INCOME TAX DEPARTMENT

—By—

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EDITOR'S NOTE

Thus far in the series we have discussed who is subject to tax, who must file a return, and what exemption are allowed. We can now consider the questions of when and where the returns musst be filed.

Returns prepared on a calendar year basis, as is the case with most returns must be filed on or before March 15 of the following year. Returns covering the calendar year 1924, therefore, must be filed not later than March 15, 1925.

Returns may also be prepared on what is known as a fiscal year basis. A fiscal year means a period of twelve months ending on the fast day of any month other than December. Thus, the period from February 1 to the next January 31 would be a fiscal year, or May 1 to the next April 30.

In the case of returns made on a fiscal year basis, the returns must be filed by the 15th day of the third month following the close of the fiscal year ending January 31, the return would be due by the next April 15, and if the fiscal year ended on May 31, the return would be due by the next August 15.

It is important to bear in mind, however, that the only time returns ian be prepared on a fisial year basis is where the taxpayer's books are kept on that basis. If no books are kept, the return must be made on a calendar year basis.

Now as to where returns must be filed. It is provided in the law that returns must be filed with the Collector of Internal Revenue for the district in which the taxpayer resides, or he may, if he desires, file the return in the district where he has his principal place of business. The country is divided into sixty-five collection districts, each supervised by a Collector of Internal Revenue, and it is with that officer for the taxpayer's district that the return must be filed. If a person has no legal residence or place of business in the United States the return must be filed with the Collector at Baltimore, Md.

Let us now consider the tax rates. The net income of an individual may be subject to two taxes; a normal tax and a surtax. The normal tax rates begin at 2 per rent for the first $4,000 of income in excess of the exemptions, then go to 4 per cent. on the next $4,000 of income, and finally 6 per cent on the rest of the net income.

Thus, if a married individual, with no dependents, had a net income of $15,500, his normal tax would be computed as foilows: the exemption of $2,'000 is first deducted, leaving $13,000, subject to the normal tax. On the first $4,000 of this $13,000, a 2 per cent. tax is imposed, of $80. On the next $4,000, the rate is 4 per cent, or $160. On the rest of the income, or $5,000, the rate is 6 per cent., or $300 making the entire normal tax $540.

It is interesting to note that the normal tax rates this year are much less than what they were last year. Under the law that then existed, the tax was 4 per cent on the first $4,000 in excess of the exemption, and 8 per cent on the balance.

Then there is the surtax. The surtax rates range from 1 per cent. to 4 per cent., depending on the size of the income. The lowest rate begins with incomes over $10,000. In other words, where an individual has a net income of less than $10,000, he need not pay any surtax at all. The income between $10,000 and $14,000 is subject to a 1 per cent. surtax, of $40. The income between $14,000 and $16,000 is subject to a 2 per cent. surtax; and so on up the line. Income in the $100,000 bracket is subject to 36 per cent.; $200,000, 38 per cent.; $300,000, 39 per cent.; and $500,000 or over, the maximum of 40 per cent.

These rates are considerably less than what was imposed last year, when the maximum rate was 50 per cent. Last year, the maximum tax rates were 5 per cent., 50 per cent. for surtax, and 8 per cent. for normal tax. This year the maximum tax rates are 46 per cent. 40 per cent. for surtax and 6 per cent for normal tax.

The total of the normal tax and the tax that is due, except for the special treatment accorded so-called earned incomo, capital gains and losses, and certain credits that are allowed. These will be explained in detail in subsquent articles.

Estates and trusts being regarded as individuals, are subject to tax at the same rates as already outlined. Corporations, however, pay a flat tax or 12½ percent on their net incomes in excess of the exemption.

The difference between the tax rates on individuals and those on corporations immediately brings up the questian as to the advisability of carrying on business under the one form or another. An individual does not come into the 12½ per cent. rate class until his income is about $25,000. If his income is less than that, it it obviously to his advantage to do business as a sole proprietor, because the maximum tax rate would be less than the 12½ per cent. rate imposed on corporations. However, if his income exceeded $25,000, he would ordinarily be better off doing business as a corporation, since the rate of the corporation tax is 12½ per cent. Thus, an individual having a $100,000 income would have to pay a tax of about $23,000 because of the high surtax rates. A corporation, however making $100,000 pays a tax of only $12,500, resulting in a saving of $10,000 thru the corporate form.

There are many other factors to consider, such as salaries, dividends, etc. that need be carefully studied in each particular case. As a general proposition, however, it can be said that where the income is in excess of $25,000, one is better off from a federal income tax standpoint, doing business as a corporation, and where the income is less than that amount, it is best to carry on business as a sole proprietor.

In the next article, the subject of earned income and how it affects the computation of the tax will be discussed.

Buses Carry 90,000 Children To School

Lafayette, Ind., Jan. 15.—"The fact that 90,000 Indiana school children were carried back and forth in buses to and from 1,000 consolidated schools in the state during 1923 shows how closely related are good roads and education," said Ben H. Petty, associate professor of high way engineering at Purdue University, in connection with remarks made recently regarding the Eleventh Annual Road School which is to be held at Purdue, January 19 to 23. That road building and maintenance rank close to education is shown by figures given by Prof. Petty. Of the total tax distribution for 1922, 20.5 cents of each tax dollar went toward roads, and 41.6 cents toward education. The continued growth of these consolidated schools means that the road program of the state must keep pace with educational facilities.

This educational factor is only one example of the increasing use of Indiana highways calling for corresponding increases in the road repair fund. Being the complaints made concerning the large sums o money expended on our state, county and township roads, is an utter lack of appreciation of the astounding changes in volume and type of road traffic which has taken place during the past few years, according to the Purdue professor. "Too many are thinking of road traffic today in terms of 25 or 30 years ago," said Prof. Petty. He pointed out that the same road which carried 40 or 50 hourse-drawn vehicles per day 30 years ago, today bears the burden of 500 to 2,000 vehicles most of which are high speed automobiles or heavy trucks.

Problems of every nature connected with all phases of road building and road repairing will be discussed at the Road School. Experts from over the country, in addition to prominent highway men from Indiana, have been placed on the program for the week's meeting to discuss and explain problems which confront the modern highway engineer and those in charge of state highways. Co-operating with the School of Civil Engineering at Purdue in the Road School are the Indiana State Highway Commission, the Indiana County Highway Superintendents' association, the Indiana County Surveyors and County Engineers Association and the City Street Commissioners Association of Indiana.

Auto Company To Hold Regular Monthly Meeting

The monthly conference of the salesmen and employes of the Adams County Auto company, together with the officers, will be held this evening. At six-thirty o'clock the men will be the guests of L. C. Waring at a chicken dinner to be given at the Peoples Restaurant. A business session will be held following the dinner. About twenty men will attend the dinner and conference.