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Summary of Tax Exemptions—Liberty Bonds and Victory Notes

By EDWARD H. MORRAN

LOAN	DATE ACT OR CONGRESS	DATE OF BONDS	INTEREST RATES	INTEREST DATES (1 st of Month)		REDEMPTION AND MATURITY DATES	SHORT TITLES	CONVERSION PRIVILEGE EXPIRED
ORIGINAL ISSUES								
A 1st	April 24, 1917	June 15, 1917	3 1/2%	June and Dec.	1932/1947	1st 3 1/8%	May 15, 1918	
B 2nd	Sept. 24, 1917	Nov. 15, 1917	4	May and Nov.	1927/1942	2nd 4s	Nov. 9, 1918	
C 3rd	April 4, 1918	May 9, 1918	4 1/4%	Mar. and Sept.	none/1928	3rd 4 1/4s	Unexpired	
D 4th	July 9, 1918	Oct. 24, 1918	4 1/4%	April and Oct.	1933/1938	4th 4 1/4s	April 24, 1919	
E 5th	Mar. 3, 1919	May 20, 1919	3 3/4%	June and Dec.	1922/1923	Victory 3 3/4s	Unexpired	
F 5th	Mar. 3, 1919	May 20, 1919	4 3/4%	June and Dec.	1922/1923	Victory 4 3/4s	Unexpired	
CONVERSIONS								
G	1st 3 1/8% into rate of 2nd Loan		4	June and Dec.	1932/1947	1st 4s	May 15, 1918	
H	1st 3 1/8% into rate of 3rd Loan		4 1/4%	June and Dec.	1932/1947	1st 4 1/4s	Nov. 9, 1918	
I	1st 4s into rate of 3rd Loan		4 1/4%	June and Dec.	1932/1947	1st 4 1/4s	Unexpired	
J	1st 3 1/8% into rate of 4th Loan		4 1/4%	June and Dec.	1932/1947	1st-2nd, 4 1/4s	April 24, 1919	
K	2nd 4s into rate of 3rd Loan		4 3/4%	May and Nov.	1927/1942	2nd 4 1/4s	Unexpired	
L	Victory 3 3/8% into Victory 4 3/8%		4 3/4%	June and Dec.	1922/1923	Victory 4 3/8s	Unexpired	
M	Victory 4 3/8% into Victory 3 3/4%		3 3/4%	June and Dec.	1922/1923	Victory 3 3/4s	Unexpired	

NOTES RE CONVERSIONS:

1st 4s and 2nd 4s were convertible into the rate (if higher) of the next subsequent issue; there are, therefore, no 1st 4s converted into 1st-2nd 4 1/4s, nor are there any 2nd-2nd 4 1/4s.
 The privilege of converting 1st 4s and 2nd 4s into 1st 4 1/4s and 2nd 4 1/4s, respectively, originally expired Nov. 9, 1918, but the privilege was reopened Mar. 7, 1919, and is still in force.
 The 3 3/8% may still be converted into long term bonds of higher rate subsequent to the 5th loan if issued prior to the termination of the war.

The Journal of Accountancy

Tax Exemptions

All of above issues exempt from federal *normal* income tax, state taxes (except estate or inheritance taxes) and local taxes.

All of above issues qualify as admissible assets for purposes of invested capital.

None of above issues exempt from estate or inheritance taxes (federal or state).

A E and M full exemption from federal income surtaxes and profits taxes.

F and L no exemption from federal income surtaxes and profits taxes.

B C D G H J and K—limited exemption from federal income surtaxes and profits taxes as follows:

* Aggregate of <i>B C D G H J and K</i> (also treasury certificates of indebtedness and war savings certificates)	\$ 5,000
** Aggregate of <i>B C D G H J and K</i> re interest after Jan. 1, 1919, until 5 years after termination of war	30,000
** Aggregate of <i>B C D G H J and K</i> re interest after Jan. 1, 1919, <i>conditional</i> upon original subscription to and continued holding at date of tax return of 1/3 as many notes of Victory loan and extending through life of Victory loan	20,000
*** Aggregate of <i>B C G H and K</i> re interest after Jan. 1, 1918, until 2 years after termination of war, <i>conditional</i> upon original subscription to and continued holding at date of tax return of 2/3 as many bonds of 4th Liberty loan.....	45,000
*** D. Until 2 years after termination of war.....	30,000
*** J. Until 2 years after termination of war.....	30,000
<hr style="width: 100%;"/>	
<i>Total maximum exemption from federal income surtaxes and profits taxes....</i>	<u><u>\$160,000</u></u>

* By virtue of 2d Liberty bond act Sept. 24, 1917.

** By virtue of 2d Victory Liberty loan act March 3, 1919.

*** By virtue of supplement to 2d Liberty bond act Sept. 24, 1918.

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Notes re Tax Exemptions.

The above exemption of \$5,000 marked * should not be confused with the exemption from federal income surtaxes and profits taxes of \$5,000 bonds of the War Finance Corporation by virtue of war finance corporation act of April 5, 1918.

In New York state it is held by the taxing authorities that interest from United States obligations may not be excluded in computing corporation franchise taxes *based upon* net income or gross earnings, on the theory that the latter are not the things taxed but merely the measures of the tax. On the same theory the principal of or interest from United States obligations may not be excluded in computing "fair market value" or "capitalized net earnings" for purposes of the federal capital-stock tax.

In a decision of the court of appeals of the state of New York handed down November 23, 1920, in the case of *The People of the State of New York on the relation of Alpha Portland Cement Co. (a foreign corporation), Respondent, vs. Walter H. Knapp and others, Appellants*, dealing with certain phases of the New York state franchise tax, the opinion of Justice J. Cardozo contains the following statement:

"I think, therefore, that in substance, though not in form, in tendency, though not in name, this tax is equivalent to a tax upon relator's income."

How far reaching the court's conclusion with respect to this particular point may prove to be remains to be seen.