Ceiling Pitfalls of Wage Stabilization in the Present Emergency

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During the present emergency business is back in war harness again; as far as income tax deductions are concerned. Violations of price ceilings or Wage Stabilization Board rules—whether caused by ignorance or defiance of the law, its rules and regulations—can cost businessmen plenty of money.

The Government has a powerful tool for enforcement in the Bureau of Internal Revenue, since in its combing over income tax returns, can refuse the deduction of payments made in violation of the law, its rules and regulations.

The Wage Stabilization Board regulations don't forbid all wage boosts; but they set stringent rules covering it. In most instances, you have to get permission in advance from the Wage Stabilization Board. Violations are very expensive. 1. Not only can't you deduct as "the cost of doing business" that portion of the wages paid over the ceiling. But also under World War II precedents if you overpay a worker, you can't even deduct that part of his wages that is under the ceiling. (Sections 5 and 11 of Wage Stabilization Law, Ch. 758, 56 Stat. 765; Ch. 52, 57 Stat. 63; Ch. 325, 58 Stat. 643 and Public Laws 108 and 548, 79th. Congress 1st. and 2nd. Sessions).

For example: A company paying a 77% excess profits tax gets an approval for a wage boost thereby it gets a tax saving of $770 on every $1000 of higher payment in salaries. In other words a raise of $1000 actually costs this company only $230.

Suppose this company has not obtained approval from the Wage Stabilization Board for the wage increase. It will be in the position where for every $1000 of total payroll involved (which could easily be 10 times the raise in question), it will lose that much deduction, pays $770 more in taxes, in addition to the pay increase.

If you do not follow Wage Stabilization Regulation 6 any pay increase you make can imperil your wage cost deductions. The above mentioned rule gives blanket permission for increases up to 10% of the levels existing on January 15, 1950. Any increase given between that date and the time of a proposed new change are chargeable against the 10%.
Another general category of wage and salary raises is still tax deductible. It includes a) merit, b) length-of-service, and c) promotion increases, providing they are arrived at by one of two broad methods:

1. If a formal plan—such as a union contract or a written job evaluation setup was in existence on January 25, 1951, a company can give raises without War Stabilization Board approval. Merit and length-of-service increases are permitted if a) the plan existed in written form; b) if it contained rate ranges and job classifications with clear maximums; c) if it provided specific amounts or percentages for raises; or d) if it arrived at such raises by a special averaging system.

When no plan existed on January 25, 1951 tax-deductible increases can be granted only with careful attention to timing, number of increases per month, and the amounts. It's nice business for accountants to work on.

Conclusions

1. An employee cannot be given a raise until 12 months after his last previous merit or length-of-service boost.

2. The number of increases are governed by a formula based on the company's or business 1950 experience.

3. The amount of increases are limited by the concern's 1950 experience.

Accountants and Attorneys keep reminding business that in World War II many efforts to avoid the freeze were eventually disallowed by the Bureau of Internal Revenue.

Examples of such disallowances were 1). payments of bonuses to employees in United States savings bonds instead of cash; 2). payment before approval on the strength of some sort of government application; 3). paying for a longer work week than the employee has actually worked.

A great number of employers do not have the written plans called for by the Wage Stabilization Board. Their difficulty is at present serious but may be remedied in the near future. Experts believe that eventually the Wage Stabilization Board will return to World War II procedures. Under it, written policy statements could be filed; if they were approved. They provided a yardstick for merit and length of service increases, promotions, transfers, rates for new jobs, and for new hiring.