

**FEDERAL TAXES ON
INCOME AND PROFITS
IMPOSED BY THE
REVENUE ACT OF 1918**

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Federal taxes on income and profits imposed by the revenue act of 1918 by Various

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VARIOUS

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REVENUE ACT OF 1918**

Federal Taxes on Income and Profits

Imposed by the Revenue Act of 1918

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Foreword

THIS booklet contains a summary of important rulings of the Treasury Department relating to income and excess profits taxes, imposed under the Revenue Act of 1918. It has not been possible to cover all regulations which have been issued by the Department, but an effort has been made to cover those which are of the most general importance, laying special emphasis on those parts of the regulations which are applicable to the taxable year 1919. Much care has been used in the compilation of this booklet and although we cannot insure the accuracy of all statements, we believe them to be correct.

We have omitted reference to withholding of tax and information at the source, and the use of ownership certificates, these subjects having been treated in a separate booklet which we have prepared.

In the discussion of the excess profits tax, we have also omitted reference, so far as possible, to regulations dealing with the war profits tax, inasmuch as this tax is applicable only to corporations which report on the basis of a fiscal year in 1919, ending other than December 31, 1919, and to corporations which derive during 1919 more than \$10,000 from Government contracts. As the majority of the corporations under the first class have already prepared their returns, and as the number of corporations deriving income from Government contracts, is comparatively few, we have not deemed it necessary to devote the amount of space which would be necessary to describe the computation of tax and the determination of income in such cases.

Guaranty Trust Company of New York

January 23, 1920

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PART I. INCOME TAX—IMPOSITION OF TAX RATES OF TAX

The statute imposes an income tax upon individuals, including a normal tax and a surtax. The tax is upon net income, after deducting from gross income, the allowable deductions.

Normal Tax.—For the calendar year 1919 and subsequent years the normal tax on individual citizens or residents of the United States is 4 per centum upon the first \$4,000 in excess of allowable deductions and credits and 8 per centum upon the excess over that amount. The lower rate on the first \$4,000 applies to each separate individual, whether married or unmarried, and should not be confused with the joint exemption granted married persons.

In the case of a nonresident alien individual the entire net income from sources within the United States, less any allowable deductions and credits, is subject to the normal tax at the rate of 8 per centum for 1919 and subsequent years.

Surtax.—In addition to the normal tax, a surtax is imposed upon the net income of every individual, resident or nonresident, in excess of \$5,000. In determining the taxable net income for the purpose of the surtax the credits provided by Section 216 of the statute are not applicable.

The chart on page 2 shows the rates of normal tax and surtax and the total tax on citizens and residents of the United States on net incomes of specified amounts. The surtax for any amount of net income not shown in the chart is computed by adding to the total surtax for the largest amount shown which is less than the income, the surtax upon the excess over that amount at the rate indicated in the table.

Surtax on Sale of Mineral Deposits.—Where the taxpayer by prospecting and locating claims, or by exploring and discovering undeveloped claims, has demonstrated the principal value of mines, oil or gas wells, which prior to his efforts had a merely nominal value, the portion of the surtax attributable to a

INCOME TAX CHART

Based on the Revenue Act of 1918

(Chart shows the tax payable for 1919 and subsequent years by a married person, but does not take cognizance of the \$200 exemption for each dependent child)

**Net Income	Rate of Normal Tax	Rate of Surtax	Amount Subject to Surtax Between Change of Rates	Amt. of Normal Tax	Amt. of Surtax on Instal.	Total* Surtax	Total Tax
\$ 3,000	4%			40			40
4,000	4%			50			80
5,000	4%			120			120
6,000	4%	1%	5,000 to 6,000	160	10	10	170
8,000	5%	2%	6,000 to 8,000	320	40	50	370
10,000	6%	3%	8,000 to 10,000	480	60	110	590
12,000	7%	4%	10,000 to 12,000	640	80	190	830
14,000	8%	5%	12,000 to 14,000	800	100	290	1,090
16,000	9%	6%	14,000 to 16,000	960	120	410	1,370
18,000	10%	7%	16,000 to 18,000	1,120	140	550	1,670
20,000	11%	8%	18,000 to 20,000	1,280	160	710	1,990
22,000	12%	9%	20,000 to 22,000	1,440	180	890	2,330
24,000	13%	10%	22,000 to 24,000	1,600	200	1,090	2,690
26,000	14%	11%	24,000 to 26,000	1,760	220	1,310	3,070
28,000	15%	12%	26,000 to 28,000	1,920	240	1,550	3,470
30,000	16%	13%	28,000 to 30,000	2,080	260	1,810	3,890
32,000	17%	14%	30,000 to 32,000	2,240	280	2,090	4,330
34,000	18%	15%	32,000 to 34,000	2,400	300	2,390	4,790
36,000	19%	16%	34,000 to 36,000	2,560	320	2,710	5,270
38,000	20%	17%	36,000 to 38,000	2,720	340	3,050	5,770
40,000	21%	18%	38,000 to 40,000	2,880	360	3,410	6,290
42,000	22%	19%	40,000 to 42,000	3,040	380	3,790	6,830
44,000	23%	20%	42,000 to 44,000	3,200	400	4,190	7,390
46,000	24%	21%	44,000 to 46,000	3,360	420	4,610	7,970
48,000	25%	22%	46,000 to 48,000	3,520	440	5,050	8,570
50,000	26%	23%	48,000 to 50,000	3,680	460	5,510	9,190
52,000	27%	24%	50,000 to 52,000	3,840	480	5,990	9,830
54,000	28%	25%	52,000 to 54,000	4,000	500	6,490	10,490
56,000	29%	26%	54,000 to 56,000	4,160	520	7,010	11,170
58,000	30%	27%	56,000 to 58,000	4,320	540	7,550	11,870
60,000	31%	28%	58,000 to 60,000	4,480	560	8,110	12,590
62,000	32%	29%	60,000 to 62,000	4,640	580	8,690	13,330
64,000	33%	30%	62,000 to 64,000	4,800	600	9,290	14,090
66,000	34%	31%	64,000 to 66,000	4,960	620	9,910	14,870
68,000	35%	32%	66,000 to 68,000	5,120	640	10,550	15,670
70,000	36%	33%	68,000 to 70,000	5,280	660	11,210	16,490
72,000	37%	34%	70,000 to 72,000	5,440	680	11,890	17,330
74,000	38%	35%	72,000 to 74,000	5,600	700	12,590	18,190
76,000	39%	36%	74,000 to 76,000	5,760	720	13,310	19,070
78,000	40%	37%	76,000 to 78,000	5,920	740	14,050	19,970
80,000	41%	38%	78,000 to 80,000	6,080	760	14,810	20,890
82,000	42%	39%	80,000 to 82,000	6,240	780	15,590	21,830
84,000	43%	40%	82,000 to 84,000	6,400	800	16,390	22,790
86,000	44%	41%	84,000 to 86,000	6,560	820	17,210	23,770
88,000	45%	42%	86,000 to 88,000	6,720	840	18,050	24,770
90,000	46%	43%	88,000 to 90,000	6,880	860	18,910	25,790
92,000	47%	44%	90,000 to 92,000	7,040	880	19,790	26,830
94,000	48%	45%	92,000 to 94,000	7,200	900	20,690	27,890
96,000	49%	46%	94,000 to 96,000	7,360	920	21,610	28,970
98,000	50%	47%	96,000 to 98,000	7,520	940	22,550	30,070
100,000	51%	48%	98,000 to 100,000	7,680	960	23,510	31,190
150,000	52%	52%	100,000 to 150,000	11,680	26,000	49,510	61,190
200,000	53%	56%	150,000 to 200,000	15,680	28,000	77,510	93,190
300,000	54%	60%	200,000 to 300,000	23,680	60,000	137,510	161,190
500,000	55%	63%	300,000 to 500,000	39,680	126,000	263,510	303,190
1,000,000 over	56%	64%	500,000 to 1,000,000	79,680	320,000	583,510	663,190
1,000,000	8%	65%					

* Total Surtax is the total of the installments for the income considered.

** Exemption \$2,000. No allowance is made for credit for dividends or interest on Liberty Bonds, if any, included in net income.

sale of such property or of the taxpayer's interest therein shall not exceed 20 per centum of the selling price. Exploration work alone without discovery is not sufficient to bring a case within this provision. Shares of stock in a corporation owning mines, oil or gas wells do not constitute an interest in such property. To determine the application of this provision to a particular case, the taxpayer should first compute the surtax in the ordinary way upon his net income, including his net income from any such sale. The proportion of the surtax indicated by the ratio which the taxpayer's net income from the sale of the property bears to his total net income is the portion of the surtax attributable to such sale, and if it exceeds 20 per centum of the selling price such portion of the surtax shall be reduced to that amount.

Profits of Corporations Taxable to Stockholders.—

Section 220 of the statute provides that when a domestic or foreign corporation permits its profits to accumulate for the purpose of preventing the imposition of the surtax upon such income if distributed to its stockholders, it shall not be subject to the income tax as a corporation, but its stockholders shall be subject to tax in the same manner as the stockholders of a personal service corporation, except that the war profits and excess profits taxes of the corporation shall first be deducted from its net income before computing the proportionate shares of the stockholders. If, upon the basis of a statement of profits submitted on request of the Commissioner or a collector, the Commissioner certifies that in his opinion the accumulation is unreasonable, the corporation and its stockholders shall make their returns accordingly.

An accumulation of gains and profits is unreasonable if it is not required for the purpose of the business, considering all the circumstances of the case. No attempt can be made to enumerate all the ways in which gains and profits of a corporation may be accumulated for the reasonable needs of the business.

Undistributed income is considered to be properly accumulated if invested in increased inventories or additions to plant reasonably needed by the business. It is properly accumulated if retained for working capital required by the business or in accordance with contract obligations placed to the credit of a sinking fund for the purpose of retiring bonds issued by the corporation. In the case of a banking institution, the business of which is to receive and loan money, using capital, surplus and deposits for that purpose, undistributed income actually represented by loans or reasonably

retained for future loans is not accumulated beyond the reasonable needs of the business. The nature of the investments of gains and profits is immaterial, if they are not in fact needed in the business. Thus, the fact that an unreasonable accumulation of profits is invested by the corporation in obligations of the United States does not remove such corporation from the provisions of Section 220.

Persons Liable to Tax.—Every citizen of the United States, wherever resident, is liable to the tax, even though he may have no assets within the United States and receives no income from sources therein. Every resident alien individual is liable to the tax, even though his income is wholly from sources outside the United States. Every nonresident alien individual is liable to the tax on his income from sources within the United States. Estates and trusts are also subject to the tax.*

Citizen Defined.—Every person born in the United States subject to its jurisdiction, or naturalized in the United States, is a citizen. When any naturalized citizen has left the United States and resided for two years in the foreign country from which he came, or for five years in any other foreign country, he is presumed to have lost his American citizenship; but this presumption does not apply to residence abroad while the United States is at war.

Nonresident Alien Individual Defined.—“Nonresident alien individual” means an individual other than a citizen of the United States whose residence is not within the United States. Any alien living in the United States who is not a mere transient, and has no definite intention with regard to his stay, is a resident for purposes of the income tax. The best evidence of his intention is afforded by the conduct, acts, and declarations of the alien. A mere floating intention, indefinite as to time, to return to another country is not sufficient to constitute him a transient. The fact that an alien’s family is abroad does not necessarily indicate that he is a transient rather than a resident. An alien who enters this country intending to make his home in a foreign country as soon as he has accumulated a sum of money sufficient to provide for his journey abroad is to be considered a transient, provided his expectation in this regard may reasonably be fulfilled within a comparatively short time, considering the rate of his savings.

*See page 25.