

STATE OF DELAWARE  
DEPARTMENT OF FINANCE

DIVISION OF REVENUE  
DIRECTOR'S RULING 71-9

October 7, 1971

SUBJECT: Individual Income Tax

The question arises as to how to compute the tax on income from \$20,000.00 and up where some part has been earned after 8/1/71. The rate increase shall be applied against income earned after August 1, 1971, as prescribed by House Bill 532 Special Session, 126th General Assembly.

The applicable statute is Title 30, Section 1102:

"(b) Where the rates of tax prescribed in subsection (a) of this section are changed during a taxable year, the Secretary of Finance shall prescribe such rules and regulations as are necessary to compute the increase in rates of tax on the proportion of income earned subsequent to the effective date of the change in rate."

It is our interpretation that the tax should be computed by the following method:

Compute the taxable income using your present method of reporting income. Compute the tax using the rates in effect after 8/1/71 and also compute the tax using the rates in effect prior to 8/1/71.

Determine the amount of income earned from 8/1/71 to the end of the taxable year. Using that amount over the total amount earned for the year will give you the percentage to be applied to the new rates. Make the same computation for the period prior to 8/1/71.

Example: Assume that taxpayer had income from salaries, dividends, and interest of \$30,000.00 for the calendar year 1971. Gross income received 1/1/71 to 7/31/71 was \$18,000 and the balance was received during the period 8/1/71 to 12/31/71. Taxpayer is married and files a joint state tax return and itemizes his deductions. The itemized deductions, federal tax paid and exemptions amount to \$5,000. The taxable income is therefore \$25,000.00.

Tax at the rate in effect prior to 8/1/71	\$1,715.00
Tax at the rate in effect after 8/1/71	\$1,740.00

Percentage old rate  $18,000/30,000 = 60\%$   
Percentage new rate  $12,000/30,000 = 40\%$

Tax old rate 60% of \$1,715 =	\$1,029.00
Tax new rate 40% of \$1,740 =	696.00
Total Tax	<u>\$1,725.00</u>

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**Income earned:**

Income earned shall include but is not limited to:

- (1) Compensation for services, including fees, commissions, and similar items
- (2) Gross receipts derived from business
- (3) Total capital gains or net allowable loss
- (4) Total rentals
- (5) Total dividends
- (6) Distributive share of partnership income
- (7) Gross income in respect to a decedent
- (8) Income from an interest in an estate or trust
- (9) Alimony
- (10) Gambling winnings
- (11) Prizes and awards
- (12) Interest income

  
J. H. Kennedy  
Director of Revenue

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**CONCURRED:**



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**E. J. Wilson**  
**Deputy Attorney General**