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1941 Federal Revenue Act

By RUTH A. CLARK, C. P. A.*

The Revenue Act of 1941 provides chiefly (1) an increase in tax rates, (2) for the incorporation of the 10 per cent Defense Tax in the basic tax rates, (3) a reduction in the amount of personal exemption, (4) for the elimination of the \$4000 surtax exemption, and (5) for new and increased Excise Taxes.

Although the Normal Tax on individuals was not changed and remains at 4 per cent, the surtax rates on individuals were drastically increased in all brackets while exemptions were lowered.

The earned income credit is not allowed in computing surtax and the \$4000 exemption allowed under the prior act has been eliminated. With the surtax rate 6 per cent in the first bracket, this makes in fact an initial rate of 10 per cent. The 10 per cent defense tax under the prior act has been incorporated in the increased surtax rates.

The personal exemption of a married person or head of a family has been reduced from \$2000 to \$1500; and from \$800 to \$750 for single persons. The exemption for dependents remains at \$400. The act however provides that where a taxpayer would not occupy the status of head of a family except by reason of there being one or more dependents for whom he would be entitled to the \$400 dependency credit, the credit for one dependent would be disallowed.

The act provides for an optional method of computing the tax in the case of individuals whose gross income is \$3000 or less and consists solely of salary, wages, compensa-

tion for personal services, dividends, interest, rent, annuities or royalties. A simplified return and tax schedule is provided. Taxpayer may elect to file either on the regular or simplified basis. The election however is irrevocable for the taxable year. If the taxpayer has substantial deductions, he will find it advantageous to file on the regular basis.

The normal tax on corporations under the 1941 act incorporates the 10 per cent defense tax in the basic rates. The rates on "corporation normal tax net incomes" of less than \$25,000 are 15, 17, and 19 per cent. These rates represent a very slight increase over the normal tax rates under the 1940 act plus the 10 per cent defense tax.

The rates on "corporation normal tax net incomes" over \$25,000 will be 24 per cent. This rate is the same as under the 1940 act with the defense tax included.

A new corporation surtax is provided. The rates are 6 per cent on the first \$25,000 of "corporation surtax net income" plus 7 per cent on the remainder.

The corporation excess - profits rates were increased in each bracket by ten percentage points. In computing "Net Income subject to Normal Tax and Surtax" the Excess-Profits Tax is deductible. However, the Normal Tax is not deductible in computing "Excess-Profits Net Income."

The Estate and Gift Tax rates were substantially increased. The new estate tax rates apply to estates of decedents dying after September 20, 1941. The gift tax rates do not go into effect until 1942.

Included in the 1941 act were provisions for increased and new Excise Taxes. In general, there were effective October 1, 1941.

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