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- credit life insurance on loans at a low cost
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Ask About Credit Union Membership Today
Membership is available to a wide range of school districts, colleges, businesses which are members of the Farmington & Farmington Hills Chamber of Commerce, and many other groups.
Just call or stop by the credit union office today to enjoy personalized service and superior financial programs from your personal banking cooperative.

Livingston Oakland Counties Federal Credit Union

Main Office
23617 Liberty Street
Farmington, MI 48024
(313) 474-2200

Howell Office
115 University Drive
Howell, MI 48843
(517) 546-8390

Hours
9:00 a.m. - 5:00 p.m.
Monday - Thursday
9:00 a.m. - 6:00 p.m.
Friday

NCUA

Tax law's impact

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deduction is detriment to singles and young couples.

"The current bill eliminated deductions for contributions to IRAs for insgles with an adjusted gross income (AGI) of more than $35,000 and couples with an AGI of more than $50,000," Kleiman said. "The IRA has been a tax shelter for the masses and the bill effectively phases out IRA deductions for upper-middle and high-income brackets."

Employer-sponsored 401 (k) plans are also subject to new limitations beginning in 1987. Under the new rules, the maximum amount of salary a taxpayer can defer is $7,000 a year opposed to $30,000 a year under the old law.

"The combination of limits on IRAs and 401 (k) plans in some cases makes it difficult to save for retirement," Kleiman said.

Wheeler and Solomon add that to the extent individuals are still eligible, they should contribute to IRAs.

"They are still tax-favored," said Wheeler. "They are still a good investment."

SOLOMON SAYS THERE is not much in the new law of benefit to the middle class other than they were allowed to keep mortgage deductions on two homes, something they already had.

Solomon advises singles, young couples and growing families to take advantage of the interest deduction by buying a house or condominium rather than renting.

"They will get the deduction and also the appreciation in value on the residence," Solomon said. "Buying a house is still a good deal."

Interest on home equity loans will also continue to be deductible provided the outstanding principal balance on such a loan does not exceed the cost of the home plus the cost of any improvements made to the home.

Kleiman said the new non-deductibility of consumer interest such as interest on automobile loans, Visa and MasterCard is a detriment for individuals.

"In general, you see a penalization of various deductions with the exception of home mortgage interest," Kleiman said.

SOLOMON SAYS EMPLOYEE business expenses and miscellaneous deductions have also been reduced. In 1987 taxpayers will be able to deduct those expenses above 2 percent of AGI for expenses such as tax preparation, financial planning and employe business expenses.

"These expenses are deductible starting in 1987 only when they are combined with other miscellaneous expenses that exceed two percent of the taxpayers' AGI," he said.

'The combination of limits on IRAs and 401(k) plans in some cases makes it difficult to save for retirement.'

— Robert Kleiman, Oakland University professor finance

Solomon says another disadvantage for the middle-income taxpayer is the discontinuance of the two-earner deduction for married couples along with the discontinuance of income averaging.

As to the very wealthy, Solomon says those with an income in excess of about $200,000 will benefit by the effective top tax rate being lowered from 50 percent in 1986 to 38.5 percent in 1987 and 28 percent in 1988, even though there may be a 5 percent surtax on some of their high-bracket income.

"But for some of those people, there is significant loss in the fact that the capital gains deductions has been repealed," Solomon said. "They will also suffer heavily because most tax shelters have been tightened to the point of non-existence."

KLEIMAN SAYS UNDER the new law, capital gains will be taxed at the same rate as ordinary income. Wheeler says he feels it is beneficial that the new law treats capital gains the same as it treats wages and salaries.

"Anytime a tax law treats all forms of income the same, it removes tax-induced decisions and that's beneficial," Wheeler said.

The dividend exclusion is also repealed under the new law, explained Kleiman.

"In the past, individuals were able to deduct the first $100 and couples the first $200 of dividend income, but under the new law, the exclusion is repealed and that is a detriment."

Wheeler says the law removes virtually all incentives for entering tax shelters and now people will enter investments based on real economic considerations as opposed to related tax consequences (write-offs).

For the lower income bracket, Solomon says many will not have to file tax returns because under the new tax rate structure, they are not liable for taxes.

"THE CHANGE IN the personal exemptions structure and standard deductions will take many of these people off the tax rolls," he said. "In addition, many people who have low incomes because they have been laid off will suffer under the new because unemployment compensation has been made fully taxable starting in 1987."

Kleiman advises taxpayers to maximize their income from primary jobs rather than passive income from investments.