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## Accrued Taxes

By EMMA K. BENGSTON, C. P. A.\*

It is not easy to reconcile the income tax rulings on the accrual of property taxes and capital stock taxes with the plan of the accrual system. Thus for the purpose of the 1941 income tax, in the case of a Nebraska corporation on the calendar year accrual basis, the following conditions and applicable rulings might arise:

1—A lease may have been entered into for one year on May 1, 1941. The allowable deduction for 1941 would not be the amount of the liability incurred on May 1st. It would be the amount of rent for eight months.

2—On its personal taxes the ruling is that such taxes, which are based on an assessment made as of April 1, 1941, which may be paid in two installments, December 1, 1941, and July 1, 1942, without penalty or interest, accrue, become a liability, and are an allowable deduction on April 1, 1941, even though the amount is not determined for several months.

3—Its capital stock tax which is payable in July, 1942, is ruled to be an accrued liability and an allowable deduction as of July 1, 1941, even though the estimate which may be made December 31, 1941, may be out of date by the time of payment, and the estimate made July 1, 1941, is still further outmoded.

In the above illustration, three different periods of twelve months each enter into the computation of the 1941 income tax. Naturally the expense of the lease covers the period from May 1, 1941, to May 1, 1942. Just as naturally does it seem that the personal tax runs from April 1, 1941, to April 1, 1942, and the capital stock tax from July 1, 1941, to July 1, 1942. If the property which is the basis of the personal tax is disposed of in March, 1941, no tax is assessed on April 1st. The tax was not accruing during the preceding year. The capital stock tax which is considered to be accruable on July 1, 1941, was not accru-

ing before that date.

Under the accepted procedure that "all expenses and costs which are a proper charge against the earnings of one period should appear in the same period" (Montgomery), a bookkeeper would probably apportion the expenses named above as follows: Three-fourths of the personal taxes would be chargeable to the period from April 1st to December 31st, 1941, and one-fourth to the period from January 1st to March 31st, 1942. One-half the estimated capital stock tax payable in July, 1942, would be chargeable to the period from July 1st to December 31st, 1941, and the remainder to the period from December 1st to June 30th, 1942. Two-thirds of the total consideration of the lease would be chargeable to the last eight months of 1941, and one-third to the first four months of 1942.

The bookkeeper would probably adopt one of two methods:

1—On May 1, 1941, the liability under the lease would be set up, and a deferred charge would be the offsetting entry. On April 1, 1941, the estimated liability for the personal tax would be set up, and on July 1, 1941, the estimated liability for the capital stock tax, and deferred charges would be the offsetting entries. Month by month one-twelfth of the rent and estimated taxes would be applied to operations and the deferred charge reduced accordingly. On December 31, 1941, there would be included among liabilities, assuming that payments had been met promptly, one-third of the consideration of the lease, one-half of the amount of the personal tax, and the entire estimated amount of the capital tax. Deferred charges would include one-third of the consideration of the lease, one-fourth of the personal tax, and one-half of the estimated capital stock tax.

2—No liability would be set up at the beginning of the three 12-month periods. The monthly payments for rent would apply directly to the month's operation. The personal tax would be accruing month by month, beginning April 1, 1941, and the estimated capital stock tax would be accruing month by month beginning July 1, 1941. On December 31, 1941, there would

\* Emma Bengston has taught in country schools and worked in a small town bank. She was county treasurer a year to fill a vacancy. Being partial to mathematics in school, she thought accounting a likely place to put it to use. By opening up her own public accounting office, she is putting to work her belief in the theory that it is good for a person to give up being an employee after they reach thirty.

be an accrued liability for personal tax of one-fourth of the total, assuming the one-half to have been paid December 1st, and an accrued liability for one-half the estimated capital stock tax.

It seems reasonable that if a tax is ruled to be a definite liability on a certain date and an accrual on that date, then a one-year lease or a five-year lease or any other contract becomes an accrued liability, and therefore an allowable deduction when the contract is entered into; and under such conditions the purpose of the accrual plan is defeated. The question may be whether the property tax and the capital stock tax do cover a one-year period or whether they are one-day casualties. If these taxes help bring to the public and to the tax-paying corporation the benefit of good government throughout the year, it would seem reasonable that they are applicable to one year's operations; and that for 1941 income tax purposes the allowable deduction on account of the capital stock tax to a corporation on the calendar year accrual basis would be the amount of tax payable in July, 1941, less the amount accrued at the close of 1940 (if that accrual was based on the taxpayer's best judgment and according to a consistent plan year by year) plus the accrued tax on December 31, 1941.

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### News from Members

Gretchen Wells is to teach all the accounting classes at Santa Maria Junior College, Santa Maria, Calif.

Jane Goode spoke on "Accounting as a Profession" at the George Washington High School of Los Angeles.

LaVerne Nettle was chosen the delegate from U.S.C. to the national convention of the Phi Chi Theta at the University of Wisconsin. Billie Hamill Erickson, president of the local alumnae chapter, also attended.

Henrietta Bullock recently became manager of the Portland office of the Great Western Coffee Company.

Barbara Bateman has again been chosen State Treasurer of the Business and Professional Women's Club.

Una Clark has accepted a position with the Spokane Paper and Stationery Company.

Betty Crippen, Ruth Clark, Gretchen Wells and Jane Goode attended all the sessions of the California Convention of C.P.A.'s held at the Hotel Ambassador in Los Angeles in June.

Anna Erfurth is now working for Halley, Taylor & O'Connor at Spokane.

News come from Detroit that Price, Waterhouse & Co. has asked the Walsh Institute of Accountancy to send to it all women interested in public accounting.

### The Mailbag

"... I can't bring myself to close this without mentioning the questions and suggestions for group discussions contained in the last *Bulletin*. I feel very strongly that it is not too early for this kind of discussion, the more the better. There is such a tremendous amount of educating to be done. It's going to take a tremendous amount of sacrifice to bring about a world in accordance with the Atlantic Charter, and the pronouncements of Vice-President Wallace and Sumner Welles.

That world may seem somewhat Utopian—yet it is the only sort worth fighting for and which gives any hope of real peace for the future. Therefore, altho I liked the suggestions for group discussion, I couldn't help but feel that they "missed" somehow; that they were concerned with the trimmings while we should be getting at the root of the matter.

For instance, why discuss the lowering of our standard of living in terms of the rest of the world on any basis but that it will have to be lowered temporarily at least in order to bring about "freedom from want" throughout the world. What we have to learn is that it will be part of our sacrifice and that we're going to take it and like it, if we stand behind the four freedoms.

We're in the midst of a world revolution and not just a battle between nations. Conditions which existed before the war are not going to return—and should not! The change has already started and in fact has made considerable progress. Prejudices and entrenched privileges are already on the way out and will not return if we really mean what we say these days—and, we haven't begun to scratch the surface, when it comes to mass education for a new world. Of course, I assume, in my remarks, a victory for the United Nations, and that is still a long, long way off. . . ."

### New Members and Changes of Address

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