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AGRICULTURAL ECONOMICS

STAFF PAPER

THE OPTIMAL SEPARATION OF FARM TAXABLE INCOME

BETWEEN TWO CONSECUTIVE TAX YEARS

by

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February 1980   No. 80-5

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Introduction

Near the end of each tax year tax advisors often instruct their farm clients to level their estimated taxable income between the current and following tax year. Since federal income tax rates increase as incomes increase, leveling taxable income between the two years will help minimize taxes. However, it may be beneficial for a farmer to shift more income into the second year than the first year. The result will be less tax the first and more tax the second year, but the reduction in tax the first year with interest, may more than offset the additional tax the second year. This paper discusses that possibility.

New Tax Schedules

The Revenue Act of 1978 alters the federal income tax rate schedules that are to be used for tax years beginning after January 1 of 1979. The new 1979 tax rate schedule for married individuals filing joint returns (IRS Schedule Y) is listed in Table 1. The new tax schedules provide some tax relief by reducing the tax rate at all levels of income. The number of tax brackets is also reduced. For married taxpayers filing jointly, the number of brackets is decreased from 25 to 16. To accomplish this reduction it was necessary to increase the size of each interval. Previously, for joint returns the brackets were incremented in units of $4,000 between taxable incomes of $7,200 to $47,200. Although the end points of the new brackets are different from the previous brackets, between the taxable income levels of $7,200 to $35,200 the interval increments now range from $4,100 to $5,300. These brackets are an increase over the former brackets by only $100 to $1,300. However, at $35,200 taxable income the interval is $10,600. The intervals become even greater at higher taxable income levels.

Potential Tax Benefits

The increase in the size of the tax brackets has two implications. First, since the tax brackets are wider there is now less concern to level income between two consecutive tax years. Income can be more variable without placing a taxpayer into a higher tax bracket the second year. Second, since the tax brackets are wider, there is a greater opportunity to defer taxable income and taxes without moving the deferred taxable income into a higher tax bracket. Both of these considerations are of greater importance to higher income taxpayers because the brackets are wider at higher incomes.

Table 1.   1979 IRS Schedule Y –

Married Taxpayers Filing Joint Returns

If Taxable Income With The Zero Bracket Amount Is*		The Tax		
Over –	But Not Over –	Is – Plus –		Of The Amount Over –
$ 0	$ 3,400		0	
3,400	5,500		14%	$ 3,400
5,500	7,600	$ 294 + 16%		5,500
7,600	11,900	630 + 18%		7,600
11,900	16,000	1,404 + 21%		11,900
16,000	20,200	2,265 + 24%		16,000
20,200	24,600	3,273 + 28%		20,200
24,600	29,900	4,505 + 32%		24,600
29,900	35,200	6,201 + 37%		29,900
35,200	45,800	8,162 + 43%		35,200
45,800	60,000	12,720 + 49%		45,800
60,000	85,600	19,678 + 54%		60,000
85,000	109,400	33,502 + 59%		85,600
109,400	162,400	47,544 + 64%		109,400
162,400	215,400	81,464 + 68%		162,400
215,400	––––––––	117,504 + 70%		215,400

*   The zero bracket amount of $3,400 (standard deduction) is incorporated
    into this table and is not subtracted from taxable income before this
    table is used. Only the amount of itemized deductions in excess of the
    ZBA is subtracted if deductions are itemized.

Regardless of the amount of taxable income there is always the profitable opportunity to defer taxes. This opportunity becomes extremely attractive during periods of high interest rates. It may be attractive to defer income even if the deferment results in moving a taxpayer into a higher tax bracket. Now, with the larger intervals, more income can be deferred before a higher rate bracket is reached.

The tax benefit is of more value to farmers than nonfarmers because farmers do not need to file and pay quarterly estimates of taxes due. If a taxpayer (or taxpayers if a joint return is filed) has two-thirds or more of his gross income from farming, he can pay his income taxes when his tax return is due (typically on March 1) on income earned the previous calendar year. Taxpayers not qualifying as farmers must have their tax withheld or pay quarterly estimated payments during the taxable year. They can not wait until their final tax return is due to pay their taxes. Therefore, nonfarm taxpayers legally shifting income from December 31 to January 2 will normally only delay taxes on that income for a quarter rather than a year.

Optimal Taxable Incomes

A computer program was developed to determine the optimal amount of taxable income to shift from a current year to the following year. In the program a given total taxable income for two years was first divided into two equal taxable incomes (level taxable income between two years) and the tax was computed for both incomes. The second year tax was discounted to the first year at various rates and added to the first year tax to obtain the net present value of taxes. Then $500 of income was transferred from the first year to the second year and the net present value of taxes on the new incomes was computed. This new net present value of taxes was compared to the previous net present value amount. Additional amounts of income were shifted from the first to the second year until the net present value of taxes was minimized.

Table 2 lists at various levels of taxable income, the separation of taxable income between two years that minimizes the net present value of tax for the two years. Also listed are the earnings that will occur by adjusting income rather than leveling income. Separate computations were performed at discount rates of 15 percent, 10 percent, 5 percent, and 0 percent.

A zero discount rate implies that a taxpayer would prefer to pay taxes the second year rather than the first year but not at the expense of any additional tax. A non-zero discount rate implies an even greater preference to defer tax because taxes saved the first year can be invested (or consumed) at a rate that will more than pay for the additional tax later. In essence the computer program maximizes the difference between the return on the deferred tax and the additional tax later. The discount rate is the return rate.

Only at a few income levels should taxable income for the two years be identical. At most income levels at least $2,000 more income should be shifted into the second year. The optimal amount to shift generally increases as taxable

Table 2.   Optimum Tax Separation of Taxable Income (With Zero Bracket Amounts)
Between Two Tax Years (Married Taxpayers Filing Joint Returns) and
The Resultant Earnings*

Taxable Income For Two Years (With ZBA)	Discount Rate							
	15 Percent		10 Percent		5 Percent		0 Percent	
	Year 1	Year 2	Year 1	Year 2	Year 1	Year 2	Year 1	Year 2
10,000	3,500	6,500 (10)	4,500	5,500 (6)	4,500	5,500 (3)	4,500	5,500 (0)
12,000	4,500	7,500 (11)	5,500	6,500 (7)	5,500	6,500 (4)	5,500	6,500 (0)
14,000	5,500	8,500 (16)	6,500	7,500 (7)	6,500	7,500 (4)	6,500	7,500 (0)
16,000	5,500	10,500 (17)	7,500	8,500 (6)	7,500	8,500 (2)	8,000	8,000 (0)
18,000	6,500	11,500 (37)	7,500	10,500 (23)	7,500	10,500 (11)	8,000	10,000 (0)
20,000	8,000	12,000 (44)	8,000	12,000 (30)	8,000	12,000 (14)	8,500	11,500 (0)
22,000	10,000	12,000 (21)	10,000	12,000 (14)	10,000	12,000 (6)	10,500	11,500 (0)
24,000	11,500	12,500 (2)	12,000	12,000 (0)	12,000	12,000 (0)	12,000	12,000 (0)
26,000	11,500	14,500 (29)	12,000	14,000 (19)	12,000	14,000 (10)	12,000	14,000 (0)
28,000	12,000	16,000 (55)	12,000	16,000 (38)	12,000	16,000 (20)	12,000	16,000 (0)
30,000	12,000	18,000 (30)	14,000	16,000 (19)	14,000	16,000 (10)	14,000	16,000 (0)
32,000	12,000	20,000 (5)	16,000	16,000 (0)	16,000	16,000 (0)	16,000	16,000 (0)
34,000	14,000	20,000 (34)	16,000	18,000 (22)	16,000	18,000 (11)	16,000	18,000 (0)
36,000	16,000	20,000 (63)	16,000	20,000 (44)	16,000	20,000 (23)	16,000	20,000 (0)
38,000	17,500	20,500 (37)	17,500	20,500 (22)	18,000	20,000 (11)	18,000	20,000 (0)
40,000	19,500	20,500 (5)	19,500	20,500 (0)	20,000	20,000 (0)	20,000	20,000 (0)
42,000	20,000	22,000 (29)	20,000	22,000 (17)	20,500	21,500 (7)	20,500	21,500 (0)
44,000	20,000	24,000 (65)	20,000	24,000 (43)	20,500	23,500 (20)	20,500	23,500 (0)
46,000	20,500	25,500 (60)	21,500	24,500 (38)	21,500	24,500 (20)	21,500	24,500 (0)
48,000	20,500	27,500 (27)	23,500	24,500 (13)	23,500	24,500 (7)	23,500	24,500 (0)
50,000	20,500	29,500 (24)	24,500	25,500 (11)	24,500	25,500 (4)	25,000	25,000 (0)
52,000	22,500	29,500 (62)	24,500	27,500 (40)	24,500	27,500 (19)	25,000	27,000 (0)
54,000	24,500	29,500 (100)	24,500	29,500 (69)	24,500	29,500 (34)	25,000	29,000 (0)

(continued)

Table 2. continued

Taxable Income For Two Years (With ZBA)	Discount Rate							
	15 Percent		10 Percent		5 Percent		0 Percent	
	Year 1	Year 2	Year 1	Year 2	Year 1	Year 2	Year 1	Year 2
56,000	26,000	30,000	26,000	30,000	26,000	30,000	26,500	29,500
	(79)		(54)		(26)		(0)	
58,000	28,000	30,000	28,000	30,000	28,000	30,000	28,500	29,500
	(37)		(25)		(10)		(0)	
60,000	29,500	30,500	30,000	30,000	30,000	30,000	30,000	30,000
	(4)		(0)		(0)		(0)	
62,000	29,500	32,500	30,000	32,000	30,000	32,000	30,000	32,000
	(52)		(34)		(18)		(0)	
64,000	29,500	34,500	30,000	34,000	30,000	34,000	30,000	34,000
	(101)		(67)		(35)		(0)	
66,000	30,500	35,500	30,500	35,500	31,000	35,000	31,000	35,000
	(105)		(68)		(35)		(0)	
68,000	32,500	35,500	32,500	35,500	33,000	35,000	33,000	35,000
	(57)		(34)		(18)		(0)	
70,000	34,500	35,500	34,500	35,500	35,000	35,000	35,000	35,000
	(8)		(1)		(0)		(0)	
72,000	35,000	37,000	35,000	37,000	35,500	36,500	35,500	36,500
	(44)		(27)		(10)		(0)	
74,000	35,000	39,000	35,000	39,000	35,500	38,500	35,500	38,500
	(100)		(66)		(31)		(0)	
76,000	35,000	41,000	35,000	41,000	35,500	40,500	35,500	40,500
	(156)		(105)		(51)		(0)	
78,000	35,000	43,000	35,000	43,000	35,500	42,500	35,500	42,500
	(212)		(144)		(72)		(0)	
80,000	35,000	45,000	35,000	45,000	35,500	44,500	35,500	44,500
	(268)		(183)		(92)		(0)	
82,000	35,500	46,500	36,000	46,000	36,500	45,500	36,500	45,500
	(272)		(185)		(92)		(0)	
84,000	35,500	48,500	38,000	46,000	38,500	45,500	38,500	45,500
	(224)		(145)		(72)		(0)	
86,000	35,500	50,500	40,000	46,000	40,500	45,500	40,500	45,500
	(175)		(106)		(51)		(0)	
88,000	35,500	52,500	42,000	46,000	42,500	45,500	42,500	45,500
	(127)		(67)		(31)		(0)	
90,000	35,500	54,500	44,000	46,000	44,500	45,500	44,500	45,500
	(79)		(28)		(10)		(0)	
92,000	35,500	56,500	45,500	46,500	46,000	46,000	46,000	46,000
	(53)		(4)		(0)		(0)	
94,000	35,500	58,500	45,500	48,500	46,000	48,000	46,000	48,000
	(117)		(49)		(23)		(0)	
96,000	36,000	60,000	45,500	50,500	46,000	50,000	46,000	50,000
	(179)		(92)		(47)		(0)	
98,000	38,000	60,000	45,500	52,500	46,000	52,000	46,000	52,000
	(235)		(138)		(70)		(0)	
100,000	40,000	60,000	45,500	54,500	46,000	54,000	46,000	54,000
	(291)		(182)		(93)		(0)	

* Earnings are in parentheses.

income increases. For example, with an interest rate (discount rate) of 15 percent, a farmer with a taxable income of $36,000 for two years can incur $16,000 income the first year and $20,000 the second year, a difference of $4,000, and earn $63 more than if his income for each year was $18,000. With a taxable income of $50,000 for two years, the optimal separation is $20,500 and $29,500, a difference of $9,900, although the additional earnings is only $24, a modest amount. The larger income separation occurs because tax brackets are wider at higher income levels and there is an opportunity to place both years' income in the same tax bracket with the first year's income at the bottom of the bracket and the second year's income at the upper end of the bracket.

Although the optimal amount of income to shift and the earnings from the shift generally increases as taxable income increases there is some variability that is dependent upon how taxable income fits into a tax bracket. If incomes can be separated so that they fall at the top and bottom of any bracket there are more earnings than if incomes are separated and they fall into different tax brackets. At a discount rate of 10 percent, a farmer with a taxable income of $28,000 for two years can incur $12,000 income the first year and $16,000 the second year and earn $38 more than if his income for each year was $14,000. The $12,000 and $16,000 amounts are the end points of the 21 percent tax bracket (see Table 1). In contrast, at a 10 percent discount rate, separating $30,000 into $14,000 and $16,000 will only earn $19. The reduction in the separation amount and earnings is because $14,000 is located in the middle of the tax bracket.

The optimal amount of income to shift also increases as the discount rate increases. The higher discount rate entails investing the money saved the first year at higher rates. It is more profitable to defer taxes even at the expense of moving taxable income into a higher tax bracket the second year. If a farmer has a taxable income of $36,000 for two years and interest rates (returns) are five percent then he can make $23 by shifting income rather than leveling. At a 15 percent rate a farmer can make $63.

Use of Table 2

The results of Table 2 can best be used towards the end of a tax year when a decision is made whether to legally shift taxable income from one year to another. Techniques to estimate current and the following years' taxable incomes and then procedures to shift income are discussed elsewhere (Weigle). Many of these procedures are only applicable to farmers who report income on a cash basis. The table can also be used after the close of the first tax year but before the tax return is filed to determine appropriate depreciation methods to use for new property purchases. Most other options to shift income are lost after the tax year is closed.

After estimating the taxable incomes for both years and adding the two together, it is necessary to determine a discount rate. Although the cost of capital concept can be used, an acceptable rate to use is the interest rate earned on a savings account if the tax saved the first year will be invested

into a savings account, or the rate of return the money will return if it is invested in the farm business. After estimating the taxable income and the discount rate, the table can be used to determine the optimal separation of taxable income between two years.

Risk of Inaccurately Estimating Taxable Income

To derive the maximum benefit from deferring income it must be possible to estimate taxable incomes. For many farmers this is a difficult task. Not only are costs variable from year to year, but production and product prices of some commodities are highly variable.

If a farmer estimates his taxable income for the current and following years and optimally separates his income between the two years, but then his actual income the second year turns out not to be the optimal amount, the earnings that he expected by separating his income may not occur. The farmer may pay more tax than if he had attempted to level his income between the two years or he may pay less tax.

The computer program was used to assess the affect that variability of actual income from expected income has on profitability. An assumption used in the analysis is that all income variability will occur in the second year and none the first year. This assumption is realistic since most farmers can closely monitor the income of a closing current year and make adjustments through last minute sales and purchases. It is usually difficult and unfeasible to force the actual income of the second year to match the estimated expected income. It may be difficult because unfavorable prices and quantities makes it difficult to buy or sell to adjust income. It is generally unfeasible because at the close of the second year the decision as to how much income to realize that second year will depend upon the estimated expected income of the second and third year and not upon the first year where income can no longer be adjusted.

After the actual income of the second year has been determined it is possible to measure the actual benefits, if any, from optimally separating income rather than leveling income between the first and second years. In the computer program this was simulated by using various amounts of income deviations. These deviation amounts were a percentage of the estimated taxable income for the two years. Income deviations of negative 10 percent, and positives 10, 20, and 40 percents were used. All of the income deviations occurred in the second year. A discount rate of 15 percent was used. The results are listed in Table 3. The results using a 5 percent discount rate are listed in Appendix Table A.

To explain the results an example will be used. If a farmer had estimated his total taxable income for two years to be $20,000, he may have leveled his income between the two years at $10,000 the first year and $10,000 the second year. Or, at an investment rate of 15 percent, he may have optimally separated his income to $8,000 the first year and $12,000 the second year for a

Table 3.   Benefits When Estimating Second Year's Income Incorrectly
(15 percent discount rate)

| Taxable Income for Two Years (With ZBA) | Optimum Separation of Income | | | Benefits From Optimally Separating Income Rather Than Leveling if the Second Year's Income is Greater than Optimum Separation Amount by | | | Or 10 Percent Less Than Col. 1 |
	Year 1	Year 2	Benefit	10 Percent of Col. 1	20 Percent of Col. 1	40 Percent of Col. 1	
$ 10,000	$ 3,500	$ 6,500	$ 10	$ 1	$ -14	$ -25	$ 27
12,000	4,500	7,500	11	-8	-15	-25	23
14,000	5,500	8,500	16	5	5	-34	31
16,000	5,500	10,500	17	11	-30	-72	38
18,000	6,500	11,500	37	1	-29	-94	44
20,000	8,000	12,000	44	-5	-5	-57	47
22,000	10,000	12,000	21	-3	-13	-50	23
24,000	11,500	12,500	2	2	-11	-29	15
26,000	11,500	14,500	29	1	-10	-73	68
28,000	12,000	16,000	55	3	-46	-137	73
30,000	12,000	18,000	30	-24	-100	-209	82
32,000	12,000	20,000	5	-99	-197	-399	89
34,000	14,000	20,000	34	-70	-147	-305	97
36,000	16,000	20,000	63	-7	-77	-163	104
38,000	17,500	20,500	37	-5	-57	-149	68
40,000	19,500	20,500	5	-2	-19	-67	16
42,000	20,000	22,000	29	-6	-28	-102	63
44,000	20,000	24,000	65	-5	-91	-196	135
46,000	20,500	25,500	60	-4	-104	-235	154
48,000	20,500	27,500	27	-98	-245	-376	163
50,000	20,500	29,500	24	-172	-396	-600	87
52,000	22,500	29,500	62	-90	-273	-455	184
54,000	24,500	29,500	100	-8	-139	-269	187
56,000	26,000	30,000	79	-24	-108	-212	153
58,000	28,000	30,000	37	-33	-54	-106	77
60,000	29,500	30,500	4	-22	-22	-48	43

Table 3. continued

| Taxable Income for Two Years (With ZBA) | Optimum Separation of Income | | | Benefits From Optimally Separating Income Rather Than Leveling if the Second Year's Income is Greater than Optimum Separation Amount by | | | Or 10 Percent Less Than Col. 1 |
	Year 1	Year 2	Benefit	10 Percent of Col. 1	20 Percent of Col. 1	40 Percent of Col. 1	
$ 62,000	$29,500	$32,500	$ 52	$ -26	$ -26	$-104	$118
64,000	29,500	34,500	101	-30	-108	-165	209
66,000	30,500	35,500	105	-10	-140	-223	229
68,000	32,500	35,500	57	-6	-84	-149	138
70,000	34,500	35,500	8	-2	-28	-50	46
72,000	35,000	37,000	44	44	-8	-52	140
74,000	35,000	39,000	100	69	-4	-91	218
76,000	35,000	41,000	156	10	-1	-131	313
78,000	35,000	43,000	212	4	4	-170	421
80,000	35,000	45,000	268	8	-36	-210	435
82,000	35,500	46,500	272	22	-105	-218	434
84,000	35,500	48,500	224	25	-205	-257	448
86,000	35,500	50,500	175	29	-297	-297	462
88,000	35,500	52,500	127	-23	-336	-428	477
90,000	35,500	54,500	79	-115	-376	-589	533
92,000	35,500	56,500	53	-195	-403	-738	523
94,000	35,500	58,500	117	-226	-383	-840	545
96,000	36,000	60,000	179	-238	-343	-865	565
98,000	38,000	60,000	235	-191	-243	-721	579
100,000	40,000	60,000	291	-144	-144	-578	594

net profit of $44. If a 10 percent positive deviation of total taxable income, or $2,000, occurs the second year, and the farmer had attempted to level his income he will still have $10,000 income the first year but will now have $12,000 income the second year. If the farmer had optimally separated his estimated income he will still have $8,000 income the first year but now $14,000 income the second year. Either strategy will involve additional tax the second year. However, on a discounted basis, a farmer originally separating the $20,000 income into $8,000 and $12,000 will pay $5 more tax (discounted to the present) than if he had attempted to level income. A 20 percent positive increase also only entails $5 more in discounted taxes, but a 40 percent positive increase, or $8,000 more income the second year than planned, will entail $57 more in discounted taxes than if he had attempted to level his income.

Only at taxable income levels where there is a large profit potential for separating income rather than leveling does the profit potential still exist, although reduced, when income the second year is increased by 10 percent or more of total taxable income. At the 15 percent discount rate the most profitable income levels to separate income are from $72,000 to $86,000 (taxable income for two years). This is the tax level where the tax bracket interval jumps from $5,300 to $10,600.

At all income levels having actual income less than the planned optimal amount the second year will mean that it is more profitable to optimally separate income rather than level. This is indicated by the column showing the net profit of separation over leveling when income is 10 percent less the second year. At the previously discussed $20,000 level the profit is $47. Although not shown, larger reductions would bring even larger profits. At almost all income levels the loss with a positive 10 percent deviation is less than the gain with a negative 10 percent deviation. If the chance of over-estimating income by 10 percent is the same as underestimating income by 10 percent then a farmer can generally benefit by shifting more income into the second year than the first year.

There are a number of methods a farmer might use to assess the potential payoff if his income is variable. One procedure would be to assign probabilities of occurrence at the various income levels listed and then calculate the expected payoff. For example, a farmer might estimate his taxable income for two years to be $42,000 and believes there is a 40 percent chance his income will be that amount. He also estimates there is a 20 percent chance his income will be 10 percent less than that amount, a 20 percent chance his income will be 10 percent more, and a 20 percent chance his income will be 20 percent more, with all variability occurring the second year. To determine the expected payoff the farmer would multiply each probability of occurrence by the potential profit and sum the results. In this example that would be: .20 ($63) + .40 ($29) + .20 (-$16) + .20 (-$28) = $15. Thus, if he separates income optimally his expected payoff is $15 although his actual payoff may be as high as $63 if his estimation of income is 10 percent high, or as low as $-28 if his estimate is extremely low.

Conclusion

Because federal income tax brackets are now wider, a greater opportunity exists for farmers to profitably shift income from a current to the following year rather than simply leveling income between the two years. This paper shows the optimum amount of taxable income for each of two consecutive years. It also assesses the impact of errors in estimating taxable income to be separated. The profit potential of shifting income is modest except at high income levels and investment rates. With errors in estimating taxable income even this modest profit may not be realized.

Obviously, it is not only beneficial to shift income from a current to a proceeding year but also to other following years. Because estimating taxable incomes for later years would be an impossible task that strategy is not discussed in this paper. However, after shifting income between two years it is still possible to shift income of the second year into a third year before the close of the second year. This would involve separating taxable income between two consecutive years; the topic of this paper.

Reference

Weigle, R.N., R.E. Brown Jr., and R.S. Smith, Income Tax Management for Farmers, North Central Regional Publication No. 2, Cooperative Extension Service, University of Wisconsin, Madison, Wisconsin (1978).

Table A.   Benefits When Estimating Second Year's Income Incorrectly
(5 percent discount rate)

| Taxable Income for Two Years (With ZBA) | Optimum Separation of Income | | | Benefits From Optimally Separating Income Rather Than Leveling if the Second Year's Income is Greater than Optimum Separation Amount by | | | Or 10 Percent Less Than Col. 1 |
	Year 1	Year 2	Benefit	10 Percent of Col. 1	20 Percent of Col. 1	40 Percent of Col. 1	
$ 10,000	$ 4,500	$ 5,500	$ 3	$ -6	$ -6	$ -16	$ 3
12,000	5,500	6,500	4	2	-6	-6	13
14,000	6,500	7,500	4	-6	-6	-20	4
16,000	7,500	8,500	2	2	2	-12	12
18,000	7,500	10,500	11	-1	-32	-75	18
20,000	8,000	12,000	14	-40	-40	-97	17
22,000	10,000	12,000	6	-20	-31	-71	9
24,000	12,000	12,000	0	0*	0	0	0
26,000	12,000	14,000	10	-7	-19	-57	39
28,000	12,000	16,000	20	-37	-90	-190	40
30,000	14,000	16,000	10	-19	-57	-95	10
32,000	16,000	16,000	0	0	0	0	0
34,000	16,000	18,000	11	-27	-34	-112	40
36,000	16,000	20,000	23	-53	-130	-225	69
38,000	18,000	20,000	11	-27	-65	-112	34
40,000	20,000	20,000	0	0	0	0	0
42,000	20,500	21,500	7	-12	-12	-65	26
44,000	20,500	23,500	20	-37	-109	-194	77
46,000	21,500	24,500	20	-37	-109	-194	77
48,000	23,500	24,500	7	-12	-36	-65	26
50,000	24,500	25,500	4	-20	-37	-49	30
52,000	24,500	27,500	19	-53	-138	-224	76
54,000	24,500	29,500	34	-85	-228	-371	129
56,000	26,000	30,000	26	-88	-179	-293	107
58,000	28,000	30,000	10	-67	-90	-147	53
60,000	30,000	30,000	0	0	0	0	0

Table A. continued

Taxable Income for Two Years (With ZBA)	Optimum Separation of Income			Benefits From Optimally Separating Income Rather Than Leveling if the Second Year's Income is Greater than Optimum Separation Amount by			Or 10 Percent Less Than Col. 1
	Year 1	Year 2	Benefit	10 Percent of Col. 1	20 Percent of Col. 1	40 Percent of Col. 1	
$ 62,000	$30,000	$32,000	$ 18	$ -40	$ -40	$ -97	$ 65
64,000	30,000	34,000	35	-79	-136	-193	130
66,000	31,000	35,000	35	-79	-193	-260	130
68,000	33,000	35,000	18	-40	-97	-144	65
70,000	35,000	35,000	0	0	0	0	0
72,000	35,500	36,500	10	10	-18	-42	63
74,000	35,500	38,500	31	25	-55	-126	131
76,000	35,500	40,500	51	-80	-92	-211	194
78,000	35,500	42,500	72	-128	-128	-295	272
80,000	35,500	44,500	92	-165	-189	-379	275
82,000	36,500	45,500	92	-165	-255	-379	229
84,000	38,500	45,500	72	-128	-238	-295	163
86,000	40,500	45,500	51	-92	-211	-211	97
88,000	42,500	45,500	31	-55	-126	-126	31
90,000	44,500	45,500	10	-18	-42	-42	10
92,000	46,000	46,000	0	0	0	0	0
94,000	46,000	48,000	23	23	-24	-24	80
96,000	46,000	50,000	47	47	-49	-144	161
98,000	46,000	52,000	70	-16	-73	-216	241
100,000	46,000	54,000	93	-97	-97	-288	322

* Since the optimal separation amount is to level income the benefit from separation versus leveling is identical and therefore the difference is $0.