Certain Special Types of Income Render Troublesome Tax Questions

(This is the last of five dispatches in which the Commissioner of Internal Revenue offers helpful hints on how to prepare and file your income tax.)

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(Written for UPI)

Washington – (UPI) – Certain special types of income – such as dividends, sick pay and pensions – sometimes pose troublesome questions at income tax time.

In this fifth and final article in this series, I shall discuss these less common forms of income to indicate what the basic tax rules concerning them are.

Sick Pay – If your employer continued your wages while you were absent from work because of injury or illness, you may exclude from your income up to $100 a week of such payments, with certain limitations.

Washington –(UPI)– Double check your tax return to see that you have:

–Signed your name on the proper line. If it is a joint return, your wife must sign, too.

–Printed your name and address legibly.

–Included a check or money order for any additional tax you owe.

–Attached copy B of the form W-2 showing how much your employer(s) paid you last year.

–Made no mistakes in addition, subtraction or other computations.

The following examples will illustrate several special rules regarding sick pay allowances:

If you were sick at home for seven days or less, the pay you received may not be excluded from your income. It is fully taxable unless you were hospitalized at least one day of your sickness.

If you were hospitalized for at least one day, you may exclude the entire amount of pay you received during your period of sickness, up to the limit of $100 per week, whether you were sick for less than a week or for many weeks.

If you were sick at home for more than seven days without having been hospitalized, the pay you received starting with the eighth day may be excluded from your income – one-fifth of your weekly pay (but not more than $20) for each day missed if you are on a five-day week; one-sixth (but not more than $16.67) if you work a six-day week.

You may deduct your pay (again, up to $100 a week) for the entire time you were absent from work because of injury – suffered on the job or elsewhere.

If you make any claims under these provisions, be sure to attach to your return a statement or Form 2440 in order to support the claim.

Dividends – You may exclude the first $50 of dividends you received during the year. You also may take a credit against your tax of up to 4 per cent of the amount of dividends above $50.

Generally speaking, these rules apply to dividends paid on the common and preferred stocks of fully taxable U.S. corporations. They do not apply to so-called "dividends" paid on withdrawable savings accounts at savings and loan associations, mutual savings banks and similar institutions. Dividends on GI life insurance policies are not considered income for tax purposes.

Consider these examples about taxation on dividends: a stockholder received $40 in dividends last year. He reports this but need not pay tax on it because the law lets him exclude up to $50 of dividends.

Another stockholder received $110 of dividends. He reports the $110, excludes the first $50 and pays tax on the remaining $60. But he may take 4 per cent of the $60, or $2.40, as a credit against the final amount of tax he owes. That is, he may subtract $2.40 from his tax liability.

Don't Combine Them

A husband and wife filing a joint return each has the $50 dividend allowance but they may not combine them. Suppose he had $60 of dividends and she had $40. He reports the $60, pays tax on only $10 and takes 4 per cent of $10 as a credit against his total tax. She reports and excludes her $40 of dividend income. She may not apply her unused allowance of $10 to her husband's excess, even though they file a joint return.

Persons with investments in regulated investment companies (such as mutual funds) may be entitled to a credit for taxes paid by the company (fund) on undistributed capital gains. If you are entitled to such a credit, enter the sum on line 5, column (b) of form 1040 and write "credit from regulated investment company" in the "where employed" column. To substantiate the claim, attach copy "B" of form 2439, which the investment company will send you.

U.S. Savings Bonds – If you own U.S. savings bonds and use the cash method of paying your taxes, you may report the interest each year or defer reporting until the bonds are matured or cashed. On an E bond, the interest is the difference between the purchase price and the value of the bond at the time of redemption, whether you hold the bond to full maturity or not.

One you elect to report the interest each year, you must continue to do so for all bonds owned and those subsequently acquired. You may not abandon annual reporting unless you first received permission from the Internal Revenue Service.

Taxpayers using the accrual method must report interest on U.S. savings bonds each year. They may not defer such reporting.

Retirement pay, annuities– You owe no Federal income tax at all, and need not report, social security benefits, railroad retirement act pensions, veterans pensions, benefits to families of veterans, or payments for injury or sickness to military personnel disabled in active service.

Provisions for other kinds of retirement income are somewhat like those for dividends; you need not pay tax on part of it and you may be able to claim a tax credit for some of the amount you do pay tax on.

You need not be retired to enjoy these tax benefits, but in some cases you must be 65 or older.

Generally speaking, any contributions you made towards a pension during the years you were working come back to you tax free.

You're Taxable

On the other hand, if your employer footed the bills, you are taxable for the payments as you receive them now. However, if you paid taxes on the contributions as he was making them to your pension fund, or if you paid part of the cost, you may now receive tax free the portion you paid in or paid taxes on.

Those are the general rules for pension or annuity income for which you are not taxable. The law also provides rules for the amounts on which you do pay tax.

Under certain conditions, it allows you a credit against your tax. The credit is 20 per cent of your retirement income, up to $240 per person.

To be eligible for this credit, you must have reached 65 by the end of 1958, unless you were a civilian employee of Federal, state or local government, or a member of the armed forces, and are receiving income under a pubilc retirement system.

If you are 65 or older, retirement income, for the purpose of computing your tax credit, includes al your taxable income from pensions, annuities, interest, dividends and rent. If you are under 65, the only retirement income on which you can get a credit is that which you receive under a public retirement system. In neither case does retirement income include money you are now earning, and it may be necessary to deduct part of your current earnings in figuring your retirement credit.

One further qualification: You (or your deceased husband or wife) must have earned more than $600 in each of 10 years prior to 1958. The 10 years need not have been consecutive.

In closing this series – and I hope it has been helpful to you – let me remind you of these key points:

File your return as early as you can. The deadline is midnight, April 15, 1959.

Be sure you have figured your tax correctly and have looked into all the rules which may apply to you and may give you a lower tax. Our job is to collect every cent of tax which is owed, but no more.

Late filing or errors can make it necesasry to charge you interest or penalties.

If you need more assistance, consult your Internal Revenue Service.

Jay Pierce Named Heads Y Board

Jay D. Pierce was elected president of the board of directors of the Medford Young Men's Christian association last week.

Other officers elected include Jim Rowen, first vice-president; Lowell Chamberlain, second vice president; Mrs. Murray Gardiner, secretary; and Larry Clark treasurer.

The officers are part of a 27-member board elected by YMCA members to govern the non-profit corporation. The directors establish policy, determine program services, and act as leaders of all major committees.

Marshall Bessonette, Ray Offord, and Woody Morse, all board members, were elected to serve as trustees.

Carl Brophy, outgoing president, was presented a plaque. Pierce is expected to appoint committees soon.

The United States Army, with capital assets in real estate, supplies and equipment valued at more than 52 billion dollars is one of the biggest business operations in the world. Its material becomes obsolescent at an annual rate of a billion dollars.

'Young' Oil Deposit Offers Study Chance

Washington – (Science Service) – Discovery of a "young" oil deposit is offering scientists a chance to observe nature in the act of creating an oil reservoir, the Venezuelan Embassy here reports. The deposit, only 5,000 to 10,000 years old, was found at a depth of about 115 feet in the Orinoco river delta in eastern Venezuela. Since oil must be at least 10,000,000 years old before it is suitable as a fuel, the newly discovered deposit is not yet ready for use. Drillers have been taking out cores from the bed for analysis. Most samples were canned in alcohol to avoid decomposition or damage by bacteria.

On an average day, some 100 million people (12 years and older) read a daily newspaper.