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THE CURRENT TAX PAYMENT ACT OF 1943

By MARY E. HUMPHREY

On June 10, 1943, the President signed the Current Tax Payment Act of 1943, thus marking the end of months of effort on the part of Congress and the Administration to evolve a plan for placing individual taxpayers on a pay-as-you-go basis. The new law is applicable to individuals only and does not extend to corporations, estates or trusts. It imposes no new taxes nor does it remove any old ones. It merely provides a means for collecting current taxes, so far as possible, during the year in which the income is earned, rather than in the following year, as in the past.

As is inevitable in shifting from one major tax plan to another affecting some forty-five million taxpayers, the new Act is quite complex in its provisions. As applied to taxpayers in general, however, the provisions of the Act may be summarized as shown below.

Collection of Tax at Source on Wages

Withholding by employers beginning July 1, 1943, of 20% of each payment of wages, salaries, fees, commissions and other remuneration for services in excess of an exemption of \$12.00 of weekly earnings of a single person or \$24.00 of weekly earnings if head of a family or married and living with husband or wife. An additional exemption of \$6.00 is provided for each dependent. The 20% rate has been fixed to include the Victory tax deduction which went into effect January 1, 1943. However the 5% Victory tax itself must still be considered in the estimated and final tax returns for the year. The amounts so withheld are merely advance payments toward the settlement of the final 1943 income tax liability as determined in a return to be prepared by the taxpayer in the usual manner and filed on or before

March 15, 1944. Wages of servicemen, domestic servants, clergymen and agricultural and casual labor not in the course of employer's trade or business are exempt from withholding.

Current Payment of Tax Not Withheld

The fact that income of certain classes of individuals or income derived from certain sources is not subject to withholding does not mean that it is exempt from tax. For the purpose of collecting currently the tax on income which is not subject to withholding and the additional tax of individuals whose income is taxable at rates higher than the first bracket of surtax (13%), the Act provides for the declaration and payment on a quarterly basis of an estimated tax based on the anticipated net income from all sources. In general, an individual is required to make a declaration of estimated tax in the following cases:

1. Where his annual gross salary or wage is in excess of \$2700.00 if single, or if married, the combined gross wages of husband and wife exceed \$3500.00.
2. Where he receives gross income in excess of \$100.00 from sources other than salary or wages as defined in the Act, or if married, the combined income of both husband and wife from such sources exceeds \$100.00, and the aggregate gross income will require the filing of a regular income or Victory tax return.

The latter group would include individuals specifically exempt from the withholding tax and also those individuals whose income is derived not from wages or salaries, but from such sources as professional fees, business, rents, royalties, interest, dividends, gain from sale of property, annuities and farming.

In addition to the above, with respect to 1943 a declaration must be filed where the individual was required to file a return for the taxable year 1942 and the gross in-

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come from wages in 1942 was greater than the estimated wages which can reasonably be expected to be received in 1943.

The declaration of estimated tax must be filed on or before March 15 of the taxable year, except for the year 1943, when the first declaration is to be filed on or before September 15, 1943. Taxpayers will then pay quarterly one-fourth of the estimated tax after allowance of credit for payroll deductions. Penalties are provided for substantial underestimation of the tax, but taxpayers are permitted to file amended declarations in any quarter subsequent to that in which the original declaration is made, in which event the amount of each remaining installment, including that for the quarter of the revision, is to be correspondingly revised. Thus if a low estimate is revised, even as late as the last quarter of the taxable year, the penalty may be averted.

Farmers (defined by the Act as individuals at least 80% of whose gross income is derived from farming) are subject to a special rule with respect to the date of filing the declaration of estimated tax. They may wait until the 15th day of the last month of the taxable year (December 15, on a calendar year basis) to file declarations. Payment of the entire amount of the estimated tax is due at that time.

Forgiveness of Taxes for 1942

To provide relief from payment of an extra year's taxes in 1943, the Act includes a tax forgiveness plan. Although the entire 1942 tax liability is technically discharged as of September 1, 1943, in effect only 75% of the 1942 tax is forgiven where the tax exceeded \$50.00. Individuals whose 1943 tax exceeds the 1942 tax and whose 1942 tax was \$50.00 or less, will have that tax completely cancelled; but if the original 1942 tax is more than \$50.00 and not more than the 1943 tax, the 1943 tax must be increased by 25% of the tax for 1942, or the excess of the 1942 tax over \$50.00, whichever is the lesser. The remainder of the 1942 tax will be cancelled.

Where the 1942 tax is not over \$50.00 but is greater than the 1943 tax, the amount of the 1942 tax will be substituted for the 1943 tax and will be the amount of 1943 tax payable. The amount forgiven will be the original 1943 tax. Where the 1942 tax is more than the 1943 tax, and the 1943 tax is more than \$50.00, the amount of the 1942 tax is to be substituted for the 1943 tax and to this is to be added 25% of the 1943 tax or the excess of such tax over \$50.00, whichever is the lesser.

In actual operation, therefore, taxpayer pays an amount equal to the tax for the year 1942 or 1943, *whichever is greater*, plus 25% of the tax for the *lesser* of the two years. The remaining 75% of the tax for the lesser of the two years is forgiven. The unforgiven portion of the tax (25%) is payable in two equal annual installments, due March 15, 1944 and March 15, 1945.

In order to prevent windfalls, the Act includes a special provision resulting in an additional increase in 1943 tax for individuals whose surtax net income for 1942 or 1943, whichever is lower, exceeds by more than \$20,000.00 the surtax net income for the highest base period year (1937, 1938, 1939 or 1940). Where this situation exists, a smaller part of the 1942 tax is in effect forgiven. The so-called, "anti-windfall tax" is due on March 15, 1944, but at the election of taxpayer, may be paid in annual installments over a four year period, the first becoming due on March 15, 1945, in which event each installment is subject to an annual interest charge of 4%.

Operation

Those persons receiving salary or wages not in excess of \$2700.00 if single, or an aggregate of \$3500.00 if married, will not be required to file a declaration of estimated tax except in those cases where income from sources other than wages is \$100.00, inasmuch as the 20% withholding levy plus the first two installments previously paid on 1942 tax (now applied to the payment of 1943 tax) will generally cover the 1943 liability. Such taxpayer will, however, be required to file a return on March 15, 1944, in the usual manner, and if the credits

applied against the tax (i. e., the total amounts withheld plus first and second installments paid on 1942 tax) are sufficient to pay the total tax as finally determined, any additional tax will then be payable. Conversely, if the amounts so paid or withheld exceed the actual tax for the year as finally determined, the excess shall be considered an overpayment which may be credited against any income tax then due from the taxpayer for any year, the balance being refundable.

On March 15, 1944 the first half of the unforgiven portion (25%) of the 1942 or 1943 tax is also due. At that time a comparison of the tax liability for the two years must be made to determine whether the forgiveness applies to the 1942 or 1943 tax.

Where taxpayer's income is such that a declaration of estimated tax is required, the law provides for the filing of such declaration on each March 15 except that for the taxable year 1943, the declaration is to be filed on September 15, 1943.

The declaration of estimated tax is required to state:

1. The amount estimated as normal tax, surtax and Victory tax for the taxable year.
2. The sum of the amounts it is estimated will be withheld by the employer during the taxable year. For 1943 this credit against the tax will include not only the new 20% withholding tax which takes effect July 1, 1943, but also the Victory tax withheld between January 1 and June 30, 1943.
3. The excess of the estimated taxes in (1) above over the estimated credits in (2) above.

Against the net estimated tax for the the year 1943 will also be applied the payments made in March and June, 1943, on 1942 income tax. The amount by which the estimated tax exceeds the sum of the amounts paid plus the estimated tax withheld during the entire year, is payable one-half on September 15 and one-half on December 15, 1943.

On March 15, 1944, taxpayer must file two returns. One will be the final report for the year 1943, with which he pays any additional 1943 tax which his final return may show to be still due, and also pays the first installment ($\frac{1}{2}$) of the unforgiven 25% tax. At the same time he will be required to file an estimate of the tax on his 1944 income and pay the first quarterly installment thereof.

The Act also provides special relief affecting income taxes of members of the armed forces of the United States.

While this Act will, in effect, increase the taxes of many persons by $12\frac{1}{2}\%$ for each of the next two years, and cause much additional work by accountants, tax advisors and taxpayers, it is hoped that it will achieve its object of enabling the government to collect the taxes due from millions of individuals who might not otherwise be in a position to pay them.

WE WORK TOGETHER

By WILLA MAE LEWIS

Until the last few years public and private accounting has been predominately a man's profession. It still is. But women are becoming professionally alert and are entering into the accounting field as business women. They are no longer a rarity. Due to the exigencies of war, the constant need for competent accountants, and the active expression on the part of women, women now have the opportunity to become co-partners of men in every phase of accountancy. However, there are a few women, who by virtue of extolling unnecessary feminine charms and vices, are seriously hampering the cause of women becoming associates of men in this particular business service. We must recognize these facts and cooperate in counteracting their effect.

As women vitally interested in our new position in the business world, we want to know our limitations or the limitations defined by men against us. As a group we must realize the truth of the old saying, "A chain is only as strong as its weakest link." It is most important to us because we are not "career women"—a term which is current slang applied to women who