Income Tax Details That Save Money for the Pro

By B. L. GOUGH

The manner in which new equipment is purchased can make a vast difference in a golf professional's income tax. Take the case of Jones who owned some shop fixtures that were out of date. They had cost him $1200, and had a depreciated value of $200 at the time he set out to replace them.

A dealer offered $100 in trade. Instead of taking this, Jones ran a classified ad to sell his fixtures outright. The best offer was $90. He took this rather than the trade-in. Thereby, he saved a neat amount on the tax bill.

The difference between the depreciated value of $200 and the selling price of $90 was $100. By taking this loss in the form of an actual sale of the old equipment, Jones was able to claim — and get — a long term capital loss. But if he had sustained a $100 loss by taking the trade-in offer he would not have been able to take off a cent. However, if Jones had been offered more than the depreciated figure, he could have taken this in the form of a trade-in and his book gain would not have been taxable. The tax men do not recognize gains or losses that arise out of trade-ins on new purchases.

It is sometimes possible to effect considerable savings by renting things rather than owning them. This is because depreciation rates often allow a negligible write-off every year. But 100% of a rental charge may be deducted from income. In many cases, it's possible to reap enough in tax savings to make renting very economical.

Charities As Pro Expense

It is common knowledge that charity contributions are deductible. But how you give something can make a difference in the income tax bill.

Unless he has an unusually high amount of personal deductible expenses, a pro is better off in most cases using the tax table on the back of Form 1040 (if his income is $5000 or under) or the blanket deduction of 10% or $1000, whichever is less (if his income is over $5000).

That's why it is wise to throw in many expenses as "business" costs. To see how this works in the case of charity contributions, consider two professionals named Brown and Green:

Brown gave $100 to a Boy Scouts drive, $50 to the Red Cross and $50 to the Community Chest. Brown wrote checks to the Scouts, Red Cross and Community Chest on his professional, not personal, bank account — as an obligation arising from his position. That meant he had $200 of deductible charity donations to take off as a "business" expense. Since his personal deductible items were few, he used the blanket deduction instead of itemizing. Thus he got his blanket 10% plus the extra $200 tax credit.

Green, on the other hand, was less taxwise although as good a citizen. He, too, gave $200 during the year to various civic and charity drives. He paid the sums out of his pocket as **Green the private citizen.** As a result, he lost tax credit for the deductions entirely since his other personal deductions were not large enough to make it profitable for him to use the "long form."

Things as well as money count for deductible charity contributions. Bill Black, knowing this, obtained a tax saving of almost $100 by donating old equipment to a charitable institution. "If I had sold these, I would have realized practically zero," he says. "By giving them away, I was able to claim a contribution for tax purposes and reduce the income tax."

It's important to remember in a case like Bill Black's that Uncle Sam will allow the claim provided you put down a fair valuation. A fair valuation means an approximation of the true depreciated value, not what the donated things cost when they were new many years ago.

The golf professional who allows his children to work after school and during vacations will be well advised to watch a set-up like this lest it cost him a $600 tax credit. When a minor dependent earns $500 or over during a year, he can no longer be claimed as a dependent.

Jim Cooper's 16-year-old son does vacation work for his dad as a shop assistant and caddy. Since his pay came to less than $500 last year, Cooper was able to claim the boy as a dependent and still take a business deduction for the boy's salary.

Fred Martin, on the other hand, couldn't claim his son as a dependent when he didn't watch the boy's earnings. He was proud when Fred, Jr. worked after school hours and during vacation. Junior's earnings came to $586.72, and Martin Senior

PEE WEE LEAGUE TEES OFF IN CONN.

Harry Thompson, Dir. of Recreation of the Town of Hamden, Conn., got 75 youngsters, 10 to 14-years old, organized for instruction and a Pee Wee tournament ,with great cooperation from Hank Brancato and Harry Kennedy of the Sleeping Giant course, Charlie Johnson, operator of the Meadowbrook CC, who made his course available for the lessons; Don Geary, who helped instruct the kids, Louis Sidoli, beverage distributor, who put up prizes; and other pros in the district. In the first team competition the Pee Wees won from the Sleeping Giant caddies. Thompson and New Haven district pros are planning a Pee Wee league next year, with teams of kids from each club.

had to pay almost $200 in extra taxes when he could no longer put down his son as a dependent.

Long and Short Term Gains

The distinction between long term and short term capital gains is useful in setting up tax savings. A short term gain or loss occurs on the sale of an asset held less than six months. If the item has been owned for the half year or better, the gain or loss is a long term one.

On long term gains, only half of the gain is taxable, and that at no more than a 50% rate. In other words, the highest tax on a capital gain of the long term variety is 25%.

As with long term capital gains, long term capital losses are deductible only up to 50%. However, short term capital losses may be deducted 100% (and a short gain is taxed 100%). Thus a short term loss can be used to offset a long term gain of twice the amount. If there is a large short term loss — more than can be used to wipe off long and short term gains — then the loss can be deducted directly from the regular income up to $1000. Any loss remaining above the $1000 figure may be carried over for use in the five years ahead.

Well aware of the working of the capital gains provision of the tax law, George Gray used his knowledge to avoid a whopping income tax bill on a long gain of nearly $2000 realized from a securities sale. Gray bought a second-hand car during the scarcities period after World War II. It had a depreciated valuation of $1000. He took it to a dealer who examined it and said shortly: "Fifty dollars."

"Don," said Gray, who was well aware that he couldn't have traded the creaking vehicle for more than that amount anyway. He then went back to his desk and happily deducted a long term paper loss of $950 from his very real dollar stock gain of $2000, and thereby reduced his tax liability by $237.50.

When a pro receives insurance payment for a loss, how the payment is spent means a difference in the amount of money which the Collector of Internal Revenue asks on March 15. To illustrate this, there is the case of Harry White. White's home burned to the ground. The depreciated value was $9,000. Harry had wisely insured it for what it would cost him to replace the structure in 1951 — $16,000. Question: Was his "profit" of $7000 taxable?

That depended, he was advised, upon how the $7000 was spent. If it went to buy a new building of approximately the same size and the same real value as that which had been destroyed, then there was no tax liability. But if Harry pocketed the $7000, or spent it for any purpose except to replace his loss, then Uncle Sam would expect to be paid a tax share of the "profit."

Ordinarily, any losses which are not connected with a pro's profession may only be claimed for tax deductions when itemizing personal expenses on the long Form 1040. But there are exceptions which are worth noting.

Securities, for example, have a special classification. The Treasury notes that, "Many taxpayers sell securities for gain, even though they are not in the investment business. In such a case these transactions do not constitute a trade, business or profession. However, by a special statutory provision, any losses resulting from the sale or exchange of such property (subject to limitations on capital losses) are deductible by the taxpayer in the computation of his adjusted gross income. The losses differ from ordinary non business expenses because they can be deducted even if the taxpayer used the tax table or the standard deduction on Form 1040."

A personal automobile can count as a "business" deduction under certain circumstances. Merely riding it from home to work and back every day does not qualify it as a "business" vehicle. But if it is employed for picking up supplies or doing any other tasks connected with work, however small, then the car's expenses become partly deductible.

It's easy to figure just how much may be deducted. Say that a personal pleasure car is driven 10,000 miles during the year. About 1000 of those miles were on "business" chores. That's ten percent of the total use. Then ten percent of the yearly depreciation may be charged off, along with a tenth of the amount paid for gasoline, oil, lubrication, maintenance and repairs to the car.

Some miscellaneous hints how to reduce the bill owed Uncle Sam on the Ides of March are:

1. Don't be afraid of the long form. A Louisiana pro was astounded to learn from casual conversation with a friend that **all** interest payments are deductible — including personal loans, mortgages on a home, notes at the bank, even time payments on a kitchen appliance. His mortgage interest alone last year amounted to over $800. With that as a broad base, medical deductions, deductible taxes on personal purchases, and other small amounts enabled him to legitimately claim more than double the $650 blanket amount which he would have been permitted on his net income of $6500.

2. Take full advantage of split income provisions. Since passage of the tax law of 1948, these are now available to citizens of all states, where formerly only a lucky minority in states with community property laws could "split." Splitting income enables you to bring both halves down into a lower tax bracket.

3. Be sure you get all special exemptions. If you are 65 or over, you're entitled to an extra $600 personal exemption. So is your wife (but not other aged dependents). If your vision is less than 20/200 in your best eye, you're entitled to an added $600 personal exemption.

Western Golf Assn. Evans Caddy Scholarship bag tag sales past 8,700 mark; already 1200 ahead of last year.

HEAD MAN IS WHITEHEAD

Joe Whitehead, supt., Ardsley (N.Y.) CC, in triumph with the Roy McLaughlin memorial trophy Joe won at Fairfield (Conn.) CC, with a net 76, in the Connecticut Assn. of Golf Course Supts. Fairfield CC gen. mgr. is Fred Emeneger who got his start in golf business as greenkeeper under Bill Perkins at Yale university course. Joe also won the Perkin trophy in one of his visits playing with the neighbor boys in Connecticut. Whitehead is the Westchester County candidate for taking the Jim Standish trophy from competent competition at the superintendents' national championship at Purdue. A lot of the superintendents are playing pretty good golf now, considering the little time they have for playing the game instead of working at it. That makes understanding complete sympathetic between supts. and pros. If the pro says "some of the members are kicking about the greens," the supt., who is a golf pupil of the pro's, can reply sweetly, "some of them are suffering from their grips, stances, swings and results." Then they can compare note on which provides the most problems, humans or grass.