when my job gets hard. I have to dig out all the figures from bank statements and receipts, but it can be done."

Other informational items helpful to a tax preparer are wage statements from all employers [W-2s], interest and dividend statements (1099s), and statements from brokerage houses (records of investors' transactions).

It is also helpful to keep a record of taxes paid, contributions to charitable organizations, interest paid, and medical expenses.

"Each personal situation is different," said Blair, "and what may apply to one case may not apply to another."

Usually, those who have rental property or need more done than itemization of deductions, should seek professional help in the preparation of their taxes.