Woman C.P.A.

Volume 5 | Issue 7 Article 3

10-1942

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The Pending "Revenue Act of 1942"

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The need for increased revenue to finance the war necessitates the passage of the "Revenue Act of 1942." The war must be paid for either by taxation or by borrowing. The higher the taxes, the lower will be the indebtedness of the nation. However, too high taxes tend to break-down our system of free enterprise and to destroy individual initiative to practice economy and efficiency.

The Act as drafted by the Committee does not constitute a complete tax revision. It consists of amendments to the existing Internal Revenue Code. However, the Amendments are so numerous that it is almost as lengthy as previous complete taxing acts. The amendments not only provide increases in rates but also include technical and administrative changes.

Hearings before the Ways and Means Committee began on March 3rd including the presentation of recommendations by Secretary Morgenthau. Executive sessions followed in April, and continued until July. The bill was introduced in the House of Representatives on July 14th and was passed by the House on July 20th. Hearings before the Senate Finance Committee began July 23rd. Executive sessions of the Senate Finance Committee began August 24th. After the Bill is presented to the Senate and if it becomes law in October, almost eight months will have elapsed since the Committee Hearings opened.

The most important features of the Bill to be passed are the increased rates. The personal exemptions are to be lowered and the normal and surtax rates raised. The personal exemptions for individuals as approved by the Senate Finance Committee have been reduced to $500 and $1200 except that the present exemptions of $750 and $1500 for persons in uniform other than commissioned officers have been retained. The credit for dependents has been reduced from $400 to $300.

The House Bill increased the Normal Tax on individuals from 4 per cent to 6 per cent. The Surtax Rates start at 13 per cent with a top rate of 82 per cent. The 13 per cent is applicable to Surtax Net Incomes under $2000. An optional tax on individuals with gross incomes from certain sources of $3000 or less is provided.

The House Bill also provided for a Withholding Tax to become effective January 1, 1943. The rate for 1943 would be 5 per cent after allowance of certain credits. This would be increased to 10 per cent for the year 1944. In reality, it is not a tax but a method of tax collection at the source. The amount collected in 1943 would constitute a prepayment of 1944 taxes. Under this method the year 1944 would put taxpayers on a pay-as-you-go basis. Whether or not this plan or a modified plan will be included in the final Revenue Bill of 1942 is still doubtful.

The House Bill made some changes in the Capital Gains and Loss provisions. Under the Bill, there are two classes of Capital Gains and Losses. Short term includes assets held less than fifteen months; long term includes assets held more than fifteen months. In the case of individuals, short term gains or losses are taken into account at 100 per cent; long term, at 50 per cent. There is a provision included limiting income taxes on long term capital gains to 25 per cent.

Capital Losses are allowable against Capital Gains and against $1000 of other income. There is included a provision for a five year carry-over on short and long-term capital losses.

The House Bill did not change the Normal Tax rates on corporations of 15, 17, 19 and 24 per cent. However, surtax rates were increased from 6 per cent to 10 per-cent for corporations with incomes of less than $25,000; and from 7 per cent to 21 per cent for corporations with Incomes of over $25,000. The excess profits rate is increased from 35 per cent and 60 per cent to a single rate of 90 per cent. However, the exemption was increased from $5,000 to $10,000.

The House Bill also provided for changes in the Estate Taxes, Gift Taxes and Excess Taxes. The Capital Stock Tax and Declared Value Excess Profits Tax were retained but with a provision for an annual declaration.