

Win some, lose some

Tax experts discuss impact of new law

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UM professor
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'Different classes of persons will have different benefits and detriment under the new law' but middle income individuals will bear the brunt of the changes.'

— Mark Solomon
Walsh College professor
and tax attorney

By Carolyn Carman
special writer

THE TAX REFORM Act of 1986 will bring about changes for almost everyone who files a tax return. Tax rates, person exemptions, IRAs and deductibility of consumer interest have all been affected by the act.

The new law offers both advantages and disadvantages for various taxpayers and several area tax experts offered their opinions about them along with some advice for maximizing your tax situation.

"It's hard to say who will benefit and who will lose," said Robert Kleiman, Oakland University professor of finance. "You have to look at each individual case."

Kleiman says a major benefit is there will be only two tax brackets, but almost all deductions will be limited. Under the new law, the top rate will be 28 percent while the old rates

ranged from 11 to 50 percent.

"Individuals will be able to keep more of their income," he said. "They have taken away investment incentives, but on earnings from primary income, the tax rate is lower."

PERSONAL EXEMPTIONS and standard deductions have also been increased, added Kleiman.

Personal exemptions will increase from \$1,080 each in 1985 to \$1,900 each in 1987, \$1,950 each for 1988 and \$2,000 each for 1989. The \$2,000 personal exemption will be adjusted for inflation beginning 1990.

James Wheeler, University of Michigan professor of accounting, says filing tax reform for the average wage earner will be less complex, but for those individuals with complex financial situations, filing will become more complicated.

"Basically, individuals are much better off than under the old law," said Wheeler. "They will pay \$100 bil-

lion less in individual income taxes and that much more will be paid in corporate taxes."

Mark Solomon, professor and chairman of the tax department at Walsh College and a practicing tax attorney, said, "Different classes of persons will have different benefits and detriments under the new law."

Solomon says the middle income individual will bear the brunt of the changes in the tax law and there has been a shift in the economic burden of taxes to them.

"THE MIDDLE-INCOME group — especially singles and young couples — has lost its IRA deductions for the most part," Solomon said. "A few can still do it, but most can't. They are also losing the sales tax deductions and interest deductions on consumer credit other than home mortgages."

Kleiman agrees the loss of the IRA

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Odd dilemma for homeowners

HOMEOWNERS ARE facing an odd dilemma, one produced by good fortune.

Their good fortune is the fall in rates on home mortgages.

Their dilemma is whether to hold on to even lower variable rate mortgages in the hope the rates might fall even lower — or to act now, nail down a fixed-rate mortgage and thus secure the future against any upturn in rates.

Homeowners are not unique in having a dilemma. Stockholders, for instance, have a problem of their own in deciding whether to take their profits now, or take the chance they can ride the rampaging bull without getting dumped.

BUT STOCK MARKET people are investors, or even speculators or traders, while homebuyers generally are not. They are common folks with the primary goal of keeping a roof over their heads and only secondarily of making a bundle.

Making the dilemma especially painful are factors such as these:

- Mortgage rates, having dropped to their lowest levels since 1978, could fall some more. Many housing people think they will, but not by very much, and probably not beyond this spring.
- There is a big difference in

monthly payment costs between fixed-rate mortgages at about 9 percent and variable rate loans, which might be a full point lower. To transfer would mean immediately higher monthly payments.

- To transfer from a variable to a fixed-rate loan also would mean one-time, up-front processing charges and points. Two points on a \$50,000 mortgage costs \$1,000, although it often can be included in the total amount financed.

THE QUESTION To be answered by many families distills to this: Is it better to accept a relatively small amount of financial pain now in order to be safe from the possibility of a great deal of financial pain in years to come?

Those "years to come" put a dimension on the dilemma that many people find difficult to deal with. A difference of just \$100 a month can mean \$24,000 over the life of a 20-year loan. That is almost a year's pay for the typical family.

But the difference can be much greater if the loan is larger than \$50,000 or the spread expands between future variable rates and existing fixed

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Economist, McDonald & Company

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