1972 TAX LAW CHANGES

With the time for filing 1972 federal income tax returns upon us, taxpayers are wondering what tax law changes there have been since last year. The answer provided by The Michigan Association of Certified Public Accountants is that the changes aren't numerous, but they are important.

"The one affecting the most people -- just about everyone, -- is the increase in the personal exemption from $675 to $750," said Robert N. DenBraber, MACPA President. "This amount may be taken for each dependent, including the taxpayer, himself."

Next in importance in terms of number of taxpayers affected is the liberalization of the standard deduction for those who do not itemize their deductions. Last year one could deduct 13% of adjusted gross income up to a maximum of $1,500. This year the standard deduction is 15%, with a $2,000 maximum

A third major innovation, DenBraber noted, is the boost in the low-income allowance, the amount of income on which there is no tax at all. It's up from $1,050 to $1,300. By combining this with personal exemptions a family of five can earn up to $5,050 and incur no tax.

Very important to persons in the high tax brackets is a lowering of the ceiling on income taxes. On earned income -- as distinguished from interest, dividends, etc. -- the top tax rate is now 50%, down from 60% in 1971.

For working mothers, and fathers whose wives are disabled or no longer in the home, there are new deductions for the costs of having someone take care of children or invalid adult dependents. The new law, applying to fees paid to babysitters, housekeepers who also babysit, and nursery schools, is crammed with qualifications, so expert assistance in this area is recommended.

Another major change, in Internal Revenue Service policy rather than in tax law, severely restricts the deductibility of expenses resulting from ownership of a vacation home that is rented out part of the year. Except for interest and tax payments, deductions for such a home are limited to the amount of rent it brings in, says The Michigan Association of CPAs.

Finally, the MACPA offers a reminder that contributors to political campaigns may now take a tax credit (a reduction of the amount of taxes owed) of one half the amount contributed, up to a maximum of $12.50 ($25 on a joint return). Alternatively, they can take a deduction for the full amount contributed, up to $50 ($100 on a joint return). Persons in higher tax brackets gain most by taking the deduction, while those with lower incomes do better with the credit.

TAX LAW APPLICATION FOR AGED

Elderly taxpayers enjoy certain breaks under Federal tax laws, but some of the regulations affecting them are rather complicated. The Michigan Association of Certified Public Accountants has attempted to clarify the picture.

"Beginning with the most clearcut provisions of the Revenue Act," said Robert N. DenBraber, MACPA President, "benefits under the Social Security and Railroad Retirement Programs are tax exempt. Also, pensioners are not taxed on that portion of their pension benefits resulting from contributions they, themselves, made from previously taxed income," DenBraber pointed out.

Most other pension benefits are taxable, but the tax rates for the elderly, because of their usually reduced incomes, are in most cases low. Each person over 65 gets a double personal exemption, and since the exemption went up to $750 in 1972, that means $3,000 in exemptions for a couple above that age. Taken together with the low income allowance, which also went up -- from $1,050 to $1,300 -- this means the couple can have an income allowance, which also went up -- from $1,050 to $1,300 -- this means the couple can have an income of $4,300 over and above their Social Security benefits without incurring any tax obligations.

If a person has received pension or annuity benefits that are taxable, the MACPA recommends that he call or write the nearest IRS office to obtain simple forms for reporting them and computing the tax due.

"To avoid having to pay one large tax on pension earnings at the end of the year, it is often possible to arrange with the company making the payments to withhold income tax from the monthly pension check," DenBraber advises.

Retired people who receive little or nothing from Social Security can sometimes save up to a few hundred dollars on the taxes owed on investment income by use of a device called the retirement income credit. For this, qualified guidance is almost indispensable.

For the children of retired people, MACPA reminds us that an unmarried person may qualify for special tax treatment as a "head of household" if he provides more than half the support of dependent relatives. Relatives other than parents have to live in the taxpayer's home, but parents can live elsewhere.

If more than one child supports an elderly parent, yet none provides more than half the support, one of them can still take the parent as a dependent. The others must agree not to claim the exemption that year. In some families the children alternate in taking the exemption, says The Michigan Association of CPAs.