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# Tax Laws and Gifts for Education

By Tom F. Carey

**I**N the January issue of *The Sooner Magazine*, I pointed out the results upon income taxes of the donation of certain gifts to the University of Oklahoma.

That article stated that a citizen of Oklahoma with an annual income of \$1,000,000 could, under certain conditions, make a gift of \$100,000 to the University of Oklahoma and that he would have left after deducting the gift and paying income taxes for the year only \$24,784 less than he would have had he not made the gift.

The article also pointed out how the same individual with the same potential income by a modification of his method of procedure could make a gift of \$100,000 to the University and actually find himself \$51,673 ahead by the transaction. That is, he could make the gift of \$100,000, pay his taxes, and still have \$51,673 more money left than he would have had if he made no gift.

The same principle will apply to different incomes with varying results.

A citizen of Oklahoma with an annual income of \$100,000 proceeding in the manner suggested, could make a gift to the University of \$10,000 and have remaining for his own use after making the gift and paying income taxes the sum of \$66,255. That same individual with an income of \$100,000 proceeding in the normal way and making no gift to the University would have left after paying income taxes only \$65,288.

That is, after making the gift and paying income taxes on his remaining income he would still have for his own use \$66,255 as compared with the sum of \$65,288 under normal conditions involving no gift. By a process of scientific planning and procedure in handling the matter he would actually be ahead \$967 by having made the gift.

As the amount of income varies, the possibilities will vary accordingly, the advantage to the taxpayer increasing as his income increases. The man with a small income who is taxable at lower rates will not gain to the same extent as the man

## INACTION IS MORE COSTLY THAN ACTION IN HANDLING INDIVIDUAL TAX PROBLEMS

with a large income taxable at higher rates.

Since the January article was written numerous letters were sent out by an endowed school in a neighboring city, to which the schedule shown at the bottom of this page was attached.

The schedule assumes that no other gifts have been made by the individual during the year. I have not attempted to verify the results shown, but submit the figures as they were published.

A fundamental consideration in connection with the income tax is the fact that the surtax rates are graduated, increasing rapidly as the amount of income increases. When the taxpayer's net income for the year goes above \$100,000 everything above that figure will carry a federal normal tax of 4 per cent plus a surtax of not less than 55 per cent. The surtax rates increase to 75 per cent on incomes in excess of \$5,000,000.

In addition, if he is a resident of Oklahoma he will be subject to a state income tax of 9 per cent on all net income over \$8,000.

It is evident that any gift made for which a deduction can be secured against

income will come out of the top brackets of the taxpayer's income where his highest tax rates apply.

The January article was concerned only with income taxes. Any proper appraisal of the effect of gifts to the University of Oklahoma upon taxes of the donor must give consideration to the resulting reduction in estate and inheritance taxes as well as in income taxes. The present article points out in a general way how gifts to the University result in decreasing estate and inheritance taxes to which the donor's estate is subject in event of his death.

A gift to the University of Oklahoma exclusively for the use and benefit of the University is not subject to the gift tax. If property is left to the University under a will it is deductible from the gross estate and is therefore not subject to estate or inheritance taxes.

Estate tax rates increase as the amount of the net estate increases. A gift may be made before death, or property may be left to the University under a will. In either event it reduces the net estate subject to tax—taking the property out of the donor's estate at the point or bracket at which the highest rates to which he is subject would apply. This is an important factor in any plan for tax control.

An important distinction, however, must be noted: A gift to the University made during life not only reduces the donor's estate subject to estate taxes, but it is also deductible from gross income

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Taxable Net Income Before Gift	Proposed Gift (15% of Taxable Net Income)	Percentage and Amount of Gift Saved from the Tax Collector	Net Cost of Gift
		Percentage Amount	
\$ 10,000	\$ 1,500	14.14% \$ 212	\$ 1,288
20,000	3,000	20.00% 600	2,400
32,000	4,800	28.45% 1,366	3,434
50,000	7,500	35.40% 2,655	4,845
80,000	12,000	53.33% 6,400	5,600
100,000	15,000	63.00% 9,450	5,550
150,000	22,500	68.00% 15,300	7,200
250,000	37,500	72.00% 27,000	10,500
500,000	75,000	78.00% 58,500	16,500
1,000,000	150,000	82.00% 123,000	27,000

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(CONTINUED FROM PAGE 21)

in determining net taxable income subject to income tax, unless it happens to be in excess of the amount allowable for contributions. Property devised by will reduces the donor's net estate subject to inheritance and estate taxes but does not affect income taxes accruing prior to the donor's death. The gift prior to death therefore accomplishes a double purpose in tax saving—savings in both income taxes and death taxes. Leaving the property by will accomplishes only the single purpose in tax saving—it is effective in reducing death taxes only.

This needs illustrating.

I will again use for illustration an Oklahoma citizen with an annual income of \$1,000,000 under the identical conditions referred to in the article in the January issue of the *Sooner Magazine*.

With no gift to the University, under the conditions stated the net amount remaining to the taxpayer after payment of income taxes would be \$314,248.

Assume that this taxpayer died immediately after his income for the year reached the \$1,000,000 and that at the time of his death he had a net estate of \$4,000,000 in addition to the assets representing the annual earnings referred to above. He would then have had a net estate of \$4,314,248 subject to death taxes on which the estate and inheritance taxes would be \$1,544,724.

Ignoring costs of administration and probate, the net amount remaining for use of beneficiaries out of his \$1,000,000 income and \$4,000,000 of other property would be \$2,769,524.

Assume that this same citizen made a gift of \$100,000 to the University which was an allowable deduction from income, but that the conditions otherwise were identical with those in the first illustration.

Out of his \$1,000,000 income he would then have remaining after payment of taxes and gift the sum of \$289,464.

Then in event of his death under conditions as stated above, he would have had a net estate of \$4,289,464 subject to death taxes on which the estate and inheritance taxes would be \$1,532,332.

Ignoring costs of administration and probate, the net amount remaining for use of beneficiaries out of his \$1,000,000 income and \$4,000,000 other property after making the gift and paying income taxes and death taxes, would be \$2,757,132.

The final results in the hands of beneficiaries, shows:

In the first illustration, with no gift to the University, the net amount remaining to beneficiaries after paying taxes, but without deducting costs of probate and administration, would be \$2,769,524.

In the second illustration, under comparable conditions, the net amount re-

maining to beneficiaries after making a gift of \$100,000 to the University of Oklahoma and paying income taxes and death taxes, but without deducting costs of probate and administration, would be \$2,757,132.

Net shrinkage in taxpayer's estate by reason of the \$100,000 gift to the University \$12,392.

Although the taxpayer in the second illustration gave \$100,000 to the University, the net shrinkage in the estate remaining to his beneficiaries is only \$12,392—the balance of the \$100,000 was saved from the tax collector—withheld from the miscellaneous uses of present day "government" and devoted to specific purposes of the taxpayer's choice.

These illustrations suggest results that should apply under normal conditions. They do not attempt to utilize the special procedure discussed in the January article. By careful planning in advance and the application of principles illustrated in a limited way in the January article, the taxpayer could make a gift of \$100,000 to the University and actually be ahead more than \$51,000 by doing so. By the proper application of the \$51,000 saved in income taxes, without suffering any shrinkage in his own assets or in his annual income, he could increase the net estate remaining to his beneficiaries by more than \$100,000 and at the same time have made a gift of \$100,000 to the University for its use and benefit and for the benefit of the future of the community—and under terms and conditions of his own choosing.

These illustrations must be considered as general illustrations applicable only to the particular conditions set out. Each taxpayer presents a separate problem. Such individual problems cannot be covered in a general article. Needless to say, each case should be carefully analyzed and studied in its own surroundings.

The one thing that stands out in every case, however, is that inaction is more costly than action.

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### Likes work as florist

Enthusiastic over her work as a florist is Mrs. Nellie Cornell Brown, '16ex, of Okeene, Oklahoma.

She writes: "I did not complete my work for a B. A. in '16 but married and reared my sister's three children; then I taught eight years and helped establish rural accredited schools in Blaine County. In 1933 I started a flower shop here and induced my husband to go in with me. We have a thriving business, are members of the F. T. D. and are getting a great thrill out of growing beautiful things and helping people to 'Say it with flowers.' Mr. Dowd was my major professor and gave me the inspiration to express my art appreciation in this form, I suppose. We shall be listening to the broadcast on the ninth."

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