

1-1-1987

## The effect of the Tax Reform Act of 1986 on itemized deductions

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NORTHERN ILLINOIS UNIVERSITY

THE EFFECT OF THE TAX REFORM ACT OF 1986  
ON ITEMIZED DEDUCTIONS

A THESIS SUBMITTED TO THE  
UNIVERSITY HONORS PROGRAM  
IN PARTIAL FULFILLMENT OF THE  
REQUIREMENTS OF THE BACCALAUREATE DEGREE  
WITH UNIVERSITY HONORS

DEPARTMENT OF ACCOUNTANCY

BY

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DEKALB, ILLINOIS

MAY, 1987

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DEPARTMENT OF: Accountancy

DATE: 3/19/87

On October 22, 1986, President Ronald Reagan signed into law the Tax Reform Act of 1986. The Act is a historical document that makes the most sweeping changes to the Internal Revenue Code since its inception in 1913. In effect, the Act will rewrite the Internal Revenue Code and will affect each and every individual who pays a Federal income tax.

The purpose of the Act is trifold. First, the Act aims to make the tax system simpler by eliminating certain deductions and reducing the need for recordkeeping. Second, the Act aims to make the tax system fairer, whereby individuals with relatively equal amounts of income will have relatively similar tax liabilities. Finally, the Act aims to ensure a more efficient tax system by encouraging individuals to base their investment decisions on economic factors rather than merely tax factors. The basic underlying goal of the Act is to increase taxable income through the elimination of certain deductions and to decrease the tax rates.

The Tax Reform Act of 1986 affects every aspect of the current income tax system. However, the purpose of this study was to investigate only those changes that affect itemized deductions (Schedule A) for individuals. These changes were studied in terms of how they impacted an individual's tax liability. Sensitivity analysis was used to examine these changes. A spreadsheet, using Lotus 1-2-3, was designed to compute the tax liability of a hypothetical taxpayer under both the provisions of the current Internal Revenue Code and the Act. To do so, the following assumptions were made:

1. All taxpayers were single with no other exemptions or dependents.
2. No moving expenses were incurred.
3. Employee business expenses for travel and transportation equaled 3% of total income.
4. Other employee business expenses equaled 1 1/2% of adjusted gross income.
5. Medical expenses equaled 6% of adjusted gross income.
6. Income taxes equaled 2 1/2% of adjusted gross income.
7. Sales taxes equaled 1% of adjusted gross income.
8. Residential mortgage interest expense equaled 10% of adjusted gross income.
9. Consumer interest expense equaled 4% of adjusted gross income.
10. Adjustments to gross income were only for moving or unreimbursed travel and transportation expenses as required by the provisions of the current Internal Revenue Code.
11. Miscellaneous itemized deductions were only for moving or employee business expenses as required by the provisions of the Tax Reform Act of 1986.
12. Total income remained constant.

#### STANDARD DEDUCTION

Under Section 63(c) of the current Internal Revenue Code a deduction is allowed from adjusted gross income (A.G.I.) for excess itemized deductions (i.e. total itemized deductions less the applicable zero bracket amount), and the standard deduction (the zero bracket amount) is built into the tax tables. However, under Section 102(a)(e) of the Act a deduction will be allowed from adjusted gross income equal to the greater of total itemized deductions or the applicable standard deduction. The

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intent of the Act is to reduce the number of taxpayers who itemize, thus making it simpler for individuals to file their own income tax returns. In order to reduce the number of taxpayers who are able to itemize, the Act simultaneously increases the amount of the standard deduction, and decreases or eliminates many Schedule A deductions. With the increase in the standard deduction, legislators are confident that the standard deduction for most taxpayers will exceed their total itemized deductions, so the majority of taxpayers will not be itemizing their deductions.

In both the House's version of the bill and the Senate's version of the bill the standard deduction was increased, and the zero bracket amount was replaced by a standard deduction that would not be built into the tax tables. The purpose of implementing the standard deduction was to show taxpayers that they are allowed a deduction from adjusted gross income even if they do not itemize. Apparently, under the current system, many taxpayers felt they were not receiving any deduction from adjusted gross income unless they itemized. This was because the zero bracket amount was "hidden" in the tax tables. The amount of the standard deduction under the existing Internal Revenue Code and under the Act depends on a taxpayer's filing status as follows:

FILING STATUS	1986	1987	1988
Married Filing Joint	\$3,670	\$3,760	\$5,000
Surviving Spouse	\$3,670	\$3,760	\$5,000

Head of Household	\$2,480	\$2,540	\$4,400
Single	\$2,480	\$2,540	\$3,000
Married Filing Separate	\$1,935	\$1,880	\$2,500

The new standard deduction will be indexed for inflation beginning in 1989, and is effective for taxable years beginning after 12-31-86.

#### MEDICAL EXPENSE

Under Section 213 of the current Internal Revenue Code an itemized deduction is allowed for medical and dental expenditures. According to the Code, deductible medical expenses include amounts paid on behalf of the taxpayer, his or her spouse, and any dependents for the diagnosis, cure, relief, treatment, or prevention of disease. The deduction is only allowed for taxpayers who are able to itemize, and whose aggregate medical and dental expenses are in excess of 5% of their adjusted gross income. Under Section 133 of the Tax Reform Act of 1986 the types of medical expenditures that are deductible remain the same, but the floor of the deduction is raised from 5% to 7 1/2% of adjusted gross income. The new floor is effective for taxable years beginning after 12-31-86.

The House wanted to keep the floor at 5% while the Senate wanted to raise the floor to 10%. The goal of the Senate was to decrease the number of taxpayers who could claim a medical deduction. The Senate felt that by raising the floor fewer taxpayers would be allowed to claim this deduction, yet the deduction would still be available to those taxpayers who had an

extraordinary amount of medical and dental expenses. The new floor of 7 1/2% is an exact compromise between the House's and the Senate's version of the bill.

Under the Act the deduction will be available to those taxpayers that pay an excessive amount of medical and dental expenses. The new deduction should still encourage health care since it will provide taxpayers with a partial relief from their tax liability during periods of extraordinary medical expenses.

It should be noted that adjusted gross income for many taxpayers will increase under the Act since certain adjustments to income are being repealed and modified, such as the IRA deduction, the moving expense deduction, and certain employee business expenses. Also, certain types of income presently excluded from total income will be included in total income under the Act, such as unemployment compensation, scholarships, fellowships, prizes and awards. Therefore, the interplay between the increase in adjusted gross income amounts and the increase in the medical expense floor will allow fewer taxpayers to claim a medical expense deduction than if the legislators had only raised the medical expense deduction floor.

An analysis of the effect of these changes on a single individual's tax liability was performed, and the results appear in Tables 1, 2, and 3. The taxpayer's medical expense was assumed to be equal to 4%, 6% and 8%, respectively, of adjusted gross income. In Table 1, the taxpayer is not entitled to a medical deduction under either the current Code or the new tax provisions. However, the taxpayer still experiences a 10%



decrease in his tax liability due to the decrease in tax rates implemented under the Act. In Table 2, the taxpayer is entitled to a medical expense deduction under the current Code, but is not entitled to a deduction under the Act. Nonetheless, the taxpayer still incurs an 8% decrease in his tax liability due again to the decrease in tax rates. The taxpayer in Table 3 experiences approximately a 6% decrease in his tax liability. This percentage decrease is not as high as in the second situation since a significant amount of his medical expense deduction is lost under the new provisions, unlike the situation in Table 2. The results of this analysis show that although taxpayers will lose some of their medical expense deductions under the Act, the loss will be compensated for, in most cases, by the decrease in tax rates.

#### TAXES EXPENSE

Under Section 164 of the existing Internal Revenue Code a deduction for certain taxes paid is allowed from adjusted gross income. According to the Code, deductible taxes include state, local, and foreign income taxes, real property taxes, state and local personal property taxes, general sales tax, and the windfall profit tax. Under Section 135 of the Act the deduction for state and local sales tax paid is repealed, with all other tax deductions being retained.

The House retained the current deduction for state and local sales taxes in its version of the bill. However, the Senate Finance Committee proposed that no deduction be allowed for sales taxes paid. During floor debate, the Senate amended the Senate

TAXABLE YEAR	TABLE 1 ANALYSIS OF MEDICAL EXPENSE		
	1984	1987	1988
TOTAL INCOME	25000	25000	25000
ADJUSTMENTS TO INCOME:			
MOVING EXPENSES	1	FROM AGI	FROM AGI
EMPLOYEE BUSINESS EXPENSE	750	FROM AGI	FROM AGI
TOTAL ADJUSTMENTS	751	NONE	NONE
ADJUSTED GROSS INCOME	24250	25000	25000
ITEMIZED DEDUCTIONS			
MEDICAL EXPENSE			
ACTUAL *	970	1600	1100
FLOOR	1212.5	1875	1875
ALLOWED MEDICAL EXPENSE	0	1	0
TAXES EXPENSE			
INCOME TAXES	608.25	625	625
SALES TAXES	242.5	411.25	REPEALED
TOTAL TAXES	850.75	1036.25	625
INTEREST EXPENSE			
MORTGAGE INTEREST	2425	2500	2500
CONSUMER (PHASED OUT)	970	680	400
TOTAL INTEREST EXPENSE	3395	3180	2900
MISCELLANEOUS EXPENSE			
EMPLOYEE BUSINESS EXPENSE	363.75	1125	1125
LESS EMP BUS EXP FLOOR	NONE	500	500
ALLOW EMPLOYEE BUSINESS EXPENSE	363.75	625	625
MOVING EXPENSE	FOR AGI	1	0
ALLOWED MISCELLANEOUS EXPENSE	363.75	625	625
TOTAL ITEMIZED DEDUCTIONS	4617.5	4460	4150
ZBA/STANDARD DEDUCTION	2480	2540	3000
ALLOW ITEMIZED DED/STANDARD DED	2127.5	4400	4150
AGI-ALLOWED DEDUCTIONS	22122.5	20600	20850
LESS PERSONAL EXEMPTION	1080	1950	1950
TAXABLE INCOME	21042.5	18730	18900
TAX LIABILITY	3318.45	2930	2971.5
INCR/DECR IN TAX LIABILITY		-338.45	-346.75
% CHANGE IN TAX LIABILITY		-0.10199	-0.10455

\* MED EXP = 4% OF A.G.I.

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TAXABLE YEAR	TABLE 2 ANALYSIS OF MEDICAL EXPENSE		
	1986	1997	1988
TOTAL INCOME	25000	25000	25000
ADJUSTMENTS TO INCOME:			
MOVING EXPENSES	0	FROM AGI	FROM AGI
EMPLOYEE BUSINESS EXPENSE	750	FROM AGI	FROM AGI
TOTAL ADJUSTMENTS	750	NONE	NONE
ADJUSTED GROSS INCOME	24250	25000	25000
ITEMIZED DEDUCTIONS			
MEDICAL EXPENSE			
ACTUAL *	1455	1500	1500
FLOOR	1212.5	1875	1875
ALLOWED MEDICAL EXPENSE	243.5	0	1
TAXES EXPENSE			
INCOME TAXES	466.25	625	625
SALES TAXES	242.5	REPEALED	REPEALED
TOTAL TAXES	848.75	625	625
INTEREST EXPENSE			
MORTGAGE INTEREST	2425	2500	2500
CONSUMER (PHASED OUT)	970	600	400
TOTAL INTEREST EXPENSE	3395	3100	2900
MISCELLANEOUS EXPENSE			
EMPLOYEE BUSINESS EXPENSE	363.75	1125	1125
LESS EMP BUS EXP FLOOR	NONE	500	500
ALLOW EMPLOYEE BUSINESS EXPENSE	363.75	625	625
MOVING EXPENSE	0	0	0
ALLOWED MISCELLANEOUS EXPENSE	363.75	625	625
TOTAL ITEMIZED DEDUCTIONS	4650	4400	4150
1984 STANDARD DEDUCTION	2480	2540	3000
ALLOW ITEMIZED DED/STANDARD DED	2870	4400	4150
AGI-ALLOWED DEDUCTIONS	21880	21600	20850
LESS PERSONAL EXEMPTION	1080	1900	1950
TAXABLE INCOME	10800	19700	18900
TAX LIABILITY	3255.4	2980	2971.8
INCREASE IN TAX LIABILITY		-275.4	-233.7
% CHANGE IN TAX LIABILITY		-0.08459	-0.08720

\* MED EXP = 6% OF AGI.

TAXABLE YEAR	TABLE 3 ANALYSIS OF MEDICAL EXPENSE		
	1984	1987	1988
TOTAL INCOME	25000	25000	25000
ADJUSTMENTS TO INCOME:			
MOVING EXPENSES	0	FROM AGI	FROM AGI
EMPLOYEE BUSINESS EXPENSE	750	FROM AGI	FROM AGI
TOTAL ADJUSTMENTS	750	NONE	NONE
ADJUSTED GROSS INCOME	24250	25000	25000
ITEMIZED DEDUCTIONS			
MEDICAL EXPENSE			
ACTUAL *	1940	2090	2000
FLOOR	1212.5	1375	1375
ALLOWED MEDICAL EXPENSE	727.5	125	125
TAXES EXPENSE			
INCOME TAXES	636.25	625	625
SALES TAXES	242.5	REPEALED	REPEALED
TOTAL TAXES	878.75	625	625
INTEREST EXPENSE			
MORTGAGE INTEREST	2425	2500	2500
CONSUMER (PHASED OUT)	975	650	400
TOTAL INTEREST EXPENSE	3395	3150	2900
MISCELLANEOUS EXPENSE			
EMPLOYEE BUSINESS EXPENSE	363.75	1125	1125
LESS EMP BUS EXP FLOOR	NONE	500	500
ALLOW EMPLOYEE BUSINESS EXPENSE	363.75	625	625
MOVING EXPENSE	0	0	0
ALLOWED MISCELLANEOUS EXPENSE	363.75	625	625
TOTAL ITEMIZED DEDUCTIONS	5395	4525	4275
ISA/STANDARD DEDUCTION	2480	2540	3000
ALLOW ITEMIZED DED/STANDARD DED	2855	4525	4275
AGI-ALLOWED DEDUCTIONS	21395	20475	20725
LESS PERSONAL EXEMPTION	1085	1900	1950
TAXABLE INCOME	20315	18575	18775
TAX LIABILITY	3129.3	2745	2936.5
INCR/DECR IN TAX LIABILITY		-184.3	-192.8
% CHANGE IN TAX LIABILITY		-0.05889	-0.06161

\* MED EXP = 6% OF A.G.I.

Finance Committee's provision to allow a deduction for 60% of the amount by which state and local sales tax payments exceeded income tax payments. The Conference Committee agreed with the Senate Finance Committee and elected to repeal the deduction. It would seem that the intent of the Conference Committee was: 1) to increase taxable income (i.e., by decreasing allowable deductions), and 2) to simplify the tax system for individuals (i.e., keeping track of every sales receipt is very burdensome). Also, since another intent of Congress was to encourage savings, legislators chose not to continue providing incentives for consumer consumption. By repealing the deduction for sales tax, along with the deduction for consumer interest expense, the committee hopes to discourage future consumption. The sales tax deduction is repealed for taxable years beginning after 12-31-86.

The following three analyses illustrate how the repeal of the sales tax deduction will affect an individual's tax liability. In the analyses, the taxpayer's sales tax expense was assumed to be equal to 0, 1% and 5%, respectively, of adjusted gross income. In Table 4, although the taxpayer incurs no sales tax deduction he experiences a 10% decrease in his tax liability due to the decrease in tax rates. In Table 5 the taxpayer only experiences an 8% decrease in his tax liability since he loses his sales tax expense deduction under the new provisions. In Table 6 the taxpayer actually incurs a nominal decrease in his 1987 and 1988 tax liability. In this case the loss of a significant sales tax deduction is offset almost completely by the decrease in tax rates. The results of this analysis were found to be consistent

with the results found in the medical expense analysis: although taxpayers will lose their sales tax deduction under the new provisions, the loss will be compensated for, in most cases, by the decrease in tax rates.

#### INTEREST EXPENSE

Under Section 163 of the current Internal Revenue Code an itemized deduction for all interest paid or accrued within the taxable year on certain indebtedness is allowed (see lists A and B). However, under Section 511 of the Act only four types of interest expense will be deductible for individuals.

Interest expense on a first or second home mortgage will continue to be deductible. However, a taxpayer can only deduct the interest incurred on such loans if the mortgage does not exceed the purchase price of the home plus the cost of any improvements to the home. If the amount of the loan is equal to the appreciated value of the home, the interest expense incurred on the portion of the mortgage that exceeds the purchase price of the home and the improvements, will be deductible providing the proceeds of that portion of the loan are used for either qualified medical expenses or educational expenses. For example, assume the cost of a taxpayer's home is \$60,000, the cost of the improvements to the home is \$10,000, and the home is mortgaged to its appreciated value of \$90,000. The taxpayer may deduct the interest expense incurred on \$70,000 ( $\$60,000 + \$10,000$ ) of the loan regardless of the use of the proceeds of the loan. However, the interest expense incurred on the remaining \$20,000 ( $\$90,000 - \$70,000$ ) of the mortgage may be deducted by the taxpayer only if

TAXABLE YEAR	TABLE 4 ANALYSIS OF SALES TAX EXPENSE		
	1986	1987	1988
TOTAL INCOME	25000	25000	25000
ADJUSTMENTS TO INCOME:			
MOVING EXPENSES	3	FROM AGI	FROM AGI
EMPLOYEE BUSINESS EXPENSE	750	FROM AGI	FROM AGI
TOTAL ADJUSTMENTS	750	NONE	NONE
ADJUSTED GROSS INCOME	24250	25000	25000
ITEMIZED DEDUCTIONS			
MEDICAL EXPENSE			
ACTUAL	1450	1500	1500
FLOOR	1212.5	1875	1875
ALLOWED MEDICAL EXPENSE	242.5	3	0
TAXES EXPENSE			
INCOME TAXES	601.25	625	625
SALES TAXES *	0	REPEALED	REPEALED
TOTAL TAXES	601.25	625	625
INTEREST EXPENSE			
MORTGAGE INTEREST	2425	2500	2500
CONSUMER (PHASED OUT)	870	650	400
TOTAL INTEREST EXPENSE	3295	3150	2900
MISCELLANEOUS EXPENSE			
EMPLOYEE BUSINESS EXPENSE	363.75	1125	1125
LESS EMP BUS EXP FLOOR	NONE	500	500
ALLOW EMPLOYEE BUSINESS EXPENSE	363.75	625	625
MOVING EXPENSE	FOR AGI	0	0
ALLOWED MISCELLANEOUS EXPENSE	363.75	625	625
TOTAL ITEMIZED DEDUCTIONS	4607.5	4400	4150
15% STANDARD DEDUCTION	3480	3840	3900
ALLOW ITEMIZED DEP/STANDARD DEC	3127.5	4400	4150
AGI-ALLOWED DEDUCTIONS	20122.5	20600	20850
LESS PERSONAL EXEMPTION	1050	1700	1450
TAXABLE INCOME	21042.5	18700	18900
TAX LIABILITY	3018.45	2950	2711.5
INCREASE IN TAX LIABILITY		-336.45	-340.95
% CHANGE IN TAX LIABILITY		-10.10199	-10.10485

\* SALES TAX EXP = 0

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TAXABLE YEAR	TABLE 5 ANALYSIS OF SALES TAX EXPENSE		
	1986	1987	1988
TOTAL INCOME	25800	25000	25800
ADJUSTMENTS TO INCOME:			
MOVING EXPENSES	0	FROM AGI	FROM AGI
EMPLOYEE BUSINESS EXPENSE	750	FROM AGI	FROM AGI
TOTAL ADJUSTMENTS	750	NONE	NONE
ADJUSTED GROSS INCOME	24250	25000	25000
ITEMIZED DEDUCTIONS			
MEDICAL EXPENSE			
ACTUAL	1435	1500	1500
FLOOR	1212.5	1875	1875
ALLOWED MEDICAL EXPENSE	242.5	0	0
TAXES EXPENSE			
INCOME TAXES	606.25	625	625
SALES TAXES *	242.5	REPEALED	REPEALED
TOTAL TAXES	848.75	625	625
INTEREST EXPENSE			
MORTGAGE INTEREST	2425	2500	2500
CONSUMER (PHASED OUT)	970	650	400
TOTAL INTEREST EXPENSE	3395	3150	2900
MISCELLANEOUS EXPENSE			
EMPLOYEE BUSINESS EXPENSE	363.75	1125	1125
LESS EMP BUS EXP FLOOR	NONE	500	500
ALLOW EMPLOYEE BUSINESS EXPENSE	363.75	625	625
MOVING EXPENSE	FOR AGI	0	0
ALLOWED MISCELLANEOUS EXPENSE	363.75	625	625
TOTAL ITEMIZED DEDUCTIONS	4850	4400	4150
ZBA/STANDARD DEDUCTION	2480	2540	3000
ALLOW ITEMIZED DED/STANDARD DED	2370	4400	4150
AGI-ALLOWED DEDUCTIONS	21800	26400	20850
LESS PERSONAL EXEMPTION	1000	1900	1950
TAXABLE INCOME	20800	18700	18900
TAX LIABILITY	3255.4	2980	2971.8
INCR/DECR IN TAX LIABILITY		-275.4	-283.9
% CHANGE IN TAX LIABILITY		-8.08459	-0.68720

\* SALES TAX EXP = 1% OF A.G.I.



TAXABLE YEAR	TABLE 6 ANALYSIS OF SALES TAX EXPENSE		
	1988	1987	1986
TOTAL INCOME	25000	25100	25000
ADJUSTMENTS TO INCOME:			
MOVING EXPENSES	0	FROM AGI	FROM AGI
EMPLOYEE BUSINESS EXPENSE	750	FROM AGI	FROM AGI
TOTAL ADJUSTMENTS	750	NONE	NONE
ADJUSTED GROSS INCOME	24250	25000	25000
ITEMIZED DEDUCTIONS			
MEDICAL EXPENSE			
ACTUAL	1455	1500	1500
FLOOR	1212.5	1275	1275
ALLOWED MEDICAL EXPENSE	242.5	0	0
TAXES EXPENSE			
INCOME TAXES	606.25	625	625
SALES TAXES *	1212.5	REPEALED	REPEALED
TOTAL TAXES	1818.75	625	625
INTEREST EXPENSE			
MORTGAGE INTEREST	2425	2500	2500
CONSUMER (PHASED OUT)	970	600	400
TOTAL INTEREST EXPENSE	3395	3100	2900
MISCELLANEOUS EXPENSE			
EMPLOYEE BUSINESS EXPENSE	363.75	1125	1125
LESS EMP BUS EXP FLOOR	NONE	500	500
ALLOW EMPLOYEE BUSINESS EXPENSE	363.75	625	625
MOVING EXPENSE	FOR AGI	0	0
ALLOWED MISCELLANEOUS EXPENSE	363.75	625	625
TOTAL ITEMIZED DEDUCTIONS	5820	4400	4150
ISA/STANDARD DEDUCTION	2400	2540	3000
ALLOW ITEMIZED DED/STANDARD DED	3340	4400	4150
AGI-ALLOWED DEDUCTIONS	20910	22200	20850
LESS PERSONAL EXEMPTION	1000	1900	1900
TAXABLE INCOME	19930	18700	18900
TAX LIABILITY	3083.2	2980	2971.5
INCR/DECR IN TAX LIABILITY		-23.2	-31.7
% CHANGE IN TAX LIABILITY		-0.00772	-0.01055

\* SALES TAX EXP = 5% OF A.S.I.

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LIST A

EXAMPLES OF DEDUCTIBLE INTEREST EXPENSE IN 1986

Interest on a Personal Loan  
Interest on a Business Loan  
Mortgage Interest  
Points-If Borrower  
Note Discount Interest  
Installment Plan Interest  
Credit Card Interest  
Finance Charges  
Mortgage Prepayment Penalty  
Redeemable Ground Rents  
Unstated Interest

LIST B

EXAMPLES OF NONDEDUCTIBLE INTEREST EXPENSE IN 1986

Service Charges  
Points-If Seller  
Loan Fees  
Interest Relating to Tax Exempt Income  
Penalties  
Premium on a convertible bond  
Credit Investigation Fees  
Interest Paid to Carry Single Premium Life Insurance

the proceeds from that \$20,000 are used to pay for either medical expenses or educational expenses. The medical expenses must qualify as an itemized deduction, and educational expenses may consist of tuition, books and any other necessary educational expenses that are defined by Section 117(b) of the Act. It should be noted that a taxpayer may no longer deduct interest expense incurred on educational loans unless the loan is backed by the collateral of a home.

The second type of interest expense that is deductible under the Act is interest incurred in carrying on an active trade or business. This type of interest expense will continue to be fully deductible on Schedule C for sole proprietors and on Schedule E for partners in a business. Interest paid on loans to finance investments is the third type of interest expense that will remain deductible. However, it will now be deductible only to the extent of the taxpayer's net investment income (i.e. investment income less investment expenses). The current \$10,000 allowance will be phased out between 1987 and 1991 as follows: 35% disallowed in 1987, 60% disallowed in 1988, 80% disallowed in 1989, 90% disallowed in 1990 and 100% disallowed in 1991.

The fourth allowable interest deduction, for consumer interest expense, will be phased out between 1987 and 1991. 35% of such interest will be disallowed in 1987, 60% in 1988, 80% in 1989, 90% in 1990, and 100% in 1991. This deduction includes interest incurred on auto loans, life insurance loans, credit card balances, boat loans, charge accounts and income tax owed. For example, a taxpayer who incurs \$1,000 of consumer interest

expense each year between 1987 and 1991 will only be entitled to deduct \$650 of interest expense in 1987, \$400 in 1988, \$200 in 1989, \$100 in 1990, and no interest expense in 1991.

The House's version of the bill and the Senate's version of the bill were identical concerning the treatment of mortgage interest expense, so the Act merely incorporates what was proposed by both houses. With regard to interest expense incurred in carrying on an active trade or business both houses desired to retain the expense as a deduction so it is still deductible under the Act. However, concerning investment interest expense and consumer interest expense the House's version of the bill and Senate's version of the bill did not agree. The Senate's proposal repealed the deduction for consumer interest expense and only allowed a deduction for investment interest expense to the extent of net investment income. The House's proposal allowed a deduction for non-business interest expense (i.e. investment interest expense and consumer interest expense) to the extent of net investment income plus \$20,000, for married filing joint taxpayers (\$10,000 for single taxpayers). The Conference Committee accepted the Senate's proposal but it included a phase out of the consumer interest deduction and the current \$10,000 allowance used to compute the investment interest expense deduction. The new provisions are effective for taxable years beginning after 12-31-86.

The following six analyses illustrate how the phase out of the consumer interest expense deduction will affect an individual's tax liability. In Tables 7, 8, and 9 the taxpayer's total income equaled \$25,000 and his consumer interest expense

equaled 0, 4% and 8% of adjusted gross income, respectively. In Tables 10, 11, and 12 the taxpayer's total income equaled \$50,000 and his consumer interest expense equaled 0, 4% and 8% of adjusted gross income respectively. It should be noted in the Tables that the mortgage interest expense deduction varies between 1986 and 1987 because the taxpayer's adjusted gross income changes between the years. The results in Table 7 show that although the taxpayer incurred no consumer interest expense he experienced a 9% decrease in his 1987 tax liability and a 12% decrease in his 1988 tax liability due to the decrease in tax rates. In Table 8 the taxpayer experienced only an 8% decrease in his tax liability since his consumer interest deduction was partially disallowed under the new provisions. In Table 9 the taxpayer experienced a 6% decrease in his 1987 tax liability and a 4% decrease in his 1988 tax liability since a substantial portion of his consumer interest expense deduction was disallowed under the new provisions. This loss was partially compensated for by the decrease in tax rates. In Table 10 the taxpayer again incurred no consumer interest expense however, his total income increased by \$25,000 thus causing a nominal decrease in his 1987 tax liability, since his average tax rate decreased slightly, and a 10% decrease in his 1988 tax liability, due to the decrease in tax rates. The taxpayers in Tables 7 and 10 experienced different changes in their 1987 tax liabilities due to the difference in their total incomes. The decrease in the 1987 tax rates helps lower income taxpayers more than higher income taxpayers. This is why the taxpayer in Table 10 incurred only a

nominal decrease in his 1987 tax liability, and the taxpayer in Table 7 incurred a significant decrease in his 1987 tax liability. In Table 11 the taxpayer experienced a 2% increase in his 1987 tax liability and a 6% decrease in his 1988. The increase in 1987 was due to the partial disallowance of the consumer interest expense deduction which was not offset by the decrease in tax rates due to his higher level of income. The decrease in 1988 was due to the drastic decrease in tax rates for high income individuals. In Table 12 the taxpayer experienced a 5% increase in his 1987 tax liability and a nominal decrease in his 1988 tax liability. The increase in 1987 was due to the partial disallowance of the substantial consumer interest expense deduction which was not offset by the decrease in tax rates for this individual as it was offset in Table 9. The nominal decrease in 1988 tax liability occurred due to the further decrease in 1988 tax rates. Apparently the further reduction of tax rates in 1988 offsets the taxpayer's partial loss of the deduction. The results of this analysis were found to be that as income increases, taxpayers are impacted more by the loss of deductions since the decrease in tax rates will not fully offset the phasing out of this deduction.

#### **CHARITABLE CONTRIBUTION EXPENSE**

Under Section 170 of the current Internal Revenue Code a deduction for charitable contributions is allowed from adjusted gross income for non-itemizers for taxable years prior to 1987. However, under Section 170(i) of the Code and Section 133 of the Act this deduction will be terminated effective January 1, 1987.

TABLE 7  
ANALYSIS OF CONSUMER INTEREST EXPENSE

TAXABLE YEAR	1986	1987	1988
TOTAL INCOME	25000	25000	25000
ADJUSTMENTS TO INCOME:			
MOVING EXPENSES	0	FROM AGI	FROM AGI
EMPLOYEE BUSINESS EXPENSE	750	FROM AGI	FROM AGI
TOTAL ADJUSTMENTS	750	NONE	NONE
ADJUSTED GROSS INCOME	24250	25000	25000
ITEMIZED DEDUCTIONS			
MEDICAL EXPENSE			
ACTUAL	1485	1500	1500
FLOOR	1212.5	1875	1875
ALLOWED MEDICAL EXPENSE	242.5	0	0
TAXES EXPENSE			
INCOME TAXES	606.25	625	625
SALES TAXES	242.5	REPEALED	REPEALED
TOTAL TAXES	848.75	625	625
INTEREST EXPENSE			
MORTGAGE INTEREST	2425	2500	2500
CONSUMER (PHASED OUT) *	0	0	0
TOTAL INTEREST EXPENSE	2425	2500	2500
MISCELLANEOUS EXPENSE			
EMPLOYEE BUSINESS EXPENSE	363.75	1125	1125
LESS EMP BUS EXP FLOOR	NONE	500	500
ALLOW EMPLOYEE BUSINESS EXPENSE	363.75	625	625
MOVING EXPENSE	FOR AGI	0	0
ALLOWED MISCELLANEOUS EXPENSE	363.75	625	625
TOTAL ITEMIZED DEDUCTIONS	3886	3750	3750
28% STANDARD DEDUCTION	2480	2540	3000
ALLOW ITEMIZED DED/STANDARD DED	1406	3750	3750
AGI-ALLOWED DEDUCTIONS	22850	21250	21250
LESS PERSONAL EXEMPTION	1000	1900	1950
TAXABLE INCOME	21770	19350	19300
TAX LIABILITY	2507.6	3162	3083.5
INCR/DECR IN TAX LIABILITY		-345.6	-424.1
% CHANGE IN TAX LIABILITY		-0.69852	-0.12090

\* CONSUMER INTEREST EXP = 0

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TABLE 6  
ANALYSIS OF CONSUMER INTEREST EXPENSE

TAXABLE YEAR	1986	1987	1988
TOTAL INCOME	25000	25000	25000
ADJUSTMENTS TO INCOME:			
MOVING EXPENSES	0	FROM AGI	FROM AGI
EMPLOYEE BUSINESS EXPENSE	750	FROM AGI	FROM AGI
TOTAL ADJUSTMENTS	750	NONE	NONE
ADJUSTED GROSS INCOME	24250	25000	25000
ITEMIZED DEDUCTIONS			
MEDICAL EXPENSE			
ACTUAL	1455	1500	1500
FLOOR	1212.5	1875	1875
ALLOWED MEDICAL EXPENSE	242.5	0	0
TAXES EXPENSE			
INCOME TAXES	634.25	625	625
SALES TAXES	242.5	REPEALED	REPEALED
TOTAL TAXES	848.75	625	625
INTEREST EXPENSE			
MORTGAGE INTEREST	2425	2500	2500
CONSUMER (PHASED OUT) *	979	650	400
TOTAL INTEREST EXPENSE	3395	3150	2900
MISCELLANEOUS EXPENSE			
EMPLOYEE BUSINESS EXPENSE	363.75	1125	1125
LESS EMP BUS EXP FLOOR	NONE	500	500
ALLOW EMPLOYEE BUSINESS EXPENSE	363.75	625	625
MOVING EXPENSE	FOR AGI	0	0
ALLOWED MISCELLANEOUS EXPENSE	363.75	625	625
TOTAL ITEMIZED DEDUCTIONS	4850	4400	4150
28%/STANDARD DEDUCTION	2480	2540	3000
ALLOW ITEMIZED DED/STANDARD DED	2370	4400	4150
AGI-ALLOWED DEDUCTIONS	21880	20600	20850
LESS PERSONAL EXEMPTION	1080	1900	1950
TAXABLE INCOME	20800	18700	18900
TAX LIABILITY	3255.4	2980	2971.5
INCR/DECR IN TAX LIABILITY		-275.4	-283.9
% CHANGE IN TAX LIABILITY		-0.08459	-0.08720

\* CONSUMER INTEREST EXP = 4% OF A.G.I.



TABLE 9  
ANALYSIS OF CONSUMER INTEREST EXPENSE

TAXABLE YEAR	1986	1987	1988
TOTAL INCOME	25000	25000	25000
ADJUSTMENTS TO INCOME:			
MOVING EXPENSES	0	FROM AGI	FROM AGI
EMPLOYEE BUSINESS EXPENSE	750	FROM AGI	FROM AGI
TOTAL ADJUSTMENTS	750	NONE	NONE
ADJUSTED GROSS INCOME	24250	25000	25000
ITEMIZED DEDUCTIONS			
MEDICAL EXPENSE			
ACTUAL	1455	1500	1530
FLOOR	1212.5	1875	1975
ALLOWED MEDICAL EXPENSE	242.5	0	0
TAXES EXPENSE			
INCOME TAXES	686.25	625	625
SALES TAXES	242.5	REPEALED	REPEALED
TOTAL TAXES	948.75	625	625
INTEREST EXPENSE			
MORTGAGE INTEREST	2425	2500	2500
CONSUMER (PHASED OUT) *	1940	1392	800
TOTAL INTEREST EXPENSE	4365	3892	3300
MISCELLANEOUS EXPENSE			
EMPLOYEE BUSINESS EXPENSE	363.75	1125	1125
LESS EMP BUS EXP FLOOR	NONE	500	500
ALLOW EMPLOYEE BUSINESS EXPENSE	363.75	625	625
MOVING EXPENSE	0	0	0
ALLOWED MISCELLANEOUS EXPENSE	363.75	625	625
TOTAL ITEMIZED DEDUCTIONS	5822	5050	4550
28A/STANDARD DEDUCTION	2480	2540	3000
ALLOW ITEMIZED DED/STANDARD DED	3340	5050	4550
AGI-ALLOWED DEDUCTIONS	20910	19950	20450
LESS PERSONAL EXEMPTION	1080	1900	1950
TAXABLE INCOME	19830	18050	18500
TAX LIABILITY	3005.2	2796	2859.5
INCR/DECR IN TAX LIABILITY		-209.2	-143.7
% CHANGE IN TAX LIABILITY		-0.06982	-0.04784

\* CONSUMER INTEREST EXP = 8% OF A.G.I.

TABLE 10  
ANALYSIS OF CONSUMER INTEREST EXPENSE

TAXABLE YEAR	1986	1987	1988
TOTAL INCOME	50667	50000	50667
ADJUSTMENTS TO INCOME:			
YOUNG EXPENSE	0	FROM 480	FROM 480
EMPLOYEE BUSINESS EXPENSE	1500	FROM 480	FROM 480
TOTAL ADJUSTMENTS	1500	NONE	NONE
ADJUSTED GROSS INCOME	48867	50000	50667
ITEMIZED DEDUCTIONS			
MEDICAL EXPENSE			
ACTUAL	3910	3600	3600
FLOOR	3405	3750	3750
ALLOWED MEDICAL EXPENSE	485	0	0
TAXES EXPENSE			
INCOME TAXES	1812.5	1250	1250
SALES TAXES	428	REPEALED	REPEALED
TOTAL TAXES	1897.5	1250	1250
INTEREST EXPENSE			
MORTGAGE INTEREST	4850	5000	5000
CONSUMER FINANCED PUR.	0	0	0
TOTAL INTEREST EXPENSE	4850	5000	5000
MISCELLANEOUS EXPENSE			
EMPLOYEE BUSINESS EXPENSE	727.5	2250	2250
LESS EMP BUS EXP FLOOR	NONE	1000	1000
ALLOW EMPLOYEE BUSINESS EXPENSE	727.5	1250	1250
YOUNG EXPENSE	FOR 480	0	0
ALLOWED MISCELLANEOUS EXPENSE	727.5	1250	1250
TOTAL ITEMIZED DEDUCTIONS	7160	7500	7500
28% STANDARD DEDUCTION	2450	2540	2540
ALLOW ITEMIZED OR STANDARD DED	5280	7500	7500
40% ALLOWED DEDUCTIONS	4320	4200	4200
LESS PERSONAL EXEMPTION	1080	1000	1000
TAXABLE INCOME	42148	40600	40567
TAX LIABILITY	10100	10064	10220.5
INCREASED IN TAX LIABILITY		-67	-1047.5
% CHANGE IN TAX LIABILITY		-1.00660	-1.11590
* CONSUMER INTEREST EXP = 0			

TABLE 1.  
ANALYSIS OF CONSUMER INTEREST EXPENSE

TAXABLE YEAR	1984	1987	1988
TOTAL INCOME	50000	50000	50000
ADJUSTMENTS TO INCOME:			
MOVING EXPENSES	0	FROM A31	FROM A31
EMPLOYEE BUSINESS EXPENSE	1500	FROM A31	FROM A31
TOTAL ADJUSTMENTS	1500	NONE	NONE
ADJUSTED GROSS INCOME	48500	50000	50000
ITEMIZED DEDUCTIONS:			
MEDICAL EXPENSE			
HOTEL	2900	3000	3000
FLOOR	2425	3750	3750
ALLOWED MEDICAL EXPENSE	485	0	0
TAXES EXPENSE			
INCOME TAXES	1312.5	1250	1250
SALES TAXES	485	REPEALED	REPEALED
TOTAL TAXES	1797.5	1250	1250
INTEREST EXPENSE			
MORTGAGE INTEREST	4850	5000	5000
CONSUMER FINANCED INTL *	1940	1000	500
TOTAL INTEREST EXPENSE	6790	6000	5500
MISCELLANEOUS EXPENSE			
EMPLOYEE BUSINESS EXPENSE	737.5	1250	1250
LESS EMP BUS EXP FLOOR	NONE	1000	1000
ALLOWED EMPLOYEE BUSINESS EXPENSE	737.5	250	250
MOVING EXPENSE	500 A31	0	0
ALLOWED MISCELLANEOUS EXPENSE	737.5	250	250
TOTAL ITEMIZED DEDUCTIONS	8700	6250	5500
EXTRA-STANDARD DEDUCTION	2400	2540	3000
ALLOW ITEMIZED/EXTRA-STANDARD DEG	7000	8800	5000
NON-ALLOWED DEDUCTIONS	40280	41000	47000
LESS PERSONAL EXEMPTION	1000	1400	1400
TAXABLE INCOME	40200	39500	39750
TAX LIABILITY	9391.8	9609	9019.8
TAX DED ON TAX LIABILITY		215.2	-584.8
CHANGE IN TAX LIABILITY		9,825.0	-5,362.0

\* CONSUMER INTEREST EXP = 4% OF A.S.I.

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TABLE 13  
ANALYSIS OF CONSUMER INTEREST EXPENSE

TAXABLE YEAR	1985	1987	1988
TOTAL INCOME	59000	59000	59000
ADJUSTMENTS TO INCOME:			
MOVING EXPENSES	0	FROM 461	FROM 461
EMPLOYEE BUSINESS EXPENSE	1500	FROM 417	FROM 467
TOTAL ADJUSTMENTS	1500	NONE	NONE
ADJUSTED GROSS INCOME	48500	59000	59000
ITEMIZED DEDUCTIONS:			
MEDICAL EXPENSE			
-TOTAL	2973	3000	3000
FLOOR	2425	2750	2750
ALLOWED MEDICAL EXPENSE	468	0	0
TAXES EXPENSE			
INCOME TAXES	1212.8	1250	1250
SALES TAXES	438	REFUNDED	REFUNDED
TOTAL TAXES	1651.6	1250	1250
INTEREST EXPENSE			
MORTGAGE INTEREST	4250	5000	5000
CONSUMER FINANCED GUTH *	3880	2600	607
TOTAL INTEREST EXPENSE	8130	7600	5607
MISCELLANEOUS EXPENSE			
EMPLOYEE BUSINESS EXPENSE	727.5	1250	1100
LESS EMP BUS EXP FLOOR	NONE	1100	1100
ALLOW EMPLOYEE BUSINESS EXPENSE	727.5	1250	1000
MOVING EXPENSE	FROM 461	0	0
ALLOWED MISCELLANEOUS EXPENSE	727.5	1250	1000
TOTAL ITEMIZED DEDUCTIONS	11340	10100	8100
STANDARD DEDUCTION	2480	2540	3000
ALLOW ITEMIZED DEDUCTIONS	9160	10100	8100
LESS ALLOWED DEDUCTIONS	3924	3920	4000
LESS PERSONAL EXEMPTION	1680	1800	1950
TAXABLE INCOME	38200	50000	50950
TAX LIABILITY	8656.6	9154	8865.8
OVER/UNDER ON TAX LIABILITY		497.4	-711.6
CHANGE IN TAX LIABILITY		3,087,069	-1,002,221

\* CONSUMER INTEREST EXP = 8% OF A.G.I.

Both the House and the Senate offered proposals on this deduction in their respective versions of the bill. The Senate's version agreed to keep the existing law, which provides for the repeal of this deduction after 12-31-86. The House proposed to retain this deduction, above a \$100 floor, in order to encourage taxpayers to make charitable contributions. The Conference Committee accepted the Senate's provision. A charitable contribution deduction is still available to taxpayers who itemize. The rules relating to the "itemized" charitable contribution deduction were not affected by the Act.

#### MISCELLANEOUS EXPENSES

Under current law there are four types of miscellaneous itemized deductions allowed. They include 1) certain employee business expenses covered under Section 162, 2) expenses of producing income covered under Section 212, 3) expenses related to filing tax returns covered under Section 212 and 4) expenses of adopting children with special needs covered under Section 222. Currently these expenses are deductible in full, and there is no floor for the deduction. Section 132 of the Act, however, imposes a 2% of adjusted gross income floor on most miscellaneous itemized deductions effective for taxable years beginning after 12-31-86. For example, if a taxpayer's adjusted gross income equals \$10,000 and the taxpayer's miscellaneous itemized expenses equal \$500, then only \$300 ( $\$500 - (\$10,000 * .02)$ ) will be allowed as a miscellaneous itemized deduction. Section 135 of the Act also repeals the miscellaneous itemized deduction for adoption

expenses.

In its version of the bill, the House proposed a 1% floor on miscellaneous itemized deductions and repealed the deduction for adoption expenses. On the other hand, the Senate proposed repealing all miscellaneous itemized deductions except for the adoption expense and gambling expense, and set a 1% floor on those expenses. The intent behind both houses was to disallow certain miscellaneous itemized deductions that were being abused by taxpayers. Also, the committees felt that by setting a 1% floor, fewer taxpayers would be allowed to claim this deduction, which would, in turn, decrease the amount of recordkeeping required by taxpayers. The committees felt this deduction would still be available to those individuals who had an excessive amount of miscellaneous itemized deductions. With regard to adoption expenses, the Conference Committee agreed with the House's proposal, thus repealing that deduction for taxable years beginning after 12-31-86. In deciding on a floor for the miscellaneous itemized deduction the Conference Committee agreed on its own floor of 2% rather than accepting the 1% floor proposed by both houses. The Conference Committee also agreed with the House's proposal to retain most of the currently allowable deductions except for adoption expenses (see List C).

The following six analyses illustrate how an individual's tax liability will be affected by the changes made in the calculation of the miscellaneous itemized deduction. In Tables 13, 14, and 15 the taxpayer is assumed to have total income equal to \$25,000, and miscellaneous itemized deductions equal to 0, 1 1/2% and 3% of adjusted gross income, respectively. It is also

LIST C

EXAMPLES OF MISCELLANEOUS ITEMIZED DEDUCTIONS UNDER THE ACT

- Union Dues
- Professional Dues
- Tax Return Preparation Fee
- Professional Journal Subscription
- Safety Deposit Box Fee
- Investment Fees
- Legal Fees
- Registration Fees
- Business Lunches
- Education Expenses
- Work Uniforms
- All Other Unreimbursed Employee Business Expenses

assumed that there are no employee business expenses claimed for adjusted gross income. In Tables 16, 17, and 18, the taxpayer is assumed to have total income equal to \$50,000, and miscellaneous itemized deductions equal to 0, 1 1/2% and 3% of adjusted gross income, respectively. The results in Table 13 show that when the taxpayer has no miscellaneous expenses a 10% decrease in his tax liability is experienced due to the decrease in tax rates under the new provisions. In Table 14 the taxpayer experienced a 7% decrease in his tax liability due to the decrease in tax rates in 1987 and 1988. In Table 15 the taxpayer experienced a 7% decrease in his 1987 and 1988 tax liability due to the decrease in tax rates under the Act. With \$50,000 of total income and no miscellaneous expenses the taxpayer experienced a nominal decrease in his 1987 tax liability, and a 9% decrease in his 1988 tax liability as seen in Table 16. The nominal change in 1987 is due to the decrease in average tax rates, and the significant decrease in 1988 is due to the continued decrease in tax rates. In Table 17 the taxpayer experienced a 2% increase in his 1987 tax liability and a 7% decrease in his 1988 tax liability. The increase in 1987 was due to the increase in average tax rates, and to the decrease in the deduction allowed, and the decrease in 1988 was due to the decrease in tax rates. In Table 18 the taxpayer experienced a 3% increase in his 1987 tax liability and a 5% decrease in his 1988 tax liability. The increase in 1987 was due to the increase in average tax rates and the decrease in 1988 was due to the decrease in tax rates. The results of this analysis were found to be consistent with the results in the



consumer interest expense analysis: higher income taxpayers will experience an increase in their 1987 tax liabilities since the decrease in 1987 tax rates will not compensate for the loss of these deductions. However, the continued decrease in 1988 tax rates will be drastic enough to compensate for the loss of deductions to higher income individuals.

#### **EMPLOYEE BUSINESS EXPENSES AND MOVING EXPENSE**

Under Section 62 of the present Internal Revenue Code, a deduction is allowed for adjusted gross income for certain trade and business deductions incurred by employees. The following expenses qualify for this deduction 1) expenses incurred for travel away from home (e.g. meals and lodging) covered under Section 62(2)(B), 2) transportation expenses covered under Section 62(2)(C), 3) qualified expenses incurred by an outside salesperson, and 4) moving expenses covered under Section 217. While these expenses are deductible for adjusted gross income there are some employee business expenses which may only be deducted from adjusted gross income under the current Code. These expenses include all nonreimbursed employee business expenses other than travel and transportation expenses and outside salesperson expenses. Included in this group are union and professional dues, continuing education expenses, and subscription fees paid to professional journals. Under, Section 67(b)(2) of the Act, however, only reimbursed employee business expenses will be deductible for adjusted gross income. This means that all nonreimbursed employee business expenses, including travel and transportation expenses, will only be

TABLE 13  
ANALYSIS OF MISCELLANEOUS EXPENSE

TAXABLE YEAR	1936	1937	1938
TOTAL INCOME	25000	25000	25000
ADJUSTMENTS TO INCOME:			
MOVING EXPENSES	1	FROM AGI	FROM AGI
EMPLOYEE BUSINESS EXPENSE	0	FROM AGI	FROM AGI
TOTAL ADJUSTMENTS	1	NONE	NONE
ADJUSTED GROSS INCOME	25001	25001	25000
ITEMIZED DEDUCTIONS:			
MEDICAL EXPENSE			
ACTUAL	1500	1500	1500
FLOOR	1250	1375	1375
ALLOWED MEDICAL EXPENSE	250	1	1
TAXES EXPENSE			
INCOME TAXES	425	425	425
SALES TAXES	257	REFUSED	REFUSED
TOTAL TAXES	682	425	425
INTEREST EXPENSE			
MORTGAGE INTEREST	2500	2500	2500
CONSUMER PHASED OUT	1000	450	450
TOTAL INTEREST EXPENSE	3500	2150	2950
MISCELLANEOUS EXPENSE			
MISCELLANEOUS EXPENSES *	0	0	0
LESS FLOOR	NONE	500	500
ALLOWED MISCELLANEOUS EXPENSE	0	0	0
MOVING EXPENSE	FOR AGI	0	0
TOTAL MISCELLANEOUS EXPENSE	1	0	0
TOTAL ITEMIZED DEDUCTIONS	4428	3776	3826
DBA/STANDARD DEDUCTION	1480	2340	3000
ALTA. ITEMIZED OR STANDARD DED.	1,445	3776	3826
AGI-ALLOWED DEDUCTIONS	2283	2102	1,426
LESS PERSONAL EXEMPTION	150	190	190
TAXABLE INCOME	21,778	19,129	17,524
TAX LIABILITY	\$533.9	21.55	\$ 421.5
INCREASE IN TAX LIABILITY		-353.9	-353.4
CHANGE IN TAX LIABILITY		-1,103.5	-1,103.9

\* MISC EXP = 0

TABLE 1A  
ANALYSIS OF MISCELLANEOUS EXPENSE

TAXABLE YEAR	1986	1987	1978
TOTAL INCOME	25000	25000	25000
ADJUSTMENTS TO INCOME:			
MOVING EXPENSES	0	FROM AGI	FROM AGI
EMPLOYEE BUSINESS EXPENSE	0	FROM AGI	FROM AGI
TOTAL ADJUSTMENTS	0	NONE	NONE
ADJUSTED GROSS INCOME	25000	25000	25000
ITEMIZED DEDUCTIONS			
MEDICAL EXPENSE			
ACTUAL	1500	1500	1500
FLOOR	1200	1200	1200
ALLOWED MEDICAL EXPENSE	250	0	0
TAXES EXPENSE			
INCOME TAXES	500	500	500
SALES TAXES	250	REPEATED	REPEATED
TOTAL TAXES	750	500	500
INTEREST EXPENSE			
MORTGAGE INTEREST*	3000	3000	3000
CONSUMER FINANCED COSTS	1000	450	400
TOTAL INTEREST EXPENSE	3500	3450	3400
MISCELLANEOUS EXPENSE			
MISCELLANEOUS EXPENSES +	375	375	375
LESS FLOOR	NONE	500	500
ALLOWED MISCELLANEOUS EXPENSE	375	0	0
MOVING EXPENSE	FROM AGI	0	0
TOTAL MISCELLANEOUS EXPENSE	375	0	0
TOTAL ITEMIZED DEDUCTIONS	3625	3775	3300
STANDARD DEDUCTION	2400	2500	2000
ALLOWED STANDARD DED.	2500	3775	3300
ALLOWED DEDUCTIONS	22450	21200	21400
LESS PERSONAL EXEMPTION	1000	1000	1000
TAXABLE INCOME	21400	19000	17000
TAX LIABILITY	3411.4	3.68	14.00
INCREASE IN TAX LIABILITY		-3581.4	-164.0
NO CHANGE IN TAX LIABILITY		-11078.0	-11078.0

\* MISC EXP = 1 1/2% OF A.G.I.

TABLE 18  
ANALYSIS OF MISCELLANEOUS EXPENSE

TAXABLE YEAR	1988	1987	1988
TOTAL INCOME	28000	28000	28000
ADJUSTMENTS TO INCOME:			
MOVING EXPENSES	0	FROM 401	FROM 401
EMPLOYEE BUSINESS EXPENSE	0	FROM 401	FROM 401
TOTAL ADJUSTMENTS	0	NONE	NONE
ADJUSTED GROSS INCOME	28000	28000	28000
ITEMIZED DEDUCTIONS			
MEDICAL EXPENSE			
TOTAL	1500	1500	1500
FLOOR	1280	1275	1275
ALLOWED MEDICAL EXPENSE	220	0	0
TAXES EXPENSE			
INCOME TAXES	607	628	628
SALES TAXES	250	REFUNDED	REFUNDED
TOTAL TAXES	857	628	628
INTEREST EXPENSE			
MORTGAGE INTEREST	2500	1500	1500
CONSUMER (PAID OFF)	1000	400	400
TOTAL INTEREST EXPENSE	3500	1900	1900
MISCELLANEOUS EXPENSE			
MISCELLANEOUS EXPENSES *	750	750	750
LESS FLOOR	1,042	500	500
ALLOWED MISCELLANEOUS EXPENSE	750	250	250
MOVING EXPENSE	FROM 401	0	0
TOTAL MISCELLANEOUS EXPENSE	750	250	250
TOTAL ITEMIZED DEDUCTIONS	5378	4028	3778
25% STANDARD DEDUCTION	7000	7000	7000
HIGHER ITEMIZED DED/STANDARD DED	2845	4028	3778
AGI-ALLOWED DEDUCTIONS	21115	20975	21028
LESS PERSONAL EXEMPTION	1000	1900	1900
TAXABLE INCOME	21025	19075	19128
TAX LIABILITY	3315.9	3155	3074.8
INCREASE/DECR IN TAX LIABILITY		-226.9	-227.4
CHANGE IN TAX LIABILITY		-10,690.7	-10,174.6

\* MISC EXP = 3% OF A.G.I.

TABLE 14  
ANALYSIS OF MISCELLANEOUS EXPENSE

TABLE YEAR	1986	1987	1988
TOTAL INCOME	50000	50000	50000
ADJUSTMENTS TO INCOME:			
HOUSING EXPENSES	0	FROM AGI	FROM AGI
EMPLOYEE BUSINESS EXPENSE	0	FROM AGI	FROM AGI
TOTAL ADJUSTMENTS	0	NONE	NONE
ADJUSTED GROSS INCOME	50000	50000	50000
ITEMIZED DEDUCTIONS			
MEDICAL EXPENSE			
ACTUAL	3000	3000	3000
FLOOR	2500	2750	2750
ALLOWED MEDICAL EXPENSE	500	0	0
TAXES EXPENSE			
INCOME TAXES	1250	1250	1250
SALES TAXES	500	REPEALED	REPEALED
TOTAL TAXES	1750	1250	1250
INTEREST EXPENSE			
MORTGAGE INTEREST	5000	5000	5000
CONSUMER PHASED OUT	2000	1500	2000
TOTAL INTEREST EXPENSE	7000	3500	5000
MISCELLANEOUS EXPENSE			
MISCELLANEOUS EXPENSES *	0	0	0
LESS FLOOR	NONE	1000	1000
ALLOWED MISCELLANEOUS EXPENSE	0	0	0
MOVING EXPENSE	FOR AGI	0	0
TOTAL MISCELLANEOUS EXPENSE	0	0	0
TOTAL ITEMIZED DEDUCTIONS	9250	7500	7250
STANDARD DEDUCTION	3400	2540	3000
ALLOW ITEMIZED DED/STANDARD DED	5750	7500	7050
AGI-ALLOWED DEDUCTIONS	43250	42450	42750
LESS PERSONAL EXEMPTION	1680	1900	1980
TAXABLE INCOME	41570	40550	40770
TAX LIABILITY	10134.9	10046.5	9199.5
CHANGE IN TAX LIABILITY		-69.0	-975.0
CHANGE IN TAX LIABILITY		-0.0001	-0.0001

\* MISS EXP = 0

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TABLE 17  
ANALYSIS OF MISCELLANEOUS EXPENSE

TAXABLE YEAR	1986	1987	1988
TOTAL INCOME	50000	50000	50000
ADJUSTMENTS TO INCOME:			
NO TAX EXPENSES	0	FROM 401	FROM 401
EMPLOYEE BUSINESS EXPENSE	0	FROM 401	FROM 401
TOTAL ADJUSTMENTS	0	NONE	NONE
ADJUSTED GROSS INCOME	50000	50000	50000
ITEMIZED DEDUCTIONS			
MEDICAL EXPENSE			
ACTUAL	3000	3000	3000
FLOOR	2500	2750	2750
ALLOWED MEDICAL EXPENSE	500	0	0
TAXES EXPENSE			
INCOME TAXES	750	1350	1350
SALES TAXES	500	REPEALED	REPEALED
TOTAL TAXES	1250	1350	1350
INTEREST EXPENSE			
MORTGAGE INTEREST	3000	3000	3000
CARDHOLDER FINANCED OUT.	3000	1500	500
TOTAL INTEREST EXPENSE	7000	4500	3500
MISCELLANEOUS EXPENSE			
MISCELLANEOUS EXPENSES *	750	750	750
LESS FLOOR	NONE	1000	1000
ALLOWED MISCELLANEOUS EXPENSE	750	0	0
MOVING EXPENSE	FOR 401	0	0
TOTAL MISCELLANEOUS EXPENSE	750	0	0
TOTAL ITEMIZED DEDUCTIONS	10000	7800	7150
ISA/STANDARD DEDUCTION	2490	2840	3100
ALLOW ITEMIZED DED/STANDARD DED	7510	7550	7050
PRE-ALLOWED DEDUCTIONS	42450	42450	42950
LESS PERSONAL EXEMPTION	1080	1900	1950
TAXABLE INCOME	41400	40550	41000
TAX LIABILITY	2649.5	10046.5	9155.5
INCREASE/DECR IN TAX LIABILITY		1967.7	-190.0
% CHANGE IN TAX LIABILITY		0.319949	-0.070111

\* MISCELLANEOUS EXP = 1/1/20 OF AGI, E.T.

TABLE 18  
ANALYSIS OF MISCELLANEOUS EXPENSE

TAXABLE YEAR	1985	1987	1988
TOTAL INCOME	50000	50000	50000
ADJUSTMENTS TO INCOME:			
MOVING EXPENSES	0	FROM AGI	FROM AGI
EMPLOYEE BUSINESS EXPENSE	0	FROM AGI	FROM AGI
TOTAL ADJUSTMENTS	0	NONE	NONE
ADJUSTED GROSS INCOME	50000	50000	50000
ITEMIZED DEDUCTIONS:			
MEDICAL EXPENSE			
ACTUAL	3600	3000	3000
FLOOR	2500	2750	2750
ALLOWED MEDICAL EXPENSE	500	0	0
TAXES EXPENSE			
INCOME TAXES	1250	1250	1250
SALES TAXES	500	REFUND	REFUND
TOTAL TAXES	1750	1250	1250
INTEREST EXPENSE			
MORTGAGE INTEREST	5000	5000	5000
CONSUMER (PHASED OUT)	2000	1000	500
TOTAL INTEREST EXPENSE	7000	6000	5500
MISCELLANEOUS EXPENSE			
MISCELLANEOUS EXPENSES *	500	1500	500
LESS FLOOR	NONE	1000	1000
ALLOWED MISCELLANEOUS EXPENSE	1500	500	500
MOVING EXPENSE	FOR AGI	-	0
TOTAL MISCELLANEOUS EXPENSE	1500	500	500
TOTAL ITEMIZED DEDUCTIONS	10750	5050	7550
NON-STANDARD DEDUCTION	2400	2540	3000
ALLOA. ITEMIZED DEC/STANDARD DEC	5270	2580	7550
AGI-ALLOWED DEDUCTIONS	41730	41750	42450
LESS PERSONAL EXEMPTION	1000	1500	1000
TAXABLE INCOME	40230	40370	40500
TAX LIABILITY	9844.8	9871.5	9819.5
INCREASE IN TAX LIABILITY		266.7	-645.0
% CHANGE IN TAX LIABILITY		0.002685	-0.006571

\* MISC EXP = 8% OF A.G.I.

deductible to taxpayers who are able to itemize. Under the Act, moving expenses will also be deductible only as an itemized deduction.

Section 142 of the Act places further restrictions on the deductions claimed for meal expenses, entertainment expenses, and certain travel expenses. In order to deduct any expenditure made on meals, food or beverages, Sections 142(a)(K)(1)(A) and (B) of the Act state "such expenses cannot be lavish or extravagant under the circumstances, and the taxpayer (or an employee of the taxpayer) must be present at the furnishing of such food or beverages." With regard to entertainment expenses, Section 142(b)(1)(1)(A) of the Act limits the amount of the deduction to the fair market value of the activity. Furthermore, with regard to both the meal deduction and the entertainment deduction, Section 142(b)(n)(1)(B) of the Act states that, "the amount allowable as a deduction for these expenses shall not exceed 80% of the amount of such expense." Lastly, Section 142(b)(m)(1)(A) of the Act disallows any deduction for educational travel, and limits the luxury water travel deduction to two times the aggregate per diem amount allowed for certain government employees.

To better understand the effect of the new provisions, an example is helpful. Assume a taxpayer has adjusted gross income of \$75,000 and incurs the following expenses in his employment: 1) \$2,500 of unreimbursed transportation expenses, and 2) \$1,000 of unreimbursed entertainment expenses. Under current law, the taxpayer would deduct the expenditures as follows:



1. \$2,500 of transportation expenses as a deduction for adjusted gross income.
2. \$1,000 of entertainment expenses as a miscellaneous itemized deduction from adjusted gross income.

Thus the taxpayer's total deductions would equal \$3,500, assuming he is able to itemize.

Under the provisions of the Act, the taxpayer would realize an \$1,800 miscellaneous itemized deduction computed as follows:

1. \$2,500 = unreimbursed transportation expenses
- + 800 = allowed unreimbursed entertainment expense  
(80% \* \$1,000)
- 3,300 = total deduction before floor
- 1,500 = 2% of A.G.I. (2% \* \$75,000)
- \$1,800 = total allowable deduction

As a result of the new provisions, the taxpayer in this example would lose \$1,700 in deductions (i.e., \$3,500 - \$1,800).

Basically, the Act only allows a deduction for adjusted gross income for reimbursed employee business expenses, and it reclassifies the current "above the line" deductions to miscellaneous itemized deductions for nonreimbursed travel and transportation expenses, and moving expenses. Since this is the most complicated change made with regard to itemized deductions, careful study of the House's and the Senate's versions of the bill is helpful.

The House and the Senate developed different proposals on calculating the allowable deduction for business related meal expenditures. The Conference Committee accepted the Senate's version of the bill subject to a few modifications. The Act states that in order to claim a deduction for a business meal

expense, the meal must have a clear business purpose. That is, business must be discussed either before, during, or after the meal. The Conference Committee rejected the Senate's provision requiring that a specific business transaction be discussed in order to claim this deduction, and instead stated that only a general business discussion need take place. The Conference Committee also rejected the Senate's proposal that required substantiation for all meal expenditures, including those under \$25, and instead, retained the present substantiation rules. The new provisions require that if a deduction for meals is to be claimed the following provisions must be met: 1) the expense must have a direct relation to some type of business discussion, 2) an employee or the employer must be physically present at the meal, and 3) the expense must not be lavish or extravagant. All of these requirements were included in the Senate's version of the bill. These provisions are required to be met for business meals incurred on out-of-town business trips, and meals incurred on out-of-town medical trips.

The Conference Committee also followed the Senate's version of the bill concerning the deduction for entertainment expenses. The Senate limited the entertainment deduction to the face value of the entertainment ticket. For example, if a taxpayer pays a "scalpers" price for a ticket to an entertainment event, only the face value of the ticket will be allowed as a deduction. It is important to note again that the Act implemented a major change in the calculation of both the meal and entertainment deductions. Effective for tax years after 1986, only 80% of such expenses

will be deductible, as compared to the full deduction that is currently allowed for such expenses. This 20% disallowance was proposed under both the House's and the Senate's versions of the bill. Furthermore, in addition to the 20% disallowance, the expenses will be allowed only as a miscellaneous itemized deduction.

The last employee business expense deductions that will be addressed in this paper are the deductions allowed for travel expenses. There are four types of travel expenses: 1) luxury travel, 2) educational, 3) charitable, and 4) conventional. Each type will be discussed separately. All of the travel provisions are effective for taxable years beginning after 12-31-86.

The House and the Senate offered the same proposal concerning the deduction for luxury travel. The proposal stated "the allowable deduction would be equal to two times the per diem amount allowed for employees of the executive branch of the Federal Government for travel while away from home but serving in the United States, multiplied by the number of travel days." The Conference Committee agreed with this provision.

The provision for the educational travel deduction was identical in both houses, and the Conference Committee accepted the provision. Under Section 142(b)(2) of the Act, no deduction will be allowed for educational travel expenses, where the travel, itself, is deemed to be educational. The Conference Committee felt too many taxpayers were abusing this deduction by claiming recreational travel expenses as educational travel expenses. Because of this, the Conference Committee did not want to allow a deduction for educational travel expenses if the

purpose of the travel was really recreational. However, expenses incurred while traveling to and from a qualified educational event will remain deductible as an educational expense. For example, travel expenses incurred while traveling to and from an AICPA conference on the Tax Reform Act of 1986 will be allowed as a deduction for an individual who may claim the costs of this conference as an educational expense.

The Conference Committee accepted the House's proposal on the deduction for charitable travel expenses. Therefore, under Section 142(k) of the Act, no deduction will be allowed for travel expenditures incurred in a charitable activity unless no significant element of personal pleasure, recreation or vacation exists in such travel. The purpose behind this change was to prevent taxpayers from claiming a deduction for charitable travel expenses, where the travel involved a great percentage of personal recreation.

Lastly, with regard to travel expenditures incurred for conventions, the Act allows a deduction for such expenses only if the purpose of the convention or seminar is business-related and not investment-related. This provision is consistent with the proposals of both the House and the Senate. The intent behind the law is to disallow a deduction for travel expenses incurred on investment-related seminars that are held in resort-type environments.

The following six analyses illustrate how an individual's tax liability will be affected by the above changes made to travel and transportation expenses. In Tables, 19, 20, and 21,

the taxpayer's total income is assumed to be equal to \$25,000, and his travel and transportation expenses are assumed to be equal to 0, 3% or 6% of total income. In Table 19 the taxpayer experienced a 7% decrease in his tax liability due to the decrease in tax rates. In Table 20 the taxpayer experienced an 8% decrease in his tax liability due to the decrease in tax rates. In Table 21 the taxpayer experienced a 10% decrease in his tax liability due to the decrease in tax rates. In Tables 22, 23, and 24, the taxpayer's total income is assumed to be \$50,000 and his travel and transportation expenses are assumed to be equal to 0, 3%, or 6% of total income. In Table 22 the taxpayer experienced a nominal change in his 1987 tax liability and a 7% decrease in his 1988 tax liability. The minor change in 1987 was due to the increase in average tax rates and the decrease in 1988 was due to the decrease in tax rates. In Table 23 the taxpayer experienced a 2% increase in his 1987 tax liability and a 6% decrease in his 1988 tax liability. The increase in 1987 occurred since the decrease in tax rates did not offset the loss of the deduction completely. The decrease in 1988 was due to the decrease in tax rates. In Table 24 the taxpayer experienced a 2% increase in his 1987 tax liability and a 6% decrease in his 1988 tax liability. The increase in 1987 occurred since the loss of the deduction was not entirely compensated for with the decrease in tax rates, and the decrease in 1988 was due to the decrease in tax rates.

The next six analyses illustrate how an individual's tax liability will be affected by the changes made to the moving expense deduction. In Tables 25, 26, and 27, the taxpayer's total

TABLE 19  
ANALYSIS OF EMPLOYEE BUSINESS EXPENSE

TAXABLE YEAR	1966	1967	1968
TOTAL INCOME	25000	25592	25113
ADJUSTMENTS TO INCOME:			
MOVING EXPENSES	0	FROM AGI	FROM AGI
EMPLOYEE BUSINESS EXPENSE *	0	FROM AGI	FROM AGI
TOTAL ADJUSTMENTS	0	NONE	NONE
ADJUSTED GROSS INCOME	25000	25592	25113
ITEMIZED DEDUCTIONS			
MEDICAL EXPENSE			
TOTAL	1500	1500	1500
FLOOR	1200	1200	1200
ALLOWED MEDICAL EXPENSE	300	0	0
TAXES EXPENSE			
INCOME TAXES	625	625	625
SALES TAXES	250	REPEALED	REPEALED
TOTAL TAXES	875	625	625
INTEREST EXPENSE			
MORTGAGE INTEREST	2500	2500	2500
CONSUMER (PHASED OUT)	1000	400	400
TOTAL INTEREST EXPENSE	3500	3100	2900
MISCELLANEOUS EXPENSE			
MISCELLANEOUS EXPENSES	175	175	175
LESS FLOOR	NONE	500	500
ALLOWED MISCELLANEOUS EXPENSE	175	0	0
MOVING EXPENSE	FOR AGI	0	0
TOTAL MISCELLANEOUS EXPENSE	175	0	0
TOTAL ITEMIZED DEDUCTIONS	5000	3775	2925
STANDARD DEDUCTION	2400	2540	3000
ALLOWED DEDUCTIONS	2600	3775	3025
NON-ALLOWED DEDUCTIONS	2400	2125	2175
LESS PERSONAL EXEMPTION	1000	1000	1000
TOTAL DEDUCTIONS	2100	1925	1925
TAXABLE INCOME	21400	19325	19188
TAX LIABILITY	3417.4	3185	3145.8
INCREASE IN TAX LIABILITY		+266.4	+244.9
DECREASE IN TAX LIABILITY		-1,076.5	-1,076.5

\* EMP BUS EXP = 0

TABLE 22  
ANALYSIS OF EMPLOYEE BUSINESS EXPENSE

TAXABLE YEAR	1986	1987	1988
TOTAL INCOME	25100	25000	25000
ADJUSTMENTS TO INCOME:			
HOUSING EXPENSES	0	FROM AGI	FROM AGI
EMPLOYEE BUSINESS EXPENSE *	750	FROM AGI	FROM AGI
TOTAL ADJUSTMENTS	750	NONE	NONE
ADJUSTED GROSS INCOME	24350	25000	25000
ITEMIZED DEDUCTIONS			
MEDICAL EXPENSE			
ACTUAL	1455	1500	1500
FLOOR	1212.5	1375	1375
ALLOWED MEDICAL EXPENSE	242.5	0	0
TAXES EXPENSE			
INCOME TAXES	606.25	625	625
SALES TAXES	242.75	REFUND	REFUND
TOTAL TAXES	849.00	625	625
INTEREST EXPENSE			
MORTGAGE INTEREST	2425	2500	2500
DISBURSEMENT PHASED OUT	970	650	400
TOTAL INTEREST EXPENSE	3395	5150	2900
MISCELLANEOUS EXPENSE			
MISCELLANEOUS EXPENSES	363.75	1.25	1.25
LESS FLOOR	NONE	500	500
ALLOWED MISCELLANEOUS EXPENSE	363.75	625	625
HOUSING EXPENSE FOR AGI	0	0	0
TOTAL MISCELLANEOUS EXPENSE	363.75	625	625
TOTAL ITEMIZED DEDUCTIONS	4850	4400	1500
DBA/STANDARD DEDUCTION	2400	2500	3000
ALLOW ITEMIZED DBA/STANDARD DED	2400	4400	1500
AGI-ALLOWED DEDUCTIONS	21250	27900	23500
LESS PERSONAL EXEMPTION	1180	1900	1900
TAXABLE INCOME	20170	18700	19000
TAX LIABILITY	3255.4	2960	3911.5
INCREASE IN TAX LIABILITY		+275.4	+350.1
NO CHANGE IN TAX LIABILITY		-118459	-118459

\* EMP BUS EXP = 3% OF A.G.I.

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TABLE 2.  
ANALYSIS OF EMPLOYEE BUSINESS EXPENSE

TAXABLE YEAR	1986	1987	1988
TOTAL INCOME	25000	25000	25000
ADJUSTMENTS TO INCOME:			
MOVING EXPENSES	0	FROM AGI	FROM AGI
EMPLOYEE BUSINESS EXPENSE *	1500	FROM AGI	FROM AGI
TOTAL ADJUSTMENTS	1500	NONE	NONE
ADJUSTED GROSS INCOME	23500	25000	25000
ITEMIZED DEDUCTIONS			
MEDICAL EXPENSE			
ACTUAL	141	500	500
FLOOR	1,758	1,875	1,875
ALLOWED MEDICAL EXPENSE	295	0	0
TAXES EXPENSE			
INCOME TAXES	507.5	625	625
SALES TAXES	295	REPEALED	REPEALED
TOTAL TAXES	802.5	625	625
INTEREST EXPENSE			
MORTGAGE INTEREST	2500	2500	2500
CONSUMER (PHASED OUT)	900	600	400
TOTAL INTEREST EXPENSE	3400	3100	2900
MISCELLANEOUS EXPENSE			
MISCELLANEOUS EXPENSES	352.5	1,075	1,075
LESS FLOOR	NONE	500	500
ALLOWED MISCELLANEOUS EXPENSE	352.5	1,075	1,075
MOVING EXPENSE	FOR AGI	0	0
TOTAL MISCELLANEOUS EXPENSE	352.5	1,075	1,075
TOTAL ITEMIZED DEDUCTIONS	4790	5100	4900
DEDUCTIBLE DEDUCTION	2400	2540	3000
ADJUSTED GROSS INCOME	23500	25000	25000
LESS PERSONAL EXEMPTION	1000	1900	1900
TAXABLE INCOME	20000	17400	13100
TAX LIABILITY	3099.4	2771	2741.5
INCREASE IN TAX LIABILITY		+229.4	+337.4
DECREASE IN TAX LIABILITY		-1,166.7	-9,109.1

\* EMP BUS EXP = 6% OF AGI.

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TABLE 22  
ANALYSIS OF EMPLOYEE BUSINESS EXPENSE

TAXABLE YEAR	1966	1967	1968
TOTAL INCOME	50000	50000	50000
ADJUSTMENTS TO INCOME:			
MOVING EXPENSES	1	FROM AGI	FROM AGI
EMPLOYEE BUSINESS EXPENSE *	0	FROM AGI	FROM AGI
TOTAL ADJUSTMENTS	0	NONE	NONE
ADJUSTED GROSS INCOME	50000	50000	50000
ITEMIZED DEDUCTIONS			
MEDICAL EXPENSE			
ACTUAL	3000	3000	3000
FLOOR	2500	2750	2000
ALLOWED MEDICAL EXPENSE	500	0	0
TAXES EXPENSE			
INCOME TAXES	1250	1250	1250
SALES TAXES	500	REPEALED	REPEALED
TOTAL TAXES	1750	1250	1250
INTEREST EXPENSE			
MORTGAGE INTEREST	5000	5000	5000
CONSUMER FINANCED COST	2100	2100	2100
TOTAL INTEREST EXPENSE	7000	6900	7100
MISCELLANEOUS EXPENSE			
MISCELLANEOUS EXPENSES	750	750	750
LESS FLOOR	NONE	1000	1000
ALLOWED MISCELLANEOUS EXPENSE	750	0	0
MOVING EXPENSE	FOR AGI	0	0
TOTAL MISCELLANEOUS EXPENSE	750	0	0
TOTAL ITEMIZED DEDUCTIONS	10000	7850	7050
15% STANDARD DEDUCTION	2400	2540	3070
ALLOWED STANDARD DED.	7500	7550	7050
AGI-ALLOWED DEDUCTIONS	43480	43450	43950
LESS PERSONAL EXEMPTION	1950	1700	1950
TAXABLE INCOME	41400	40550	41000
TAX LIABILITY	9849.2	10046.5	10590.2
INCREASE IN TAX LIABILITY		196.7	490.0
NO CHANGE IN TAX LIABILITY		0.00000	0.00000

\* EMP BUS EXP = 0

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TABLE 23  
ANALYSIS OF EMPLOYEE BUSINESS EXPENSE

TAXABLE YEAR	1996	1997	1998
TOTAL INCOME	5000	5000	5000
ADJUSTMENTS TO INCOME:			
MOVING EXPENSES	0	FROM AGI	FROM AGI
EMPLOYEE BUSINESS EXPENSE *	1500	FROM AGI	FROM AGI
TOTAL ADJUSTMENTS	1500	NONE	NONE
ADJUSTED GROSS INCOME	4850	5000	5000
ITEMIZED DEDUCTIONS			
MEDICAL EXPENSE			
ACTUAL	290	300	300
FLOOR	2425	375	375
ALLOWED MEDICAL EXPENSE	485	0	0
TAXES EXPENSE			
INCOME TAXES	11,135	1,250	1,180
SALES TAXES	485	REPEALED	REPEALED
TOTAL TAXES	11,620	1,250	1,180
INTEREST EXPENSE			
MORTGAGE INTEREST	460	500	500
CONSUMER FINANCED INT	1940	1350	500
TOTAL INTEREST EXPENSE	6540	1850	1000
MISCELLANEOUS EXPENSE			
MISCELLANEOUS EXPENSES	727.5	225	1150
LESS FLOOR	NONE	100	110
ALLOWED MISCELLANEOUS EXPENSE	727.5	125	1040
MOVING EXPENSE	FOR AGI	0	0
TOTAL MISCELLANEOUS EXPENSE	727.5	125	1040
TOTAL ITEMIZED DEDUCTIONS	9700	8600	8500
NONSTANDARD DEDUCTION	2400	2500	3000
ALLOW ITEMIZED DED/STANDARD DED	7220	8000	9000
NON-ALLOWED DEDUCTIONS	41000	41000	41700
LESS PERSONAL EXEMPTION	1080	1900	1950
TAXABLE INCOME	49200	39300	39750
TAX LIABILITY	9290.8	960.9	6894.5
INCREASE IN TAX LIABILITY		8,639.2	-6544.3
CHANGE IN TAX LIABILITY		0.00000	-6,162.0

\* EMP BUS EXP = 3% OF AGI.

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TABLE 24  
ANALYSIS OF EMPLOYEE BUSINESS EXPENSE

TAXABLE YEAR	1984	1987	1988
TOTAL INCOME	50000	50000	50000
ADJUSTMENTS TO INCOME:			
MOVING EXPENSES	0	FROM AGI	FROM AGI
EMPLOYEE BUSINESS EXPENSE *	3000	FROM AGI	FROM AGI
TOTAL ADJUSTMENTS	3000	NONE	4000
ADJUSTED GROSS INCOME	47000	50000	50000
ITEMIZED DEDUCTIONS			
MEDICAL EXPENSE			
ACTUAL	2820	3000	3000
FLOOR	2350	2750	2750
ALLOWED MEDICAL EXPENSE	470	0	0
TAXES EXPENSE			
INCOME TAXES	0	1000	1000
SALES TAXES	400	REPEALED	REPEALED
TOTAL TAXES	1645	1000	1000
INTEREST EXPENSE			
MORTGAGE INTEREST	4000	3000	3000
CONSUMER FINANCED INT	1880	1000	800
TOTAL INTEREST EXPENSE	5880	4000	3800
MISCELLANEOUS EXPENSE			
MISCELLANEOUS EXPENSES	700	2750	2750
LESS FLOOR	NONE	1000	1000
ALLOWED MISCELLANEOUS EXPENSE	700	1750	1750
MOVING EXPENSE	FROM AGI	0	0
TOTAL MISCELLANEOUS EXPENSE	700	1750	1750
TOTAL ITEMIZED DEDUCTIONS	9400	10000	9800
DEDUCTIBLE STANDARD DEDUCTION	2400	2500	2500
ALLOWED DEDUCTIBLE DEDUCTIONS	6900	10000	9800
ADDITIONAL DEDUCTIONS	40000	39700	40200
LESS PERSONAL EXEMPTION	1000	1000	1000
TAXABLE INCOME	39000	39700	39200
TAX LIABILITY	8937.5	9024	8334.5
INCREASE IN TAX LIABILITY		146.5	-548.0
% CHANGE IN TAX LIABILITY		0.016357	-0.12804

\* EMP BUS EXP = 6% OF AGI.

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income is assumed to be equal to \$25,000 and his moving expenses are assumed to be equal to 0, \$1,000, or \$5,000, respectively. Tables 28, 29, and 30 show the same analysis except the taxpayer's total income is assumed to be \$50,000. In Table 25 the taxpayer experienced an 8% decrease in his tax liability due to the decrease in tax rates. In Table 26 the taxpayer experienced an 11% decrease in his tax liability due to the decrease in tax rates. In Table 27 the taxpayer experienced a 13% decrease in his 1987 tax liability and a 9% decrease in his 1988 tax liability due to the decrease in tax rates. In Tables 28 and 29 the taxpayers experienced a 2% increase in their 1987 tax liability due to the increase in average tax rates and a 6% decrease in their 1988 tax liability due to the decrease in tax rates. In Table 30 the taxpayer experienced a nominal change in his 1987 tax liability since his average tax rate remained constant. In 1988 this taxpayer experienced a 6% decrease in his tax liability due to the decrease in tax rates.

When individuals file their Federal income tax returns after the Act becomes effective, taxpayers should notice a change from their prior year's tax liability. The impact of both the new itemized deduction provisions and the new tax rates on different levels of total income was analyzed in the next 12 Tables. In Tables 31,32,33 and 34 the taxpayer's total income was assumed to equal \$5,000, \$10,000, \$20,000 and \$25,000 respectively. The taxpayer was found to experience a decrease in his tax liability in all cases under the new provisions, due to the decrease in tax rates. For these income levels the decrease in tax rates was

TAXABLE YEAR	TABLE 25 ANALYSIS OF MOVING EXPENSE		
	1988	1987	1988
TOTAL INCOME	20000	18700	20000
ADJUSTMENTS TO INCOME:			
MOVING EXPENSES	0	4204.401	4204.401
EMPLOYEE BUSINESS EXPENSE	750	4204.401	4204.401
TOTAL ADJUSTMENTS	750	NONE	NONE
ADJUSTED GROSS INCOME	20750	20000	20000
ITEMIZED DEDUCTIONS			
MEDICAL EXPENSE			
ACTUAL	1455	1500	1500
FLOOR	1212.5	1075	1075
ALLOWED MEDICAL EXPENSE	242.5	0	0
TAXES EXPENSE			
INCOME TAXES	204.25	425	425
SALES TAXES	242.75	REPEALED	REPEALED
TOTAL TAXES	447.00	425	425
INTEREST EXPENSE			
ADDITIONAL INTEREST	1455	2000	2000
CONSUMER FINANCED COST	170	425	425
TOTAL INTEREST EXPENSE	1625	2425	2425
MISCELLANEOUS EXPENSE			
MISCELLANEOUS EXPENSES	363.75	425	425
FLOOR	NONE	500	500
ALLOWED MISCELLANEOUS EXPENSE	363.75	425	425
MOVING EXPENSE	4204.401	-	-
TOTAL MISCELLANEOUS EXPENSE	363.75	425	425
TOTAL ITEMIZED DEDUCTIONS	4950	4450	4450
25% STANDARD DEDUCTION	2460	2540	3000
ALLOWED ITEMIZED OR STANDARD DED	3970	4450	4450
NOI-ALLOWED DEDUCTIONS	21830	20600	20550
LESS PERSONAL EXEMPTION	1000	1500	1500
TAXABLE INCOME	20800	18700	18700
TAX LIABILITY	3255.4	2450	2971.5
INCREASE IN TAX LIABILITY		-205.4	-205.4
% CHANGE IN TAX LIABILITY		-0.05459	-0.03721

\* MOVING EXP = 0

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TAXABLE YEAR	TABLE 2 AVAILABLE OF DEDUCTIONS		
	1956	1957	1958
TOTAL INCOME	25000	25000	25000
ADJUSTMENTS TO INCOME:			
MOVING EXPENSES	1000	FROM 401	FROM 401
EMPLOYEE BUSINESS EXPENSE	750	FROM 401	FROM 401
TOTAL ADJUSTMENTS	1750	NONE	NONE
ADJUSTED BRASS INCOME	23250	25000	25000
ITEMIZED DEDUCTIONS			
MEDICAL EXPENSE			
ACTUAL	1395	1500	1500
FLOOR	1162.5	1575	1575
ALLOWED MEDICAL EXPENSE	332.5	0	0
TAXES EXPENSE			
INCOME TAXES	561.25	625	625
SALES TAXES	232.5	REPEALED	REPEALED
TOTAL TAXES	212.75	625	625
INTEREST EXPENSE			
MORTGAGE INTEREST	3325	2500	2500
CONSUMER FINANCED INT	930	650	600
TOTAL INTEREST EXPENSE	3255	3150	2900
MISCELLANEOUS EXPENSE			
MISCELLANEOUS EXPENSES	348.75	1.25	25
LESS FLOOR	NONE	500	500
ALLOWED MISCELLANEOUS EXPENSE	348.75	625	625
MOVING EXPENSE	FROM 401	1000	1000
TOTAL MISCELLANEOUS EXPENSE	348.75	1625	1625
TOTAL ITEMIZED DEDUCTIONS	4650	5400	5125
28% STANDARD DEDUCTION	3450	2540	2040
ALLOWED ITEMIZED DED-STANDARD DED	2170	5400	5125
AGI-ALLOWED DEDUCTIONS	21000	19600	19850
LESS PERSONAL EXEMPTION	1000	1900	1950
TAXABLE INCOME	20000	17700	17900
TAX LIABILITY	3047.4	2700	2671.5
CHANGE IN TAX LIABILITY		-347.4	-385.9
% CHANGE IN TAX LIABILITY		-11.39%	-14.63%

\* MOVING EXP = \$1000

TABLE 27  
ANALYSIS OF MOVING EXPENSE

TAXABLE YEAR	1966	1967	1968
TOTAL INCOME	28000	28000	28100
ADJUSTMENTS TO INCOME:			
MOVING EXPENSES	5000	FROM 460	FROM 460
EMPLOYEE BUSINESS EXPENSE	750	FROM 430	FROM 430
TOTAL ADJUSTMENTS	5750	NONE	NONE
ADJUSTED GROSS INCOME	19250	28000	28100
ITEMIZED DEDUCTIONS			
MEDICAL EXPENSE			
TOTAL	1155	1500	1500
FLOOR	942.5	1375	1375
ALLOWED MEDICAL EXPENSE	192.5	1	1
TAXES EXPENSE			
INCOME TAXES	481.25	425	425
SALES TAXES	192.5	REPEALED	REPEALED
TOTAL TAXES	673.75	425	425
INTEREST EXPENSE			
MORTGAGE INTEREST	1955	2500	2500
CONSUMER (CHARGED OUT)	770	650	400
TOTAL INTEREST EXPENSE	2725	3150	2900
MISCELLANEOUS EXPENSE			
MISCELLANEOUS EXPENSES	282.75	115	115
LESS FLOOR	NONE	50	50
ALLOWED MISCELLANEOUS EXPENSE	282.75	65	65
MOVING EXPENSE	5000	5000	5000
TOTAL MISCELLANEOUS EXPENSE	282.75	565	565
TOTAL ITEMIZED DEDUCTIONS	3850	940	915
50% STANDARD DEDUCTION	1460	2540	2000
ALLOW ITEMIZED DED-STANDARD DED	1370	940	915
ADJ-ALLOWED DEDUCTIONS	17800	1560	1585
LESS PERSONAL EXEMPTION	1080	1400	1450
TAXABLE INCOME	18800	1770	1790
TAX LIABILITY*	2310.4	1951	2095
INCREASE IN TAX LIABILITY		-107.6	-105.6
NO CHANGE IN TAX LIABILITY		-0.13305	-0.0907

\* MOVING EXP = \$5000

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TABLE YEAR	TABLE 28 ANALYSIS OF MOVING EXPENSES		
	1986	1987	1988
TOTAL INCOME	50000	50000	50000
ADJUSTMENTS TO INCOME:			
MOVING EXPENSES	1	FROM AGI	FROM AGI
EMPLOYEE BUSINESS EXPENSE	1500	FROM AGI	FROM AGI
TOTAL ADJUSTMENTS	1500	NONE	NONE
ADJUSTED GROSS INCOME	48500	50000	50000
ITEMIZED DEDUCTIONS			
MEDICAL EXPENSE			
ACTUAL	2710	3000	3000
FLOOR	2425	2750	2750
ALLOWED MEDICAL EXPENSE	485	1	0
TAXES EXPENSE			
INCOME TAXES	1013.5	1250	1250
SALES TAXES	485	REPEALED	REPEALED
TOTAL TAXES	1498.5	1250	1250
INTEREST EXPENSE			
MORTGAGE INTEREST	4800	5000	5000
CONSUMER (PAID OFF)	1940	1800	800
TOTAL INTEREST EXPENSE	6740	6800	5800
MISCELLANEOUS EXPENSE			
MISCELLANEOUS EXPENSES	727.5	1250	1250
LESS FLOOR	NONE	1000	1000
ALLOWED MISCELLANEOUS EXPENSE	727.5	1250	1250
MOVING EXPENSE	FOR AGI	0	0
TOTAL MISCELLANEOUS EXPENSE	727.5	1250	1250
TOTAL ITEMIZED DEDUCTIONS	9700	8800	8900
ESA/STANDARD DEDUCTION	3400	2500	3000
ALLOW ITEMIZED DED/STANDARD DED	7000	6300	6000
AGI-ALLOWED DEDUCTIONS	41200	41200	41700
LESS PERSONAL EXEMPTION	1000	1400	1400
TAXABLE INCOME	40200	39800	39700
TAX LIABILITY	9092.8	9600	8899.5
INCREASE IN TAX LIABILITY		2150	-594.3
% CHANGE IN TAX LIABILITY		0.022993	-0.010220

\* MOVING EXP = 0

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TAXABLE YEAR	TABLE OF EXPENSE			
	ANALYSTS 1986	CP MOYING	1987	1988
TOTAL INCOME	50700		50000	50000
ADJUSTMENTS TO INCOME:				
ADVICE EXPENSES	1000		FROM AGI	FROM AGI
EMPLOYEE BUSINESS EXPENSE	1500		FROM AGI	FROM AGI
TOTAL ADJUSTMENTS	2500		NONE	NONE
ADJUSTED GROSS INCOME	47500		50000	50000
ITEMIZED DEDUCTIONS				
MEDICAL EXPENSE				
ACTUAL	3850		3000	3000
FLOOR	2075		2750	2750
ALLOWED MEDICAL EXPENSE	475		0	0
TAXES EXPENSE				
INCOME TAXES	1187.5		1250	1250
SALES TAXES	475		REPEALED	REPEALED
TOTAL TAXES	1662.5		1250	1250
INTEREST EXPENSE				
MORTGAGE INTEREST	4750		5000	5000
CONSUMER FINANCED INT	1900		1500	500
TOTAL INTEREST EXPENSE	6650		6500	5500
MISCELLANEOUS EXPENSE				
MISCELLANEOUS EXPENSES	712.5		2250	2250
LESS FLOOR	NONE		1000	1000
ALLOWED MISCELLANEOUS EXPENSE	712.5		1250	1250
MOYING EXPENSE	FOR AGI		1000	1000
TOTAL MISCELLANEOUS EXPENSE	712.5		2250	2250
TOTAL ITEMIZED DEDUCTIONS	9500		9800	9000
NONSTANDARD DEDUCTION	2450		2540	3100
LESS ITEMIZED DEDUCTIONS	7050		9800	9000
ALLOWED DEDUCTIONS	40450		40200	43700
LESS PERSONAL EXEMPTION	1000		1000	1000
TAXABLE INCOME	39400		39000	39750
TAX LIABILITY*	9089.8		9259	8529.5
INCR/DECR IN TAX LIABILITY			169.0	-560.3
% CHANGE IN TAX LIABILITY			0.018614	-0.06194

\* MOYING EXP = \$1000

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TAXABLE YEAR	TABLE B ANALYSIS OF MOVING EXPENSE		
	1988	1987	1986
TOTAL INCOME	50000	50000	50000
ADJUSTMENTS TO INCOME:			
MOVING EXPENSES	5000	FROM AGI	FROM AGI
EMPLOYEE BUSINESS EXPENSE	1500	FROM AGI	FROM AGI
TOTAL ADJUSTMENTS	6500	NONE	NONE
ADJUSTED GROSS INCOME	43500	50000	50000
ITEMIZED DEDUCTIONS			
MEDICAL EXPENSE			
ACTUAL	2410	3000	3000
FLOOR	2175	2750	2750
ALLOWED MEDICAL EXPENSE	435	1	1
TAXES EXPENSE			
INCOME TAXES	1027.5	250	1200
SALES TAXES	400	REPEALED	REPEALED
TOTAL TAXES	1522.5	1250	1200
INTEREST EXPENSE			
MORTGAGE INTEREST	4350	5000	5000
CONSUMER (PHASED OUT)	1740	1500	250
TOTAL INTEREST EXPENSE	6090	6500	5250
MISCELLANEOUS EXPENSE			
MISCELLANEOUS EXPENSES	652.5	1250	2250
LESS FLOOR	NONE	1000	1000
ALLOWED MISCELLANEOUS EXPENSE	652.5	250	250
MOVING EXPENSE	FOR 400	5000	5000
TOTAL MISCELLANEOUS EXPENSE	652.5	1250	4250
TOTAL ITEMIZED DEDUCTIONS	8740	13800	13300
DEPRECIATION DEDUCTIONS	2480	2540	3000
ALLOW ITEMIZED DEPRECIATION	4210	13800	13300
AGI-ALLOWED DEDUCTIONS	57230	34200	34700
LESS PERSONAL EXEMPTION	1000	1950	1950
TAXABLE INCOME	36230	34350	34750
TAX LIABILITY	7877.8	7859	7439.5
INCREASE IN TAX LIABILITY		-58.9	-423.3
% CHANGE IN TAX LIABILITY		-1.01441	-1.04622

\* MOVING EXP = \$5000

found to outweigh the taxpayer's loss of itemized deductions. What should be especially noted is the dramatic decrease that Table 31 illustrates. The drastic decrease that this taxpayer experienced was a major goal of Congress; to relieve low income individuals from their tax burdens. In Table 35 the taxpayer's total income was assumed to be equal to \$30,000. In this case, the taxpayer was found to experience only a nominal change in his tax liability. The small change was due to the fact that the decrease in tax rates completely offset the taxpayer's loss of deductions. In Tables 36 and 37 the taxpayer's total income was assumed to equal \$40,000 and \$50,000, respectively. In both cases, the taxpayer was found to experience an increase in his 1987 tax liability, due to the loss of some of his itemized deductions and the increase in average rates. He was found to experience a decrease, however, in his 1988 tax liability due to the additional decrease in tax rates. Even though the increase these individuals experienced was relatively equal, the decrease they experienced was different. This was due to the fact that the taxpayer in Table 37 had a significant portion of his 1987 income taxed at 35% while the taxpayer in Table 36 only had a minor portion taxed at 35%. So, in 1988 when both taxpayers marginal tax rate dropped to 28%, this affected the taxpayer in Table 37 to a greater degree. In Tables 38, 39 and 40 the taxpayer's total income was assumed to equal \$60,000, \$70,000 and \$80,000, respectively. Again for these levels of income, the taxpayer was found to experience a nominal change in his 1987 tax liability, since the loss of deductions was offset by the change in tax rates, but he was found to

experience a decrease in his 1988 tax liability due to the decrease in the 1988 tax rates. In Tables 41 and 42 the taxpayer's total income was assumed to equal \$90,000 and \$100,000, respectively. The taxpayer was found to experience a decrease in his tax liability under the new provisions. The decrease was due to the decrease in the tax rate system. The results of this analysis concluded that low income and high income taxpayers will generally experience a decrease in their 1987 tax liabilities due to the decrease in tax rates, which will outweigh the decrease in deductions. However, middle income individuals will experience an increase in their 1987 tax liabilities due to the increase in average tax rates, and the decrease of deductions.

In summary, there are a few major goals that Congress wanted to achieve with the Tax Reform Act of 1986. The intent of the Act was to decrease tax rates and increase taxable income by eliminating certain deductions. Therefore, itemized deductions were either: 1) eliminated, 2) tightened with respect to substantiation, 3) phased-out, 4) or allowed only above a floor. Congress also repealed certain deductions that they felt were being abused. Lastly, it was Congress' hope that by changing the provisions with relating to itemized deductions, more taxpayers would use the standard deduction in the future thus requiring less recordkeeping for taxpayers. They felt this would make it easier for more individuals to file their own Federal income tax returns.

TABLE 31  
ANALYSIS OF TOTAL INCOME

TAXABLE YEAR	1986	1987	1988
TOTAL INCOME *	5000	5000	5000
ADJUSTMENTS TO INCOME:			
MOVING EXPENSES	0	FROM AGI	FROM AGI
EMPLOYEE BUSINESS EXPENSE	150	FROM AGI	FROM AGI
TOTAL ADJUSTMENTS	150	NONE	NONE
ADJUSTED GROSS INCOME	4850	5000	5000
ITEMIZED DEDUCTIONS			
MEDICAL EXPENSE			
ACTUAL	291	301	311
FLOOR	242.5	242	242
ALLOWED MEDICAL EXPENSE	48.5	0	0
TAXES EXPENSE			
INCOME TAXES	121.25	125	125
SALES TAXES	45.75	REPEALED	REPEALED
TOTAL TAXES	167.00	125	125
INTEREST EXPENSE			
MORTGAGE INTEREST	485	500	500
COUNSELOR (PHASED OUT)	194	100	50
TOTAL INTEREST EXPENSE	679	600	550
MISCELLANEOUS EXPENSE			
MISCELLANEOUS EXPENSES	72.75	225	225
LESS FLOOR	NONE	100	100
ALLOWED MISCELLANEOUS EXPENSE	72.75	125	125
MOVING EXPENSE	FOR AGI	0	0
TOTAL MISCELLANEOUS EXPENSE	72.75	125	125
TOTAL ITEMIZED DEDUCTIONS	816	860	860
IRA/STANDARD DEDUCTION	2490	2500	3000
ALL ITEMIZED DED/STANDARD DED	0	3540	3860
AGI-ALLOWED DEDUCTIONS	4850	2450	3100
LESS PERSONAL EXEMPTION	1380	1300	1250
TAXABLE INCOME	3470	500	50
TAX LIABILITY	143.4	51.5	7.5
INCR/DECR IN TAX LIABILITY		-21.5	-135.4
% CHANGE IN TAX LIABILITY		-0.56692	-1.04751

\* TOTAL INCOME = \$5000

TABLE 22  
ANALYSIS OF TOTAL INCOME

TAXABLE YEAR	1995	1997	1998
TOTAL INCOME *	10000	10000	10000
ADJUSTMENTS TO INCOME:			
MOVING EXPENSES	0	FROM AGI	FROM AGI
EMPLOYER BUSINESS EXPENSE	300	FROM AGI	FROM AGI
TOTAL ADJUSTMENTS	300	NONE	NONE
ADJUSTED GROSS INCOME	9700	10000	10000
ITEMIZED DEDUCTIONS			
MEDICAL EXPENSE			
ACTUAL	582	600	600
FLOOR	465	750	750
ALLOWED MEDICAL EXPENSE	97	0	0
TAXES EXPENSE			
INCOME TAXES	242.5	250	250
SALES TAXES	97	REPEATED	REPEATED
TOTAL TAXES	339.5	250	250
INTEREST EXPENSE			
MORTGAGE INTEREST	770	1000	1000
CONSUMER (PHASED OUT)	330	250	250
TOTAL INTEREST EXPENSE	1100	1250	1250
MISCELLANEOUS EXPENSE			
MISCELLANEOUS EXPENSES	145.5	250	450
LESS FLOOR	NONE	250	250
ALLOWED MISCELLANEOUS EXPENSE	145.5	0	200
MOVING EXPENSE	FROM AGI	0	0
TOTAL MISCELLANEOUS EXPENSE	145.5	250	250
TOTAL ITEMIZED DEDUCTIONS	1940	1750	1500
28% STANDARD DEDUCTION	2480	3540	3600
WHICH ITEMIZED DED-STANDARD DED	0	3540	3600
NO-ALLOWED DEDUCTIONS	9700	7460	7000
LESS PERSONAL EXEMPTION	1000	1000	1000
TAXABLE INCOME	8620	6460	6000
TAX LIABILITY	818.4	762	787.5
OVER DEFER IN TAX LIABILITY		-84.4	-80.9
NO CHANGE IN TAX LIABILITY		-0.0288	-0.0244
* TOTAL INCOME = \$10000			

TABLE 28  
ANALYSIS OF TOTAL INCOME

TAXABLE YEAR	1986	1987	1988
TOTAL INCOME *	20000	20000	20000
ADJUSTMENTS TO INCOME:			
MOVING EXPENSES	0	FROM AGI	FROM AGI
EMPLOYEE BUSINESS EXPENSE	600	FROM AGI	FROM AGI
TOTAL ADJUSTMENTS	600	NONE	NONE
ADJUSTED GROSS INCOME	19400	20000	20000
ITEMIZED DEDUCTIONS			
MEDICAL EXPENSE			
ACTUAL	1,144	1500	1500
FLOOR	900	1600	1500
ALLOWED MEDICAL EXPENSE	194	0	0
TAXES EXPENSE			
INCOME TAXES	485	500	500
SALES TAXES	194	REPEALED	REPEALED
TOTAL TAXES	679	500	500
INTEREST EXPENSE			
MORTGAGE INTEREST	1940	2100	2100
CONSUMER PHASED OUT	776	500	500
TOTAL INTEREST EXPENSE	2716	2600	2600
MISCELLANEOUS EXPENSE			
MISCELLANEOUS EXPENSES	290	900	900
LESS FLOOR	NONE	400	400
ALLOWED MISCELLANEOUS EXPENSE	290	500	500
MOVING EXPENSE	FOR AGI	0	0
TOTAL MISCELLANEOUS EXPENSE	290	500	500
TOTAL ITEMIZED DEDUCTIONS	3880	3600	3600
28% STANDARD DEDUCTION	1400	2540	3100
ALLOWED ITEMIZED DED/STANDARD DED	1400	3600	3600
ADDED DEDUCTIONS	10000	16400	16800
LESS PERSONAL EXEMPTION	1000	1000	1000
TAXABLE INCOME	19720	16400	17000
TAX LIABILITY	2328.2	2115	2289.5
DEFERRED IN TAX LIABILITY		-208.2	-118.7
NO CHANGE IN TAX LIABILITY		-2,293.7	-1,150.2
* TOTAL INCOME = \$20000			

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TABLE 34  
ANALYSIS OF TOTAL INCOME

TAXABLE YEAR	1986	1987	1988
TOTAL INCOME *	25000	25000	25000
ADJUSTMENTS TO INCOME:			
MOVING EXPENSES	0	FROM AGI	FROM AGI
EMPLOYEE BUSINESS EXPENSE	750	FROM AGI	FROM AGI
TOTAL ADJUSTMENTS	750	NONE	NONE
ADJUSTED GROSS INCOME	24250	25000	25000
ITEMIZED DEDUCTIONS			
MEDICAL EXPENSE			
ACTUAL	1455	1500	500
FLOOR	1212.5	1275	1875
ALLOWED MEDICAL EXPENSE	242.5	0	0
TAXES EXPENSE			
INCOME TAXES	606.25	625	625
SALES TAXES	242.5	REPEALED	REPEALED
TOTAL TAXES	848.75	625	625
INTEREST EXPENSE			
MORTGAGE INTEREST	2425	2500	2500
CONSUMER (PHASED OUT)	970	65	470
TOTAL INTEREST EXPENSE	3395	2565	2970
MISCELLANEOUS EXPENSE			
MISCELLANEOUS EXPENSES	363.75	11.25	11.25
LESS FLOOR	NONE	500	500
ALLOWED MISCELLANEOUS EXPENSE	363.75	625	11.25
MOVING EXPENSE	500 AGI	0	0
TOTAL MISCELLANEOUS EXPENSE	363.75	625	625
TOTAL ITEMIZED DEDUCTIONS	4280	4650	4181
STANDARD DEDUCTION	2480	2540	3000
ALLOW ITEMIZED DEDUCTIONS	3370	4400	4181
NON-ALLOWED DEDUCTIONS	2160	2160	2781
LESS PERSONAL EXEMPTIONS	1284	1284	1284
TAXABLE INCOME	22966	22708	18919
TAX LIABILITY	3258.4	3161	2411.5
INCREASED IN TAX LIABILITY		+205.4	+823.7
CHANGE IN TAX LIABILITY		-1084.5	-1010.0

\* TOTAL INCOME = \$25000

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TABLE 35  
ANALYSIS OF TOTAL INCOME

TAXABLE YEAR	1984	1987	1988
TOTAL INCOME *	30000	30000	30000
ADJUSTMENTS TO INCOME:			
MOVING EXPENSES	0	FROM AGI	FROM AGI
EMPLOYEE BUSINESS EXPENSE	700	FROM AGI	FROM AGI
TOTAL ADJUSTMENTS	700	NONE	1,300
ADJUSTED GROSS INCOME	29300	30000	30000
ITEMIZED DEDUCTIONS			
MEDICAL EXPENSE			
ACTUAL	1744	1300	1300
FLOOR	1455	2300	2300
ALLOWED MEDICAL EXPENSE	291	0	0
TAXES EXPENSE			
INCOME TAXES	727.5	750	750
SALES TAXES	291	REFUNDED	REFUNDED
TOTAL TAXES	1018.5	750	750
INTEREST EXPENSE			
MORTGAGE INTEREST	2510	3000	3000
CONSUMER FINANCED INT.	1164	780	480
TOTAL INTEREST EXPENSE	4074	3780	3480
MISCELLANEOUS EXPENSE			
MISCELLANEOUS EXPENSES	436.5	1350	1350
LESS FLOOR	NONE	400	400
ALLOWED MISCELLANEOUS EXPENSE	436.5	750	750
TRAVEL EXPENSE	FOR AGI	0	0
TOTAL MISCELLANEOUS EXPENSE	436.5	750	750
TOTAL ITEMIZED DEDUCTIONS	5221	5230	4980
ISA/STANDARD DEDUCTION	2480	3540	3110
ALLOA ITEMIZED OR STANDARD DEB	3540	5230	4980
NO-ALLOWED DEDUCTIONS	20760	24770	25020
LESS PERSONAL EXEMPTION	1130	1900	1950
TAXABLE INCOME	24680	22870	23070
TAX LIABILITY	4264.2	4,331.5	4,184.1
INCREASE IN TAX LIABILITY		-1,301.5	-1,151.1
NO CHANGE IN TAX LIABILITY		-9,086.2	-1,027.55

\* TOTAL INCOME = 300000

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TABLE 36  
ANALYSIS OF TOTAL INCOME

TAXABLE YEAR	1984	1987	1988
TOTAL INCOME *	40600	40310	41000
ADJUSTMENTS TO INCOME:			
RECORD EXPENSES	0	FROM 481	FROM 481
EMPLOYEE BUSINESS EXPENSE	1200	FROM 481	FROM 481
TOTAL ADJUSTMENTS	1200	NONE	NONE
ADJUSTED GROSS INCOME	39400	40310	41000
ITEMIZED DEDUCTIONS:			
MEDICAL EXPENSE			
ACTUAL	2928	2400	2400
FLOOR	1940	900	900
ALLOWED MEDICAL EXPENSE	388	0	0
TAXES EXPENSE			
INCOME TAXES	970	1000	1000
SALES TAXES	398	REPEALED	REPEALED
TOTAL TAXES	1368	1000	1000
INTEREST EXPENSE			
MORTGAGE INTEREST	3880	4000	4000
CDs/MPR (PHASED OUT)	1552	640	640
TOTAL INTEREST EXPENSE	5432	5140	4640
MISCELLANEOUS EXPENSE			
MISCELLANEOUS EXPENSES	582	1000	1000
LESS FLOOR	NONE	500	500
ALLOWED MISCELLANEOUS EXPENSE	582	1000	1000
MOVING EXPENSE	FOR 400	0	0
TOTAL MISCELLANEOUS EXPENSE	582	1000	1000
TOTAL ITEMIZED DEDUCTIONS	7760	7140	6640
ISA/STANDARD DEDUCTION	2480	2560	3000
ALLOW ITEMIZED OR STANDARD DEC	5280	7140	6640
NOT-ALLOWED DEDUCTIONS	35320	32940	34360
LESS PERSONAL EXEMPTION	1680	1900	1900
TAXABLE INCOME	32440	31060	31400
TAX LIABILITY	6619.4	8705	8474.2
OVERSEEN IN TAX LIABILITY		105.8	148.1
% CHANGE IN TAX LIABILITY		(11.69%)	(-0.12192)
* TOTAL INCOME = 640800			

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TABLE OF  
ANALYSIS OF TOTAL INCOME

TAXABLE YEAR	1986	1987	1988
TOTAL INCOME *	50000	50000	50000
ADJUSTMENTS TO INCOME:			
HOUSING EXPENSES	0	FROM AGI	FROM AGI
EMPLOYEE BUSINESS EXPENSE	1800	FROM AGI	FROM AGI
TOTAL ADJUSTMENTS	1800	NONE	NONE
ADJUSTED GROSS INCOME	48200	50000	50000
ITEMIZED DEDUCTIONS:			
MEDICAL EXPENSE			
ACTUAL	2910	3000	3100
FLOOR	2420	1700	2700
ALLOWED MEDICAL EXPENSE	485	0	0
TAXES EXPENSE			
INCOME TAXES	10,125	1200	1200
SALES TAXES	480	REPEATED	REPEATED
TOTAL TAXES	10,605	1200	1200
INTEREST EXPENSE			
MORTGAGE INTEREST	4800	5000	5000
CONSUMER (PHASED OUT)	1940	0	0
TOTAL INTEREST EXPENSE	6740	5000	5000
MISCELLANEOUS EXPENSE			
MISCELLANEOUS EXPENSES	727.5	2250	2250
LESS FLOOR	NONE	1000	1000
ALLOWED MISCELLANEOUS EXPENSE	727.5	1250	1250
MOVING EXPENSE	FROM AGI	0	0
TOTAL MISCELLANEOUS EXPENSE	727.5	1250	1250
TOTAL ITEMIZED DEDUCTIONS	9700	8000	8000
15% STANDARD DEDUCTION	2480	2540	3000
ALLOA ITEMIZED DED/STANDARD DED	7220	5500	5000
RE-ALLOWED DEDUCTIONS	41200	41500	41700
LESS PERSONAL EXEMPTION	1080	1700	1080
TAXABLE INCOME	40200	49300	44700
TAX LIABILITY	8090.5	9600	8600.5
INCREASED IN TAX LIABILITY		1509.5	-3000
% CHANGE IN TAX LIABILITY		1.822908	-1.002209

\* TOTAL INCOME = \$50000

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TABLE 65  
ANALYSIS OF TOTAL INCOME

TAXABLE YEAR	1966	1967	1968
TOTAL INCOME *	60000	60000	60000
ADJUSTMENTS TO INCOME:			
HOUSING EXPENSES	0	FROM AGI	FROM AGI
EMPLOYEE BUSINESS EXPENSE	1800	FROM AGI	FROM AGI
TOTAL ADJUSTMENTS	1800	NONE	NONE
ADJUSTED GROSS INCOME	58200	60000	60000
ITEMIZED DEDUCTIONS			
MEDICAL EXPENSE			
ACTUAL	3493	3600	3600
FLOOR	2910	4500	4500
ALLOWED MEDICAL EXPENSE	582	0	0
TAXES EXPENSE			
INCOME TAXES	1485	000	1400
SALES TAXES	562	REPEALED	REPEALED
TOTAL TAXES	2047	1500	1500
INTEREST EXPENSE			
MORTGAGE INTEREST	5820	6000	6000
CONSUMER (PHASED OUT)	2010	1500	900
TOTAL INTEREST EXPENSE	8145	7500	6900
MISCELLANEOUS EXPENSE			
MISCELLANEOUS EXPENSES	873	2700	2700
LESS FLOOR	NONE	1200	1200
ALLOWED MISCELLANEOUS EXPENSE	873	1500	1500
HOUSING EXPENSE	FROM AGI	0	0
TOTAL MISCELLANEOUS EXPENSE	873	1500	1500
TOTAL ITEMIZED DEDUCTIONS	11640	10500	9900
NON-STANDARD DEDUCTION	2400	2500	2000
ALLOWED DEDUCTIONS	9140	10500	9900
AGI-ALLOWED DEDUCTIONS	49040	49440	50040
LESS REPEALED EXEMPTION	1000	1500	1400
TAXABLE INCOME	47940	47940	48640
TAX LIABILITY	12469.8	12493	11951.7
INCREASE OR DECREASE IN TAX LIABILITY		23.2	4079.1
% CHANGE IN TAX LIABILITY		0.001860	-1.0645

\* TOTAL INCOME = \$60000

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TABLE 19  
ANALYSIS OF TOTAL INCOME

TAXABLE YEAR	1966	1967	1968
TOTAL INCOME *	70000	70000	70000
ADJUSTMENTS TO INCOME:			
ADDITIVE EXPENSES	0	FROM AGI	FROM AGI
EMPLOYEE BUSINESS EXPENSE	2100	FROM AGI	FROM AGI
TOTAL ADJUSTMENTS	2100	NONE	NONE
ADJUSTED GROSS INCOME	67900	70000	70000
ITEMIZED DEDUCTIONS			
MEDICAL EXPENSE			
ACTUAL	4974	4250	4250
FLOOR	3295	5250	4250
ADJUSTED MEDICAL EXPENSE	679	0	0
TAXES EXPENSE			
INCOME TAXES	1697.8	1750	1750
SALES TAXES	879	REPEALED	REPEALED
TOTAL TAXES	2576.8	1750	1750
INTEREST EXPENSE			
MORTGAGE INTEREST	6790	7000	7000
CONSUMER FINANCED PURCHASES	2716	1320	1320
TOTAL INTEREST EXPENSE	9506	8320	8320
MISCELLANEOUS EXPENSE			
MISCELLANEOUS EXPENSES	1013.5	9400	9400
LESS FLOOR	NONE	1400	1400
ADJUSTED MISCELLANEOUS EXPENSE	1013.5	1750	1750
HOUSING EXPENSE	FOR AGI	0	0
TOTAL MISCELLANEOUS EXPENSE	1013.5	1750	1750
TOTAL ITEMIZED DEDUCTIONS	13890	12320	11620
28% STANDARD DEDUCTION	1481	2540	3011
ALLOW. ITEMIZED DES/STANDARD DEE	11130	12320	11620
ADJ. ALLOWED DEDUCTIONS	56800	57680	58380
LESS PERSONAL EXEMPTION	1000	1000	1000
TAXABLE INCOME	55720	55780	54400
TAX LIABILITY	15729	15439.2	14143.9
INCREASED IN TAX LIABILITY		-289.7	-1582.1
CHANGE IN TAX LIABILITY		-161.941	-1110.77

\* TOTAL INCOME = \$70000

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TABLE 40  
ANALYSIS OF TOTAL INCOME

TABLE YEAR	1986	1987	1988
TOTAL INCOME *	80000	80000	80000
ADJUSTMENTS TO INCOME:			
HOUSING EXPENSES	0	FROM AGI	FROM AGI
EMPLOYEE BUSINESS EXPENSE	2400	FROM AGI	FROM AGI
TOTAL ADJUSTMENTS	2400	NONE	NONE
ADJUSTED GROSS INCOME	77600	80000	80000
ITEMIZED DEDUCTIONS			
MEDICAL EXPENSE			
ACTUAL	4656	4800	4800
FLOOR	5955	6000	6000
ALLOWED MEDICAL EXPENSE	776	0	0
TAXES EXPENSE			
INCOME TAXES	1940	2000	2000
SALES TAXES	776	REFUND	REFUND
TOTAL TAXES	2716	2000	2000
INTEREST EXPENSE			
MORTGAGE INTEREST	7000	8000	8000
DEVELOPER PHASED OUT	3184	2100	1800
TOTAL INTEREST EXPENSE	10184	10100	9800
MISCELLANEOUS EXPENSE			
MISCELLANEOUS EXPENSES	1164	3600	3600
LESS FLOOR	NONE	1600	1600
ALLOWED MISCELLANEOUS EXPENSE	1164	2000	2000
HOUSING EXPENSE	FOR AGI	0	0
TOTAL MISCELLANEOUS EXPENSE	1164	2000	2000
TOTAL ITEMIZED DEDUCTIONS	15920	14900	13800
SEPARATE DEDUCTION	2480	2540	3000
ALLOW SEPARATE DEDUCTION	13040	14080	13300
ADJ-ALLOWED DEDUCTIONS	6456	6520	6420
LESS PERSONAL EXEMPTION	1380	1500	1950
TAXABLE INCOME	63420	64000	64750
TAX LIABILITY	192,843	186,117	188,641
INCREASE IN TAX LIABILITY		+6651	+2820.7
% CHANGE IN TAX LIABILITY		+10.0148	+11.1209

\* TOTAL INCOME = \$80000

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TABLE A1  
ANALYSIS OF TOTAL INCOME

TAXABLE YEAR	1996	1997	999
TOTAL INCOME *	90000	90000	90000
ADJUSTMENTS TO INCOME:			
MOVING EXPENSES	0	FROM AGI	FROM AGI
EMPLOYEE BUSINESS EXPENSE	2700	FROM AGI	FROM AGI
TOTAL ADJUSTMENTS	2700	NONE	NONE
ADJUSTED GROSS INCOME	87300	90000	90000
ITEMIZED DEDUCTIONS			
MEDICAL EXPENSE			
ACTUAL	3230	5400	5400
FLOOR	4365	4750	4750
ALLOWED MEDICAL EXPENSE	303	0	0
TAXES EXPENSE			
INCOME TAXES	2182.5	2250	2250
SALES TAXES	673	REPEATED	REPEATED
TOTAL TAXES	2855.5	2250	2250
INTEREST EXPENSE			
MORTGAGE INTEREST	9730	9000	9000
CONSUMER (PHASED OUT)	3492	3940	3940
TOTAL INTEREST EXPENSE	12222	12940	12940
MISCELLANEOUS EXPENSE			
MISCELLANEOUS EXPENSES	1309.5	4050	4050
LESS FLOOR	NONE	1800	1800
ALLOWED MISCELLANEOUS EXPENSE	1309.5	2250	2250
MOVING EXPENSE		0	0
TOTAL MISCELLANEOUS EXPENSE	1309.5	2250	2250
TOTAL ITEMIZED DEDUCTIONS	17460	15840	14940
28% STANDARD DEDUCTION	2480	2540	3000
ALLOW ITEMIZED DED/STANDARD DED	14980	13300	11940
AGI-ALLOWED DEDUCTIONS	72321	74160	75060
LESS PERSONAL EXEMPTION	1080	1900	1900
TAXABLE INCOME	71240	72260	73160
TAX LIABILITY	22941.6	21784.3	19646.2
INCREASE IN TAX LIABILITY		-1157.5	-3293.3
% CHANGE IN TAX LIABILITY		-5.05045	-16.4075

\* TOTAL INCOME = 900000

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TABLE NO  
ANALYSIS OF TOTAL INCOME

TABLE YEAR	1956	1957	1958
TOTAL INCOME *	100000	100000	100000
ADJUSTMENTS TO INCOME:			
MOVING EXPENSE	1	FROM 461	FROM 457
EMPLOYEE BUSINESS EXPENSE	3000	FROM 451	FROM 451
TOTAL ADJUSTMENTS	3001	NONE	NONE
ADJUSTED GROSS INCOME	97000	100000	100000
ITEMIZED DEDUCTIONS			
MEDICAL EXPENSE			
HOSPITAL	5000	6000	6000
DRUGS	4000	7500	7500
ALLOWED MEDICAL EXPENSE	900	0	1
TAXES EXPENSE			
INCOME TAXES	2400	2000	2000
SALES TAXES	900	REPEALED	REPEALED
TOTAL TAXES	3300	2000	2000
INTEREST EXPENSE			
MORTGAGE INTEREST	2700	10000	11000
CONSUMER FINANCED INT.	3680	2600	1600
TOTAL INTEREST EXPENSE	6380	12600	12600
MISCELLANEOUS EXPENSE			
MISCELLANEOUS EXPENSES	1455	4500	4500
LESS FLOOR	NONE	2000	2000
ALLOWED MISCELLANEOUS EXPENSE	1455	2500	2500
MOVING EXPENSE	FOR 401	1	1
TOTAL MISCELLANEOUS EXPENSE	1455	2500	2500
TOTAL ITEMIZED DEDUCTIONS	19410	17600	16600
STANDARD DEDUCTION	2400	2540	3000
ALLOW ITEMIZED OR STANDARD DEG	16920	17600	16600
NOT ALLOWED DEDUCTIONS	80080	82400	83400
LESS PERSONAL EXEMPTION	1800	1900	1900
TAXABLE INCOME	79200	80500	81450
TAX LIABILITY	26666.4	24956.2	22400.8
OVERPAID BY TAX LIABILITY		-1709.9	-4265.9
CHANGE IN TAX LIABILITY		-0.26412	-0.15997
* TOTAL INCOME = \$100000			

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IF TAXABLE INCOME IS OVER	NOT OVER	TAX LIAB			
0	2480	0			
2480	3670	0	+	0.11	2480
3670	4750	130.9	+	0.12	3670
4750	7618	260.5	+	0.14	4750
7010	9170	576.9	+	0.15	7010
9170	11650	900.9	+	0.16	9170
11650	13920	1297.7	+	0.18	11650
13920	16190	1706.3	+	0.2	13920
16190	19640	2160.3	+	0.23	16190
19640	25360	2953.8	+	0.26	19640
25360	31080	4441	+	0.3	25360
31080	36800	6157	+	0.34	31080
36800	44780	8181.8	+	0.38	36800
44780	59670	11134.2	+	0.42	44780
59670	88270	17388	+	0.48	59670
88270		31116	+	0.5	88270

IF TAXABLE INCOME IS OVER	NOT OVER	TAX LIAB			
0	1800	0	+	0.11	
1800	16800	198	+	0.15	1800
16800	27000	2440	+	0.28	16800
27000	54000	5304	+	0.35	27000
54000		14754	+	0.385	54000

IF TAXABLE INCOME IS OVER	NOT OVER	TAX LIAB			
0	17850	0	+	0.15	0
17850	43150	2677.5	+	0.28	17850
43150	89560	9761.5	+	0.33	43150
89560		25076.8	+	0.28	89560

A1: (W25) 'TAX YEAR  
B1: 1986  
C1: '  
F1: 1987  
I1: 1988  
B2: \-  
C2: \-  
F2: \-  
G2: \-  
I2: \-  
J2: \-  
A3: (W25) 'TOTAL INCOME  
C3: 25000  
F3: '  
G3: 25000  
J3: 25000  
A5: (W25) 'ADJUSTMENTS TO INCOME:  
A7: (W25) ' MOVING EXPENSES  
C7: 0  
G7: 'REPEALED  
J7: 'REPEALED  
A9: (W25) ' EMP BUS EXP  
C9: 0.03\*C3  
G9: 'REPEALED  
J9: 'REPEALED  
A11: (W25) 'TOTAL ADJUSTMENTS  
C11: (C7+C9)  
G11: 'NONE  
J11: 'NONE  
A13: (W25) 'ADJ GROSS INC  
C13: (C3-C11)  
G13: (G3)  
J13: (J3)  
A15: (W25) 'ITEM DED  
A17: (W25) 'MEDICAL EXP  
A18: (W25) ' ACTUAL  
B18: 0.06\*C13  
E18: 0.06\*G13  
F18: '  
I18: (J13\*0.06)  
A19: (W25) ' FLOOR  
B19: 0.05\*C13  
E19: 0.075\*G13  
F19: '  
I19: (0.075\*J13)  
A20: (W25) ' ALLOWED MED EXP  
B20: 2IF(B18-B19)>0,B18-B19,0)  
E20: 2IF(E18-E19)>0,E18-E19,0)  
F20: '  
I20: 2IF(I18-I19)>0,I18-I19,0)  
A22: (W25) 'TAXES  
A23: (W25) ' INCOME TAXES  
B23: 0.025\*C13  
F23: 0.025\*G13  
I23: (J13\*0.025)  
A24: (W25) ' SALES TAXES

B24: 0.01\*C13  
 F24: 'REPEALED  
 I24: 'REPEALED  
 A25: [W25] ' TOTAL TAXES  
 B25: (B23+B24)  
 F25: (F23)  
 I25: (I23)  
 A27: [W25] ' INTEREST  
 A28: [W25] ' MORTGAGE  
 B28: 0.1\*I13  
 F28: 0.1\*F13  
 I28: 0.1\*I13  
 A29: [W25] ' CONSUMER (PHASED OUT)  
 B29: 0.04\*C13  
 F29: 0.04\*0.04\*F13  
 I29: 0.04\*0.04\*I13  
 A30: [W25] ' TOTAL INTEREST  
 B30: (B28+B29)  
 F30: (F28+F29)  
 I30: (I28+I29)  
 A32: [W25] ' MISC EXP  
 A33: [W25] ' EMP BUS EXP  
 B33: 0.015\*C13  
 F33: 0.8\*(0.015\*F13)+(0.03\*F13)  
 I33: 0.8\*(0.015\*I13)+(0.03\*I13)  
 A34: [W25] ' LESS EMP BUS EXP FLOOR  
 B34: ' NONE  
 F34: 0.02\*F13  
 I34: 0.02\*I13  
 A35: [W25] ' ALLOWED EMP BUS EXP  
 B35: (B33)  
 F35: 2IF(F33-F34)>0,F33-F34,0  
 I35: 2IF(I33-I34)>0,I33-I34,0  
 A36: [W25] ' MOVING EXP  
 B36: ' FOR AGI  
 F36: 0  
 I36: 0  
 A37: [W25] ' ALLOWED MISC EXP  
 B37: (B35)  
 F37: (F35+F36)  
 I37: (I35+I36)  
 A39: [W25] ' TOTAL ITEM DED  
 C39: (B28+B29+B30+B37)  
 F39: (E28+F25+F30+F37)  
 I39: (I28+I29+I30+I37)  
 A41: [W25] ' LESS ZBA/STND DED  
 C41: 2480  
 F41: 2570  
 I41: 3000  
 A43: [W25] ' ALLOW ITEM DED/STND DED  
 C43: 2IF(C39-C41)>0,C39-C41,0  
 F43: 2IF(F39-F41)>0,F39-F41,0  
 I43: 2IF(I39-I41)>0,I39-I41,0  
 A45: [W25] ' AGI-ALLOW DED  
 C45: (C13-C43)  
 F45: (F13-F43)

145: (J13-143)  
 A47: (W25) 'LESS PERS EXEMPT  
 C47: 1600  
 F47: 1900  
 I47: 1950  
 A49: (W25) 'TAXABLE INCOME  
 C49: (C45-C47)  
 F49: (F43-F47)  
 I49: (I45-I47)  
 A51: (W25) 'TAX LIABILITY  
 C51: (ZLOOKUP(C49,A60..H75,4)+(ZLOOKUP(C49,A60..H75,6)\*(C49-ZLOOKUP(C49,A60..H75,7))))  
 F51: (ZLOOKUP(F49,A80..H84,4)+(ZLOOKUP(F49,A80..H84,6)\*(F49-ZLOOKUP(F49,A80..H84,7))))  
 I51: (ZLOOKUP(I49,A90..H93,4)+(ZLOOKUP(I49,A90..H93,6)\*(I49-ZLOOKUP(I49,A90..H93,7))))  
 A53: (W25) 'INC/DEC IN TAX LIAB  
 F53: (F51-C51)  
 I53: (I51-C51)  
 A55: (W25) '% CHANGE IN TAX LIAB  
 F55: (F53/C51)  
 I55: (I53/C51)  
 A58: (W25) 'IF TAXABLE INCOME IS OVER  
 C58: 'NOT OVER  
 E58: 'TAX LIAB  
 A59: (W25) \-  
 C59: \-  
 E59: \-  
 A60: (W25) 0  
 C60: 2480  
 E60: 0  
 A61: (W25) 2480  
 C61: 3670  
 E61: 0  
 G61: 0.11  
 H61: 2480  
 A62: (W25) 3670  
 C62: 4750  
 E62: 130.9  
 F62: '+  
 G62: 0.12  
 H62: 3670  
 A63: (W25) 4750  
 C63: 7010  
 E63: 260.5  
 F63: '+  
 G63: 0.14  
 H63: 4750  
 A64: (W25) 7010  
 C64: 9170  
 E64: 576.9  
 F64: '+  
 G64: 0.15  
 H64: 7010  
 A65: (W25) 9170  
 C65: 11650  
 E65: 990.9  
 F65: '+  
 G65: 0.16

H65: 9178  
A66: [W25] 11650  
C66: 13928  
E66: 1297.7  
F66: "+  
G66: 0.18  
H66: 11650  
A67: [W25] 13928  
C67: 16198  
E67: 1706.3  
F67: "+  
G67: 0.2  
H67: 13928  
A68: [W25] 16198  
C68: 19648  
E68: 2168.3  
F68: "+  
G68: 0.23  
H68: 16198  
A69: [W25] 19648  
C69: 25360  
E69: 2953.8  
F69: "+  
G69: 0.26  
H69: 19648  
A70: [W25] 25360  
C70: 31888  
E70: 4441  
F70: "+  
G70: 0.3  
H70: 25360  
A71: [W25] 31888  
C71: 36880  
E71: 4157  
F71: "+  
G71: 0.34  
H71: 31888  
A72: [W25] 36880  
C72: 44788  
E72: 8101.8  
F72: "+  
G72: 0.38  
H72: 36880  
A73: [W25] 44788  
C73: 59670  
E73: 11134.2  
F73: "+  
G73: 0.42  
H73: 44788  
A74: [W25] 59670  
C74: 88270  
E74: 17388  
F74: "+  
G74: 0.48  
H74: 59670  
A75: [W25] 88270

E75: 31114  
F75: \*+  
G75: 0.5  
H75: 88270  
F76: '  
A78: (W25) 'IF TAXABLE INCOME IS OVER  
C78: 'NOT OVER  
E78: 'TAX LIAB  
A79: (W25) \-  
C79: \-  
E79: \-  
A80: (W25) 0  
C80: 1800  
E80: 0  
F80: \*+  
G80: 0.11  
A81: (W25) 1800  
C81: 16800  
E81: 198  
F81: \*+  
G81: 0.15  
H81: 1890  
A82: (W25) 16800  
C82: 27000  
E82: 2448  
F82: \*+  
G82: 0.28  
H82: 16800  
A83: (W25) 27000  
C83: 54000  
E83: 5304  
F83: \*+  
G83: 0.35  
H83: 27000  
A84: (W25) 54000  
E84: 14754  
F84: \*+  
G84: 0.385  
H84: 54000  
A88: (W25) 'IF TAXABLE INCOME IS OVER  
C88: 'NOT OVER  
E88: 'TAX LIAB  
F88: '  
A89: (W25) \-  
C89: \-  
E89: \-  
A90: (W25) 0  
C90: 17850  
E90: 0  
F90: \*+  
G90: 0.15  
H90: 0  
A91: (W25) 17850  
C91: 43150  
E91: 2677.5  
F91: \*+



G91: 0.28  
H91: 17850  
A92: (W25) 43150  
C92: 89560  
E92: 9761.5  
F92: "+  
G92: 0.33  
H92: 43150  
A93: (W25) 89560  
E93: 25076.8  
F93: "+  
G93: 0.28  
H93: 89560