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Tax News

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CONTRACT TERMINATION

There are a group of interesting articles on war contract termination in the January, 1945, issue of *The Accounting Review* published by the American Accounting Association. These articles explain the part played in contract termination settlements by the public accountant, by the Government accountant, and by the contractor and his employees.

WOMEN AT WORK

The employment of many women in war plants created a new problem for management. Many plants recognized the need for closer contact between employer and employee and provided counselors to assist employees having individual troubles. Thelma Swank Astrow, Director of Counseling, Consolidated Vultee Aircraft Corporation, tells of the plan of employee relations followed by that company in her article, "Counseling Gives Women the Advice They Need," which appears in the March, 1945 issue of *Factory Management and Maintenance.*

In the *Management Review* for March, 1945, Frieda S. Miller, Director, Women's Bureau, U. S. Department of Labor, summarizes statistics on employment of women before and after Pearl Harbor and makes a prediction as to the employment of women in the future. "Postwar Prospects for Women Workers" is the title of the article.

Tax News

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WAR RISK CONTRIBUTIONS TO UNEMPLOYMENT FUNDS

Because unemployment compensation taxes have been in effect for some time and most of us have become accustomed to a set routine in connection with them, we may forget that there are constant changes being made in these laws. Within the past few months amendments of various kinds to unemployment compensation laws have been introduced into the legislatures of 40 states. There have been many changes since these laws were first written and the post-war period will probably bring many more.

In fact, some of the amendments of the past year or two were brought about by consideration of the post-war reconversion period. Many businessmen, as well as statesmen and economists, have wondered if the compensation provisions of the various State laws would be able to meet the problem of reconversion unemployment and also if the reserves in the State funds would be sufficient for the benefit payments which might be required. As a result of this thinking, a number of states have provided for "war risk" contributions. The theory of these contributions is that those industries which have expanded due to the speeded up production of wartime, whether the war production factor is direct or indirect, will probably be the industries in which there will be the greatest amount of unemployment due to reconversion and, therefore, they should bear an extra load in building up reserves for post-war unemployment benefits.

The manner in which these war risk contributions are being computed in various States is shown in the following summary:

Alabama—The war risk contributions are effective for a period of three years—from April 1, 1943 to March 31, 1946 and are assessed against "excess wages." Excess wages for any 12-month period starting April 1st are determined by the amount of the payroll which is in excess either (a) of the employer's average payroll for the four preceding calendar years or (b) of 200% of his average payroll for the first two of the four preceding calendar years. On any such excess, the employer must pay a tax at the rate of 2.7%, but the first $100,000.00 of any taxable payroll is totally exempt from this special tax.

Florida—Excess wages in Florida are based on the amount over 200% of the employer's 1939 payroll or, if he had no payroll in 1939, the first payroll year subsequent thereto. The rate on such excess payroll is 2.7% and the rate on the amount below such excess is the rate determined under the merit rating provisions. The law was effective July 1, 1943, and applies to any year when the balance in the fund as of December 31st does not equal the number of insured workers multiplied by $65.00.

Illinois—A comparison of an employer's 1940 payroll with his payroll for the preced-

ing calendar year determines the liability of an Illinois employer to war risk contributions. Since the law was effective July 1, 1943, this meant that for 1943 liability the comparison was between 1940 payrolls and 1942 payrolls; for 1944 the comparison was between 1940 payrolls and 1943 payrolls; and so on. If the comparison shows an increase of 100% but less than 150%, the rate shall not be less than 2%; if the comparison shows an increase of more than 150%, the rate shall not be less than 2.7%. If the merit rating rates are higher than the rates determined (i.e. 2% or 2.7%), the merit rating provisions apply. If the merit rating rates are lower, the merit rates apply to the first $100,000.00 of the payroll and the war risk rates to the balance. Since the law became effective July 1, 1943, it did not apply to the first six months of 1943 and only $50,000.00 of the last six months was exempted from the war risk rates.

Iowa—Between July 1, 1943 and December 31, 1945, contributions will be assessed at rates varying from 2.7% to 5% on that part of an employer's annual payroll which exceeds his 1940 payroll by 100% or more. The rates are determined in accordance with the employer's reserve percentage in somewhat the same way as the determination of rates for merit rating provisions. The war risk rates, however, do not apply to an employer whose annual payroll is less than $30,000.00.

Maryland—If an employer's total annual payroll in the calendar year immediately preceding the taxable year exceeded 150% of his 1940 payroll, his rate cannot be less than 2.7% despite merit rating provisions.

Minnesota—Employers liable for war risk contributions are those who—

1. Have become subject to the unemployment compensation law since 1940 and who have a total payroll for any calendar quarter between January 1, 1942 and June 30, 1945 in excess of $50,000.00; or

2. Were subject to the law during 1940 and who have had a total payroll for any quarter between January 1, 1942 and June 30, 1945 in excess of $50,000.00 which has increased 100% or more over and above the normal payroll for the corresponding quarter of 1940.

The war risk contributions are assessed at the rate of 3% and are in addition to the normal contributions required. However, these employers who were subject to the law during 1940 pay the 3% only on that part of the payroll which is over and above 200% of the payroll for the corresponding quarter of 1940.

Missouri—The Missouri law is effective between July 1, 1943 and June 30, 1945, and uses as a base the average of 1939, 1940 and 1941 payrolls. On that portion of the payroll which exceeds such average by 50% or more, the employer's rate is 3.6%. If an employer cannot determine such an average because he did not have an annual payroll for each of the years 1939, 1940 and 1941, his rate is set at 3.6%. However, the Commission may establish an average annual payroll for such an employer, and if the employer's payroll had not increased more than 50%, only that part of the payroll in excess of the established average annual payroll would be taxable at 3.6%. A special credit of $100.00 is allowed against the amount of the increased contributions resulting from these war risk provisions.

Ohio—War risk contributions are determined in much the same manner as are benefit experience rates. The date on which the computations are made is September 30th and the liability of the employer is determined by the following tests:

1. Does his total contributions for all past periods less all charges to his account equal or exceed 9% of his average annual payroll, based on an average of his last three annual payrolls; and

2. Did his most recent annual payroll exceed by 50% or more the average annual payroll used in computing his first modified contribution rate under the experience rating provisions?

If the answer to the first question is no and the answer to the second one is yes, the employer has an increase in rate for war risk contributions. These increases are added to his contribution rate and range from .1% to 1%, depending on the percentage of increase in the employer's payroll and the percentage by which all past contributions less all charges to his account exceed his average annual payroll. In no case, however, are such rates in excess of 3.5%.

If the employer's current annual payroll exceeds by 50% or more his taxable payroll for the first four consecutive calendar quar-

ters in which he had employment, his rate shall be increased but the amount of such increase ranges from .6% to 1%, based on the percentage of increase in his payroll.

All the increased rates cease to be in effect after December 31, 1945.

Oklahoma—Any employer whose annual taxable payroll for 1943, or any year thereafter, is in excess of 300% of the least of his annual taxable payrolls for the three preceding calendar years, shall not have a rate less than 2.7%.

Wisconsin—War risk contribution rates in Wisconsin apply to employers with payrolls of $30,000.00 or over where—

1. The payrolls exceed by 50% or more the payrolls for the year 1940; or

2. They become newly subject to the Act after 1942.

The maximum rate for such war risk contributions was 4% for the first six months after July 1, 1943, and 5% thereafter. In addition to all other contributions, each employer is required to contribute at the rate of .5% of his payroll between July 1, 1943 and December 31, 1945, or until the total of all payrolls covered by the Wisconsin unemployment compensation law falls below $200,000,000.00. These contributions are credited to a special "post-war reserve," since Wisconsin's unemployment funds are in industry reserves.

Dividends

In the November, 1944, issue of *The Journal of Accountancy* there is a report by the Committee on Federal Taxation of the American Institute of Accountants. This report contains the Committee's recommendations relative to post-war taxation and one of its important recommendations is the elimination of double taxation on corporate dividends.

Corporate income is subject to income and excess profits taxes before deduction of dividends; dividends paid out of such income are subject to taxation in the hands of the recipients thereof. Consequently, the income which the dividends represent is taxed twice, a situation which is both inequitable and economically unsound.

Many tax writers have considered this question of double taxation of dividends and have suggested various ways of overcoming it. The American Institute of Accountants report suggests two methods. Under the first method the stockholder would report the dividends as income but would receive a credit against his tax to offset the tax paid by the corporation on its income; there would be no adjustment on the corporation tax return. Deduction of dividends paid from taxable corporate income is the second method proposed.

No positive recommendation for either method is made by the Committee, but a supplemental report presents the views of the members in support of each. There are, of course, many technical problems involved in both proposals. The first would require finding an equitable method of determining the amount of the tax credit to be allowed the stockholder receiving the dividend without complicating too greatly the computation of individual income taxes.

If the corporation is to be given credit for the dividends paid to stockholders, certain limitations as to what constitutes distributable dividends will, of course, have to be made. This, however, should not be particularly difficult in view of the large body of material regarding dividends which has already accumulated in the tax law.

Advocates of the individual credit method argue that the corporate credit method results in corporation taxes becoming, in essence, taxes on undistributed profits and they recall (evidently with apprehension) the difficulties which arose in connection with the 1936-1937 surtax on undistributed profits. In answer to that argument, those proposing the corporate credit method state that there are important differences between their suggestions and the 1936-1937 surtax.

The writer is heartily in accord with the idea that double taxation of dividends must be eliminated and that it is a problem which merits the close study and consideration of every accountant, lawyer, businessman and legislator. We are not, at this time, advocating any particular method of accomplishing this result but we believe that whatever method is adopted should be one which is fundamentally sound despite variation in tax rates either for individuals or for corporations.