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She was employed as assistant cashier in a small bank, where her duties included preparation of tax reports for the bank and for individuals.

Miss McRae went to Detroit in 1930 and worked with the Internal Revenue Department until the latter part of 1941, when she embarked upon her present career as accountant and tax consultant in an attorney's office.

THE MICHIGAN INTANGIBLE TAX ACT

By JOANNA McRAE

The Intangible Tax Act is defined, in part, as follows: "An act to provide for the imposition and the collection of a specific tax upon the privilege of ownership of intangible personal property; to provide for the disposition of the proceeds thereof; to prescribe the powers and duties of the department of revenue with respect thereto."

Before the Intangible Tax Act of 1939 went into effect almost all property, both real and personal, was taxed under the General Tax Law. However, the greater portion of intangible personal property missed being taxed altogether, as there was no definite procedure to check how much each individual, corporation, or firm possessed. All the intangible personal property that was taxed, was taxed at its actual value and at the same tax rate as other real and personal property in the same village, township, city, or county.

The State Legislature realized the unfairness of taxing the intangible personal property at the same tax rate as real estate and other personal property, and that large amounts of certain types of intangible personal property were being concealed and were escaping taxation altogether. As a result of this, in 1911 and 1913 the legislature enacted what was known as the Specific Mortgage Tax and the Secured Debts Tax laws. By these laws, real estate mortgages, land contracts, mortgage bonds and certain other types of securities were withdrawn from taxation under the General Tax Law and were subject to tax at a fixed rate throughout the State, based upon the principal amount of such mortgage, land contract, bond, or other security; i.e. "face value" rather than actual value as determined by the local assessor.

People with large incomes sometimes had very little capital and consequently were not being taxed equitably. Still considering that the tax on intangible personal property was unfair in its then existing form, the State Legislature in 1939 enacted the Intangible Tax Act. This act applied to personal property such as cash, bank accounts, notes and accounts receivable, stocks, bonds, and the like, commonly known as intangibles. These types of property, under the Act, are taxed on face value at fixed rates, rather than on actual value as determined by an assessor. Mortgages, land contracts, bonds and other securities formerly subject to tax under the 1911 and 1913 laws were thereafter subject to tax under the Intangible Tax Act, except as to such items on which the specific tax had been paid prior to September 29, 1939, the effective date of the Act.

The intangible tax is a specific tax which is provided for by Act 303 of Public Acts for 1939, as amended by Act 233 of Public Acts for 1941 and further amended by Act No. 165, P.A. 1945. It is determined by using income or face amount as a measure rather than value. It is a specific tax based on the ownership of all intangibles and is imposed annually. Any owner of intangibles during all or part of the tax year, is taxable under the Act. Intangible property which is subject to this tax is exempt from all general property taxes under the laws of Michigan, and is no longer taxed according to its value, or at the general property rate — that is, the Act does away with the general property tax law in so far as intangible personal property is concerned. The 1945 amendment was passed September 6, 1945 and is retroactive for the year 1945. An exception to this is that it does not affect fiscal years except those beginning after January 1, 1945. Fiscal years beginning prior to January 1, 1945 and ending during 1945 are figured under the old basis.

The intangible tax is permitted by the State Constitution, even though it does not tax the property according to its actual value. The disregard of actual value is essential to its validity as
a specific tax. If actual value is used as the basis for a tax it thereby, under the State Constitution, becomes a tax which may only be levied at the same rate per dollar of actual value as that which is applied to real estate and other property subject to tax under the General Tax Law. For this reason, it was necessary to find some basis other than actual value for the levy of the Intangible Tax. Because of the necessity of selecting such a basis, various tax burdens result in some cases where the face value has little relation to the actual value.

The term "face value" means the amount appearing on the face of the instrument or other written record of evidence, or in case there is no instrument or other written record, then the amount is determined by other evidence satisfactory to the department.

The Act provides that rules and regulations shall be issued from time to time by the Department of Revenue for the enforcement and administration of the law.

The tax became operative for the first time during the year 1940. If a taxpayer obtains permission from the Department of Revenue he may use a fiscal year instead of the calendar year and must obtain permission if he wishes to return to the calendar year after having used the fiscal year. The tax for the year 1940 was due and payable on or before March 1, 1941, that is, 60 days after the end of the taxable year, or if the fiscal year basis was used, on or before 60 days after the close of such fiscal year. The 1941 amendments changed this period to 90 days after the close of the calendar year, or fiscal year. The Department of Revenue may grant an extension of not more than 90 additional days for filing and payment.

By intangible personal property subject to the tax is meant: "Moneys on hand, on deposit or in transit, shares of stock and other units of interest in corporations, joint stock companies, and other associations conducted for profit (not, however, including the interest of a partner under a partnership agreement); securities which constitute a part of an issue of similar securities, such as bonds, certificates of indebtedness, debentures, notes and certificates of deposit therefor; annuities; accounts and notes receivable, land contracts receivable, real estate and chattel mortgages receivable, conditional sale contracts receivable, and other obligations for the payment of money; equitable interest in any of the foregoing classes of intangible personal property, and any and all other credits and evidences of indebtedness, whether such intangible personal property is secured or unsecured."

The tax is levied on the owner of intangible personal property, whether an individual, a corporation, or a partnership. This includes administrators, executors, receivers, trustees in bankruptcy and assignees for the benefit of creditors.

In a trust if more than one beneficiary is entitled to the present enjoyment of the trust property, all such beneficiaries so entitled are deemed to be the "owners" according to their respective interests. If only some of the beneficiaries so entitled to the present enjoyment of the trust property, those beneficiaries who are so entitled are deemed the "owners". Where a trustee of a trust must, or in his discretion may, accumulate the income thereof, the trustee is deemed to be the "owner" to the extent that such income is accumulated.

The taxability of the property depends on the domicile of the beneficiary (except where accumulations of income are involved). The fact that a trustee actually of Michigan, or conducts a trust business in Michigan does not render the property subject to tax. If the trustee is a non-resident and the beneficiary is a resident of Michigan the property is taxable in Michigan to the extent of the beneficiary's interest in such property.

Only such intangible personal property as has a "situs" in Michigan is subject to the tax. If the intangible personal property is owned by a resident of Michigan it is subject to the tax, and if owned by a non-resident it is not subject to the tax. However, according to the business "situs" basis for taxing intangible personal property, the property may be subject to the tax if the owner is a non-resident or may be exempt even though the owner is a resident.

Corporations are particularly affected by the business situs basis. Prior to the enactment of the Act corporations were exempt from taxation in Michigan on their intangible personal property if incorporated under the laws of another state even though all their plants and operations were in Michigan. Through the Intangible Tax Act, corporations are taxed on their intangible personal property used or acquired in carrying on their business in Michigan regardless of the state of incorporation. Michigan corporations are free from the tax on the intangible personal property if it is used or acquired in carrying on their business in states other than Michigan, if such intangibles are actually taxed in the state or states where such business is carried on. The same rules apply to individuals if their intangibles are used or acquired in conducting their business.

If a non-resident owner of intangible personal property places it with a manager or agent in Michigan to invest or reinvest in mortgages of persons holding Michigan real estate, or for loans to persons who are Michigan residents, such intangible personal property is subject to the tax to the extent that it is invested in a course of repeated transactions in obligations of persons residing in Michigan or secured by property located in Michigan. On the other hand, if a resident of Michigan places intangible personal property with a manager or agent who is not a resident of Michigan, for investment in similar obligations of non-residents of Michigan "such intangible personal property is not subject to the tax if it is actually taxed at the place where such manager or agent is located."

"In the case of a taxpayer having his domicile outside of Michigan but having intangible personal property which is used in connection with or acquired from the conduct of his business both within and outside the State of Michigan, the percentage of taxability of such property shall be determined by obtaining the average of the following 3 percentage rates, respectively computed: (1) Michigan sales to total sales; (2) Michigan physical properties to total physical properties; (3) Michigan payrolls to total payrolls."

The tax on income-producing intangible personal property is 3 per cent of the income, in no event less than 1/10 of 1 cent of the face, par or contributed value of each item. The tax on non-income producing intangible personal property is 1/10 of 1 per cent of the face, par or contributed value. The tax on moneys on hand or in transit or on deposit in a bank is 1/25 of 1 per cent; that is, 40 cents per $1,000.00
of the face value thereof and the tax on shares of stock in building and loan or savings and loan associations is 40 cents per $1,000.00 of the
paid-in value of such shares.

The face value of any item of property which changes during the tax year is the average value, to be computed under such rules and regulations as the department may adopt. If any item of intangible personal property subject to the tax is owned by the taxpayer for a portion of the tax year the tax levied is reduced in proportion. However the Department of Revenue, on December 15th of each calendar year, retroactively fixes a date which shall be the last day of any month or other accounting period during such year, which may be used by any taxpayer, as the date for the determination of taxable intangible personal property subject to tax and as the date for determining the face value, irrespective of any change in the face value of any item or items of such property and irrespective of any ac-
quisions and dispositions of any such property during the tax year. This date is the only date which can be used for the determination in any year of the amount of moneys on hand or in transit or on deposit in a bank, or of the paid-in value of shares of stock in building and loan or sav-
ings and loan associations of any taxpayer.

If the taxpayer elects to use the date so fixed, he is for the purpose of determining the tax im-
posed, deemed to have been the owner for the entire tax year of the taxable intangible personal property of which he is the owner on said date and to have received the income, if any, for such entire period. The taxpayer may, in lieu of the foregoing retroactive date method, use a true average method but once having made an election as to either method he may not change his method, except upon application to and approval by the Department of Revenue. No change of election becomes effective until the next tax year succeed-
ing the filing of the application.

"Where due to death or change of domicile during the tax year, the intangible personal property owned by a taxpayer is subject to the tax hereby levied for only a part of the tax year, the tax shall be computed in the same manner as though such property had been subject to tax for the entire tax year and shall then be reduced in proportion. However, where an executor or admin-
istrator appointed and qualified in Michigan suc-
ceds to the ownership of intangible personal property previously subject to tax to the decedent for whose estate such executor or administrator shall be so appointed and qualified, for the pur-
pose of the computation of the tax the combined ownership of such decedent and such executor or administrator during the tax year shall be regarded as the continuous ownership of a single owner and such executor or administrator shall be deemed to have been the owner during the entire period thereof."

Intangible personal property subject to the in-
tangible tax or expressly exempt from the in-
tangible tax is exempt from all personal property taxes under the laws of this state.

Each taxpayer is permitted a statutory deduction of $20.00 on his return. However, in the case of joint owners property the total deduction from the tax by owners of such property may not ex-
ced $20.00. Therefore, husband and wife may take but one deduction from the tax on property owned jointly. This deduction does not apply to the tax on moneys on hand or on deposit in a bank, or on shares of stock in building and loan

or savings and loan associations. In case the re-
turn covers a period of less than a full year the deduction is reduced proportionately. To compute the amount of the deduction on returns for a period of less than one year, the fractional period of the year by months is used and periods of less than 16 days are ignored and periods of 16 days or more but less than a full month are considered as one month.

Account receivable representing obligations of the U. S. Government, or the State of Michigan or its political subdivision are taxable to the person to whom the obligation is due on the same basis as any other account receivable.

In the case of maturity of an insurance policy, or death of the insured, when the proceeds are not converted into periodic payments and tax-
able as an annuity under the Act but are left on deposit with the company, such funds are con-
sidered to be a taxable account receivable.

Credits, due bills, and deposits with credit unions, persons, firms or corporations other than banks, are to be considered as account receivable unless they represent capital investments.

Moneys on deposit in a bank in either a sav-
ings or checking account are not considered as accounts receivable.

The taxpayer may deduct from accounts and notes receivable, accounts and notes payable by him, if such payables are incurred or given in connection with the business from which the rece-
ivables are derived. This deduction is restricted to business returns. Individual obligations not connected with business activities are not deductible. Deductible obligations do not include dividends payable, accrued contingent liabilities, or other similar items. A contingent liability is an item or account which may become a definite obligation at some future date in case certain contingencies or circumstances arise. Taxes pay-
able are not deductible unless they consist of taxes levied upon or collected from persons other than the taxpayer or received or retained by the taxpayer for remission to a governmental agency. For example, social security taxes de-
ducted from employees' pay checks and held in the possession of the employer would be con-
sidered a deductible payable on the return of the employer but that portion of social security taxes imposed upon the employer would be de-
eductible. Notes payable do not include bonds, debentures, or similar items and neither do they include any obligations of any type due more than one year from the date of issuance.

In case a taxpayer has both income-producing and non-income-producing receivables the deduc-
tion of allowable payables is first made from the non-income-producing receivables. If the allowable payables exceed such receivables then the amount of such excess may be deducted from the income-
producing receivables. In case income-producing receivables from which payables are to be de-
ducted earn income at variable rates, such rece-
ivables and the income therefrom are considered in total and the allowable payables applicable to income producing receivables are deducted there-
from. The total income applicable to the taxable balance of income-producing receivables is that percentage of total income which income-producing receivables are of total income-producing receivables.

Mortgage payables are not allowable payables except in those cases in which the taxpayer holds a land contract covering the same real estate as that involved in the mortgage and in such cases
the balance due on the mortgage may be deducted from the unpaid balance due on the contract. The income is deemed to be the amount of such equity times the interest rate of the contract. In case the mortgage covers property in addition to that represented by the contract, the amount deductible from the contract is determined by a proportionate division of the mortgage according to the value of the property so covered.

Insurance or collection agencies may consider accounts payable the portion of premiums or collections received that is due to the company or principal.

When a resident taxpayer is conducting business within and without the State of Michigan, and his deductible payables cannot be accurately divided between the business within and without the state, the percentage of such deductible payables to be used is the percentage which his taxable accounts receivable is of his total receivables.

Through the Act the "Mortgage Tax" and "Secured Debts Tax" have been repealed.

If the specific tax has been paid on mortgages and land contracts while such law was in effect, prior to the effective date of this act, they will not be subject to the intangible tax. Other items exempt are any mortgages upon real estate owned and occupied by a library, armory, or benevolent, charitable, educational and scientific institutions, incorporated under the laws of Michigan, with the buildings and other property thereon, while occupied by them solely for the purposes for which they were incorporated or secured by a mortgage upon any house of public worship with the land on which it stands, the furniture therein, or any parsonage owned by any regularly organized religious society of the state and occupied as such.

Bonds, notes, debts, or written or printed obligations upon which the specific tax has been paid prior to the effective date of the act are exempt.

Also exempted from the tax are benevolent, charitable, religious, educational and scientific institutions and charitable homes of secret or fraternal societies (but not the secret or fraternal societies themselves) which are incorporated under the laws of Michigan; C.A.R. societies; veterans' unions, and women's relief corps connected therewith; Y.M.C.A.'s and Y.W.C.A.'s, W.C.T.U. associations, Young People's Christian unions, and other similar associations; foreign insurance companies and railroad companies, union station and depot companies, telegraph companies, sleeping car companies, express companies, car loaning companies, stock car companies, refrigerating car companies, fast freight companies, and all other companies paying the tax assessed and levied under Act No. 282 of the Public Acts of 1905 as amended; the assets belonging to (but not the shares of stock of) banks, building and loan associations, savings and loan associations, trust companies and credit unions. Partners are exempt from the tax with respect to intangible personal property upon which the tax has been paid by the partnership.

Bonds and other similar obligations of the State of Michigan and any political subdivision, obligations of the United States (including those whose principal or interest is guaranteed by the United States in which Congress has expressly exempted from taxation, pensions, cash surrender and loan values of insurance policies and royalties are also expressly exempted from the tax.

Postal savings bonds are exempted by Act of Congress, but postal savings are not exempt.

All shares of stocks in banks and trust companies doing business in the state under whatsoever authority organized are, irrespective of the domicile of the owner thereof deemed to have a situs in the state. Shares of stock of a national bank located in any other state and owned by a Michigan resident are not taxable. The tax on shares of stock of state and national banks and trust companies located in Michigan shall be paid by said bank or trust company on behalf of its shareholders and the tax so paid may be charged against the shareholder for whom the tax was paid or assumed by said bank.

Each bank or trust company must annually on or before March 31st of each year file a return and pay the tax due on all shares of stock outstanding during the previous calendar year. If any bank or trust company claims that no tax is due on any of its outstanding stock and fails to pay the tax on such stock, the said bank or trust company must file with its return a sworn statement by the owner of such stock listing the reason for which it claims that no tax is due.

Every bank engaged in the business of receiving moneys for deposit subject to check or other withdrawal, upon which a tax is imposed under this Act, must collect and pay the tax. The tax so paid is based upon the amount on deposit (including certificates of deposit) at the close of business on the retroactive date selected each year by the department, except in those cases in which the bank elects to follow option A as outlined below. Certificates of deposit constitute deposits and shall be included by the bank with other deposits. In carrying out the provisions of the Act there are three options open to the bank as follows:

A. The bank may render all deposits in it tax exempt to the owner by voluntarily electing to pay to the department an amount equivalent to 40c per $1,000.00 of that amount of its assets which is equal to the amount of its total deposit liabilities as of the close of business on December 31st of each year, less the amount of federal funds on deposit. Any bank electing to follow this procedure must file a written declaration of its intent prior to December 31st of each year.

B. The bank may pay the tax and charge it to the depositor. In such cases the bank is not required to pay the tax for any person who had moneys on deposit on the retroactive date for whom the bank has no moneys or property in its possession on the date the tax is paid by the bank, but in no case later than March 31st following the tax year. If the bank follows this plan it is entitled to retain 3% of the total amount of said taxes as compensation for services rendered in acting as collecting agent. The bank must include with its return a list of depositors having moneys on deposit on the retroactive date, with their addresses and the balance of each account at the close of business on that date, on which the bank is not paying the tax and the reasons for which it contends that no tax is due on such deposits. The Department of Revenue may require such additional information as is necessary to substantiate the elimination of any such account from the taxpaying list, and may assess the bank for any deficiency due to improper computation of the tax due or erroneous exemptions claimed.

C. The bank may pay the tax in behalf of its depositors and absorb the tax. Otherwise it is the same as option B.
All cash on hand of any description must be included in the return, such as unashed or undeposited checks; bank drafts; money orders; and moneys on hand, in transit, in safe-deposit boxes or any other place of safekeeping or hiding. The individual deduction of $29.00 against the amount of tax due does not apply to the tax on such items.

All bonds are taxable unless they are specifically exempted by statute or the specific tax was paid thereon prior to September 29, 1939. However, mortgage bonds covering property partly within and partly without the state are exempt only to the extent that the mortgage tax was paid on the portion of the property within the state.

The following bonds are not taxable: Michigan State College Auditorium; University of Michigan Stadium; State Board of Education Revenue Bonds, under Act 15, Public Acts of 1937, for purchase or construction of buildings at State Normal Colleges or State Normal Schools, all United States bonds, Postal Savings bonds, H.O.L.C. bonds, F.H.A. bonds, Federal Land Bank bonds, National Farm Loan Association bonds, and all bonds of the State of Michigan or any of its political subdivisions. In the case of stock the par value is the face value. If the stock has no par value the contributed value will be used as face value.

Bonds, as well as stocks, of corporations in liquidation or reorganization are taxable at their par, face, or contributed value less the proportionate share of any liquidating dividends which have been paid. Each taxpayer must keep a list of all bonds and mortgages which he claims are exempt from taxation due to the payment of the specific or mortgage tax thereon. This list must state the date of payment, the number of the certificate, the name of the instrument, and the designation of the office where the tax was paid.

Securities and debts for the purpose of the tax are considered wholly good or wholly bad. If they have been entirely charged off they may be excluded from property subject to the tax. Partial charge-offs and reserves will not be recognized.

No estate in which there is intangible personal property subject to this tax may be closed without payment of the tax, in respect to the liability of both the estate and the decedent prior to his death. A copy of the inventory and a copy of the final account, in all estates in which there is intangible personal property subject to tax under this Act, must be filed by the fiduciary with the Department of Revenue within 10 days of the filing of the same with the probate court. In the closing of estates the department may accept the inventory and final account in lieu of the filing of a return in cases where no tax is due, or may require the filing of a return or such additional information as the department may deem necessary.

Appraisal values fixed by appraisers appointed by the court have no bearing upon the computation of the intangibles tax, the tax being based upon interest from intangibles, or face, par or contributed values.

Co-executors constitute one legal person. A Michigan estate being administered by an ancillary administrator is subject to tax on intangibles in the estate.

The “face value” of an annuity is its cash reserve value as carried on the books of the company issuing the annuity. As payments are made under the annuity the cash reserve value will be diminished to the extent that the amount of such payments exceeds the guaranteed interest rate thereon or, if there is no guaranteed interest rate specified, to the extent that the amount of such payments exceeds 3% on the cash reserve value. Annuities are not taxed until payments of benefits commence.

If a taxpayer’s business is dealing in intangible personal property he may deduct from the income so derived that expense which is reasonably necessary in creating, acquiring, managing, enforcing or disposing of such property. This provision is intended to apply only to taxpayers whose regular business consists, in whole or in part, in dealing in intangible personal property and not to taxpayers generally, merely because they make investments in securities, mortgages, etc. This results in a tax measured by gross income on intangible personal property of any taxpayer whose regular business is dealing in intangible personal property.

All returns are required to be filed and the tax paid on or before 90 days after the end of the tax year. The Department of Revenue may, for good cause shown on the application, extend the time by not more than 90 days for making the annual return, but 6% per annum will be added to the tax for the period of such extension.

An agent who holds intangible personal property for investment is required to file an information return disclosing such property, separate from his own taxable property on or before 90 days after the end of the tax year.

All taxpayers are required to keep proper records, make returns and comply with the rules and regulations set forth by the Department of Revenue. Agents of the department have authority to examine the books and records of the taxpayer at any time. After three years from the date when the return for such a year is due, no deficiency, penalty, except in cases of fraud. All information interest or penalty may be levied against the tax-contained in the tax reports or obtained by carrying out the provisions of the Act is confidential and may not be given out except by a court order. If the Department of Revenue requires a return to be recomputed on a different basis from that used by the taxpayer he is entitled to a hearing.

Interest at the rate of ½ of 1% a month is charged from the due date on unpaid taxes and if the deficiency or delinquency is due to negligence or carelessness, a penalty of 10% is imposed in addition to interest at the rate of 1% a month. If due to a fraudulent intent or to evade the tax a penalty of 100% will be imposed in addition to interest at the rate of 1% a month. A 25% penalty is imposed for willful failure to file a return and interest accrues at the rate of 1% a month from the time it was due.

If a taxpayer refuses to make a return or files a false or fraudulent return or assists another in making a false return he is guilty of a misdemeanor which is punishable by a fine of not more than $1,000.00 or imprisonment not exceeding one year, or both.

The Department of Revenue must deposit all moneys received in the state treasury. All moneys so received are distributed among the several villages, townships and cities of the state according to a statutory formula. The moneys returned to the cities and incorporated villages are credited to the general fund and are available for general fund purposes. The moneys returned to the township are used as designated by the township board for capital improvements or for maintenance and improvement of township roads taken over by
the county, or for such other public works as are under the supervision of the county road commission.

Every domestic or foreign corporation doing business in Michigan, upon request by the Department of Revenue, must file with the department a list of its Michigan resident shareholders, containing the names, addresses and amount of its stock held by such shareholder, according to the best available records of the corporation.

The Department of Revenue will publish a list of corporations doing business in Michigan as well as a large number of other corporations, showing the par or contributed value of its stock. Supplements will be published from time to time as deemed necessary. Once having obtained the par or contributed value, the taxpayer may continue to use such value from year to year in the preparation of returns but shall change such values if corporate changes affect the capital structure of the corporation resulting in a different par or contributed value.

Contributed value of no-par stock of corporations shall be the average contribution of each such share to capital, paid-in surplus or other funds of the corporation, not including any earned surplus or deficits.

Stock acquired under the employees' stock purchase plan is taxable in the same manner as other stock unless held in trust, in which case it is taxable the same as other trust property. As soon as the stock is set aside for the employee and he receives dividends the stock is taxable to him.

Every corporation, domestic or foreign, doing business in the State of Michigan, is required to file with the Department of Revenue a copy of its return filed annually with the Michigan Corporation and Securities Commission, for the purpose of assisting the Department of Revenue in arriving at the percentage of the property of the corporation located outside of Michigan.

In District Court, District of Connecticut, the Government sought a judgment against Northwestern Telegraph Company for income tax assessed against them for the years 1927, 1928, 1929, 1930. In January 1935, the Court denied the Government's claim on the basis that the income on the leased property was offset by a deduction for the same amount for interest on business indebtedness paid to the shareholders.

This decision was appealed to the Circuit Court of Appeals, Second Circuit, which on May 11, 1936 reversed the decision of the District Court, in favor of the Government. The court made the following statement "We do not think that the stockholders can avail themselves of a corporate organization to avoid the double tax, which is ordinarily imposed where income arises from the property of a corporation, and is paid to its stockholders, without subjecting themselves to such tax liabilities as may be inherent in the relation. The liability is because the property which belongs to whoever may be the stockholders' associates in corporate form, produces the income that passes to the recipients only as stockholders."

Northwestern's request for a review of the case in the United States Supreme Court was denied. Subsequently the Government secured judgments for income taxes for the years 1927 to 1941.

In March, 1945, the Government notified stockholders in New York, Connecticut and Vermont of proposed tax assessments for the years 1940 and 1941. Several stockholders filed petitions in the United States Tax Court. One case was tried in September 1945, and final briefs were filed in January 1946, but to date no decision has been made in the case. Other cases have been started to determine the liability of the stockholders as transferees, but it will take time to determine the outcome.

In the meantime, to avoid further interest the stockholders must pay the assessments. If decisions are rendered in favor of the stockholders, claims for refunds will be filed by those who have paid the Government. Northwestern is one of many corporations whose entire properties are leased to another corporation, the lessor paying the rental direct to the stockholders. Owners of this stock have a contingent liability for future assessments by the government.