118

Tax Law Changes May Mean Fewer People Will Itemize Their Deductions

As the result of recent tax law changes, many taxpayers who itemized their deductions in the past may find it no longer necessary to do so.

In deciding whether to itemize or not, taxpayers should compare their total itemized deductions with their allowable standard deduction. Taxpayers may itemize only if the total of their itemized deductions exceeds the standard deduction to which they are entitled.

The table below can be used to determine an individual's standard deduction for 1987.

1987 Standard Deduction Table

Caution: This table does not apply to taxpayers who can be claimed as dependents. See IRS Publication 501, *Exemptions and Standard Deduction*, for more information on a dependent's standard deduction.

Step 1. Check the correct boxes below for yourself.

☐ 65 or older ☐ Blind

Check the correct boxes below that apply to your spouse if you are claiming your spouse's exemption.

☐ 65 or older ☐ Blind

Total number of boxes you checked ....____

Step 2. Find your standard deduction.

If your filing status is:	and number of boxes you checked in Step 1 above is:	your standard deduction is:
Single	0	$2,540
	1	3,750
	2	4,500
Married filing jointly	0	$3,760
	1	5,600
	2	6,200
	3	6,800
	4	7,400
Married filing separately**	0	$1,880
	1	3,100
	2	3,700
	3	4,300
	4	4,900
Head of household	0	$2,540
	1	5,150
	2	5,900
Qualifying widow(er)	0	$3,760
	1	5,600
	2	6,200

**If your spouse itemizes deductions on a separate return, your standard deduction is zero.

For more information, get free IRS Publication 920, *Explanation of the Tax Reform Act of 1986 for Individuals*, by using the order blank in the tax return package or calling toll-free 1-800-424-3676.

Tax Reform Act Affects Farmers

The Tax Reform Act of 1986 made many changes to the federal tax law that will affect farmers, according to the Internal Revenue Service.

• **Soil and water conservation expenses.** Beginning in 1987, expenses for soil and water conservation may be deducted only if they are consistent with a plan approved by the Soil Conservation Service of the U.S. Department of Agriculture for the area in which the land is located. If no plan exists, the expenses are deductible only if consistent with a soil conservation plan of a comparable state agency.

Soil conservation expenses include expenses for grading, terracing, and contour furrowing; construction of drainage ditches, irrigation ditches, dams and ponds; and planting of windbreaks.

If soil conservation expenses cannot be deducted, they must be added to the cost basis of the land.

• **Land clearing expenses.** Beginning in 1987, expenses paid or incurred to drain or fill wetlands or prepare land for center pivot irrigation systems are no longer deductible. These expenses must be added to the cost basis of the land.

• **Prepaid farming expenses.** Farmers who use the cash method of accounting may not be able to deduct expenses for certain farm supplies until the year in which the supplies are used. This rule applies to amounts paid or incurred in tax years beginning after March 1, 1986. The rule generally applies to farmers who use the cash method of accounting to report their income and expenses and whose prepaid expenses for feed, seed, fertilizer, other farm supplies, and the cost of poultry are more than 50 percent of their other deductible farming expenses, including depreciation and amortization, for the year.

The Tax Reform Act reduced most tax rates for individuals and made numerous other tax law changes that will affect farmers as well as other taxpayers.

For more information, farmers can get free IRS Publication 225, *Farmer's Tax Guide*, by sending in the order blank in the IRS tax return package or calling toll-free 1-800-424-3676.

Dairy Termination Payments

Farmers who are accepted into the Dairy Termination Program (DTP) of the Commodity Credit Corporation will receive two different kinds of taxable income as a result, the Internal Revenue Service says.

Part of each payment compensates dairy farmers for the difference between the amount received when the dairy cattle are sold under the DTP and the higher price that could have been received if the cattle were sold for dairy purposes. This part of the payment may qualify for capital gain treatment.

The rest of each payment is a replacement for income from milk production and is includible as ordinary income on Schedule F, *Farm Income and Expenses*, of Form 1040.

The Dairy Termination Program is designed to reduce surplus milk production. Under this program, some dairy farmers receive payments from the government in return for stopping all production of milk, disposing of their entire dairy herd, and agreeing not to use their dairy facilities for milk production for five years.

For more information, farmers can get free IRS Publication 225, *Farmer's Tax Guide*, by sending in the order blank from their tax return package or by calling IRS toll-free at 1-800-424-3676.

Most information contained in this supplement has been provided by the Internal Revenue Service.

12A

Tax Return Processing Steps