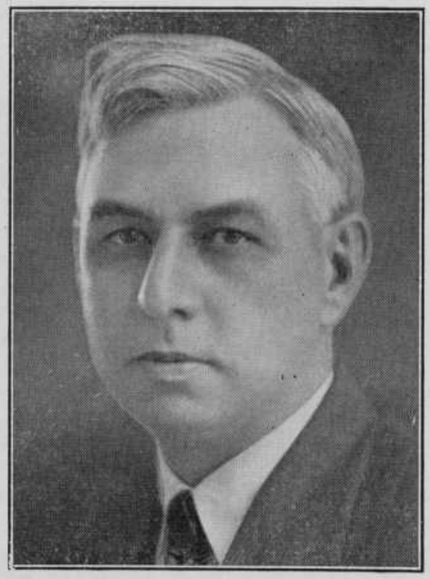

The author, who tells some surprising things about taxes and the wise use of large incomes.

Tax Reduction Through Benefactions

By TOM F. CAREY

IT SOUNDS DIZZY, BUT IT'S POSSIBLE TO CLEAR A GOOD NET PROFIT BY DONATING GIFTS TO THE UNIVERSITY

NOBODY likes taxes—nobody except the person with a personal interest: public officials, legislators, bureaucratic agencies, contractors, material and supply men who profit at the taxpayer's expense—but the man about his own business expecting nothing from government except the right to earn a decent living unmolested who sees his earnings disappear through the political pork barrel has no kind words for the increasing levies of government.

In years past taxes were levied for revenue only. Today the long arm of the government in its taxing is no longer concerned with the raising of revenue alone, but goes far afield into social reform, the control of labor conditions, the regulation of economic production, the regimentaion of peoples, the distribution of wealth, and the penalizing for failure to conform with some standard of social ideals and reforms best suited to political expediency.

Following October, 1929, unemployment in the nation spread through all industries and trades. Corporate income and individual income reached bottom and for millions of people it passed entirely out of the picture. Individuals, firms, corporations were thrown back upon their accumulated savings and reserves. Savings accounts were exhausted. Equities in property disappeared. Accumulated reserves dwindled. The nation ceased to live out of income and began to live upon capital. At the end of four or five years the savings were gone, equities were extinguished, reserves were expended—a great part of the nation's wealth had been consumed in current maintenance and living.

Here in Oklahoma the search for the easiest way out has brought about a governmental fiscal policy which pays much of the current costs of government out of capital instead of income. Vast stores of natural resources in oil and gas and minerals are being exhausted rapidly and the production tax levied thereon goes into funds for current maintenance and support with no thought to the conservation of capital to counterbalance the exhausting of reserves stored up by nature.

Upon the death of a citizen, both state and nation levy upon his accumulated property and take unto themselves in varying degree such considerable part thereof as they deem proper, all of which likewise goes into funds for current maintenance and support. No attempt is made to conserve any part unto the community or unto the future to offset the wealth consumed. Capital diverted to the state or federal government through estate and inheritance levies is again exhausted, consumed in current expenses and applied to meet present needs.

Nor is this practice confined alone to Oklahoma or to the states. Governmental finances generally fail to distinguish receipts of capital from income.

The average man has but little opportunity to alter or control these conditions. He finds himself in partnership with prolific spenders that demand for themselves an ever increasing share in the individual's earnings and property. He finds himself bound by the acts of extravagant partners—senior partners, preferred sharers of profits, demanding their shares in cash and refusing to participate in losses.

The partner's shares are called taxes.

Under such conditions the average man of wealth casts about for means to conserve what he has been fortunate enough to accumulate—not always for himself, but quite frequently to conserve for the community, for science, for education, for the future well-being of mankind.

He seeks also the means whereby he can direct the future application of his wealth to such designated purposes rather than that it should pass into a political jackpot with pork barrel complex.

May I suggest and illustrate practical applications and solution in part of this problem. It should be remembered that results set out are only approximations, applying only to certain facts. Each separate individual presents a distinct problem, with different combinations of factors and varying results, affected in varying degrees by differences in such matters as character of income, personal exemptions, earned income credit, capital gains, and losses, cash or accrual bases, and a score of other items which may vary the result.

A married resident of Oklahoma with a net taxable income of $1,000,000 a year before deducting income taxes, will pay a federal tax of $657,983 for the year. His $1,000,000 of income after payment of federal tax will shrink to $342,017.

He will also be subject to an income tax payable to the State of Oklahoma amounting to $27,769 under one method of accounting or to $89,487 under another method. Assume that he employs the more favorable method of accounting and is liable for state income taxes of only $27,769. His net income available for his own use after payment of federal and state income taxes will shrink to $314,248.

The taxpayer's benevolent partners will have taken the magnificent share of $685,752 out of his net income—over sixty-eight per cent thereof—leaving less than thirty-two per cent to the man who risked his capital and devoted his energies to earning the profits.

If this same taxpayer gives $100,000 of his $1,000,000 income to or for the use of the University of Oklahoma, his net taxable income will be reduced to $900,000 before deducting taxes.

Federal income taxes upon this amount

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will be $579,502. Under the more favorable basis of accounting, state income taxes will amount to $31,034. After payment of both federal and state income taxes $289,464 will remain to the taxpayer.

The results of these two computations are measured by comparing the net amounts remaining to the taxpayer after payment of taxes.

First—with no gift to the University.	
Net amount remaining to taxpayer after payment of taxes	$ 314,248
Second—with $100,000 gift to University.	
Net amount remaining to to taxpayer after payment of taxes and gift	289,464
Difference—the $100,000 gift to the University reduced the taxpayer's net only	$ 24,784

I wonder where else Oklahoma's citizens can make so fine an investment at so reasonable a figure?

Remember, too, that this gift can be made for purposes and under methods of control fixed by the donor.

Funds which would otherwise go to a large extent into the political jackpot can be designated for specific purposes under specific gifts, and the capital therein, instead of being consumed in current maintenance and support of miscellaneous governmental activities, good, bad or indifferent, can be definitely committed to a specific purpose and conserved as capital for the future well-being of the state and its citizens.

For further illustration.

Let us assume again a taxable status the same as discussed first above, but vary the method of making the gift.

Assume that the taxpayer had property that cost him nothing, which he sold for $100,000 and that he realized a net taxable income of $100,000 on such sale. This $100,000 profit is included in the $1,000,000 income shown for the year.

Now, instead of making the sale and then giving the $100,000 to the University, have the taxpayer modify his plan slightly and give the property in question to the University prior to its sale. The University itself then makes the sale.

The profit of $100,000 from the sale will then accrue to the University, not to the individual. His net income for the year before deducting income taxes and the allowance for gifts will be $900,000, the same as after deducting gifts in the first illustration. However, for federal tax purposes he will be entitled to a deduction for gifts to the University to the extent of the value of the property at the time of the gift, namely $100,000. There will then remain a net taxable income in this instance of only $800,000 before deducting income taxes.

The federal tax on this $800,000 less taxes will be $504,952. The state tax under the more favorable method of accounting will be $29,127.

After deducting both federal and state income taxes there will remain to the taxpayer for his own use, the sum of $365,921.

The comparison of results will now show:

First—with no gift to the University.	
Net amount remaining to taxpayer after payment of taxes	$ 314,248
Second—with gift to the University of property of a value of $100,000 and sale thereof by the University.	
Net amount remaining to taxpayer after payment of taxes and gift	365,921
Increase in net amount remaining to taxpayer, representing a net gain in available income resulting from the gift	$ 51,673

My better judgment tells me that this result is impossible. A man gives away $100,000 of property and comes out more than $51,000 ahead—a strange result indeed.

Yet this is the result under certain facts as assumed.

I wonder again where else Oklahoma's citizens can make so fine an investment at so handsome a profit so easily.

The foregoing illustrations deal only with income taxes, both federal and state. Similar results are secured by taxpayers with lower income, the saving being less in proportion, however, due to the fact the lower income is taxable at lower rates.

Somewhat similar results are also obtained in savings in estate and inheritance taxes through gifts and bequests out of the estate. The savings in these instances will also vary by reason of differences in rates between small estates and large estates, the benefits accruing to the estate of the donor generally being less in respect to the savings in estate and inheritance taxes than shown by the foregoing illustrations.

Offhand, it would seem possible through a planned program combining both income, estate and inheritance tax features to obtain very advantageous results for taxpayers with large estates.

The foregoing comments and computations serve to illustrate possibilities along this line. While the principles are of general application, the figures cited apply only to the particular facts assumed in these calculations. I must caution again that each individual taxpayer each taxable year presents a different problem

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Three New Life Members

TOTAL of Life Memberships rose to 227 last month with the addition of three new ones.

The new Life Members are Oliver Hodge, '33ed.m, '37ed.d, Gaiser D. Maddox, '33, and Joe Fred Gibson, '34, '36law.

Mr. Hodge is county superintendent of public instruction in Tulsa County. He has had a variety of educational experience. From 1921 to 1928 he was principal and athletic coach at Collinsville, Oklahoma. He was a faculty member at Tulsa University in 1930-32. He did part-time teaching while taking graduate work at the University of Oklahoma for the next four years.

He is a member of Phi Delta Kappa, Kappa Delta Pi and Phi Beta Sigma. Mrs. Hodge is the former Faye Hall, '37m.ed.

Gaiser D. Maddox is a petroleum engineer who has been working since 1934 at Maracaibo, Venezuela. He recently came back to Oklahoma to spend several months' leave, mostly at his home town, Snomac. He expects to return to South America early in 1938.

He visited the Alumni Office at Norman in November and reported that he often sees Sooner graduates and former students in Venezuela.

Joe Fred Gibson is practicing law in Oklahoma City, with an office in the Petroleum Building. He is a member of the Advisory Council to the Alumni Executive Board, as a representative of the graduating class of 1934.

The Life Memberships of Mr. Hodge and Mr. Maddox raise the percentage standing of the Class of '33 from twenty-fifth to twenty-fourth position in the table of class rankings, and this sets the Class of '31 back one notch.

Life Membership of the University of Oklahoma Association is open to any graduate or former student of the University. The Life Membership costs $60, which may be paid, if desired, in quarterly instalments of $5 each.

This pays for a full membership in the Alumni Association for life, and includes a life subscription to *The Sooner Magazine,* without any further payment of any kind. One $60 payment makes both husband and wife members of the association if both are alumni or former students of the University.

All money received in payment of Life Memberships goes into a Trust Fund, and only the interest can be spent on Association expenses.

Life Membership Score

CLASS	RANK ON PER CENT BASIS	NUMBER OF MEMBERSHIPS	PER CENT OF CLASS LIFE MEMBERS
'14	1	16	9.64
'13	2	12	9.30
'10	3	7	8.97
'12	4	11	8.94
'15	5	14	7.33
'07	6	3	7.14
'08	7	3	5.66
'11	8	4	4.82
'09	9	2	4.76
'17	10	10	3.80
'20	11	13	3.36
'19	12	8	3.11
'21	13	14	3.04
'06	14	1	2.70
'16	15	5	2.29
'22	16	11	2.14
'18	17	4	1.75
'28	18	9	1.06
'23	19	6	1.05
'26	20	7	0.99
'25	21	7	0.94
'24	22	6	0.86
'30	23	8	0.78
'33	24	8	0.73
'31	25	6	0.55
'32	26	6	0.53
'29	27	5	0.49
'37	28	6	0.49
'27	29	3	0.43
'34	30	4	0.37
'35	31	2	0.18
'36	32	2	0.17
'38	33	3	0.00
Honorary		1	
	Total	227	

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which must be worked out upon the specific facts relating to each particular case.

Conservation is becoming more difficult than accumulation. The estate owner, the man of wealth, must be even more alert to the conservation of wealth than he was in its accumulation. Inaction will not solve the problem. Scientific planning for tax reduction is necessary for preserving the individual estate and also for conserving the wealth to the community. The cost of inaction far outweighs the cost of action.