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The Economic Recovery Tax Act of 1981:

Provisions of Significance to Agriculture

Ron Durst
Wendy Rome
James Hrubovcak

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ABSTRACT

The Economic Recovery Tax Act of 1981 is important to farmers in their roles as individual taxpayers and as operators of farm businesses. This report reviews those changes of greatest significance to the farm sector. It examines the major changes affecting individual income tax rates, investment and savings incentives, and estate and gift taxes. Other changes relevant to agriculture include those involving commodity tax straddles, the royalty owners credit, and imputed interest rates on land sales between related parties.

Keywords: income tax, depreciation, investment tax credit, imputed interest, indexing, commodity tax straddles, estate tax, gift tax, special use valuation.

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* Department of Agriculture. It is intended for *
* informational purposes only and does not attempt *
* to anticipate Internal Revenue Service regulations *
* and interpretations pertaining to the Economic *
* Recovery Tax Act of 1981. It is based on the *
* congressional conference report on H. R. 4242 and *
* the authors' own interpretations of the legislation.*
* *

Washington, D.C. 20250 September 1981

HIGHLIGHTS

The Economic Recovery Tax Act of 1981 is important to farmers in their roles as individual taxpayers and as operators of farm businesses. It provides the largest tax cut in history. Reductions in Federal income, estate and gift, and windfall profit taxes are projected to reach $750 billion by the end of fiscal year 1986.

Those provisions with the greatest potential for impact on the farm sector include the following:

- Across-the-board individual rate reductions equal to 1.25 percent in 1981, 10 percent by 1982, 19 percent by 1983, and 23 percent by 1984.

- A reduction of the marriage penalty by allowing a deduction in 1982 equal to 5 percent (10 percent in 1983 and thereafter) of the lower earning spouse's qualified earned income.

- The reduction of the maximum tax rate on capital gains to 20 percent for sales or exchanges occurring after June 9, 1981.

- Indexing the income tax brackets, zero bracket amount, and personal exemption, beginning in 1985, to changes in the Consumer Price Index.

- An increase in the annual contribution limit for an individual retirement account (IRA) to the lesser of $2,000 or 100 percent of compensation.

- An increase in the maximum deductible contribution to a self-employed (Keogh) retirement plan to $15,000.

- The exclusion of up to $1,000 ($2,000 per joint return) of interest income earned from qualified savings certificates.

- The implementation of the Accelerated Cost Recovery System (ACRS) which will allow shorter write-off periods and an increased investment credit for most farm assets. Generally, farm machinery, equipment, eligible livestock, and single-purpose agricultural structures may be written off over a 5-year period and still be eligible for the full 10-percent investment credit.

- Replacement of the existing 10-percent investment credit for structure rehabilitation with a 15-percent credit for the rehabilitation of 30-year old buildings and a 20-percent credit for the rehabilitation of buildings which are at least 40 years old.

- A phased-in reduction in the corporate tax rates for the two lowest tax brackets.

- The expensing (immediate deducting) of up to $10,000 per year of investment in tangible personal property phased-in over a 5-year period.

- An increase in the estate and gift tax unified credit; the credit establishes a minimum amount of an estate's value which may be transferred free of tax. The increase will be phased-in over 6 years and will allow $600,000 to be transferred tax free in 1987 and later.

- A reduction in the highest marginal estate and gift tax rates. The rate applied to estate values in excess of $2.5 million will be reduced over 3 years from the current range of 53 to 70 percent to a flat 50 percent.

- An unlimited marital deduction; spousal transfers will go untaxed.

- An increase in the annual gift tax exclusion, that amount which an individual may give to an unlimited number of recipients in any year, from $3,000 to $10,000.

- A substantial relaxation of the requirements under the installment payment provisions for estate taxes due.

- A general liberalization of the requirements for special use valuation of certain farm and closely held business property. The maximum reduction in the value of the estate under the special use valuation law is increased from $500,000 to $750,000 over a 3-year phase-in period.

- An increase in the royalty owner credit against the windfall profit tax from $1,000 to $2,500 in 1981. Replacement of the credit with an exemption of up to three barrels per day, phased-in over a 4-year period.

- A maximum imputed interest rate of 7 percent on land sales between related persons.

- The implementation of rules to eliminate the use of commodity tax straddles for tax shelter purposes.

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INTRODUCTION

After months of debate, Congress enacted the Economic Recovery Tax Act of 1981, a bill containing the most sweeping tax cuts in history. Reductions in the areas of Federal income, estate and gift, and windfall profit taxes are projected to reach $750 billion by the end of fiscal year 1986.

The tax cut should affect taxpayers throughout the United States, consumers and producers alike. Many of the provisions in the new law have the potential for significant impact on the tax liabilities of farmers and are, therefore, of particular importance to the agricultural sector. This report examines those provisions of particular significance to agriculture including changes in the depreciation, personal income tax, and estate and gift tax laws. Background information regarding prior tax treatment is also provided to clarify the new provisions and to assist the reader in evaluating the provisions in the Economic Recovery Tax Act of 1981.

INCOME TAX PROVISIONS

The Economic Recovery Tax Act of 1981 has made major changes in the personal and business income tax laws. The President and Congress were particularly concerned about addressing, in the new law, the effects of high inflation rates on income tax liabilities and incentives for savings and investment. The most significant changes include:

- o Reducing personal and corporate income tax rates;
- o Implementing faster write-off periods for depreciable assets;
- o Increasing the maximum deductible contributions to individual retirement accounts (IRA) and self-employed (Keogh) retirement plans;
- o Providing an exemption for interest income earned on qualified savings certificates;
- o Indexing the income tax brackets, zero bracket amount, and personal exemption for 1985 and later;
- o Increasing the investment tax credit for the rehabilitation of structures which are at least 20 years old; and
- o Providing for a maximum imputed interest rate of 7 percent on installment land sales between related parties.

Personal Rate Reductions

An important aspect of the Economic Recovery Tax Act of 1981 is the phase-in of across-the-board personal income tax rate reductions. The cumulative impact of this section of the Act is to reduce personal tax rates by 1.25 percent in tax year 1981, 10 percent by 1982, 19 percent by 1983, and 23 percent by 1984.1/ Appendix tables 1, 2, and 3 compare the new tax rates over the phase-in period for single individuals, heads of households, and married couples filing joint returns.

The new law also reduces the highest marginal tax rate from 70 percent to 50 percent for 1982 and later years. Since only 40 percent of a net long-term capital gain is included in taxable income, this provision will reduce the maximum tax on capital gains from 28 to 20 percent, effective in 1982.

1/ The tax year coincides with the calendar year unless otherwise stated.

In addition, the Economic Recovery Tax Act of 1981 provides that the 20 percent maximum tax rate on capital gains will become effective for sales and exchanges occurring after June 9, 1981. For sales and exchanges on or before June 9, 1981, regardless of when actual payment is received, the maximum tax rate will be slightly less than 28 percent. This special provision does not apply to corporations.

Indexing

In order to mitigate the possibility of future increases in personal income tax liabilities caused by bracket creep, the Economic Recovery Tax Act of 1981 also contains a provision for indexing the income tax brackets, zero bracket amount, and personal exemption to changes in the Consumer Price Index. Previously, the tax code contained no provision for indexing. Thus, rising nominal incomes caused individual income tax liabilities to rise even though real income may have been falling. This provision becomes effective in 1985.

Marriage Penalty

Disparities in the tax rate schedules for single, head of household, and married taxpayers, may cause a married couple with each spouse earning similar salaries to have a larger income tax liability than if they had remained single. In an attempt to correct this disparity in the rate schedules, the Economic Recovery Tax Act of 1981 provides for deductions equal to 5 percent of the lower earning spouse's qualified earned income (up to a maximum deduction of $1,500) in 1982 and 10 percent (up to a maximum deduction of $3,000) in 1983 and thereafter.

Child or Dependent Care Credit

Under prior law, taxpayers were eligible for a tax credit if, in order to be gainfully employed, child or dependent care expenses were incurred. The credit was equal to 20 percent of the expenses incurred up to a limit of $2,000 in expenses for one dependent ($400 credit) and $4,000 in expenses for more than one dependent ($800 credit). Generally, in order to be eligible for the credit, the expenditures must have been made on behalf of: (1) a dependent under age 15 for whom the taxpayer could claim a dependency exemption; (2) any other dependent who was physically or mentally incapable of self care; or (3) the taxpayer's spouse if he/she was physically or mentally incapable of self care.

After December 31, 1981, both the credit and expenditure limit will be expanded (table 1). The credit will be expanded to 30 percent of the expenditures incurred by taxpayers with incomes of $10,000 or less and will decrease by 1 percent for each $2,000 increase in income up to $28,000. The percent of credit allowable remains at 20 percent for all taxpayers with incomes in excess of $28,000. The expenditures limit will increase to $2,400 for one dependent and $4,800 for more than one dependent. Note, under prior law the maximum credit available was $400 for one dependent and $800 for more than one dependent for taxpayers in all income classes.

Table 1--Maximum child or dependent care credit available after December 31, 1981.

Income	Credit	Maximum credit available	
		One dependent	More than one dependent
	Percent	---- Dollars -----	
$10,000 or less	30	720	1,440
$12,000	29	696	1,392
$14,000	28	672	1,344
$16,000	27	648	1,296
$18,000	26	624	1,248
$20,000	25	600	1,200
$22,000	24	576	1,152
$24,000	23	552	1,104
$26,000	22	528	1,056
$28,000	21	504	1,008
Above $28,000	20	480	960

Charitable Contributions Deduction

Under prior law, deductions for charitable contributions were allowed only to taxpayers who itemized deductions. With the Economic Recovery Tax Act of 1981, even those individuals who elect not to itemize will be allowed to deduct charitable contributions from taxable income. The maximum allowable deduction will be phased-in from 1982 through 1986 with the maximum equal to: 25 percent of a $100 yearly contribution ceiling ($25 deduction) in 1982 and 1983; 25 percent of a $300 yearly contribution ceiling ($75 deduction) in 1984; 50 percent of an unlimited yearly contribution ceiling in 1985; and 100 percent of an unlimited yearly contribution ceiling in 1986. This provision expires in 1987.

Gain on Sale of Residence

The Economic Recovery Tax Act of 1981 also contains two provisions which liberalize the regulations concerning the treatment of gain from the sale of a taxpayer's principal residence. Under prior law, when taxpayers sold their principal residence and within 18 months before or after the sale purchased a new residence gain was immediately recognized for tax purposes only to the extent that the cost of the purchased residence was less than the proceeds received from the sale of the original residence. Under the new law, the time period allowed for the purchase of the new residence has been extended to 2 years before or after the original sale.

The second change in past law is the increase from $100,000 to $125,000 in the amount of gain excluded from taxable income on the sale of a principal residence by an individual 55 years of age or older. Both of these changes become effective after July 20, 1981 or for nonrecognition purposes so long as the 18-month period has not elapsed before this date.

Partial Dividend and Interest Exclusion

Past law provided for an exclusion of $200 ($400 per joint return) of dividend and interest income for 1981 and 1982. After 1982, the exclusion limit on dividend income would have been reduced to $100 ($200 per joint return) and interest income would have become fully taxable. Under the provisions set forth in the Economic Recovery Tax Act of 1981, the $200 ($400 per joint return) interest and dividend exclusion will apply only for 1981. After 1981, only $100 ($200 per joint return) of dividends will be allowed to be excluded from income and all interest income will become fully taxable until 1985. Effective in 1985, the new law provides for a 15-percent net interest exclusion up to a maximum of $3,000.

Generally, net interest is equal to the amount of interest income received by a taxpayer minus any qualified interest expenses.2/ Qualified interest expense is defined as interest paid for which a deduction is allowed and which is used by the taxpayer to reduce tax liability. Interest payments on a debt relating to a taxpayer's dwelling or in the conduct of a trade or business are not considered qualified interest expenses.

For example, in 1985 a taxpayer receives $6,000 in interest income and incurs $5,000 in interest expenses. Of the $5,000 in interest expenses, $4,500 represents home mortgage interest

2/ Interest income is defined as the amount of interest received for deposits with a bank or savings institution; obligations of the United States, a State, a political subdivision of a State, or a domestic corporation; and real estate investment trusts, regulated investment companies, and insurance companies.

payments and $500 represents interest payments on an automobile loan. Assuming the automobile was not used for business purposes, the taxpayer's qualified interest expense would equal $500 and the amount eligible for the 15-percent interest income exclusion would equal $5,500 ($6,000 - $500). If the taxpayer elects not to itemize deductions and therefore receives no tax benefit from the interest paid on the automobile loan, the $500 would not be considered a qualified interest expense and the entire $6,000 would be eligible for the 15-percent interest income exclusion.

Qualified Savings Certificates

In order to stimulate private savings, the Economic Recovery Tax Act of 1981 also provides for a one-time exclusion of up to $1,000 ($2,000 for a joint return) of interest income earned from 1-year depository institution savings certificates. These certificates will be issued by banks, domestic building and loan associations, industrial loan associations, credit unions, and other savings institutions which are chartered and supervised under Federal or State law. These certificates will only be issued from October 1, 1981 to December 31, 1982; they must have a yield equal to 70 percent of the yield on 52-week Treasury Bills; and they must be available in denominations of $500. In addition, if the taxpayer redeems or disposes of a certificate before the 1-year maturity date, the tax exemption provision does not apply and all interest earned on the certificate is fully taxable.

While the introduction of tax-exempt savings certificates should provide a significant incentive for additional private saving, an important aspect of this provision is the stipulation that savings institutions must loan 75 percent of the funds received from certificate sales for the following purposes:

- Any loan secured by a lien on a single-family or multi-family residence;
- Any secured or unsecured qualified home improvement loan;
- Any single-family or multi-family residence mortgage which is insured or guaranteed by the Federal, State, or local government;
- Any loan to acquire a mobile home;
- Any construction loan for the construction or rehabilitation of a single-family or multi-family residence;
- Any mortgage secured by single-family or multi-family residences on the secondary market, but only to the extent that purchases exceed sales of such assets;

- o Any security issued or guaranteed by the Federal National Mortgage Association, the Government National Mortgage Association, or the Federal Home Loan Mortgage Corporation, or securities issued by any other person if such securities are secured by mortgages originated by a qualified institution, but only to the extent that the amount of purchases exceed sales of such assets; or

- o Any loan for agricultural purposes.

In essence, the introduction of tax-exempt savings certificates may provide a valuable source of loanable funds to the construction and agricultural sectors; two sectors of the economy which have been seriously affected by the tight credit conditions and high interest rates of recent years.

Individual Retirement Accounts

Under prior law, an individual who was not covered by an employer-sponsored retirement plan could establish an individual retirement account (IRA). Annual contributions to such accounts were deductible to the extent of the lesser of $1,500 or 15 percent of compensation (earned income). In addition, for tax years beginning after 1976, contributions could be made to an IRA on behalf of a nonworking spouse. The annual limit on contributions to such accounts was the lesser of: (1) 15 percent of the working spouse's earnings; (2) $1,750; or (3) twice the lowest amount contributed for either spouse.3/

For tax years beginning after 1981, the annual contribution limit to an IRA is increased to the lesser of $2,000 or 100 percent of compensation. The limit for a spousal IRA is increased from $1,750 to $2,250. In addition, the requirement that contributions under a spousal IRA be equally divided is eliminated.

The new law also allows individuals who are active participants in a qualified employer or government plan to establish an IRA and deduct contributions to such a plan. However, total contributions to both plans may not exceed the maximum annual deduction limit.

Self-Employed (Keogh) Plans

All self-employed individuals who are subject to the self-employment tax may establish and make contributions to a qualified retirement plan referred to as a H.R. 10 or Keogh plan. Such plans must also include all employees who have met certain minimum service requirements. Under prior law, self-employed individuals could make maximum annual contributions of $7,500 or 15 percent

3/ This essentially required that contributions under a spousal IRA be equally divided between spouses.

of net earnings from self employment, whichever was less. Under the Economic Recovery Tax Act of 1981, the maximum deductible contribution will be increased to $15,000 for tax years beginning after 1981. The 15 percent of net earnings limit will remain unchanged.

Accelerated Cost Recovery System

Under prior law the acquisition cost or other basis of assets used in a trade or business or for the production of income was depreciable over the estimated useful life of the asset. Useful life could be determined by one of two methods. The principal method used to determine useful life was the Asset Depreciation Range (ADR) System. This system was based on actual industrial practices and provided a midpoint useful life for most farm depreciable assets. Under this system, taxpayers were allowed to select a life 20 percent shorter or longer than the midpoint useful life. This range of years, referred to as the asset depreciation range, is presented in table 2 for various asset classes used in agriculture.

Table 2--Depreciation periods under Asset Depreciation Range System.

Asset	Asset depreciation range		
	Lower limit	Asset midpoint life	Upper limit
		Years	
Farm machinery, equipment, grain bins, and fences but no other land improvements	8	10	12
Cotton ginning assets	9.5	12	14.5
Cattle, breeding or dairy	5.5	7	8.5
Horses, breeding or work	8	10	12
Hogs, breeding	2.5	3	3.5
Sheep and goats, breeding	4	5	6
Farm buildings	20	25	30

For assets for which no asset depreciation range was provided under the ADR system and those for which ADR was not elected, useful lives were determined on the basis of individual operating conditions and practices. Once useful life was determined, various depreciation methods could be used to allocate depreciation deductions over this period. For new personal property (machinery, equipment, and livestock), the straight-line method, the sum of the years-digits method, or a declining-balance method at a rate of up to 200 percent of the straight-line rate could be used. For used personal property and new nonresidential real property, the straight-line or a declining-balance method of up to 150 percent of the straight-line rate could be used. Used nonresidential real property could be depreciated under the straight-line method only.

Under the new law, for assets placed in service after 1980, the Asset Depreciation Range (ADR) System is terminated and replaced with the Accelerated Cost Recovery System (ACRS). Under ACRS, the cost or other basis of an asset is recovered over a specified period of time. In most cases, the write-off periods under this system are substantially shorter than useful lives under prior law (table 3). The recovery periods under this system are 3 years, 5 years, 10 years, or 15 years.

Table 3--Depreciation periods under Accelerated Cost Recovery System

Asset	Recovery period
	Years
Farm machinery, equipment, grain bins, and fences but no other land improvements	5
Cotton ginning assets	5
Cattle, breeding or dairy	5
Horses, breeding or work a/	5
Hogs, breeding	3
Sheep and goats, breeding	5
Farm buildings	15
Single-purpose structures	5

a/ Racehorses over 2 years old and other horses over 12 years old placed in service by the taxpayer are included in the 3-year class.

Under ACRS, annual depreciation deductions for personal property are determined by applying a statutory percentage to the unadjusted basis of the property (see appendix tables 4-6). This statutory percentage is equal to the 150-percent declining-balance method for the years 1981-84, the 175-percent declining-balance method for 1985, and the 200-percent declining-balance method for 1986 and thereafter.

Under this new system, a half-year convention is applicable for the year of acquisition. The half-year convention results in a half-year depreciation deduction regardless of the time of year acquisition takes place. Furthermore, the full cost or basis is depreciable under ACRS. This eliminates the need to estimate salvage value which was required under prior law.

Depreciation deductions for real property are based on the 175-percent declining-balance method with a switch to straight-line. In addition, real property is to be depreciated on the basis of the number of months it is actually in service during the tax year rather than on the basis of an averaging convention.

Since the new system provides for depreciation over a specified time period at a specified rate, most of the flexibility of the old system is lost. Thus, to provide flexibility, taxpayers are given the option to use one of two additional recovery periods provided for each class of property (table 4). In addition, the taxpayer may elect straight-line depreciation rather than an accelerated method over any of the recovery periods. This allows the farmer to spread out depreciation deductions equally over an extended period of years.

Table 4--Optional recovery periods.

Asset class	Optional periods
	Years
3-year	5 and 12
5-year	12 and 25
10-year	25 and 35
15-year	35 and 45

Recapture of Depreciation Deductions

Under prior law, gain on the disposition of personal property was treated as ordinary income rather than capital gain to the extent of prior depreciation deductions taken. Gain on the disposition of real property was treated as ordinary income rather than capital gain only to the extent that depreciation taken exceeded that which would have been allowed under the straight-line method.

The Economic Recovery Tax Act of 1981 would leave the treatment of personal property unchanged. In addition, the recapture treatment of nonresidential real property will remain unchanged if the straight-line method of depreciation is used. However, if an accelerated method is used, all gain to the extent of prior depreciation taken will be treated as ordinary income.

Investment Tax Credit

Under prior law, an investment tax credit of 10 percent was allowed for qualified investments in certain types of property used in farming. The principal types of farm property which qualified for the credit were farm machinery, equipment, livestock, and certain single-purpose agricultural or horticultural structures. Generally, land and land improvements such as buildings and their structural components did not qualify for the credit.

The amount of the investment in such property that was eligible for the credit depended upon the useful life of such property. Property with a useful life of less than 3 years did not qualify for the credit. Only one-third of the qualified investment in property with a useful life of 3 but less than 5 years was eligible for the credit. Two-thirds of the investment in property with a useful life of at least 5 but less than 7 years was eligible for the credit. The full amount of investment in property with a useful life of at least 7 years was eligible for the credit.

Both new and used property qualified for the credit. However, there was a $100,000 per year limitation on the amount of used property which could qualify. The amount of the credit allowable in any tax year was limited to the tax liability for that year or $25,000 plus 80 percent of the tax liability in excess of $25,000, whichever was less. Any unused credit could be carried back to the 3 preceding tax years and carried forward to the 7 succeeding tax years. If an asset was disposed of before the end of its estimated useful life, the excess investment credit claimed had to be recaptured. The amount recaptured was calculated by substituting actual useful life for the estimated useful life originally used in computing the credit. Then, if the recomputed credit was less than the original investment credit used to reduce tax liability, the tax for the year of disposition was increased by the amount of that difference.

Under the new law, the types of property eligible for the investment credit remain unchanged. However, the investment credit will be increased to 6 percent for eligible property with a 3-year recovery period and 10 percent for property with a recovery period of 5, 10, or 15 years. The maximum investment credit for any tax year will be increased to the tax liability for that year or $25,000 plus 90 percent of the tax liability in excess of $25,000, whichever is less. The carryover period is also extended from 7 to 15 years. The $100,000 limitation on used property will be increased to $125,000 in 1981 and to $150,000 in 1985 and thereafter. In addition, recapture of the credit for early disposition will be recomputed by allowing a 2-percent credit for each year the property was held. Thus, there would be no recapture for eligible 5, 10, or 15-year property actually held for 5 years or for eligible 3-year property held for at least 3 years.

Tax Credit for Structure Rehabilitation

Under prior law, a 10-percent tax credit was available for rehabilitation expenditures on nonresidential structures which were at least 20 years old. To qualify, at least 75 percent of the original external walls must have remained in place after rehabilitation. In addition, the improvements made must have had a useful life of at least 5 years. This credit did not require a basis adjustment for purposes of depreciation. Thus, depreciation of 100 percent of the expenditures was allowed in addition to the 10-percent credit. The new law will replace the 10-percent credit with a 15-percent credit for the rehabilitation of structures which are at least 30 years old and a 20-percent credit for the rehabilitation of structures at least 40 years old. To qualify, the structure must be substantially rehabilitated. This requires that expenditures during the 24-month period ending on the last day of the taxable year exceed the greater of the adjusted basis of such property or $5,000. Accelerated methods of depreciation may not be used for such expenditures. In addition, the basis of such property improvements for depreciation purposes must be reduced by the amount of the credit. Thus, a farmer who receives a 20-percent credit for rehabilitation expenditures on the rehabilitation of a 40-year old structure will be allowed to depreciate only 80 percent of the cost of such expenditures.

At-Risk Limitation

Current tax law limits a taxpayer's losses from an activity to the amount that the taxpayer has at risk and could actually lose from such activity. These at-risk rules were designed to prevent taxpayers from offsetting other income with losses from investments in certain activities, including farming, that are largely financed by nonrecourse loans. The law applies to individuals, subchapter S corporations, and certain closely held corporations. Under prior law, there was no at-risk limitation on the allowance of the investment credit. The new

law extends the at-risk rules to the investment credit. Thus, the credit will not be allowed for amounts invested in qualifying property to the extent that the invested amounts are not at risk. Generally, amounts are not considered at risk if: (1) the amount was borrowed and the taxpayer is not personally liable for repayment of the debt; (2) the lender has an interest other than as a creditor; (3) the lender is related to the borrower; or (4) the taxpayer is protected against the loss of the invested amount.

The new law provides two exceptions to the at-risk rules. Loans from certain qualified lenders are considered at risk for investment credit purposes if the taxpayer has at risk at all times a minimum of 20 percent of the basis of the property. Qualified lenders include amounts owed to a bank, savings and loan association, credit union, or insurance company regulated under Federal, State, or local law, or are owed to a Federal, State, or local agency or instrumentality thereof. Furthermore, the at-risk rules do not apply to seller-financing for qualified investments in energy property. Qualified energy property includes solar or wind property, recycling equipment, hydro-electric generating property, biomass property, alcohol fuel conversion equipment, certain geothermal and ocean thermal equipment and property comprising a system for using the same energy source for generating electric power or mechnaical shaft power in combination with steam, heat, or other forms of energy.

Expensing

Under prior law, there were no special provisions which provided small businesses with the option to expense (immediately deduct) the cost of certain types of property. However, in addition to regular depreciation, an additional 20-percent deduction was permitted for investment in new or used personal property with a useful life of at least 6 years. This additional first-year deduction was limited to $2,000 ($4,000 for individuals filing a joint return).

Under the Accelerated Cost Recovery System, additional first-year depreciation is eliminated and replaced with an option to expense the cost of new or used personal property. The amount that may be expensed is equal to $5,000 in 1982 and 1983, $7,500 in 1984 and 1985, and $10,000 for years after 1985. Expensed property is not eligible for the investment tax credit. Furthermore, expensed property will be ineligible for the deferral of gain under an installment sale. Thus, any gain on the installment sale of such property must be immediately recognized.

Corporate Rate Reductions

Corporate income is subject to tax under a five-step graduated tax rate structure (table 5). The new law will decrease the tax rates for the two lowest brackets in 1982 and 1983.

Table 5--Corporate tax rates.

Taxable income	1981	1982	1983
Dollars		Percent	
Less than 25,000	17	16	15
25,000 - 50,000	20	19	18
50,000 - 75,000	30	30	30
75,000 - 100,000	40	40	40
Over 100,000	46	46	46

Leasing

A leveraged lease is a transaction in which the lessor finances the purchase of property and then leases that property to a lessee. Such leases are often used to transfer the tax benefits to the lessor when the user does not have a sufficient tax liability to make use of the benefits. A large portion of these benefits can then be passed on to the lessee/user in the form of reduced rental charges.

These leases, however, must meet certain guidelines for Federal income tax purposes. These guidelines include:

- The lessor expects to make a profit from the transaction, excluding tax benefits;
- The lessor expects to realize a positive cash flow from the transaction, excluding tax benefits;
- The lessor's at-risk investment must equal at least 20 percent of the cost throughout the life of the lease;
- The lessee has not provided financing for the transaction;
- The lessee does not have a right to purchase the property at the end of the lease for less than fair market value; and
- The property can be used at the end of the lease by a person other than the lessee.

Under the Economic Recovery Tax Act of 1981, a safe harbor is created to facilitate the use of such leasing transactions to distribute the tax benefits to corporations better able to use such benefits. However, to do so, the following conditions must be satisfied:

- The lessor must be a corporation;
- The lessor and lessee must elect to treat the lessor as the owner of the property;
- The property must be new depreciable personal property and leased within 3 months of acquisition;
- The lessor must maintain a minimum at-risk investment of 10 percent of the cost of the property; and
- The term of the lease cannot exceed the greater of 90 percent of the useful life of the property or 150 percent of the ADR midpoint life.

Targeted Jobs Credit and WIN Credit

The targeted jobs credit and the WIN credit were designed to provide an incentive for employers to hire persons from seven targeted groups of persons thought to have special employment needs. Under the targeted jobs tax credit, employers were eligible for a tax credit equal to 50 percent of the first $6,000 of first-year qualified wages and 25 percent of the first $6,000 of second-year qualified wages paid per individual hired from any of the seven targeted groups. However, the amount of total credits allowable was limited to 30 percent of the combined wages of all employees that were subject to the Federal Unemployment Tax.

The WIN tax credit was patterned after the targeted jobs credit except there was no 30-percent limit and nonbusiness wages could qualify for the WIN credit at a rate of 35 percent during the first year of employment. Also, while the targeted job credit was aimed at groups with a high unemployment rate, the WIN program was designed to provide welfare recipients with training and job opportunities.

The Economic Recovery Tax Act of 1981 terminates the WIN program. However, the targeted jobs credit will be expanded to include those individuals covered by the WIN program and those employees laid off from public service employment that was funded by the Comprehensive Educational Training Assistance (CETA) program. In addition, the 30-percent limit has been repealed. The targeted jobs credit will be available for targeted employees who begin work before January 1, 1983.

Minimum and Maximum Tax

In addition to allowing faster write-off periods for most depreciable assets, the adoption of the Accelerated Cost Recovery System has necessitated changes in prior law concerning the minimum tax on tax preference items and the maximum tax on personal service income.

The regular minimum tax is computed by summing all items of tax preference, reducing this total by $10,000 or half of the regular tax liability, whichever is greater; and then applying a uniform 15-percent tax rate against the remainder. Two tax preference items which will be affected by the Accelerated Cost Recovery System are accelerated depreciation on real and leased personal property (except for corporations).

Under prior law, any depreciation deductions in excess of the amount computed under the straight-line method would be considered an item of tax preference and subject to the 15-percent tax. However, in order to compute this excess, the midpoint life established by the Asset Depreciation Range (ADR) System was used to determine the asset's useful life. Since the ADR midpoint lives will no longer be used, the new law prescribes recovery periods to accomodate the Accelerated Cost Recovery System for assets placed in service after 1980 (table 6).

Table 6--Tax preference recovery periods.

Type of property	Recovery period
	Years
3-year property	5
5-year property	8
10-year property	15
15-year real property	15
15-year personal property	22

With respect to the maximum tax on personal service income, prior law placed a maximum tax rate on personal service income at 50 percent. The new law extends this provision through 1981 and also continues to allow minimum tax preference items to reduce the amount of personal service income subject to the 50-percent maximum. After 1981, this provision is of no consequence since the maximum tax on all income is set at 50 percent.

Windfall Profit Tax: Royalty Owner Credit and Exemption

For calendar year 1980, royalty owners were allowed a credit of up to $1,000 against the windfall profit tax. Under the new law, a credit of up to $2,500 will be made available to royalty owners for calendar year 1981. For 1982 and subsequent years, the credit will be replaced with an exemption for specified amounts of royalty production. For 1982 through 1984, the exemption will equal two barrels per day. For calendar year 1985 and thereafter, the exemption will equal three barrels per day.

Imputed Interest Rates for Installment Sales

Internal Revenue Code Section 483 requires that a minimum portion of payments under an installment sales contract be treated as interest rather than part of the sales price. Such treatment applies to all deferred payment contracts which contain a selling price in excess of $3,000 and which provide that one or more of the payments are due more than one year from the date of sale. Prior to July 1981, this unstated interest element, referred to as imputed interest, was 7 percent. Thus, a 7 percent interest rate was applied to contracts which provided for an interest rate of less than 6 percent. On July 1, 1981, regulations issued by the Internal Revenue Service increased the imputed interest rate to 10 percent for contracts which provided for an interest rate of less than 9 percent.

The new law places a maximum imputed interest rate of 7 percent on qualified land sales occurring after June 30, 1981. Qualified land sales are sales between family members not exceeding $500,000 per calendar year between the same family members. If a party to such sale or exchange is a nonresident alien, the 7-percent limit will not apply.

Commodity Tax Straddles

The commodity futures markets play an important role in the U.S. economy by providing a means by which farmers and bulk consumers may reduce their risks in the production and consumption of various commodities. However, in the last decade, commodity futures have also been used extensively for tax shelter purposes. Certain transactions, often referred to as tax straddles,4/ have been used to defer income recognition and to convert ordinary income and short-term capital gain into long-term capital gain. Such tax savings were possible because prior to the new law, the Internal Revenue Code did not provide any rules for straddles in commodities or commodity futures. Neither the wash sale rules, which provide for the nonrecognition of certain losses which are not true economic losses, nor the short sales rules, which prevent the conversion of short-term gain into long-term gain, were applicable.

4/ A common straddle involves the holding of one contract to buy a commodity in one month and another contract to sell the same commodity in a different month.

The Economic Recovery Tax Act of 1981 provides a number of restrictive provisions in an effort to eliminate the use of commodity straddles for tax shelter purposes. Under the new law, regulated commodity futures contracts which have not been closed at the end of the year will be treated as if sold at fair market value on the last day of that tax year. This is generally referred to as the mark to market rule. Any capital gains or losses will be treated as if 60 percent of the gains and losses were long-term and 40 percent were short-term. In the case of straddles which do not qualify as regulated futures contracts, the taxpayer will be allowed to deduct losses only to the extent that such losses exceed the unrealized gains with respect to one or more positions which: (1) were acquired by the taxpayer before the disposition giving rise to such loss, (2) were offsetting positions to the loss positions, and (3) were not part of an identified straddle 5/ as of the close of the taxable year. Lossess deferred under this rule are treated as having been sustained in the succeeding tax year.

In addition, the new law eliminates the immediate deduction of interest and carrying charges incurred to purchase or carry commodity investments. Under the new law, such costs may be deducted only to the extent of current income from commodity transactions. The excess must be capitalized.

Hedging transactions are exempted from this capitalization requirement as well as the mark to market and loss deferral rules. A hedging transaction is defined as a transaction which the taxpayer enters into in the normal course of the taxpayer's trade or business primarily to reduce the risk of price change with respect to property which is held or to be held by the taxpayer and which results in only ordinary income or loss. In addition, the taxpayer must identify such transactions as hedging transactions. This hedging exemption does not apply to syndicates.

These new rules apply to property acquired and positions established after June 23, 1981. The taxpayer has the option to elect similar treatment for straddles held prior to this date.

5/ An identified straddle is any straddle that is clearly identified by the taxpayer in his records on the day of purchase, all the original positions of which were acquired on the same day, and all of the positions of which were disposed of on the same day or else none of the positions of which were disposed of as of the close of the taxable year; and finally, it is not part of a larger straddle. Losses on identified straddles are deferred until the year in which all of the positions making up the straddle are disposed of.

Subchapter S Corporations

The provisions under subchapter S of the Internal Revenue Code allow certain small businesses to operate in the corporate form without taxation at both the corporate and shareholder levels. To qualify, the corporation must have 15 or fewer shareholders. The new law increases the limit on the number of shareholders to 25 for tax years beginning after 1981.

Accumulated Earnings

In addition to the regular corporate income tax, an accumulated earnings tax is imposed on accumulated corporate earnings where the accumulation occurs in an attempt to avoid the income tax on the corporation's shareholders. In computing the base on which this tax is imposed, an amount of not less than $150,000 is excluded for the reasonable needs of the business. Under the new law, this minimum credit will be increased from $150,000 to $250,000 for tax years beginning after 1981.

Net Operating Loss Carryovers

Under previous law, businesses could carry net operating losses back 3 years and forward 7 years. The new law increases the net operating loss carryover period from 7 to 15 years for losses arising in tax years ending after 1975.

ESTATE AND GIFT TAX PROVISIONS

The estate tax is a tax on the transfer of wealth at death. The gift tax, which is closely associated with the estate tax, is levied against lifetime transfers of wealth. As land values have risen and farm size has increased, many farm estates have become subject to the estate tax. The estate tax, therefore, has become a major concern in the farm sector.

Despite major changes in the estate and gift tax laws in 1976, many farm estates are still subject to the tax at the death of the owner. The Economic Recovery Tax Act of 1981 makes changes in several major segments of the estate and gift tax law which will facilitate the transfer of farm estates from one generation to another. Fewer farms will be subject to the estate tax as a result of changes made in the following areas:

- The unified credit;
- The estate and gift marginal tax rates;
- The marital deduction;
- The annual gift tax exclusion;
- The installment payment of estate taxes;
- Special use valuation of certain farm and closely held business property; and
- Miscellaneous changes.

This section describes the major changes made in the Economic Recovery Tax Act of 1981 in the estate and gift tax laws. Many of these provisions are of particular importance to the agricultural sector. Except where otherwise noted, the new provisions will apply to the estates of decedents dying after December 31, 1981.

The Unified Credit

The most significant estate tax measure contained in the Economic Recovery Tax Act of 1981 is the increase in the unified credit. The unified credit, which replaced the $60,000 basic exemption in 1976, establishes the amount of an estate's value which may be transferred free of tax. The credit is currently equal to $47,000 which allows the first $175,000 of an estate's value to be passed to an heir tax free. The Economic Recovery Tax Act of 1981 provides for phasing in higher unified credit levels over a 6-year period beginning in 1982 (table 7). For 1987 and later, the unified credit will allow the transfer of $600,000 tax free.

Table 7--Schedule for phasing in increases in the unified credit.

Year	Credit	Exemption
	Dollars	
1982	62,800	225,000
1983	79,300	275,000
1984	96,300	325,000
1985	121,800	400,000
1986	155,800	500,000
1987	192,800	600,000

Estate and Gift Marginal Tax Rates

Under current estate and gift tax law, the marginal tax rates range from 18 percent for taxable estate values of $10,000 or less to 70 percent for estates exceeding $5 million in value. The Economic Recovery Tax Act of 1981 will phase in a reduction in the highest marginal tax rates from the current range of 53 to 70 percent to 50 percent between 1982 and 1985 (see appendix tables 7-11). Beginning in 1985, the portion of an estate's taxable value exceeding $2.5 million will be taxed at 50 percent.

Marital Deduction

The estate and gift tax laws contain special deductions for spousal transfers. Under current law, a marital deduction equaling the greater of $250,000 or half of the adjusted gross estate is allowed for spousal transfers at death. In addition, the first $100,000 of gifts made between spouses are entitled to a full marital deduction. No deduction is permitted on the next $100,000. Any portion of spousal gifts exceeding $200,000 in value is entitled to a 50-percent deduction.

The Economic Recovery Tax Act of 1981 provides for an unlimited marital deduction for spousal transfers. This rule applies to both estate and gift tax laws and will virtually eliminate the taxing of transfers between spouses.

The Economic Recovery Tax Act of 1981 makes major changes in the rules regarding joint interests. Joint interests are interests in property owned by more than one person. The changes provided in the Economic Recovery Tax Act of 1981 specifically address joint interests held by a husband and wife.

Currently, the value of all property held is generally included in the gross estate of the first spouse to die unless the surviving spouse can prove that he/she paid for part of the property. That portion of the property paid for by the survivor

is not included in the estate. If the joint interest was created in 1977 or later, only half of the value of the joint interest in property owned by husband and wife is included in the estate of the first spouse to die. In addition, a percentage of the value of joint interest property which is used for farm or closely held business purposes can be excluded from the decedent's estate if both spouses materially participated. Material participation is a term applied to the work done by each individual in a farm or business operation which meets certain Internal Revenue Service (IRS) guidelines. Generally, the provision allowing for the exclusion of property from an estate based on material participation allows the estate to exclude some of the appreciation which has often accrued since the creation of the joint interest.

Current law also requires that creations of joint interests in real property generally be accompanied by a gift tax return. This applies even if no gift tax is due. Once the interest is created, any additions to the interest must be treated as gifts with tax returns due for years in which gifts to a spouse exceed $3,000.

The Economic Recovery Tax Act of 1981 eliminates these requirements. Effective for individuals dying after 1981, the estate of the first spouse to die will include half of a joint interest held with the spouse and the amount of contribution to the property made by each spouse will no longer be important. The new tax bill removes the requirements discussed above for joint interests including the material participation measurements and the requirements regarding gifts.

Annual Gift Tax Exclusion

Individuals are currently allowed to exclude $3,000 annually in gifts they have made per recipient. A husband and wife may jointly give $6,000 per year to each recipient tax free. The Economic Recovery Tax Act of 1981 increases the annual gift tax exclusion for each individual to $10,000 per recipient and $20,000 per recipient for split gifts made by spouses. The new tax bill also exempts from the gift tax any amounts paid for certain medical expenses and school tuition.

Installment Payment of Estate Taxes

Current tax laws allow heirs of farms or other closely held businesses to pay their estate tax liabilities over a number of years. Estate taxes attributable to the farm or business may be deferred for 5 years following the death of the decedent with equal annual installments of the tax payable over the next 10 years. Under this law, only interest on the taxes due must be paid during the first 5 years. The interest rate accrues at 4 percent on taxes due based on the first $1 million of a farm or closely held business and 12 percent on taxes attributable to the value of the business which exceeds $1 million.

To qualify for this deferment, at least 65 percent of the decedent's adjusted gross estate must be in the form of an interest in a farm or other closely held business. If one-third or more of the interest in the farm or closely held business is sold, distributed, exchanged, or disposed of in some manner before the end of the 15-year period, the remaining balance of estate taxes and interest will become due at that time.

Estate taxes may also be paid in 2 to 10 equal annual installments. To qualify for this provision, at least 35 percent of a decedent's gross estate or 50 percent of a decedent's taxable estate must be comprised of an interest in a closely held business. Immediate payment of the outstanding balance of estate taxes due is triggered if half or more of the business interest is sold or disposed of in some manner.

The Economic Recovery Tax Act of 1981 combines these provisions and permits the deferred payment of taxes for interests in farms or closely held businesses which exceed 35 percent of the adjusted gross estate. The current 10-year deferment provision is repealed. This change will benefit many heirs of estates of decedents dying after 1981 whose farm or closely held business did not comprise a large enough percentage of the estate to qualify for that 15-year deferment provision under the old law. The Economic Recovery Tax Act of 1981 makes the 15-year deferment provision available to most of these heirs.

The Economic Recovery Tax Act of 1981 also relaxes the restrictions on the amount of the farm or business interest which may be sold or disposed of without triggering the immediate payment of the balance of estate taxes and interest still outstanding. Under the new law, the payment of the balance of estate taxes and interest still outstanding will be triggered if half or more of the business interest is disposed of. Currently, the payment of estate taxes still outstanding is triggered if one-third or more of property qualifying for the 15-year deferment is sold or disposed of.

The new law will also allow heirs to transfer property on which deferred payments are being made. Currently, heirs must accelerate the payment of these taxes still due if they dispose of more than the allowed percentage of the farm or business. The new tax law exempts heirs from the acceleration of taxes due if they transfer the property to a family member. That family member will also be permitted to transfer the property to other family members without having to accelerate payment of taxes still due.

Finally, the Economic Recovery Tax Act of 1981 changes the rules regarding delinquent tax payments under the deferred tax payment program. For estates of decedents dying after 1981, failure to pay an installment payment will not automatically make the heir subject to accelerated payment of the unpaid estate taxes. The new law provides for a 6-month period following the due date for that payment during which the heir may pay the amount due. Late payments, however, will not be eligible for the 4-percent interest rate. In addition, a penalty will be assessed equaling 5 percent per month of the amount of the payment.

Another important feature of the changes made in this section is the interest rate applied to deferred payments. Those who would have been subject to a 12-percent interest rate under the 10-year installment payment provision will receive the benefits of the 4-percent interest rate under Section 6166, the 15-year provision. In addition, these heirs will have the 5-year period following the decedent's death during which they will only be required to pay interest before commencing the installment payments of their estate taxes due.

Special Use Valuation - Section 2032A Property

Section 2032A of the Internal Revenue Code (IRC) provides for valuing certain farm and closely held business property at its current use value rather than at its fair market value. This law enacted in 1976 as a result of congressional concern that artificially high estate taxes were being levied on some estates because the estates' market values were too high relative to their current income-generating abilities. Since its enactment, several problems have developed in the administration of the law and many suggestions have been made regarding changes to broaden the group which benefits from the special provision.

The Economic Recovery Tax Act of 1981 contains numerous changes in the special use valuation law. Since the primary beneficiaries of this law are farm owners, these changes will generally apply to the agricultural sector. Changes are made in the following areas of the special use valuation law:

- The maximum reduction in fair market value allowed under IRC Section 2032A;
- The requirements for qualified use;
- The use of share rentals in the special use valuation formula;
- The post-death recapture period;

- The material participation requirements;
- The definition of 'family member;'
- Property purchased from a decedent's estate;
- The election requirements;
- Special rules for woodlands;
- The basis of property on which a recapture tax is paid; and
- Like-kind exchanges and involuntary conversions.

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Maximum Reduction in Value Under Section 2032A

The Tax Reform Act of 1976 imposed a limit of $500,000 on the amount by which an estate's value could be reduced under the special use valuation law. The Economic Recovery Tax Act of 1981 increases the limit to $600,000 for estates of decedents dying in 1981, $700,000 for estates of those dying in 1982, and $750,000 for estates of decedents dying in 1983 and later.

Qualified Use Requirements

The special use valuation law requires that the property which is to be valued at its use value must have been used for a qualified use for at least 5 of the 8 years preceding the decedent's death as well as on the date of the decedent's death. In agriculture, the qualified use requirement is generally satisfied by the use of the land for farming purposes. Under the special use valuation law, the definition of farming purposes includes:6/

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- The cultivation of soil or raising or harvesting of any agricultural or horticultural commodity (including the raising, shearing, feeding, caring for, training, and management of animals) on a farm;
- The handling, drying, packing, grading, or storing on a farm of any agricultural or horticultural commodity in its manufactured state, but only if the owner, the tenant, or the operator of the farm regularly produces more than half of the commodity so treated; and
- The planting, cultivating, caring for, or cutting of trees; or the preparation of trees for market (except milling).

6/ IRC Section 2032A(e)(5).

The final regulations for the special use valuation law require the decedent to have used the property for a qualified use. Under these regulations, if a farm owner rents out a farm for a fixed cash amount, that farm is not considered to be in a a qualified use even if it is rented to a qualified family member and is used by that family member for a qualified use as defined by the law. This interpretation has stirred up a great deal of controversy because many believe that Congress did not intend to disqualify a farm from special use valuation simply because a son or daughter farmed the property in a parent's place. The Treasury Department recently revised the regulations to allow straight cash rentals to qualified family members. The Economic Recovery Tax Act of 1981, nonetheless, addressed this issue and allows either the decedent or a qualified family member to meet the qualified use requirement both before and on the date of the decedent's death. This change was made retroactive to estates of decedents dying in 1977 and later.

Share Rentals in the Special Use Valuation Formula

Section 2032A provides for determining a farm's use value according to the following formula:7/

$$V = \frac{R - T}{r}$$

where: V = The per-acre value of the decedent's farm property;

R = The average annual gross cash rental for comparable land used for farming purposes and located in the locality of such farm;

T = The average State and local real property taxes for such comparable land; and

r = The average annual effective interest rate for all new Federal land bank loans.

The average computation for all three variables is based on the 5 most recent calendar years ending before the date of the decedent's death.

Many heirs have been unable to use this formula because there are no cash rental data available for comparable land in their locality. When there are no comparable cash rental data available, heirs must use the alternative formula in the law.8/

7/ IRC Sec. 2032A(e)(7).
8/ IRC Sec. 2032A(e)(8).

This second formula is more subjective and is likely to yield higher land values than does the first formula, particularly in periods of high interest rates.

The Economic Recovery Tax Act of 1981 will permit the use of net share rental information in the first formula of the special use valuation law. Net share rentals, for purposes of Section 2032A, will equal the value of the produce received by the lessor (the owner) of the land on which the produce is grown less cash operating expenses incurred by the lessor for growing the produce. This change should allow those farm owners who live in areas where share rentals are more common than cash rentals to use the first formula.

Post-Death Recapture Period

The recapture period refers to the period of time following the decedent's death during which the heir must meet the special use valuation requirements. Failure to meet these requirements during this period triggers the recapture of some or all of the tax savings from use valuation which the heir received upon inheritance. Current law requires that special use valuation property must meet all of the requirements for 15 years or recapture will take place. If the heir disqualifies the property within 10 years of the decedent's death, all of the tax savings from the special use valuation law are recaptured. If the heir disqualifies the property between the tenth and fifteenth years, then a prorated amount of the tax savings is recaptured. Disqualification of the property generally arises if the heir disposes of the property to a nonfamily member or ceases to use the property for a qualified use.

The Economic Recovery Tax Act of 1981 reduces the recapture period to 10 years during which disqualification of Section 2032A property will lead to the full recapture of tax savings. The 5-year phase-out period of prorated recapture is eliminated. In addition, the tax bill establishes a 2-year grace period immediately following the decedent's death. As long as the qualified heir begins using the property for a qualified use within 2 years of the decedent's death, no recapture will take place for the time during that period for which the heir did not use the property for a qualified use. The 10-year recapture period is extended by the amount of time which takes place between the date of the decedent's death and the date on which the heir begins using the property for a qualified use. The 2-year grace period provision is retroactive for estates of decedents dying in 1977 and later.

Material Participation

Material participation refers to the level of involvement in a business activity required of an individual under certain provisions in the tax law. Material participation is generally determined by the level of management, decisionmaking, and physical work performed by an individual. Other activities considered in determining whether material participation has taken place include the furnishing of machinery, equipment, and livestock and the assumption of financial risk.9/

Under Section 2032A, the decedent or a member of the decedent's family must have materially participated for 5 of the 8 years immediately preceding the decedent's death. If the decedent does materially participate in the farming operation, any income resulting from these activities is treated as earned income for purposes of the social security tax. This can lead to lower social security payments and greater self-employment taxes.

The Economic Recovery Tax Act of 1981 relaxes the post-death material participation requirements by allowing for the measurement of material participation during 5 of the 8 years preceding the earlier of:

- o The date of the individual's death;
- o The date on which the individual became disabled, providing that individual remained disabled until death; disablement generally means a physical or mental condition which renders the individual unable to materially participate in the operation of the farm or business; or
- o The date on which the individual started receiving social security retirement benefits, providing the individual received such benefits until death.

The Economic Recovery Tax Act of 1981 also contains a special provision for spouses who inherit Section 2032A property from their deceased spouse. The provision replaces the surviving spouse's pre-death material participation requirement with an active management requirement. Active management generally refers to the making of business decisions other than the daily operating decisions of a farm or other trade or business.

Active management will also be allowed for certain eligible qualified heirs in meeting the material participation requirements during the post-death recapture period. Those eligible for the more lenient active management requirement include:

9/ Treasury Regulation Section 1.1402(a) - 4(b)(4).

- The decedent's spouse;
- A qualified heir who is a full-time student;
- A qualified heir who is under 21 years of age; or
- A qualified heir who is disabled.

Definition of Family Member

The current use valuation law applies to real property passing from a decedent to a qualified heir. Generally, a qualified heir means a member of the decedent's family including:

- The decedent's ancestors such as parents and grandparents;
- The decedent's lineal descendants such as children and grandchildren;
- Lineal descendants of the decedent's grandparents such as the decedent's parents, uncles, aunts, cousins, nieces, and nephews;
- The decedent's spouse; and
- The spouse of any of the decedent's lineal descendants.

The Economic Recovery Tax Act of 1981 changes the family member definition and includes the following under that definition:

- The decedent's ancestors such as parents and grandparents;
- The decedent's lineal descendants such as children and grandchildren;
- The decedent's spouse;
- Lineal descendants of the decedent's spouse including the decedent's stepchildren;
- Lineal decendants of the decedent's parents such as the decedent's sisters, brothers, nephews, and nieces; and
- The spouse of any of the lineal decendants of the decedent, the decedent's spouse, and the decedent's parent's spouse.

The new provisions, therefore, exclude the cousins, aunts, and uncles of the decedent from the definition of family member. However, the new rules provide for including the decedent's stepchildren and the lineal descendants of the decedent's spouse and the decedent's parent's spouse.

Property Purchased from a Decedent's Estate

In some cases, where several heirs receive equal interest in a farm, one heir will purchase the farm from the estate so that the proceeds can be distributed equally to the heirs in the form of cash. The Economic Recovery Tax Act of 1981 changes the rules regarding property which is purchased from a decedent's estate by a member of the decedent's family. The changes are retroactive to estates of decedent's dying after 1976.

Prior to the enactment of the new law, the tax consequences of a sale of real property by an estate were much more restrictive. Real property which was purchased from an estate was prohibited from qualifying for special use valuation treatment even if the purchaser was a qualified heir by definition. In addition, the estate was taxed, for capital gains purposes, on the difference between the price received by the estate and the value of the property on the date of the decedent's death. The heir who bought the property received a stepped-up basis equal to the price paid to the estate. A stepped-up basis allows the new owner to escape any appreciation which accrued to the property while in the hands of the previous owner (the donor). This is achieved by stepping up the old owner's basis to the value of the property on the date the new owner received it.

The new law changes the tax consequences substantially. Real property purchased from an estate can now qualify for special use valuation providing the purchaser is a qualified heir by definition. The property's value is stepped up at the decedent's death so that only the difference between the value of the property on the date of death and the value on the date of sale is taxed for capital gains tax purposes. Finally, the heir who buys the property must take the lower special use valuation basis.

Election Requirements

Under current law, heirs who desire to have their property valued under the special use valuation law must make the election within 9 months of the death of the decedent. The Economic Recovery Tax Act of 1981 provides that the special use valuation election must be made on the decedent's estate tax return. Thus, the time limit currently imposed on electing the special treatment is removed such that the election may be made on a late return providing that return is the first one to be filed by an estate.

Special Rules for Woodlands

Under current law, property used for farming purposes is eligible for the special use valuation treatment. The definition of farming purposes include "the planting, cultivating, caring for, or cutting of trees"10/ or "the preparation (other than

10/ IRC Sec. 2032A(e)(5)(C)(i).

milling) of trees for market."11/ However, while the land on which the timber operation is carried out qualifies for special use valuation, standing timber does not.

The Economic Recovery Tax Act of 1981 provides for valuing standing timber under the special use valuation law. If, however, specially valued timber is disposed of or severed before the holding period requirements are met, the recapture tax is imposed.

Basis of Property on Which a Recapture Tax is Paid

Under current law, property passed to an heir generally has a basis equal to its fair market value at the time of the decedent's death. A property's basis is that value from which future gains or losses are computed for income tax purposes. Under the special use valuation law, the basis is equal to the property's lower use value. Thus, if an heir decides to sell the property in the future, the gain could be substantially greater for income tax purposes. This lower basis becomes a penalty in cases where a recapture tax is imposed. The recapture tax is imposed if the property fails to meet the post-death requirements under Section 2032A.

The Economic Recovery Tax Act of 1981 will allow qualified heirs who must pay a recapture tax to elect to have their property's basis increased. The new basis will equal the property's fair market value on the date of the death of the decedent from whom the heir received the property. Heirs who elect this basis adjustment must pay interest on the amount of the recapture tax applicable. The interest generally applies from the date which is 9 months after the decedent's death to the date on which the recapture tax is paid.

Like-Kind Exchanges and Involuntary Conversions

Under current law, the special use valuation recapture provisions apply when the property is sold or transferred in a tax-free exchange to nonfamily members. This causes the recapture of special use valuation tax savings if qualifying property is exchanged in a like-kind exchange. A like-kind exchange is essentially a trade of similar properties.

The Economic Recovery Tax Act of 1981 provides for allowing the exchange of qualified real property for property with the same qualified use as the original qualified property without triggering the recapture of tax benefits under special use valuation.

In addition, property involved in like-kind exchanges prior to death will be allowed to qualify for special use valuation providing the other requirements of the law are met. This will be achieved by "tacking" or adding on to the property

11/ IRC Sec. 2032A(e)(5)(C)(ii).

received in the exchange those material participation, qualified use, and holding period requirements which have already been fulfilled for the property traded. This tacking only applies to the portion of the property received in the exchange which is equal to or less than the value of the property traded. The property received in the exchange must be used for the same qualified use as the property traded. This feature will also be permitted for property purchased to replace involuntarily converted property.

The Economic Recovery Tax Act of 1981 also makes a change in the administrative requirements for involuntarily converted special use valuation property. Under current law, heirs who replace involuntarily converted special use valuation property with similar property must file a timely election to avoid the recapture tax. The new tax provision will automatically exempt from the recapture tax those heirs who purchase similar property within the specified 2-year period.

Transfers Within 3 Years of Death

Gifts made by a decedent within 3 years of death must be included in that decedent's gross estate. Such gifts must be included at their fair market value on either the date of the decedent's death or the alternate valuation date under Section 2035. The alternate valuation date is generally 6 months after the decedent's death. The Economic Recovery Tax Act of 1981 generally exempts from this rule the estates of decedents dying after 1982 and later with the following exceptions:

- Transfers with retained life estates (IRC Section 2036);
- Transfers which take effect at death (IRC Section 2037);
- Revocable transfers (IRC Section 2038);
- Powers of appointment (IRC Section 2041); and
- Proceeds of life insurance (IRC Section 2042).

The bill also requires that the estate include gifts made within 3 years of death in order to qualify for treatment under the special use valuation law (IRC Section 2032A), the deferred payment of estate tax (IRC Section 6166), distributions in redemption of stock to pay the estate tax (IRC Section 303), and estate tax liens (Subchapter C of Chapter 64).

Orphan's Exclusion

Under current law, a limited deduction exists for interests passing to orphans for estates of decedents dying after December 31, 1976 providing such orphans are under 21 years of age and have no known living parent. The Economic Recovery Tax Act of 1981 repeals this provision.

Annual Payment of Gift Tax

Under current law, a donor must file a gift tax return and pay any gift tax due on a quarterly basis if the aggregate value of gifts made in a quarter plus any other gifts made during that tax year for which the donor has not been required to file a return amounted to more than $25,000. Generally, donors must file a gift tax return for the fourth quarter for aggregate amounts of less than $25,000. The Economic Recovery Tax Act of 1981 provides for the filing of gift tax returns and the payment of any gift taxes due on an annual basis.

Disclaimers

Disclaimers allow individuals to refuse receipt of interests in property in order to be treated for tax purposes as though they had never received the interests. Under current law, if a qualified disclaimer is made, the Federal estate and gift tax laws apply as if the interest had never been transferred to the person making the disclaimer. A qualified disclaimer is defined as one which satisfies the requirements of Section 2518 of the Internal Revenue Code and is effective under local law. The Economic Recovery Tax Act of 1981 will allow a disclaimer which is invalid under local law to be considered a qualified disclaimer for Federal estate tax purposes. To qualify, the disclaimant, who is the person making the disclaimer, must transfer the property interest within a designated time period to the person who would have received the property had the disclaimant died before the original holder.

Basis Rule for Property Received Within 1 Year of Death

Under current law, the basis of property inherited from a decedent equals the fair market value of that property on the date of the decedent's death or on the alternate valuation date permitted by law. The result of this stepped-up value is that any appreciation accruing to property while in the hands of the decedent escapes income taxation when the heir inherits that property.

Under this rule, an heir can give appreciated property to a decedent just before that decedent dies. The new higher gift tax exclusion and unified credit will significantly reduce any gift tax consequences of such a transaction. The decedent's property basis becomes the fair market value at the time of death. When the decedent leaves the property to the heir who originally owned that property, the decedent's estate will pass that property back to the heir at the new stepped-up value. The new basis allows the heir to avoid income tax on the appreciation which accrued to the property prior to the decedent's death.

To prevent individuals from transferring property to another who is expected to die shortly, the Economic Recovery Tax Act of 1981 provides a special rule. Effective for decedents dying in 1982 and later, gifts of appreciated property acquired by a decedent within 1 year of death will not receive the stepped-up basis if the property in question returns to the original donor or donor's spouse upon the decedent's death.

APPENDIX

Appendix table 1--Tax rate schedules for single individuals, 1981-84.

If taxable income is at least	1981 a/ Tax liability is	1981 a/ Plus rate on excess	1982 Tax liability is	1982 Plus rate on excess
---- Dollars ----		Percent	Dollars	Percent
2,300	0	14	0	12
3,400	154	16	132	14
4,400	314	18	272	16
6,500	692	19	608	17
8,500	1,072	21	948	19
10,800	1,555	24	1,385	22
12,900	2,059	26	1,847	23
15,000	2,605	30	2,330	27
18,200	3,565	34	3,194	31
23,500	5,367	39	4,837	35
28,800	7,434	44	6,692	40
34,100	9,766	49	8,812	44
41,500	13,392	55	12,068	50
55,300	20,982	63	18,968	50
81,800	37,677	68	32,218	50
108,300	55,697	70	45,468	50

If taxable income is at least	1983 Tax liability is	1983 Plus rate on excess	1984 Tax liability is	1984 Plus rate on excess
---- Dollars ----		Percent	Dollars	Percent
2,300	0	11	0	11
3,400	121	13	121	12
4,400	251	15	241	14
6,500	566	15	535	15
8,500	866	17	835	16
10,800	1,257	19	1,203	18
12,900	1,656	21	1,581	20
15,000	2,097	24	2,001	23
18,200	2,865	28	2,737	26
23,500	4,349	32	4,115	30
28,800	6,045	36	5,705	34
34,100	7,953	40	7,507	38
41,500	10,913	45	10,319	42
55,300	17,123	50	16,115	48
81,800	30,373	50	28,835	50
108,300	43,623	50	42,085	50

See footnote at end of appendix table 3.
Source: Economic Recovery Tax Act of 1981 Law and Explanation, August 9, 1981, Commerce Clearing House, Inc.

Appendix table 2--Tax rate schedules for heads of households, 1981-84.

If taxable income is at least	1981 a/		1982	
	Tax liability is	Plus rate on excess	Tax liability is	Plus rate on excess
---- Dollars ----		Percent	Dollars	Percent
2,300	0	14	0	12
4,400	294	16	252	14
6,500	630	18	546	16
8,700	1,026	22	898	20
11,800	1,708	24	1,518	22
15,000	2,476	26	2,222	23
18,200	3,308	31	2,958	28
23,500	4,951	36	4,442	32
28,800	6,859	42	6,138	38
34,100	9,085	46	8,152	41
44,700	13,961	54	12,498	49
60,600	22,547	59	20,289	50
81,800	35,055	63	30,889	50
108,300	51,750	68	44,139	50
161,300	87,790	70	70,639	50

If taxable income is at least	1983		1984	
	Tax liability is	Plus rate on excess	Tax liability is	Plus rate on excess
---- Dollars ----		Percent	Dollars	Percent
2,300	0	11	0	11
4,400	231	13	231	12
6,500	504	15	483	14
8,700	834	18	791	17
11,800	1,392	19	1,318	18
15,000	2,000	21	1,894	20
18,200	2,672	25	2,534	24
23,500	3,997	29	3,806	28
28,800	5,534	34	5,290	32
34,100	7,336	37	6,986	35
44,700	11,258	44	10,696	42
60,600	18,254	48	17,374	45
81,800	28,430	50	26,914	48
108,300	41,680	50	39,634	50
161,300	68,180	50	66,134	50

See footnote at end of appendix table 3.

Appendix table 3--Tax rate schedules for married couples, filing joint returns, 1981-84

If taxable income is at least	1981 a/ Tax liability is	1981 a/ Plus rate on excess	1982 Tax liability is	1982 Plus rate on excess
---- Dollars ----		Percent	Dollars	Percent
3,400	0	14	0	12
5,500	294	16	252	14
7,600	630	18	546	16
11,900	1,404	21	1,234	19
16,000	2,265	24	2,013	22
20,200	3,273	28	2,937	25
24,600	4,505	32	4,037	29
29,900	6,201	37	5,574	33
35,200	8,162	43	7,323	39
45,800	12,720	49	11,457	44
60,000	19,678	54	17,705	49
85,600	33,502	59	30,249	50
109,400	47,544	64	42,149	50
162,400	81,464	68	68,649	50
215,400	117,504	70	95,149	50

If taxable income is at least	1983 Tax liability is	1983 Plus rate on excess	1984 Tax liability is	1984 Plus rate on excess
---- Dollars ----		Percent	Dollars	Percent
3,400	0	11	0	11
5,500	231	13	231	12
7,600	504	15	483	14
11,900	1,149	17	1,085	16
16,000	1,846	19	1,741	18
20,200	2,644	23	2,497	22
24,600	3,656	26	3,465	25
29,900	5,034	30	4,790	28
35,200	6,624	35	6,274	33
45,800	10,334	40	9,772	38
60,000	16,014	44	15,168	42
85,600	27,278	48	25,920	45
109,400	38,702	50	36,630	49
162,400	65,202	50	62,600	50
215,400	91,702	50	89,100	50

a/ Tax rate schedules for 1981 are the same as those applied for 1980 taxes. Taxes for 1981 may be determined by reducing the taxes payable under the 1980 tax schedule by 1.25 percent.

Appendix table 4--Annual depreciation deductions for property placed in service after December 31, 1980 and before January 1, 1985.

Recovery year	Type of property		
	3 Year	5 Year	10 Year
	---------- Percent --------		
1	25	15	8
2	38	22	14
3	37	21	12
4	--	21	10
5	--	21	10
6	--	--	10
7	--	--	9
8	--	--	9
9	--	--	9
10	--	--	9

Appendix table 5--Annual depreciation deductions for property placed in service in 1985.

Recovery year	Type of property		
	3 Year	5 Year	10 Year
	----------Percent---------		
1	29	18	9
2	47	33	19
3	24	25	16
4	--	16	14
5	--	8	12
6	--	--	10
7	--	--	8
8	--	--	6
9	--	--	4
10	--	--	2

Appendix table 6--Annual depreciation deductions for property placed in service after 1985.

Recovery year	Type of property		
	3 Year	5 Year	10 Year
	Percent		
1	33	20	10
2	45	32	18
3	22	24	16
4	--	16	14
5	--	8	12
6	--	--	10
7	--	--	8
8	--	--	6
9	--	--	4
10	--	--	2

Appendix table 7--Unified estate and gift tax rate schedule for 1981.

If the taxable estate's value b/	The tentative tax is:
Not over $10,000	18 percent of such amount.
Over $10,000 but not over $20,000	$1,800, plus 20 percent of the excess of such amount over $10,000.
Over $20,000 but not over $40,000	$3,800, plus 22 percent of the excess of such amount over $20,000.
Over $40,000 but not over $60,000	$8,200, plus 24 percent of the excess of such amount over $40,000.
Over $60,000 but not over $80,000	$13,000, plus 26 percent of the excess of such amount over $60,000.
Over $80,000 but not over $100,000	$18,200, plus 28 percent of the excess of such amount over $80,000.
Over $100,000 but not over $150,000	$23,800, plus 30 percent of the excess of such amount over $100,000.
Over $150,000 but not over $250,000	$38,800, plus 32 percent of the excess of such amount over $150,000.
Over $250,000 but not over $500,000	$70,800, plus 34 percent of the excess of such amount over $250,000.
Over $500,000 but not over $750,000	$155,800, plus 37 percent of the excess of such amount over $500,000.
Over $750,000 but not over $1,000,000	$248,300, plus 39 percent of the excess of such amount over $750,000.
Over $1,000,000 but not over $1,250,000	$345,800, plus 41 percent of the excess of such amount over $1,000,000.
Over $1,250,000 but not over $1,500,000	$448,300, plus 43 percent of the excess of such amount over $1,250,000.
Over $1,500,000 but not over $2,000,000	$555,800, plus 45 percent of the excess of such amount over $1,500,000.
Over $2,000,000 but not over $2,500,000	$780,800, plus 49 percent of the excess of such amount over $2,000,000.
Over $2,500,000 but not over $3,000,000	$1,025,800, plus 53 percent of the excess of such amount over $2,500,000.
Over $3,000,000 but not over $3,500,000	$1,290,800, plus 57 percent of the excess of such amount over $3,000,000.
Over $3,500,000 but not over $4,000,000	$1,575,800, plus 61 percent of the excess of such amount over $3,500,000.
Over $4,000,000 but not over $4,500,000	$1,880,800, plus 65 percent of the excess of such amount over $4,000,000.
Over $4,500,000 but not over $5,000,000	$2,205,800, plus 69 percent of the excess of such amount over $4,500,000.
Over $5,000,000	$2,550,800, plus 70 percent of the excess of such amount over $5,000,000.

b/ The taxable estate refers to the value of the gross estate less all exemptions, exclusions, and deductions provided for within the Internal Revenue Code.

Appendix table 8--Unified estate and gift tax rate schedule for 1982.

If the taxable estate's value is:	The tentative tax is:
Not over $10,000	18 percent of such amount.
Over $10,000 but not over $20,000	$1,800, plus 20 percent of the excess of such amount over $10,000.
Over $20,000 but not over $40,000	$3,800, plus 22 percent of the excess of such amount over $20,000.
Over $40,000 but not over $60,000	$8,200, plus 24 percent of the excess of such amount over $40,000.
Over $60,000 but not over $80,000	$13,000, plus 26 percent of the excess of such amount over $60,000.
Over $80,000 but not over $100,000	$18,200, plus 28 percent of the excess of such amount over $80,000.
Over $100,000 but not over $150,000	$23,800, plus 30 percent of the excess of such amount over $100,000.
Over $150,000 but not over $250,000	$38,800, plus 32 percent of the excess of such amount over $150,000.
Over $250,000 but not over $500,000	$70,800, plus 34 percent of the excess of such amount over $250,000.
Over $500,000 but not over $750,000	$155,800, plus 37 percent of the excess of such amount over $500,000.
Over $750,000 but not over $1,000,000	$248,300, plus 39 percent of the excess of such amount over $750,000.
Over $1,000,000 but not over $1,250,000	$345,800, plus 41 percent of the excess of such amount over $1,000,000.
Over $1,250,000 but not over $1,500,000	$448,300, plus 43 percent of the excess of such amount over $1,250,000.
Over $1,500,000 but not over $2,000,000	$555,800, plus 45 percent of the excess of such amount over $1,500,000.
Over $2,000,000 but not over $2,500,000	$780,800, plus 49 percent of the excess of such amount over $2,000,000.
Over $2,500,000 but not over $3,000,000	$1,025,800, plus 53 percent of the excess of such amount over $2,500,000.
Over $3,000,000 but not over $3,500,000	$1,290,800, plus 57 percent of the excess of such amount over $3,000,000.
Over $3,500,000 but not over $4,000,000	$1,575,800, plus 61 percent of the excess of such amount over $3,500,000.
Over $4,000,000	$1,880,800, plus 65 percent of the excess of such amount over $4,000,000.

Appendix table 9--Unified estate and gift tax rate schedule for 1983.

If the taxable estate's value is:	The tentative tax is:
Not over $10,000	18 percent of such amount.
Over $10,000 but not over $20,000	$1,800, plus 20 percent of the excess of such amount over $10,000.
Over $20,000 but not over $40,000	$3,800, plus 22 percent of the excess of such amount over $20,000.
Over $40,000 but not over $60,000	$8,200, plus 24 percent of the excess of such amount over $40,000.
Over $60,000 but not over $80,000	$13,000, plus 26 percent of the excess of such amount over $60,000.
Over $80,000 but not over $100,000	$18,200, plus 28 percent of the excess of such amount over $80,000.
Over $100,000 but not over $150,000	$23,800, plus 30 percent of the excess of such amount over $100,000.
Over $150,000 but not over $250,000	$38,800, plus 32 percent of the excess of such amount over $150,000.
Over $250,000 but not over $500,000	$70,800, plus 34 percent of the excess of such amount over $250,000.
Over $500,000 but not over $750,000	$155,800, plus 37 percent of the excess of such amount over $500,000.
Over $750,000 but not over $1,000,000	$248,300, plus 39 percent of the excess of such amount over $750,000.
Over $1,000,000 but not over $1,250,000	$345,800, plus 41 percent of the excess of such amount over $1,000,000.
Over $1,250,000 but not over $1,500,000	$448,300, plus 43 percent of the excess of such amount over $1,250,000.
Over $1,500,000 but not over $2,000,000	$555,800, plus 45 percent of the excess of such amount over $1,500,000.
Over $2,000,000 but not over $2,500,000	$780,800, plus 49 percent of the excess of such amount over $2,000,000.
Over $2,500,000 but not over $3,000,000	$1,025,800, plus 53 percent of the excess of such amount over $2,500,000.
Over $3,000,000 but not over $3,500,000	$1,290,800, plus 57 percent of the excess of such amount over $3,000,000.
Over $3,500,000	$1,575,800, plus 60 percent of the excess of such amount over $3,500,000.

Appendix table 10--Unified estate and gift tax rate schedule for 1984.

If the taxable estate's value is:	The tentative tax is:
Not over $10,000........................	18 percent of such amount.
Over $10,000 but not over $20,000........	$1,800, plus 20 percent of the excess of such amount over $10,000.
Over $20,000 but not over $40,000........	$3,800, plus 22 percent of the excess of such amount over $20,000.
Over $40,000 but not over $60,000........	$8,200, plus 24 percent of the excess of such amount over $40,000.
Over $60,000 but not over $80,000........	$13,000, plus 26 percent of the excess of such amount over $60,000.
Over $80,000 but not over $100,000.......	$18,200, plus 28 percent of the excess of such amount over $80,000.
Over $100,000 but not over $150,000......	$23,800, plus 30 percent of the excess of such amount over $100,000.
Over $150,000 but not over $250,000......	$38,800, plus 32 percent of the excess of such amount over $150,000.
Over $250,000 but not over $500,000......	$70,800, plus 34 percent of the excess of such amount over $250,000.
Over $500,000 but not over $750,000......	$155,800, plus 37 percent of the excess of such amount over $500,000.
Over $750,000 but not over $1,000,000....	$248,300, plus 39 percent of the excess of such amount over $750,000.
Over $1,000,000 but not over $1,250,000..	$345,800, plus 41 percent of the excess of such amount over $1,000,000.
Over $1,250,000 but not over $1,500,000..	$448,300, plus 43 percent of the excess of such amount over $1,250,000.
Over $1,500,000 but not over $2,000,000..	$555,800, plus 45 percent of the excess of such amount over $1,500,000.
Over $2,000,000 but not over $2,500,000..	$780,800, plus 49 percent of the excess of such amount over $2,000,000.
Over $2,500,000 but not over $3,000,000..	$1,025,800, plus 53 percent of the excess of such amount over $2,500,000.
Over $3,000,000........................	$1,290,800, plus 55 percent of the excess of such amount over $3,000,000.

Appendix table 11--Unified estate and gift tax rate schedule for 1985 and later.

If the taxable estate's value is:	The tentative tax is:
Not over $10,000	18 percent of such amount.
Over $10,000 but not over $20,000	$1,800, plus 20 percent of the excess of such amount over $10,000.
Over $20,000 but not over $40,000	$3,800, plus 22 percent of the excess of such amount over $20,000.
Over $40,000 but not over $60,000	$8,200, plus 24 percent of the excess of such amount over $40,000.
Over $60,000 but not over $80,000	$13,000, plus 26 percent of the excess of such amount over $60,000.
Over $80,000 but not over $100,000	$18,200, plus 28 percent of the excess of such amount over $80,000.
Over $100,000 but not over $150,000	$23,800, plus 30 percent of the excess of such amount over $100,000.
Over $150,000 but not over $250,000	$38,800, plus 32 percent of the excess of such amount over $150,000.
Over $250,000 but not over $500,000	$70,800, plus 34 percent of the excess of such amount over $250,000.
Over $500,000 but not over $750,000	$155,800, plus 37 percent of the excess of such amount over $500,000.
Over $750,000 but not over $1,000,000	$248,300, plus 39 percent of the excess of such amount over $750,000.
Over $1,000,000 but not over $1,250,000	$345,800, plus 41 percent of the excess of such amount over $1,000,000.
Over $1,250,000 but not over $1,500,000	$448,300, plus 43 percent of the excess of such amount over $1,250,000.
Over $1,500,000 but not over $2,000,000	$555,800, plus 45 percent of the excess of such amount over $1,500,000.
Over $2,000,000 but not over $2,500,000	$780,800, plus 49 percent of the excess of such amount over $2,000,000.
Over $2,500,000	$1,025,800, plus 50 percent of the excess of such amount over $2,500,000.

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