Montgomery on the income tax

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Robert Heister Montgomery (1872-1953), accountant, lawyer, educator, and author was one of the recognized, outstanding leaders of the accounting profession for the four decades from about 1910 to 1950. He was one of the founding partners of Lybrand, Ross Bros. and Montgomery, which is currently known as Coopers and Lybrand.

It is doubtful that his formal education went beyond the fifth or sixth grade, but he was eventually a major force in accounting literature and accounting education. While working as a public accountant in Philadelphia, Montgomery studied law at night with two lawyers who were his preceptors. He was admitted to the Pennsylvania Bar in 1902 and the New York Bar in 1904. He had no desire to practice law, but he did use his legal training to support his accounting practice.

His interest in law was slightly awakened in 1909 when the Payne Aldrich tariff bill was enacted into law. This bill included a provision whereby corporations would be taxed upon net income in excess of $5,000. Most accountants felt that the law would be declared unconstitutional and paid little attention to it. However, many found that the wording of the bill would make compliance difficult because it required net income to be determined by deducting from gross income: expenses actually paid, losses actually sustained, and interest actually paid. This would lead to a combination of accrual and cash accounting in the determination of taxable income. In addition, it was required that net income was to be computed on a calendar year basis only. This experience started Montgomery on a personal crusade against complicated and unfair general taxation. His criteria seemed to be that any general income tax should be fair to every taxpayer and the government, yet simple to administer.

The ratification of the Sixteenth Amendment led Montgomery to make many trips to Washington to consult with Cordell Hull, who was very influential in framing the tax bill. Evidence indicates that Hull used some of Montgomery's arguments in trying to draft a fair tax bill. In 1913, Lybrand, Ross Bros. & Montgomery published a sixty-four page booklet entitled, Income Tax Guide. The rates were so low that there was little resistance to the tax, and there was little difficulty complying with the tax law. Montgomery felt that the low rates and easy compliance could not last long, and he constantly urged the profession to take an active interest in the law and its administration. He noted that the legal profession took no interest in the tax law and had admitted that it was an area for the accountants. He said that this is "where the lawyers lost the trick."

Montgomery's 1916 edition of Auditing contained ninety-four pages devoted to the income tax. In the preface he wrote:

The income tax has come to stay. Its importance from the point of view of the professional auditor cannot be overestimated. Special skill, study, and experience are necessary to prepare the returns, and this means that in the future those most
conversant with the law and the procedures there-under will be intrusted with the preparation and super-vision of returns.

The following year he decided that concern about income tax had become so widespread that it would be necessary to bring out a book devoted to the subject. The book, Income Tax Procedure 1917, was relatively small—only 461 pages—and was well received. One reviewer wrote that "it might perhaps be described as a guide to income tax practice in the light of the most recent developments of the art." He further noted that until the various laws are authoritatively interpreted, Montgomery, "has not hesitated to discuss them frankly and incisively, and his comments...should be carefully studied by every corporation officer...and every accountant..." responsible for preparing returns. The book was revised annually until 1929. Other tax related books by Montgomery were:

- Excess Profits Tax Procedure. 1920, 1921, and 1941.
- Federal Tax Practice. 1929 and 1938.
- New York State Income Tax Procedure. 1921.

Montgomery's writing style was highly readable and often described as colorful. He said what he thought in vivid language which often drew highly critical reviews. One critic wrote:

as to what the income tax ought be, and...he has frequent occasions to quarrel with the law. These are his apparent delight for he rarely misses one. It should not be assumed, however, that this leads him to misguide the reader as to the provisions of the law, for these are always correctly stated. But much that he says is written in such a way as to tempt Litigation.

Montgomery urged taxpayers to comply with the law as written and constantly pointed out many areas, within the law, where there were deductions of which taxpayers were not taking advantage. He was an astute observer who had the ability to view the law, as written, in many logical ways. In his books he informed the taxpayers of these various possible interpretations and how they could be used to reduce their tax burden. It could be argued that his constant legalistic interpretations of the tax law and treasury rulings were contradictory to his criticism that Congress should make the law simpler. While he believed in the spirit of the law, all of his actions seemed to be based on the letter of the law. The tax law and its administration seemed to be a personal challenge.

In 1944, after many years as a critic of the income tax law, Montgomery reflected upon just what he had accomplished.

Before I started this preface (Montgomery's Federal Taxes on Corporations 1944-1945) I seriously gave myself what is known as the "once over." Were all those long prefaces year after year worth while? Was I fulfilling some long felt want or was I merely pleasing myself? The conception of Don Quixote tilting at windmills naturally occurred to me. Am I Don Quixote or maybe am I a windmill? When we come to think about it (as we seldom do) there must be something in human nature which likes the idea of tilting at windmills, no matter how futile it may be when we analyze it in the cold light of the question, "What did the Don get out of it?"

The answer must be that when any one has a decent excuse for expressing himself and is believed to be sincere,
he will get at least a sympathetic hearing. And that may be all it amounts to. Nothing may seem to come of it. But every now and then a voice crying in the wilderness is heard.

And so I greet you for the twenty-fifth time and ask for a hearing on the subject of the federal tax law. I have never said it was all wrong. I have been criticized for criticizing it. As long as I think it is ninety per cent wrong, I propose to continue to criticize it.

Through the media of his speeches and books Montgomery was able to exert considerable influence on public thinking about taxation and also create a favorable public image for himself. He was probably most gratified when the librarian of Lybrand’s New York office wrote to the Government Printing Office to ascertain what recent publications on taxation had been issued, and the following reply was received: “We do not feel that we can give any information to your firm relating to income tax, as we have always thought your Mr. Montgomery was the foremost authority in this country on that subject.”

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**IN DEFENSE OF THE OLD WAY OF TEACHING ELEMENTARY ACCOUNTING**

*by*

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After a significant number of years away from teaching elementary accounting, I returned to this interesting phenomena. The devastating rebuke to the old way of teaching the basic courses by the Accounting Education Change Commission led me to rethink the old ways. This rebuke arrived with the 150 credit hour issue, a significant drop in the quantity of business majors, and a very noticeable decay in students’ ability to focus arising from the noise generated by MTV, VCRs, and Walkmen. After this rethinking, I not only have returned to my old ways of teaching by the building block approach, but I’ve become fascinated by the writings of some of the early American writers on teaching bookkeeping/accounting.

I have recently shown 21 early American books on bookkeeping/accounting for a session at the Northeast Region of the AAA. While 10 of those 21 books contained no or an insignificant preface to students, 11 did. I think the comments in these 11 prefaces are even more needed today than they were in those days. The writers of these 11 books were actively involved in the continuous improvement of their students, some of which used the writer’s text in his commercial school. I think you would find a brief summary of each of these 11 prefaces helpful in developing and testing your philosophy of teaching elementary accounting.

William Mitchell in 1796 really preached to the students. He expected every business person to be involved with accounting. He stressed: “No one should trust transactions of a pecuniary nature to his memory alone.” Mitchell believed that bookkeeping gained discipline for the student, as much as any other course. “Discipline” may be the key word for us, as that which seems to be most needed by our students.

Thomas Turner in 1804 stressed that youth could master the subject of bookkeeping by double entry. This
learning should proceed one step at a time, so as not "...to embarrass and confuse their minds." Every youth of common capacity could master bookkeeping. I remain convinced that the basics of accounting are both important and capable of mastery by every college sophomore.

B. Sheys in 1815 held that bookkeeping is "...an art, with which all men ought to be acquainted." I’ve developed the saying “No one has ever been hurt by being basically sound in accounting, but countless people have been hurt by not being basically sound in accounting.”

James Bennett, a noted teacher of the day, in 1820 stressed the need for good teaching of bookkeeping. He stated:

The principles on which the art is founded, ought to be stated with great simplicity, and scientifically explained. The steps in the progress should be easy, regular, and distinctly marked. The mercantile style should be rendered familiar and its propriety and élegance pointed out...

Benjamin Franklin Foster in 1836 started his text (and, in fact, included a similar quote on his title page) with this famous quote from Samuel Johnson.

There is no man, says Dr. Johnson, who is not in some degree a merchant—who has not something to buy or something to sell, and who does not therefore want such instruction as may teach him to preserve his affairs from inextricable confusion.

Foster started with first principles and then proceeded gradually. He suggested simulation of a business by issuing fictitious notes to the students. After mastering inland transactions, the student was to be introduced to foreign exchange. Foster believed that the instructor should then bring the principles of "unimpeachable honor and probity: to the course and show "...that every sort of shuffling, trick, evasion, and duplicity, is inconsistent with the character of an honorable and upright man of business."

P. Duff in 1854 used another quote from Dr. Johnson. “Let not man enter into business while he is ignorant of the manner of regulating books. Never let him imagine that any degree of natural ability will supply the deficiency, or preserve multiplicity of affairs from inextricable confusion.” Duff believed that the accounts in the ledger should be understood before the student began to make journal entries.

Ira Mayhew in 1856 believed that there would be less litigation in society if people kept good records. Mayhew felt that the wife or daughter of the businessman should be involved with the books. He stated: “It is generally claimed (and with a fitness that I will not question) that there is quite too much sewing practices, especially in all the higher walks of civic life...”

Levi S. Fulton and George W. Eastman, father of the founder of Eastman Kodak, stressed in 1856 “fixed determination to excel” for the student. “Do everything with the same attention to accuracy, neatness, and order, as would be important in active business. It is only in this way, that you will be sure to form correct

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1Samuel Johnson (1709-1784) is considered by the editors of The New Britannica Encyclopedia to be possibly, after Shakespeare, the best known figure and the most frequently quoted in the whole range of the English language. He published A Dictionary of the English Language;... in four volumes. This dictionary has collected many quotes from many authors about a given word. My review of the words “accompt,” “accomptant,” “account,” “accountant,” “accounting,” “accrue,” “bookkeeper,” and “bookkeeping,” did not yield the quotes mentioned by Foster and Duff. This search for the source of the accounting quotes attributed to Samuel Johnson will be continued at some future time.
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business habits."

S. W. and S. H. Crittenden believed in 1858 that bookkeeping would become as staple a commodity in education as arithmetic and grammar. (What happened?) Their philosophy was best expressed by "Each successive exercise is intended to be a step of progress in the science, but yet so short and easy a step that what has already been explained shall be inductive thereto, and aid in its achievement."

H. B. Bryant and H. D. Stratton, with S. S. Packard, in 1863 were filled with zeal (almost religious in nature) about bookkeeping. (Please refer to an extended coverage of this book in the Spring, 1993 issue of this publication by John S. Ribezzo.) They wrote:

In conclusion, we could say to the young men, and particularly to such as are about entering upon busy life: Be in earnest. Whatever is worthy of your attention at all, is entitled to your best energies of thought and action. Do not despise the day of small things. If you would be sure of success in any department of life, earn it....

George Soulé in 1901 also quoted Dr. Johnson. Soulé was just as fervent as Bryant, Stratton, and Packard.

...Do all these things, and whether you achieve success now or hereafter in the battle of life, you will enjoy the consolation that proceeds from the consciousness of duty faithfully performed, the respect and esteem of all honorable men, and the appropriation of Him to whom you must render our last Balance Sheet.

Perhaps it is time to respond like Henry Rand Hatfield did 70 years ago that bookkeeping/accounting is a vital subject that needs to be taught basically and with good work habits and ethics.

Be careful AECC on what you try to change; as you may be killing the dog to cure its mange.

References


A translation of the accounting records of the Exeter Cathedral from the years 1279-1353 (Erskine, 1981), provides one with an elucidating description of this church’s organization and the extent of its fiduciary accountability.

The records include annual reports. An example is “The Account of Dom Robert de Asperton concerning the Network of the Church of the Blessed Peter of Exeter beginning from Sunday after the feast of St. Michael 1301 ending on Sunday after the feast of Michael 1302” (op. cit., p. 17). This report shows weekly expenses and quarterly totals. These periods represent an early example of quarterly reporting and are titled Michaelmas, Christmas, Easter, and Midsummer.

The notion of quarterly reporting is further strengthened by the evidence of quarterly “balance-day” transactions. In week fourteen of the midsummer term (1302-3) the same Robert recorded the cost of maintaining the horses for that period, such as “farriery of the horses for the whole term 9d,... horse-shoes from our own iron for the term 14d... (and) wages of Roger the mason for this term 30s” (op. cit., p.28). Similar transactions appear at the end of each term or quarter.

No differentiation between current and capital expenditure is provided which is often a shortcoming of analysis of historical records (Marriner, 1980 and Lee, 1975). Nevertheless, detail of the data provides potential evidence that church representatives were expected to record and account for the treasury under their direct control.

A majority of the content of these accounts relates to expenditures in church construction, thus the physical fibre of such medieval buildings may be construed. In the Michaelmas term (1301-2), the same Robert records a payment of 2s 6d to three laborers “for making iron bars for the windows” (Erskine, p. 17), and in the fourth week of the midsummer term (1302-3) “wages of a smith for ironwork on the door of the choir 6s, (and)... iron for making the requirements of the high windows 7s 4d” (op. cit., p. 28).

The expenses per quarter are totalled and matched against yearly receipts. The receipts, no matter how small are detailed and provide one with an understanding of the funding of the institution’s building operations. At the end of a defined reporting period, there is a calculation of how much is owed and carried over in arrears. This amount appears as an opening balance at the head of Robert’s ensuing report (1303-4) as 82 6s 51/4d (op. cit., p. 29).

Through an analysis of the detail and timeliness of these reports, it is possible to ascertain the activities of agents of the Exeter Church from the late thirteenth to the mid fourteenth centuries. Though it is possible that such detail is a by-product of statutes pertaining to general Cathedral organization and stewardship, the extent of the precision and accountability exuded therein cannot be overlooked.

References