

INCOME TAX
DEPARTMENT
—By
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In the last article the question of capital gains was discussed and how they affected the tax to be paid. In this article capital losses will be made subject to the same treatment.

It will be recalled from the previous discussion that a capital loss is a loss resulting from the sale of an asset held for more than two years, and that a capital net loss is the excess of capital losses over capital gains.

At the outset, it should be noted that while profits from the sale of property held for personal use, such as residence, is regarded as a capital gain, losses arising from the sale of such property are not capital losses, because under the law for a loss to be deductible the property must be held for profit, and a residence is ordinarily not so held. A capital loss would arise, however, if real estate held for investment purposes for more than two years were sold at a loss; likewise, where stocks or bonds or similar property owned for more than two years are involved.

In any event, having determined upon the amount of the capital net loss, the effect on the tax is as follows: the tax is first computed on the ordinary income in the regular way, and from it is deducted 12½% of the capital loss. In other words, the capital net loss can reduce the tax only to the extent of 12½% of it.

To illustrate this principle let us assume that A, a married man with no dependents, has an income from rentals, interest and dividends, of \$100,000, and that he has sustained a net loss in the amount of \$20,000 on the sale of stocks held for more than two years. Assuming that his earned arrived at by first computing the tax income was \$5,000, this tax would be on the ordinary income of \$100,000, which will be found to be \$22,617.50. From this amount is deducted 12½%, or one-eighth of the amount of the capital net loss. As the capital net loss was \$20,000, the deduction would be \$2,500. The tax would therefore be \$20,117.50.

It is apparent that just as the capital gains provision works to the benefit of the taxpayer, so the capital loss provision works to the detriment of the taxpayer. In the case supposed, if there were no capital net loss provision, the loss on the stock would be directly deducted from the other income, making a net income of \$80,000 and the tax on \$80,000 would be \$14,877.50, as compared with a tax of \$20,117.50 as above computed. As a result of the capital loss provision, therefore, the taxpayer is called upon to pay \$5,250 more than he ordinarily would.

It is interesting to note that the law that prevailed last year did not contain the capital loss provision, but only the capital gains provision. The capital loss provision appears for the first time in the Revenue Act of 1924.

Another noteworthy feature is that whereas it is optional with the taxpayer whether or not he will compute his tax on the basis of the capital gains provision, there is no such option in the case of capital losses. The tax must be computed in the manner illustrated, with but one exception, and that is where the tax on such basis would be smaller than the tax computed without regard to the capital loss provision.

For example, if in the case previously supposed, instead of A's ordinary income being \$100,000, it were \$30,000, and his capital loss \$20,000, and we proceed to compute his tax considering the capital loss provision we would find that the tax on the \$30,000 of ordinary income would be \$2,317.50, and if we then deducted 12½% of the capital loss, or \$2,500 there would be no tax to pay. On the other hand, if we disregarded the capital loss provision, so that A's net income were considered as \$10,000, that is, \$30,000 ordinary income less the \$20,000 loss on stocks, his tax would be \$207.50.

In other words, the tax computed on the basis of disregarding the capital loss provision is higher in such instance than that resulting from the application of that provision. In those cases, the law prescribes that the capital loss section shall not apply, but the capital loss shall be deducted from the ordinary income, and the tax computed in the ordinary manner on the net result.

In order to determine when the tax on the capital loss basis is smaller than the tax computed on the ordinary basis, it is best to work the tax out on both bases and compare the results. As a general rule, however, it will be found that wherever the ordinary income, not considering the capital loss, is less than \$24,000, the tax computed on the basis of the cap-

ital loss provision will be less than without it, and should therefore be disregarded.

Note: The new income tax forms have been recently released and in the next article their general use will be explained. Opportunity will also be taken to answer some of the accumulated readers' questions.

Questions and Answers

Q. Please answer this question in your valuable paper. I am a married man. My wife deserted me seven years ago, and I have no idea where she is, whether she is working, what her income may be, and in fact, have no knowledge of her at all. She was accustomed to receive a very excellent salary. Being a married man, am I obliged to pay a tax upon her earnings, if such exist, or can I pay for my own share of earnings irrespective of my wife? You see, if I must pay as a married man, there would be no way that I can see to truthfully compute any possible earnings of my wife. Naturally, I do not wish to get into trouble with the tax people and perhaps fined later on.—F. G.

A. You are not required to include in your tax return the earnings of your wife. Your wife will have to file her own return and pay her own tax. I might mention that since you are not living with your wife, you are not entitled to the married man's exemption, so that your exemption will ordinarily be \$1,000.

Opportunities come, opportunities go. Everybody welcomes opportunity; The wise make ready to receive them, And the worthy catch them on the fly.

Every great event, like the eclipse, proclaims and firmly establishes this truth.

Great events bring great opportunities and with them come, those greater responsibilities which should be anticipated and judiciously arranged for, so that a wise and proper accounting may be given.

Cameras on hand and telescopes too, All men know what they're expected to do;

Lenses inspected, the films are withdrawn,

Instruments polished "as clean as a pin,"

The occasion ours, if the day is fair, Our "men of the hour" are sure to be there;

No sound will be heard, without or within,

To voice a regret "that it might have been,"

For when the moon darkens the sun's bright eye,

The truth will be set right out of the sky.

Success is never had simply by the opportunity, but is measured out to us in proportion to the relation of our readiness and ability to receive it, and the willingness and promptness with which we embrace it.

The time to make ready for an event is not found at the moment when the opportunity presents itself, but beforehand. The learned scientist who was not ready for the eclipse when it came, lost the opportunity which may never come to him again. Many people are thus never ready for an opportunity when it comes to them, and are prevented from doing what they would like to do. Their desires are unfulfilled. They never accomplish the longing of their own mind and heart.

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CARD OF THANKS

I wish to thank the many friends and neighbors and the nurses at the hospital who so kindly assisted us during the illness and death of Mrs. Chronister. I am also grateful to those who sent floral offerings and wish to express my appreciation to those who assisted us in time of sorrow.

ROBERT CHRONISTER

Bloomington.—"Stop and Go" automatic traffic signals operated by electricity have been installed in the public square, here.

IN MEMORY OF MY WIFE
MRS. MARCELLA CHRONISTER

The reaper has plucked a flower, a lily, tender and white, whose petals had scarcely opened to the early morning light; whose life was just beginning to shed its sweet perfume, e'er it was called for the Master, and taken in its bloom.

For when God looked on its purity, He thought of this world of sin, of the sorrows and strife to battle against, so He said: "I'll call her home." God is wise, he doeth best. We should not doubt His love, but watch and wait for the coming joy, when we meet in Heaven above.

Robert Chronister

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