The Accounting Historians Notebook

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The scissors at the ribbon cutting were wielded by Ole Miss Chancellor Gerald Turner and Eugene Flegm of General Motors. Looking on are Ole Miss Vice Chancellor Ray Hoops, and professors Dale Flesher and Tonya Flesher.

TAX HISTORY RESEARCH CENTER DEDICATED WITH CONFERENCE

A ribbon cutting ceremony and a tax history conference were recently held to celebrate the opening of the Tax History Research Center at the University of Mississippi. The Center is a joint project of the Ole Miss School of Accountancy and the Academy of Accounting Historians.

Ole Miss Chancellor Gerald Turner

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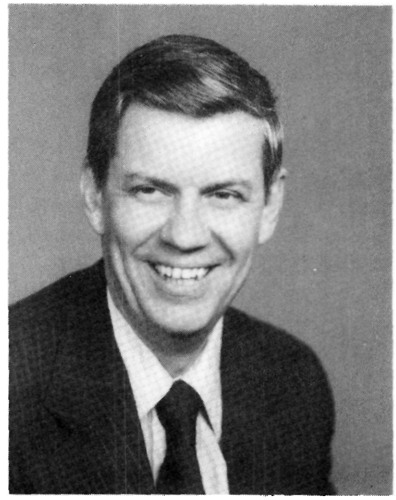
SPECIAL TAX HISTORY ISSUE

MESSAGE FROM THE PRESIDENT



EUGENE FLEGM

To say that I am honored to be elected to serve as the President of the Academy for 1989 is something of an understatement — It would be more appropriate to say that I am almost awed by the prospect.

As all of you know, I am not an educator. However, because of this, I will bring a different perspective to the office of the president, one which reflects my active participation in accounting, both public and business, for 40 years and in standards-setting for 12 of those years. My perspective thus reflects the pragmatism of a businessman/accountant who has directly supervised the accounting activities of the largest company in the world for the past 12 years.

In my opinion, the profession of accounting is at a crossroads. Those of us who run the accounting operations of the thousands of businesses in the U.S. who learned our accounting from a theory of accounts perspective and the matching of costs and revenues concept are growing older and we are being replaced by people who of necessity have had to learn the myriad of new rules and the balance sheet view predominant in the conceptual framework of accounting. The result is a growing schism in accounting concerning the relevance of the new accounting in the day-to-day operations of a business.

One of the Academy's past presidents — Tom Johnson — has gained well-deserved recognition through the book he co-authored with Bob Kaplan — RELEVANCE LOST, THE RISE AND FALL OF MANAGEMENT ACCOUNTING — which deals in part at least with this schism.

What does this have to do with the Academy? I believe that the root cause of the rules-orientation of accounting today is financial fraud which, whenever it occurs in a dramatic fashion, results in government reaction and regulation, e.g., Ivar Krueger and the SEC, McKesson-Robbins and auditing standards, Watergate and the FCPA, and today ESM and the Treadway Commission. I also believe that the belief that rules can resolve this problem is based on a lack of understanding of the nature of accrual-based accounting, its uses and limitations. Furthermore, this misunderstanding stems in no small part from the failure of accountants to understand their own history so that they can better explain accounting to non-accountants. Finally, the accounting field is facing an increasing challenge in attracting the "best and the brightest". Unfortunately, the study of history has always appealed to only a relative few in spite of Santanya's admonition. And yet, the study of history has always been intended to teach students to think — whether it be about social injustice, tyranny, or accounting. As the accounting field becomes more and more rules-oriented, the need for students who can understand the historical perspective of this trend, the need for regulation and the need for judgment — in short, accounting historians — has never been greater.

In my year as president, I would hope to see the Academy become pro-active in addressing these issues. Specifically, I would hope that we can be successful in helping the AAA initiate a new symposium on the uses of accounting by preparers. This symposium should be a major step in drawing the practitioners and the educators together so that the future needs of accounting can be met.

In addition, I will, and do, urge all members of the Academy to submit prospectuses for symposiums on the history, uses and limitations of accounting. More specifically, I would urge research into why the various value-based theories which have been steadily proposed have failed to replace the historical-cost-based model. I will actively seek financial support for any well developed research project, if needed, and would hope to greatly expand the Academy's list of contributors.

Finally, I would hope that the preceding would help in increasing our membership also. Frankly, I have long been puzzled why out of 12,000 or so members in the AAA only 800 belong to the Academy. Apparently, we have not demonstrated the need. I would hope that the activities I have outlined for this year would begin to stimulate interest in accounting history as well as demonstrate its relevance. The future of accounting as a profession may well rest on a study of its history as a guide to its future. I hope in the coming year we can begin that process and I ask all of you for your help.

Eugene H. Flegm

WORKING PAPER ISSUED

Working papers on research in accounting history are published on an irregular basis by the Academy. A complimentary copy of each working paper issued during a fiscal year is available to members upon request during the year the working paper is printed. The most recent working paper issued is:

No. 76, "The Capitalization of Fixed Assets in the Birth, Life, and Death of U.S. Steel, 1901-1986," by Richard Vangermeersch of the University of Rhode Island.

Copies of working papers produced in prior years are available to members at a nominal cost of $2.

Three bound volumes containing the first 60 working papers published by the Academy are also available. Volume I contains the first 20 working papers, Volume II contains papers 21-40, and Volume III contains papers 41-60. These volumes are available to members at $7.50 each. The price to nonmembers is $15 per volume. Order from: The Academy of Accounting Historians, School of Accounting, James Madison University, Harrisonburg, VA 22807 USA.

THE ACCOUNTING HISTORIANS NOTEBOOK

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RECENT DONATIONS TO TAX HISTORY CENTER

Two of the founders of the Academy of Accounting Historians have recently made donations of materials to the Academy's Tax History Research Center at Ole Miss. Dr. S. Paul Garner, Dean Emeritus at the University of Alabama and a life member of the Academy, donated several volumes of materials from the 1950's. These included two volumes of the proceedings of the early tax conference at what was then called Texas Technical College in Lubbock.

Dr. Al Roberts, a professor at Georgia State University and co-director of the Academy's Accounting History Research Center, donated numerous volumes from the 1920's through the 1950's. These included six volumes from Robert Montgomery's series on taxation (including the 1921, 1925, 1927, and 1929 editions). Also, Oxford, Mississippi CPA Dwight Young, Jr. donated four large boxes of materials.

These recent additions supplement the earlier holdings of the Center which came from the collection of E. Louis Raverta. The Raverta collection was donated to the Academy three years ago. Dr. Raverta was on the accounting faculty of Western New England College for many years and was also a successful practitioner in the Springfield, Massachusetts, area. The collection is primarily composed of a series of tax services from 1909 (the year of the first corporate income tax) to 1983. The collection consists of over 500 volumes. Specific series in the collection include:

- CCH Standard Federal Tax Reporter
- Prentice Hall Federal Taxes
- Corporation Trust Company Federal Income Tax Service
- Rabkin & Johnson's Federal Income, Gift and Estate Tax
- University of Miami Institute on Estate Planning
- Federal Securities Law Reporter

The above items, when coupled with the tax resources already available in the Ole Miss libraries, make the University an incomparable location for tax history research.

Old Textbooks and Other Materials Wanted

In the same way that the Academy's Accounting History Research Center at Georgia State University provides a central repository for accounting archival materials, the Tax History Research Center offers a similar opportunity for tax materials. The Center hopes to expand its holdings by obtaining other types of tax materials such as early tax journals and early tax forms. Individuals wishing to donate materials are encouraged to do so. The Center has a fairly good collection of tax textbooks since about the early 1970's, but earlier additions are needed. If you have any old tax textbooks, or other materials that you would like to donate, please consider sending them to the Tax History Research Center. Major donations of large collections of materials will be permanently acknowledged on an engraved plate in the Center. Additional information about the Center can be obtained from Dr. Tonya Flesher, School of Accountancy, University of Mississippi, University, MS 38677.

ENCOURAGE DOCTORAL STUDENTS TO JOIN THE ACADEMY AT THE SPECIAL STUDENT RATE OF $7.50 PER YEAR

Tax History: continued from page 1

presided at the ribbon-cutting ceremony with assistance from Tonya Flesher, Acting Dean of the School of Accountancy, Ray Hoops, Vice Chancellor for Academic Affairs, Dale Flesher, Ole Miss Professor and 1988 President of the Academy, Eugene Flegm, General Motors Corporation, and Tom McCormick from the Memphis office of Deloitte Haskins and Sells. Mr. Flegm was representing the General Motors Foundation which provided a grant that furnished the room in which the Center is housed. Tom McCormick was representing the Deloitte Haskins and Sells Foundation which provided a grant to cover some of the expenses of the conference.

The Tax History Research Center is the depository for a variety of tax books dating back to the dawn of the modern income tax in 1913. Although the works of many publishers are represented in the Center, the firm of Commerce Clearing House (CCH), which itself was founded in 1913, is best represented. CCH is a major publisher of tax research materials. Mr. Anthony Citera, a national vice president of CCH attended the conference and stated that the Center's holdings were the best collection of his company's materials available anywhere. Even the publisher itself does not have as complete a collection. In fact, Citera was so impressed that he got his firm to make a $1,000 grant to the Tax History Research Center.

Dr. Tonya Flesher, Dean of the Ole Miss School of Accountancy and Director of the Tax History Research Center, stated that the grant was basically unsolicited. "We asked Mr. Anthony Citera, a CCH vice president to speak on the history of his firm at the tax history conference. When Mr. Citera learned that the bulk of the holdings in the Center were published by his company, and that we had a better collection than the company, he offered us the grant. Mr. Citera and the other CCH employees, Bill Ritter, Charles Hutcheson, and Carol Waldrop, who attended the tax history conference were quite impressed with the extensive holdings. Some of these people had worked for CCH for a quarter of a century, but had never seen some of the materials housed in the Tax History Research Center."

Dr. Tonya Flesher is anxious to build up the resources of the Center. "If there are any tax practitioners out there who have old books or old tax forms that they want to donate, we would be happy to have the materials for our collection."

Dr. Dale Flesher was the 1988 president of the Academy of Accounting Historians and was instrumental in getting the Center located at Ole Miss. He states, "The Tax History Center is a fine addition to the tax resources already at Ole Miss. The University Library, Government Documents Library, and the Law Library already have fine modern collections of tax materials. With the addition of the Center, Ole Miss is now an ideal location for tax history and policy research."

CONFERENCE CELEBRATES TAXATION'S DIAMOND JUBILEE

Most people would probably not be too keen on celebrating the birthday of the income tax, but the School of Accountancy at the University of Mississippi and the Academy of Accounting Historians did just that. A national tax history conference was held in Oxford, Mississippi, on December 2 and 3, 1988, to celebrate taxation's diamond jubilee. The modern income tax began with the passage of the 16th amendment to the U.S. Constitution in 1913. Scholars from throughout the nation attended the conference.

Dr. Tonya Flesher, said that the idea of a tax history conference was initially to celebrate the opening of the University's Tax History Research Center. "But then we realized that we would be holding the conference in the 75th anniversary year of the income tax; so why not combine the two celebrations."

Since this was the first national tax history conference to be held, Dr. Flesher knew she would have to bring in some big-name speakers in order to attract attendance. Included on the list of speakers were three past presidents of the American Accounting Association and five past presidents of the Academy of Accounting Historians. The founder and first president of the American Taxation Association (ATA) was included as were other key ATA members.

The Kickoff Luncheon for the conference was hosted by Dr. Dale Flesher, the Arthur Andersen Alumni Professor at Ole Miss and 1988 president of the Academy of Accounting Historians. The luncheon speaker was Dr. James Don Edwards of the University of Georgia who spoke on the historical importance of tax to CPAs.

The banquet speaker was Dr. Harold Langenderfer of the University of North Carolina who spoke on the history of the concept of income taxation. On Saturday morning, Dr. Larry Crumbley, the founder of ATA, spoke on the history of that organization. Other speakers included Dr. Anna Fowler of the University of Texas, Drs. William Samson, Michael Roberts, and Paul Garner of the University of Alabama, Dr. Al Roberts of Georgia State University, Dr. Gary John Previts of Case Western Reserve University, Dr. Morton Pincus of Washington University, Dr. Roxanne Johnson of the University of Baltimore, Dr. Adrianne Slaymaker of Wayne State University, Dr. Edward Gac of the University of Colorado, and Anthony Citera of Commerce Clearing House.

The tax history conference was a great success. Abstracts of some of the papers presented at the conference are included in this issue of *The Notebook.*

Dale Flesher and Gary Previts pose in front of the brass plate on the door of the Tax History Research Center. Flesher was the organizer of the conference. Previts was a speaker at the conference and the founding president of the Academy.

SCENES FROM TAX HISTORY CENTER

Judging from the reactions of these individuals (Carol Waldrop, Bill Ritter, and Charles Hutcheson, all of CCH, and Dale and Tonya Flesher of Ole Miss), tax history must be a humorous subject.

Shown waiting for the ribbon cutting ceremony are Al Roberts (Georgia State), Ray Hoops (University of Mississippi Vice Chancellor), Tom McCormick (Deloitte Haskins and Sells, Memphis Office), Eugene Peery (Ole Miss), Harold Langenderfer (North Carolina), and Eugene Flegm (General Motors).

SCENES FROM TAX HISTORY CENTER

Anthony Citera of Commerce Clearing House illustrates how two tax services (Corporation Trust Company and CCH) were merged into one (CCH--Corporation Trust Company) between 1927 and 1928.

It was standing room only as conference attendees waited in line to enter the Tax History Research Center.

Eugene Flegm lectures a group on what taxes were like when he was a boy.

HISTORY IN PRINT

The following writings on accounting history have appeared in non-Academy publications during the past few months. The articles and books are listed here to make members aware of the material being published and the publication outlets available. Readers are urged to keep the editor of *The Notebook* alerted to publications which should be listed in this column. Send your suggestions to Dale Flesher at the editorial address. Readers in Asia and Australia may send their suggestions to Dr. Robert Gibson, School of Management, Deakin University, Victoria 3217 AUSTRALIA.

Burrows, G.H. "Evolution of a Lease Solution," *Abacus,* Vol. 24, No. 2 (September, 1988), pp. 107-119.

Edwards, John Richard, *A History of Financial Accounting* (London and New York: Routledge, 1989).

Flesher, Dale L. "School of Accountancy Enjoys Rich Heritage" *Ole Miss Alumni Review,* Vol. 38, No. 1 (March, 1989), pp. 6-10.

Flesher, Dale L. and Tonya K. Flesher, "1938—A Significant Year in Accounting Education," *The Woman CPA,* Vol. 50, No. 4 (October, 1988), pp. 33-35.

Jones, Edgar, "The Lost Memoirs of Edwin Waterhouse," *Price Waterhouse Review* (1988), pp. 56-56-64.

Jones, Edgar, *The Memoirs of Edwin Waterhouse: A Founder of Price Waterhouse* (David and Charles Inc., P.O. Box 257, North Pomfret, VT 05053, 1988); $36.95.

Jones, M.J., "A Longitudinal Study of the Readability of the Chairman's Narratives in the Corporate Reports of a UK Company," *Accounting and Business Research,* Vol. 18, No. 72 (1988), pp. 297-305.

McGill, Douglas C., "Taling Deals—A Peek at World's First Capitalists," *The New York Times,* (November 24, 1988), p. D2.

McGill, Douglas C., "Yale University Buys Renaissance Archive," *The New York Times* (October 8, 1988).

Parrish, Lillian C., "Pages From the Past," *The Woman CPA,* Vol. 50, No. 4 (October, 1988), pp. 16-27.

Plunkett, Linda M. and Deborah H. Turner, "Accounting for Income Taxes—The Last Fifty Years," *The Woman CPA,* Vol. 50, No. 4 (October, 1988), pp. 28-32ff.

Schwartz, Judy, "Those Perennial Annuals," *World* (KPMG Peat, Marwick) (Winter, 1989), pp. 2-3.

"Sesquicentenario da Obra de Contabilidade do Professor Estevao Rafael de Carvalho (1837-1987) — Um Compendio Brasileiro de Ha 150 Anos," *Revista Brasileira de Contabilidade,* No. 66 (1988), pp. 16-18 (In Portuguese).

Tsuji, Atsuo, *The Historic Development of Management Accounting* (Tokyo: Yuhikaku, 1988), 306 pages (Published in Japanese).

Yeager, John, Edward W. Younkins, and Dale L. Flesher, "Heath Care Management Accounting: In Prospect and Retrospect," *Management Accountant* (India) (April, 1988), pp. 243-249.

YALE UNIVERSITY PURCHASES RENAISSANCE ARCHIVE

Yale University has recently purchased from a Swiss book dealer a large trove of Italian Renaissance manuscripts forming the archive of the Spinelli banking family of Florence. The price was not announced. Until 1920, the documents had been housed in the 500-year old palace of the Spinelli's in Florence. Included in the 150,000 documents in the archive are business records and extensive correspondence between the Spinellis and many of the major figures of Renaissance Italy, including Lorenzo and Cosimo De' Medici, several Popes, and many leading merchant families. The sheer size of the archive makes it the largest collection at Yale, and the largest Renaissance archive in the United States.

Although the materials consist largely of accounting records, more than just accounting historians will be interestd in researching the archive since the Spinelli bank was the treasurer for the Vatican. Thus, many historians believe that the accounting records will provide new information on daily life during the Renaissance and on the workings of the Roman Catholic Church. A Yale professor of history stated that account books such as those in the archive are necessary to truly understand the deal-making that went on between the Church and those who provided loans to the Church. It is believed that these documents will yield new light on the Vatican's financial activities. It is almost unbelieveable that a collection of such importance and covering such a long period of time has survived the ravages of rodents, floods, war, and time.

Since the account books cover a period of five hundred years, it will be possible to trace changes in the environment of Europe, including such things as the progression from a barter economy to a money economy and the growth of capitalism. In addition to the banking records, the archive includes records from many of the Spinelli family businesses. In addition, cliometricians should find the archive interesting in that 500 years of numbers can be fed into a computer and analyzed in limitless ways.

The Spinelli palace in Florence was next to the home of Giorgio Vasari, the noted painter, architect and historian of Italian art. Vasari studied with Michaelangelo and appears in a famous painting with Leonardo da Vinci and Fra Luca Pacioli (see the Spring, 1988, issue of *The Accounting Historians Notebook* for a picture of the painting). Vasari is best known for his book entitled *Lives of the Artists.* It seems that the Spinellis were the executors of the Vasari estate and owned thousands of Vasari's personal records. In fact, Vasari's last will has already been uncovered in the collection. The will lists all of the paintings in Vasari's collection including works by Botticelli, Leonardo, Raphael and Durer. It should be recalled that Vasari was one of the more influential authors who spread the allegation that Luca Pacioli had plagiarized much of his material from Piero della Francesca. Thus, it is possible that materials in the archive could turn up new information on Pacioli himself. For instance, documents in the collection may explain Vasari's reasoning as to how Pacioli plagiarized della Francesca.

Given the possibilities, all accounting history scholars with a working knowledge of Latin and early Italian should plan to examine the papers at Yale. The collection is in the process of being catalogued. The first portion of the archive was made available in January, 1989.

HISTORICAL SURVEY OF THE PROGRESSIVITY OF THE U.S. INCOME TAX

Summary of Paper Presented at the Tax History Conference at The University of Mississippi December 2, 1988

by
Michael L. Roberts
University of Alabama
and
William D. Samson
University of Alabama

While filing the 1988 tax returns, many taxpayers will see the full impact of the Tax Reform Act of 1986. Perhaps the most important changes made by this Act altered the progressivity of the federal income tax. Among these changes were (1) a reduction in the top marginal tax rate from 50% to 28%, (2) a compression of fourteen tax rate brackets into two: 15% and 28%, (3) larger exemption and standard deducation amounts which remove many low income taxpayers from the tax rolls, (4) a "phase out" of the benefit of the first tax rate bracket and exemption amounts such that, for the first time taxpayers with high incomes did not benefit from these items, and (4) an inversion of the historic relationship between the top corporate and individual tax rate. One of the major criticisms of the Tax Reform Act of 1986 has been that the combination of rate reduction and bracket compression reduced ("flattens") the progressivity of the income tax and thereby reduced the vertical equity of the tax rate structure. However, this point is certainly debatable given the increase in the exemption and standard deduction amounts and the numerous changes to reduce the deductions, exclusions, credits and other "leakage" from the computation of ability-to-pay (taxable income). Given these very significant changes to the U.S. income tax and also given that the full impact of this tax law is effective on the seventy-fifth anniversary of the 1913 adoption of the income tax, it is worth the time to look back and contemplate how progressivity of the income tax structure has changed over time. This paper summarizes the historical findings.

ANALYSIS OF HISTORICAL PROGRESSIVITY

Comparing the income tax for different tax years is risky at best when changes in society, business, economics, inflation, etc., are considered. However, given the limitations, an attempt at assessing historical progressivity is made here. Progressivity is a relative concept and involves making comparisons between different taxpayers as to their effective tax rates. However, in this analysis the historical statutory marginal tax rates, exemption amounts, etc., will be used instead.

The progressivity of the income tax structure is a function of several variables:

(1) the tax rate on the highest income brackets.

(2) the tax rate on the lowest income bracket,

(3) the level of income at which the highest tax rate is imposed,

(4) the amount of income exempt from tax (exemption and standard deduction amounts),

(5) the width of the various tax brackets, i.e., how much

income is taxed at each rate - how quickly is the top rate reached, and

(6) the number of tax rates (the number of tax brackets).

As Table 1 shows, the income tax has been used as a flexible economic device to increase or decrease tax revenues according to government need. Alternatively, the data indicate a trial and error approach to finding the "right" degree of progressivity.

While the progressive rate structure and the income tax seem closely tied together, the U.S. income tax has had proportional rates during its history, particularily in the earliest years. Interestingly, the progressive rate structure had its beginnings with the property tax rather than the income tax. However, since 1913, the United States income tax has utilized a progressive rate structure, but the degree of progressivity has been changed numerous times. In addition, the rates chosen for the top tax rate and bottom tax rate have also fluctuated widely over the last seventy-five years. As shown by Table 1, the statutory high-low rate differential has ranged from an initial 6% to a maximum of 91% during World War Two to 13% currently. While the current high-low statutory rate differential is not at the historical low, the ratio of high rate to low rate is. In 1988, this ratio stands at 1.87%. In other words, the top tax rate in 1988 is less than twice the lowest tax rate. From an historical perspective this ratio is remarkable because it is so small. In part, this current low ratio is due to a relatively high initial rate (15%) coupled with a quickly achieved, relatively low top tax rate (28%). This ratio reveals a measure of rate structure progressivity and the ratio supports the criticism that the 1986 Tax Reform Act drastically reduced progressivity.[1]

It should be noted that the highest rate ratio occurred not during World War Two, although the ratio was very high (30), but during the time of the 1929 stock market crash when top bracket tax rate was 48 times the lowest tax bracket rate.

In conclusion, the search for the perfect tax has led to constant changes to taxation throughout the history of civilization. The frequency of the changes in the income tax represents a continuation of this search. The historical variation in progressivity variables reflects a trial and error approach to refining tax equity. The income tax does represent a tax base that is flexible to the needs of government and society's concept of fairness. Thus, given the fluctuations in rates, brackets, and levels of exempt income, it seems safe to conclude that the changes will continue in the future in the continuing search for the elusive goal of the perfect tax system.

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MANUSCRIPTS AND SHAGGY DOG STORIES

Anyone wishing to submit article manuscripts, short notes, cartoons, shaggy dog stories, letters to the editor, or other filler to THE ACCOUNTING HISTORIANS NOTEBOOK should send the material to be editor, Dale L. Flesher, School of Accountancy, University of Mississippi, University, MS 38677

★★★★★★★★★★★★★★★★★★★★★

TABLE I
THE GREAT EXPERIMENT: PROGRESSIVITY FROM A HISTORICAL PERSPECTIVE

YEAR	INDIVIDUAL INCOME TAX: NUMBER OF TAX BRACKETS	TOP RATE	INCOME LEVEL FOR TOP RATE	EXEMPT INCOME Family of 4	LOWEST RATE	TOP-BOTTOM RATE COMPARISON: HI-LOW RANGE	RATIO
1861	1	3.0%	$0	$600	3.0%	0.0%	1.00
1862	2	5.0%	$10,000	$600	3.0%	2.0%	1.67
1863	2	5.0%	$10,000	$600	3.0%	2.0%	1.67
1864	3	10.0%	$10,000	$600	5.0%	5.0%	2.00
1865	2	10.0%	$5,000	$600	5.0%	5.0%	2.00
1866	2	10.0%	$5,000	$600	5.0%	5.0%	2.00
1867	1	5.0%	$0	$1,000	5.0%	0.0%	1.00
1868	1	5.0%	$0	$1,000	5.0%	0.0%	1.00
1869	1	5.0%	$0	$1,000	5.0%	0.0%	1.00
1870	1	2.5%	$0	$2,000	2.5%	0.0%	1.00
1894	1	2.0%	$0	$4,000	2.0%	0.0%	1.00
1913	7	7.0%	$500,000	$4,000	1.0%	6.0%	7.00
1914	7	7.0%	$500,000	$4,000	1.0%	6.0%	7.00
1915	7	10.0%	$500,000	$4,000	2.0%	8.0%	5.00
1916	13	14.0%	$2,000,000	$4,000	2.0%	12.0%	7.00
1917	21	82.0%	$2,000,000	$2,000	4.0%	78.0%	20.50
1918	56	77.0%	$1,000,000	$2,400	6.0%	71.0%	12.83
1919	56	71.0%	$1,000,000	$2,400	4.0%	67.0%	17.75
1920	56	71.0%	$1,000,000	$2,400	4.0%	67.0%	17.75
1921	50	58.0%	$200,000	$3,300	4.0%	54.0%	14.50
1922	50	58.0%	$200,000	$3,300	4.0%	54.0%	14.50
1923	50	58.0%	$200,000	$3,300	4.0%	54.0%	14.50
1924	43	46.0%	$500,000	$3,300	2.0%	44.0%	23.00
1925	23	25.0%	$100,000	$4,300	1.5%	23.5%	16.67
1926	23	25.0%	$100,000	$4,300	1.5%	23.5%	16.67
1927	23	25.0%	$100,000	$4,300	1.5%	23.5%	16.67
1928	23	25.0%	$100,000	$4,300	1.5%	23.5%	16.67
1929	23	24.0%	$100,000	$4,300	0.5%	23.5%	48.00
1930	23	25.0%	$200,000	$4,300	1.5%	23.5%	16.67
1931	25	25.0%	$200,000	$4,300	1.5%	23.5%	16.67
1932	57	63.0%	$1,000,000	$3,300	4.0%	59.0%	15.75
1933	57	63.0%	$1,000,000	$3,300	4.0%	59.0%	15.75
1934	30	63.0%	$1,000,000	$3,300	4.0%	59.0%	15.75
1935	30	63.0%	$1,000,000	$3,300	4.0%	59.0%	15.75
1936	33	79.0%	$5,000,000	$3,300	4.0%	75.0%	19.75
1937	33	79.0%	$5,000,000	$3,300	4.0%	75.0%	19.75
1938	33	79.0%	$5,000,000	$3,300	4.0%	75.0%	19.75
1939	33	79.0%	$5,000,000	$3,300	4.0%	75.0%	19.75
1940	35	89.0%	$5,000,000	$2,800	4.0%	85.0%	22.25
1941	31	81.0%	$5,000,000	$2,800	4.0%	77.0%	20.25
1942	23	88.0%	$150,000	$2,300	6.0%	82.0%	14.67
1943	25	93.0%	$200,000	$1,900	11.0%	82.0%	8.45
1944	25	94.0%	$200,000	$2,400	3.0%	91.0%	31.33
1945	25	86.5%	$200,000	$1,500	2.9%	83.7%	30.35
1946	25	86.5%	$200,000	$2,500	2.9%	83.7%	30.35
1947	25	86.5%	$200,000	$2,500	2.9%	83.7%	30.35
1948	25	82.1%	$400,000	$3,400	16.6%	65.5%	4.95
1949	25	82.1%	$400,000	$3,400	16.6%	65.5%	4.95
1950	25	84.3%	$400,000	$3,400	17.4%	66.9%	4.85
1951	24	91.0%	$400,000	$3,400	20.4%	70.6%	4.46
1952	27	92.0%	$600,000	$3,400	22.2%	69.8%	4.14
1953	27	92.0%	$600,000	$3,400	22.2%	69.8%	4.14
1954	24	91.0%	$400,000	$3,400	20.0%	71.0%	4.55
1955	24	91.0%	$400,000	$3,400	20.0%	71.0%	4.55
1956	24	91.0%	$400,000	$3,400	20.0%	71.0%	4.55
1957	24	91.0%	$400,000	$3,400	20.0%	71.0%	4.55
1958	24	91.0%	$400,000	$3,400	20.0%	71.0%	4.55
1959	24	91.0%	$400,000	$3,400	20.0%	71.0%	4.55
1960	24	91.0%	$400,000	$3,400	20.0%	71.0%	4.55
1961	24	91.0%	$400,000	$3,400	20.0%	71.0%	4.55
1962	24	91.0%	$400,000	$3,400	20.0%	71.0%	4.55
1963	24	91.0%	$400,000	$3,400	20.0%	71.0%	4.55
1964	28	77.0%	$400,000	$3,400	16.0%	61.0%	4.81
1965	25	70.0%	$200,000	$3,400	14.0%	56.0%	5.00
1966	25	70.0%	$200,000	$3,400	14.0%	56.0%	5.00
1967	25	70.0%	$200,000	$3,400	14.0%	56.0%	5.00
1968	25	75.0%	$200,000	$3,400	14.0%	61.0%	5.36
1969	25	77.0%	$200,000	$3,400	14.0%	63.0%	5.50
1970	25	73.0%	$200,000	$3,500	14.0%	59.0%	5.21
1971	25	70.0%	$200,000	$4,200	14.0%	56.0%	5.00
1972	25	70.0%	$200,000	$5,000	14.0%	56.0%	5.00
1973	25	70.0%	$200,000	$5,000	14.0%	56.0%	5.00
1974	25	70.0%	$200,000	$5,000	14.0%	56.0%	5.00
1975	25	70.0%	$200,000	$5,000	14.0%	56.0%	5.00
1976	25	70.0%	$200,000	$5,800	14.0%	56.0%	5.00
1977	25	70.0%	$203,200	$6,200	14.0%	56.0%	5.00
1978	25	70.0%	$203,200	$6,200	14.0%	56.0%	5.00
1979	15	70.0%	$215,400	$7,400	14.0%	56.0%	5.00
1980	15	70.0%	$215,400	$7,400	14.0%	56.0%	5.00
1981	15	70.0%	$215,400	$7,400	14.0%	56.0%	5.00
1982	12	50.0%	$85,600	$7,400	12.0%	38.0%	4.17
1983	13	50.0%	$109,400	$7,400	11.0%	39.0%	4.55
1984	13	50.0%	$162,400	$7,400	11.0%	39.0%	4.55
1985	14	50.0%	$169,020	$7,700	11.0%	39.0%	4.55
1986	14	50.0%	$175,250	$7,990	11.0%	39.0%	4.55
1987	5	38.5%	$90,000	$11,360	11.0%	27.5%	3.50
1988	2	28.0%	$29,750	$12,800	15.0%	13.0%	1.87

MONTGOMERY ON THE INCOME TAX

by
Alfred R. Roberts
Georgia State University

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 and yet simple to administer.

The radification 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."

During his career, Montgomery had his name on at least sixty-six books and seventy-five published articles. His early recognition came from his book *Auditing Theory and Practice.* The first edition was in 1912, followed by editions in 1916, 1922, 1927, 1934, and 1940. Editions from 1949 on were by teams of authors but entitled *Montgomery's Auditing.* The 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 thereunder will be intrusted with the preparation and supervision of returns. . . .

The following year he decided that concern about income tax had become so widespread 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 Taxes on Estates & Trusts.* 1935, 1936, 1941, and 1956.
> *Federal Tax Handbook.* 1932 through 1940.
> *Federal Tax Practice.* 1929 and 1938.
> *Montgomery's Federal Taxes on Corporations and Partnerships.* 1946 through 1951.
> *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:

> . . .the author has a very decided opinion as to what the income tax ought to 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 1944-45*] 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 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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The Fourth Charles Waldo Haskins Accounting History Seminar will be hosted by the Academy of Accounting Historians, the Georgia State University School of Accountancy, and the Accounting History Research Center on **December 1-2, 1989**, in Atlanta, Georgia. You are invited to submit a research paper on a subject regarding accounting history for consideration of presentation at the seminar. The theme, "Research in Accounting History: People, Issues, and Trends," permits the inclusion of a number of accounting history topics. Papers on emerging FASB topics (such as discounting and impairment of long-lived assets) may receive preference.

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If you have any questions regarding the seminar or requirements for submitting a paper, please call either **Al Roberts (404-651-4453)** or **Elliott Slocum (404-651-4452).**

TAX BURDEN AND INCIDENCE IN THE HISTORY OF TAXATION BY STATE GOVERNMENTS

by
Adrianne E. Slaymaker
Wayne State University

At the state level, taxpayers have more influence over their relative tax burden and tax incidence than they do at the federal level. While this influence has existed since the formation of the United States, recently taxpayers have organized revolts against property taxation. The advent of the passage of California's "Proposition 13" in 1978 best illustrates this revolt.

The objective of this paper is to view the twentieth century changes in the structure of state taxation in a historical perspective to understand the tax burden acceptable at the state level and the incidence of that tax incidence from proportional to progressive taxes and vice versa. The tax burden and incidence in four different states from four different regions of the country, California, Indiana, Kentucky, and New York, will then be compared for the decade of the 1970's to determine if a pattern of change in the tax burden and tax incidence existed at the time of the revolts.

TAX INCIDENCE FROM 1770-1970

Historically, in the incidence of taxation by the states, progressive property taxation varied inversely with the state's more proportional taxation of income in a cyclical pattern. In the colonial period, when there was a relative equality of wealth among the taxpayers, a proportional poll tax was considered equitable and widely used. As the relative equality of wealth shifted, taxes were adopted to increase the progressiveness of the tax and shift the tax burden to the wealthier persons. This led to the adoption of taxes on property income as a method for taxing the wealth of property owners. When the tax burden born by property owning taxpayers became disproportionate to that of the artisans and tradesmen, a "faculty" tax was initiated to tax the income producing ability of the artisans and tradesmen.

In the late eighteenth and early nineteenth centuries the tax on income from real and personal property was gradually changed by most states to a tax on the market value of the property. The property tax which emerged yielded a steady and predictable income to the states. The tax base was the assessed value. The rates were determined to provide the expected expenditures. Since the "faculty" tax was more difficult to assess and collect the new concept of property taxation led to the general demise of the proportional faculty tax.

The early nineteenth century witnessed the adoption of laws for flat or proportional taxation of income by a few of the southern states. During the period from 1820 to 1837 many states incurred substantial debt, issuing bonds to initiate internal improvement projects with the expectation that the debt would be retired by the generation of future revenue from those projects.

The "panic of 1837" caught many of the states with unfinished projects. The projected income from these unfinished projects was not forthcoming to repay the extensive debt incurred. Some of the states turned to a more proportional taxation of income to provide the additional revenue, while others increased the rate of their more progressive property taxes. The southern states, in which the landowners had considerable wealth and influence, were the adopters of proportional income taxes while the northern states relied on increasing the rates of their progressive property taxes.

The Civil War necessitated increasing taxation by all the states. The northern states increased their property tax rates still further. The southern states increased the rates of their income taxes until their loss. After the Civil War, the landowners in the south were no longer wealthy nor influential and the tax structure throughout the south shifted towards the progressive property tax which was popular in the northern states. Thereafter, taxation of incomes by the states generally declined by repeal of the laws or by lack of enforcement.

The decline in importance of the income tax during the last quarter of the nineteenth century increased the problems associated with dependence on the property tax. During this period, state governments provided an increasing number of services requiring rate increases for taxes on real and personal property. The inequity of taxing only property, and indirectly the income from the property, led to the concealment of ownership of intangible property and suggestions that a more progressive income tax should be added to supplement the progressive property tax.

In the early twentieth century the sentiments toward adoption of a tax to replace the "inequitable" personal property tax turned increasingly toward progressive income taxes patterned after the newly enacted federal income tax. As the state expenditures for education and roads expanded, the pressure for alternative taxes increased. The sentiments were that the property tax level should remain constant and that the increased tax revenues should come from other sources. Since most states were still adverse to the idea of income taxation they increased their revenue through newly enacted gasoline and motor vehicle taxation.

During the depression period of the 1930's state property tax and use tax collections lagged. To maintain services, more states began to enact progressive income tax laws. The Tax Policy League provided the philosophical basis for this trend, stating in 1935 that;

> Property and income are both valid and practical indexes of taxpaying ability. The state and local tax system should rest squarely on both bases and equally on both [1935 p. 7].

While the trend toward state taxation of incomes was slowed when the federal tax rates were increased substantially, the initiation of withholding of income taxes encouraged most states to adopt an income tax by the end of the second world war.

TAX BURDEN AND INCIDENCE — THE 1970's

As illustrated in the historical perspective, the incidence of the tax burden within a state has varied from property to income and vice versa. The acceptable tax burden is difficult to quantify but the tax incidence relative to the tax base and the tax structure can be examined. For this study the states of California, Indiana, Kentucky, and New York will be compared. Both California and Indiana had visible taxpayer revolts during the 1970's. Kentucky and New York had legislative change without a visible revolt during the 1970's.

In the 1960's the states further expanded their level of services in conjunction with the prevailing federal impetus toward the "great society". The expansion of services necessitated an increase in revenues. Unlike the early years of the century when the states could impose new taxes on the motor vehicles used on the roads which required the additional revenues, most states could rely on no new tax sources. Most of the few states which had been reluctant to enact income taxes did so, trying to equalize the tax incidence between the incomes from property and labor.

During the latter 1960's the higher progressive tax rates of the federal income tax was increasing the progressiveness of the tax incidence to all states. As the economy slowed in the early 1970's the states resisted raising the property tax rates. Instead they increased the tax base, the assessed property values. At the level of taxation from all sources, many voters became increasingly sensitive to tax increases, especially taxation of property. The frequent failure of property tax measures for financing education was indicative of the resistance to increased taxation.

At the beginning of the 1970's the total tax collections from the four states are given in Table 1. The tax burden of these taxes can be evaluated by use of either the per capita tax or the tax per $1,000 of personal income.

Table 1: The Tax Revenue for California, Indiana, Kentucky, and New York 1972

	California	Indiana	Kentucky	New York
Total Property Tax	6729552	1246376	244398	5292321
Total Sales Tax	4046687	771452	558280	4125964
Total Indiv. Income Tax	1838503	283669	219591	3320187
Total Tax Revenue	14105540	2434437	1166146	14471878
Percent of Total Revenues				
Property	47.71%	51.20%	20.96%	36.57%
Sales	28.69%	31.69%	47.87%	28.51%
Indiv. Income	13.03%	11.65%	18.83%	22.94%
Total	89.43%	94.54%	87.66%	88.02%
Per Capita Taxes:				
Property	328.78	235.57	74.08	288.16
Sales	197.71	145.81	169.22	224.65
Indiv. Income	89.82	53.61	66.56	180.78
Total	616.31	434.99	309.86	693.59
Per $1000 Personal Income				
Property	67.45	54.64	23.31	54.62
Sales	40.56	33.82	53.25	42.58
Indiv. Income	18.43	12.44	20.94	34.27
Total	126.44	100.90	97.50	131.47

Source: U.S. Bureau of Census, Census of Government, 1972.

In both measurements, the greatest tax burden was for New York and the least was for Kentucky. (see Table 1)

By the mid 1970's the total tax revenues collected had increased in all four states. (see Table 2) The relative tax burden per capita and per $1,000 in personal income had remained the same with New York the highest and Kentucky the lowest. The question becomes why did California and Indiana have the strong taxpayer revolts against the property tax during the 1970's?

Indiana's revolt occurred in the early 1970's (1972) when the property tax was significantly reduced and the income tax modified towards a more proportional tax. California's revolt occurred in the later 1970's (1978)

Table 2: The Tax Revenue for California, Indiana, Kentucky, and New York 1977

	California	Indiana	Kentucky	New York
Total Property Tax	10057671	1270693	390084	8062557
Total Sales Tax	7244938	1434431	862208	6155893
Total Indiv. Income Tax	3620933	514388	469362	5863564
Total Tax Revenue	23875304	3454376	2078872	22489616
Percent of Total Revenues				
Property	42.13%	36.79%	18.76%	35.85%
Sales	30.34%	41.53%	41.47%	27.37%
Indiv. Income	15.17%	14.89%	22.58%	26.07%
Total	87.64%	93.20%	82.82%	89.29%
Per Capita Taxes:				
Property	459.53	237.51	112.48	449.62
Sales	331.02	268.11	248.62	343.29
Indiv. Income	165.44	96.15	135.34	326.99
Total	955.99	601.77	496.44	1119.90
Per $1000 Personal Income				
Property	64.13	39.89	21.71	62.60
Sales	46.20	45.03	47.99	47.80
Indiv. Income	23.09	16.15	26.12	45.53
Total	133.41	101.07	95.82	155.92

Source: U.S. Bureau of Census, Census of Government, 1977.

despite the decline of 12 percent in the total revenues collected derived from the property tax.

The answer to the question can be seen in the relative percent of the total revenues collected from each of the three major state taxes, property, sales and individual income. Both California and Indiana had relatively high property tax percentages when compared to the percentage of tax collections from their income taxes in the 1972 census of state governments (for the fiscal year 1971). Kentucky and New York had a smaller variance. (see Table 1)

When Indiana changed its tax structure in the early 1970's it lowered the percent of total taxes collected from property taxes and raised those collected from income taxes. (see Table 2) When California changed its tax structure, it dramatically lowered the percent of total taxes collected from the property tax and increased that of the income taxes. (see Table 3)

Table 3: The Tax Revenue for California, Indiana, Kentucky, and New York 1982

	California	Indiana	Kentucky	New York
Total Property Tax	8293761	1720850	556771	10106904
Total Sales Tax	12069270	1978557	1191491	8572376
Total Indiv. Income Tax	7467709	801548	802516	9195204
Total Tax Revenue	32452537	4829054	3136684	31443261
Percent of Total Revenues				
Property	25.56%	35.64%	17.75%	32.14%
Sales	37.19%	40.97%	37.99%	27.26%
Indiv. Income	23.01%	16.60%	25.58%	29.24%
Total	85.76%	93.21%	81.32%	88.65%
Per Capita Taxes:				
Property	350.42	313.45	152.12	575.63
Sales	509.94	360.39	325.54	488.23
Indiv. Income	315.52	146.00	219.26	523.70
Total	1175.88	819.84	696.92	1587.57
Per $1000 Personal Income				
Property	28.86	32.02	17.83	49.94
Sales	42.00	36.82	38.16	42.36
Indiv. Income	25.99	14.91	25.70	45.44
Total	96.84	83.75	81.69	137.73

Source: U.S. Bureau of Census, Census of Government, 1982.

Both New York and Kentucky were also lowering their relative reliance on the property tax. However, since the difference between the percent collections from these two taxes was not as great as in Indiana and California, these states did not experience the taxpayer revolts. (see Tables 1-3)

CONCLUSION

Throughout the history of the United States, the states have relied heavily on income and property taxation for revenues. The type of taxes collected had depended on the relative influence of the property owner versus the laborer. During the 1970's as the total tax burden increased, the taxpayers became sensitized to the incidence of the tax burden.

During the 1970's two states which had a disproportionately large share of taxation from the property tax, California and Indiana experienced taxpayer revolts toward equalization of the percent of the total taxes collected from properties and incomes. Two others, New York and Kentucky, in which the percent collections from the property and income taxes were more equal did not experience the taxpayer revolts. However, all four states did experience a decline in the percent of taxes collected from property taxes.

In summary, the total tax burden borne by state residents does not promote a tax revolt. The incidence of the tax given by the proportion of total tax revenues that the particular tax comprises creates an atmosphere for tax revolt. Thus, as the percent of total tax collections from the property tax rose to disproportionately high levels in comparison to the income tax the taxpayers revolted.

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OSAMU KOJIMA DIES

Japan's most noted accounting historian and a former trustee of the Academy of Accounting Historians, Osamu Kojima, died of heart failure on February 21, 1989, at the age of 76. Kojima was one of five life members of the Academy. He also established the Academy's Research Endowment Fund in 1981 with a contribution of $2,000 to commemorate his retirement from Kwansei Gakuin University in Nishinomiya, Japan. Professor Kojima had been a regular attendee at the quadrennial World Congresses of Accounting Historians, but was unable to attend the recent meeting in Sydney because of illness. He was to have been the coordinator for the 1992 Congress in Japan. His Japanese colleagues will now carry out his intentions as it was Professor Kojima's dying wish that the 1992 World Congress be a success.

Memorials may be made to Professor Kojima with contributions to the Academy's Endowment Fund. Send memorials to Dr. Ashton Bishop, Secretary, School of Accounting, James Madison University, Harrisonburg, VA 22807.

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THE EVOLUTION OF THE AMERICAN TAXATION ASSOCIATION

Abstract of a Paper Presented at the Tax History Conference at the University of Mississippi, December 2, 1988

by

D. Larry Crumbley
Texas A & M University

The American Taxation Association (ATA) has roots similar to that of the Academy of Accounting Historians. In fact, Larry Crumbley, the founder and first president of the ATA, stated that it was Gary Previts' and Al Roberts' founding of the Academy that was the inspiration for the founding of the ATA. In fact, the ATA by-laws were essentially copied from the Academy's by-laws. The ATA was created in 1974 (a year after the Academy) because a number of individuals felt that tax members were having little impact on the American Accounting Association (AAA). The ATA was created to coordinate efforts involving issues in tax education, tax research, and tax legislative matters. In only fifteen years, the organization has had a significant impact on the academic and professional activities of tax instructors and the direction of the AAA. Although three of its original objectives are being met, ATA has not had a major impact on the tax legislative process nor any interlinking with other academic disciplines.

LEGISLATIVE HISTORY OF THE ALLOWANCE OF LIFO FOR TAX PURPOSES

Abstract of a Paper Presented at the Tax History Conference at the University of Mississippi, December 2, 1988

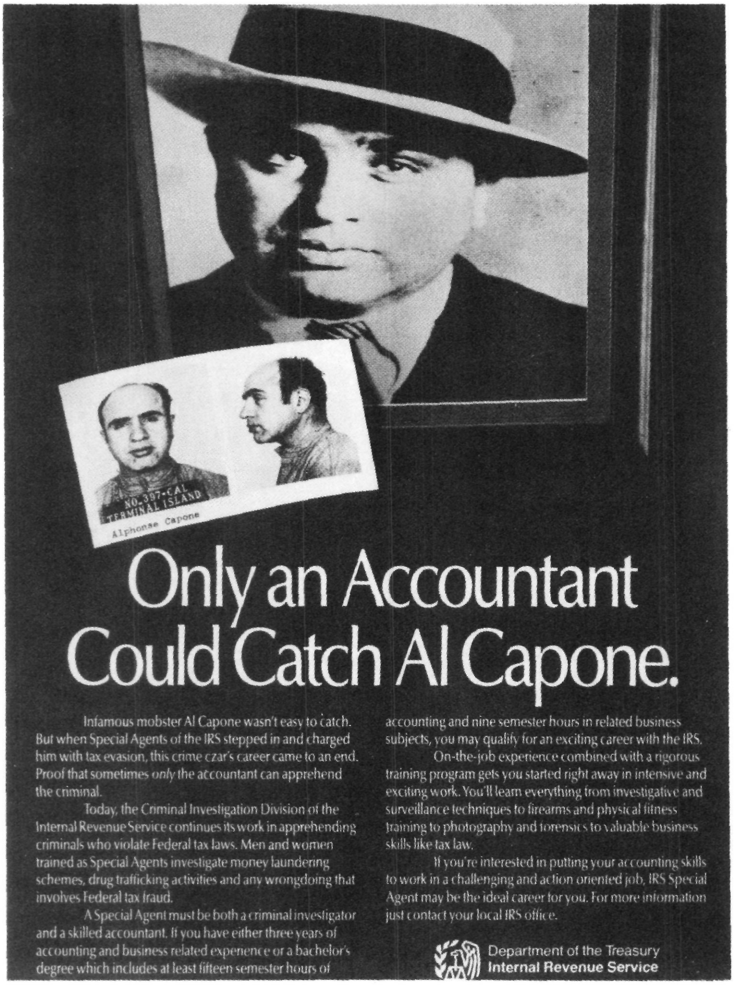
By

Morton Pincus
Washington University in St. Louis

The legislative history of the allowance of LIFO for tax purposes is documented. The legislative process was structured around veto points of the law and yielded an examination of the political environment out of which the LIFO tax provisions emerged. LIFO provisions were analyzed relative to alternative tax options available to firms, administrative and judicial activities, overall tax legislation including tax rates, and general economic conditions. Production processes of firms lobbying for LIFO were examined and the views of academics and practitioners were incorporated. In addition to providing the basis for an event study by identifying the critical dates in the legislative process, insight into the timing and choice of inventory accounting methods for financial reporting as well as for tax is gained.

IRS USES HISTORY IN ITS ADVERTISING

The United States Internal Revenue Service (IRS) recently used an aspect of its own history in a recruiting advertisement. During the 1930's neither the local police nor the Federal Bureau of Investigation could pin anything on the notorious Al Capone. But the IRS managed to put the world's most famous criminal behind bars. The advertisement is reprinted below.



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A HISTORICAL REVIEW OF THE TAX TREATMENT OF CAPITAL GAINS AND LOSSES

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A strong possibility currently exists for a reintroduction of some form of preferential treatment for capital gains. This paper examines the historically uneven treatment of capital gains versus capital losses.

The major impetus of this paper lies in the uneven treatment of individual taxpayers who enter into capital investments and whose resultant tax treatment is inequitable. For example, consider a taxpayer who invests $50,000 and subsequently divests for $100,000. That taxpayer is immediately taxed on that $50,000 gain. Another taxpayer who invests $50,000 and divests for $1,000 would be required to deduct that $49,000 loss over a period of not less than 17 years. This simplified example is given to highlight the inequity. Although, capital gains and losses may be offset without limitation, and several sections of the Internal Revenue Code (i.e., Section 1244) mitigate this inequity in specific situations, the basic inequity exists.

Few income taxation issues have received as much Congressional attention as has the issue of the tax treatment of capital gain and loss transactions. Congress has repeatedly addressed these considerations in revenue acts since the early 1920's and has attempted reconciliation in view of an apparent conflict between need for revenue and regard for equity both for and among taxpayers.

Legislative History

The definitions of capital assets, capital gain, and capital loss were first established in Section 206(a) of the Revenue Act of 1921 (Seidman, 810-11). However, the taxation of gains and the deduction of losses from assets of a capital nature took place before this statutory recognition. Within the provisions of the Revenue Act of 1913, all gains were taxed and losses were disallowed, although with the Revenue Acts of 1916 and 1917, losses were permitted to the extent of such gains. The Revenue Act of 1918 further allowed loss deductions in full against any type of income. In the Revenue Act of 1921, a maximum tax of 12½ % was permitted on gains from the sale of capital assets which were assets that had been held more than two years. In addition, gains and losses from sales of assets that were held two years or less were either taxed in full or allowed in full as a deduction against any income (Ream 100: 34-5). The situation created by these provisions was the origin of the discriminatory tax treatment that has historically been given capital losses.

In the Revenue Act of 1924, Congress attempted to plug a loophole in the situation by providing that a taxpayer would receive a tax benefit equal to only 12½ % of a capital loss. In the Revenue Act of 1932, Congress further limited the tax treatment of losses by providing that losses from the sale of stocks and bonds held for two years or less could be taken only to the extent of gains from the sales of such assets, although losses could be carried over to offset gains of the subsequent year (Ream 100:35). This action was one step closer to the harshly punitive capital loss treatment provided for in 1934. Indeed, as one speaker, Mr. Leasure, commented in a brief during hearings on the 1934 proposed capital gain and loss provisions, "perhaps this gradation of steps may have obscured the extreme and far-reaching character of the final result" (Ream 11:55). The final result that he spoke of was a provision in the 1934 Act, whereby capital losses could be offset only against capital gains and $2000 of ordinary income, with no provision for a carryover of excessive losses to future years (Seidman, 365). This was particularly punitive in view of the huge losses that were being taken in the stock market and the extreme economic conditions of the time. Congress' attempt to provide relief from this harsh treatment focused on the tax treatment of capital gains, whereby the percentage of capital gain or loss taken into account in computing net income was recognized in a sliding scale according to how long the asset had been held. For example, only 30% of a gain or loss from the sale or exchange of a capital asset which had been held for more than 10 years was taken into account in computing net income (Seidman, 306). Congress' rationale in providing this relief for a gain that had accrued over a period of years also served to penalize a loss that had accrued over a period of years. In its zeal to continue the taxation of capital gains, Congress apparently ignored this fact.

Over the years, there have been numerous changes in the capital gain and loss provisions. In the 1938 Act, the separate categories of short-term and long-term capital assets were established in Section 117(a), with long-term assets defined as those held for more than 18 months. In addition, the five brackets for the percentage of gain or loss to be taken into account in computing net income were revised to three brackets. Also, a 30% alternative tax on capital gains or tax benefit for capital losses was established (Seidman, 69-74).

In 1942, Congress made several changes in the provisions for capital assets. First of all, long-term assets were redefined as those held over six months (Seidman 1: 1772). Also, the three brackets established in 1938 were revised to two brackets with the percentage of gain or loss to be taken into account in computing net income as follows: 100 percent if the capital asset had been held for not more than 6 months and 50 percent if the capital asset had been held for more than 6 months (Seidman 1: 1780). In addition, losses from the sale or exchange of capital assets were allowed to the extent of the gains from sales or exchanges, plus the net income of the taxpayer or $1000, whichever was smaller (Seidman 1: 1787). Finally, for any taxable year beginning after December 31, 1941, if a taxpayer had a net capital loss, the amount would be considered a short-term capital loss in each of the five succeeding taxable years to the extent that such amount exceeding the total of any net capital gains of any taxable years intervening between the taxable year in which the net capital loss arose and such succeeding taxable year (Seidman 1: 1791).

Further changes occurred in 1964 when the preexisting carry-over period of capital losses was changed from five years to an indefinite period, and the short-term and long-term character of capital losses was preserved on a carry-over basis (Lavelle, 882). The year 1969 brought new restrictions on the deductibility of long-term capital losses against ordinary income by individuals. For example, an individual was only permitted to deduct 50% of net long-term capital losses in excess of net short-term capital gains from ordinary income up to a maximum of $1000 each taxable year. In addition, the carry-over of unused long-term capital losses to future years was limited to 50% of the loss (Hawkins, 2730).

The Tax Reform Act of 1976 increased the amount of ordinary income against which capital losses could be deducted from $1000 to $2000 for tax years beginning in 1977 and to $3000 for tax years beginning in 1978 and thereafter. Also, the holding period for long-term assets increased to more than 9 months for taxable years beginning in 1977 and to more than one year for taxable years beginning in 1978 and thereafter (Hardee, 27). In 1978, it was provided that 60%, rather than 50%, of net long-term capital gains were to be excluded from gross income, and the capital loss rules remained unchanged (Mirsky and Protass, 322).

In the Deficit Reduction Act of 1984, the holding period for long-term capital assets was reduced from one year to six months for assets acquired after June 22, 1984 to the end of 1987 (Lagen and Oschsenschlager, 29). In 1986, Section 1202 was repealed, meaning that net capital gains were to be taxed in full. Net capital losses are still limited to the lesser of $3000 or the excess of such losses over such gains, but they are not limited to taxable income.

Analysis of Legislative Intent

Why have these continuous refinements in the tax treatment of capital transactions taken place? What has been the rationale for the differing treatments historically afforded these capital transactions? In answer, a return to the treatments' origin is necessary, for as one tax philosopher stated, "taxation is an art and a technique as well as science, and it always needs to be judged against the conditions of time and place" (Kornhauser, 870).

By the late 1920's, Congress recognized the need for an overhaul of the capital gain and loss provisions. The issue was studied by a subcommittee of the House Ways and Means Committee. In the subcommittee's report, several defects in the manner of treating capital gains and losses were noted. Primary among these were: (1) the instability of revenue, i.e., larger revenues in prosperous years and less revenues in depression or war years, (2) the potential for taxpayers to manipulate capital asset sales for tax advoidance, i.e., taking losses before the gains after the two-year period, and (3) the relief under the system was afforded to larger taxpayers with net incomes over $16,000. The British and U.S. systems were compared as to stability of tax receipts with the recognition that, for income tax purposes, the British system disregards both gains and losses of a capital nature. The British system was found to have markedly greater stability than did the U.S. system. For example, in the years 1923 to 1933, the maximum annual revenue from income tax in Britain was 35 percent above the minimum revenue, whereas in the U.S., the maximum annual revenue was 280 percent above the minimum revenue. The subcommittee also evaluated data from individual returns in 1928 (considered a good year) and in 1931 (considered a bad year) and determined that revenues in good years could be increased by 46% and revenues in bad years could be decreased by 26% under the system that was currently in place. Therefore, the conclusion of the subcommittee was that the U.S. system of capital gain and loss treatment resulted in an unstable revenue, although adopting the British system was not recommended (Ream 100: 32-37). So, in 1934 changes in the treatments of both capital gains and losses were enacted into law. These changes were intended to stabilize the nation's revenue.

Did Congress make a wise decision in retaining capital asset transactions in the nation's tax base? What were and still are the possible alternatives for the treatment of capital transactions? No one can argue that Congress' 1934 decision was a turning point that has affected and will continue to affect the nation for all time, unless the philosophy is changed at some point. Essentially, the choice that Congress made to retain the taxation of capital asset transactions has formed the basis for decades of capital asset tax legislation and has set the stage for continued punitive capital loss provisions. This choice can be evaluated not only in terms of whether it was a wise decision for that particular time, but also in terms of whether theoretically the retention of capital asset transactions in the nation's tax base is the best choice among the alternatives.

Certainly, one cannot argue with the perceived need for a relatively stable and countercyclical national revenue, rather than a procyclical revenue, particularly since at that time in history, the federal budget was balanced. One could argue with the validity of the figures in the studies, given the massive loopholes utilized during the years in which the figures were gathered. Common sense would dictate closing these loopholes that permitted improper loss recognition such as related party transactions and short sales before disallowing legitimate losses. Provisions to close these loopholes were made in the 1930's. Nevertheless, the support for the changes in capital asset treatment and particularly for the harsh capital loss provisions may rest with distorted numbers which were gathered in these earlier years. So, the question is whether the revenue would have continued to be procyclical under the system that was in place if the loopholes had been eliminated. The answer is "perhaps". So, the ultimate question is "Was this the best choice?" The answer depends upon what the choice is being judged against in the considerations of need for capital investment and business recovery, basic need for revenue, need for a stable revenue, and desire for equity. This, in turn, requires an evaluation of possible alternatives for capital asset transactions in light of these considerations, recognizing that there is no solution that can fully meet all needs.

Conclusion

Past History of U.S. Taxation has consistently shown a preferential treatment of long-term capital gains. Current law, effective December 31, 1987, treats this type of income in the same vein as other types of income. Time will tell whether this current tax viewpoint is a permanent departure from the past or merely a short-term side trip.

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DONATIONS TO ACCOUNTING HISTORY RESEARCH CENTER

Two noted accounting historians, Dr. S. Paul Garner of the University of Alabama and former SEC Chief Accountant Andrew Barr, have recently made major donations of materials to the Accounting History Research Center at Georgia State University. Professor Garner contributed what was described as "a truck load of books" to the Center. Mr. Barr donated over $600 worth of old journals, and then contributed the funds necessary to have the journals bound. Mr. Barr had made previous donations to the Center and these latest items will become a part of the Andrew Barr Collection at the Center.

Others wishing to contribute materials should contact Dr. Alfred R. Roberts at the School of Accountancy, Georgia State University, Atlanta, GA 30303.

CALL FOR PAPERS

The Tenth Congress of the International Economic History Association will be held in Leuven, Belgium, from August 20 to 24, 1990. General information about the Congress can be addressed to Tenth International Economic History Congress, Postbox 74, B-3000 Leuven 3, BELGIUM.

Persons interested in participating in particular sessions should write directly to the organizers at their individual addresses. Sessions that would seem to be of interest to a number of members of the Academy include the following:

C9—"Economy of Private Households: Household Accounts as a Source;" A. Madarasz, Institut fur die Wissenschaften von Menschen, Gusshausstrasse 8, Vienna 1040, AUSTRIA.

C15—"New Research on the History of Taxation Since the Late Middle Ages;" W.E. Brownless, Department of History, University of California, Santa Barbara, CA 93106, USA.

There are dozens of other economic history topic areas with emphasis on specific industries, georgraphic areas, and methodologies. Write to the Belgian address above for a complete program.

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THE HISTORY OF ACCOUNTING FOR INCOME TAXES: THE MAJOR ISSUES AND THE ACTIONS—AN OVERVIEW

by
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The current requirements for accounting for income taxes for external reporting purposes are embodied in Statement of Financial Accounting Standards Number 96. Although the date this statement will become a requirement has been delayed, this particular rule follows a long line of efforts to deal with and finally and completely establish the procedures for such accounting. This extended abstract details the chronology of events leading to SFAS #96, and the controversy surrounding its implementation.

This history of accounting for income taxes begins with Article One of the Constitution, which allows for the collection of taxes for the payment of debts and the defense and general welfare of the nation. In the century that followed the framing of the Constitution, the U.S. government imposed income taxes as needed to wage war, or meet other institutional emergencies. These particular taxes did not generally outlast the specific events which caused the pressing need for such funding, however. In addition, over time, Supreme Court interpretations of the original wording in the Constitution limited the power of the government to impose income taxes. Finally the Sixteenth Amendment to the Constitution, which officially authorized Congress to levy income taxes, was proposed and ratified, effective February 25, 1913. [Ratner, 1942]

Since that time, many changes have occurred in the practice of accounting for income taxes. Initially, the accounting profession concentrated simply on how to record the tax. Eventually, however, the nature of the tax became an issue as well. Over time, the corporate income tax was identified, alternatively, as a cost of doing business or effective sales tax passed on to the consuming public, an expense or charge against income on the income statement recognized before determining net income, or a distribution of profits because the payment of taxes reduced the dividend available to the investors. The editor of the Journal of Accountancy concluded that

> the question seems to demand further research and discussion. The issues have not yet been sufficiently clarified to warrant any definite conclusion at this time.
>
> [Carey, June 1944]

In a symposium published in the Journal in October 1944, diverse opinions fostered by the above editorial were presented. [Symposium, 1944] The discussion prompted the editor to comment:

> It is impossible to appraise the economic and social effects of the corporate income tax until its essential nature and the points of its incidence are recognized. Until then, also, the proper accounting for this tax in corporate books and financial statements will be a subject of debate.
>
> [Carey, October 1944]

Chronology of Significant Events:

December 1944 — The Committee on

Accounting Procedure (CAP) issued Accounting Research Bulletin (ARB) Number 23 which identified the income tax as an expense, and that permanent and timing differences existed between accounting income and taxable income. Allocation was restricted to nonrecurring "material and extraordinary" timing differences, which could be "reflected in (a) surplus accounts; (b) deferred-charge accounts; (c) reserve accounts." [AIA, 1944]

November 1946 – The SEC issued Accounting Series Release No. 53 which "reached conclusions basically in accord with Accounting Research Bulletin No. 23," although it did limit the options mentioned in the Bulletin. [Carey, 1946]

June 1953 – ARB #43 replaced all ARBs issued between September 1939 and January 1953. This statement essentially reiterated ARB #23, with the exception of minor terminology changes and the authorized use of "a current over-all effective rate" or "an estimated future tax rate." The Committee continued to limit recognition to nonrecurring items only. [FASB, 1987]

The debate over the treatment of income taxes received even more impetus when the Internal Revenue Act of 1954 authorized the recognition of accelerated depreciation for income tax purposes in order to encourage increased capital investment. This act widened the gap between taxable income reported for tax payment purposes and accounting income reported for external reporting purposes because financial statement preparers were not required to use the same methods.

October 1954 – In ARB #44, the deferred income taxes did not need to be recognized unless the deferral was nonrecurring and material. [Editorial, 1958; FASB, 1987]

July 1958 – ARB #44 (Revised) required that deferred income taxes be recognized, if material, no matter how indefinite or long the period that the taxable income differed from the reported income, and recurring items were now included in the allocation. The Committee recognized that even though the uncertainty of future income and tax rates made any predictions concerning these numbers suspect, and made the associated deferred tax calculation unreliable, the disadvantages of any unreliable values were outweighed by the distortion of income that would be caused by the absence of this information.
[Editorial, 1958; FASB, 1987]

August 1959 – The Committee created controversy, however, because it used the term "deferred tax account" without specifically defining its meaning. Under pressure from the profession, therefore, it issued a letter in August 1959, indicating that it "used the phrase in its ordinary connotation of an account to be shown in the balance sheet as a liability or a deferred credit." [Official Releases, 1959]

February 1960 – The SEC issued Accounting Series Release (ASR) #85 which essentially agreed with ARB #44 (Revised). [Rappaport, April 1960] Unfortunately, the SEC inadvertently overextended its statement to imply that allocation would be required beyond current GAAP. This alarmed the general accounting profession. Therefore, in ASR #86, issued shortly thereafter, the Commission acknowledged that it was not its intent "to make mandatory the use of deferred tax accounting beyond the requirements of generally accepted accounting principles." [Rappaport, June 1960]

Despite the pronouncements, the treatment of interperiod tax allocation was far from uniform. [Nurnberg, 1971] Accounting Research Study No. 9, "Interperiod Allocation of Corporate Income Taxes," served to crystallize the arguments over the issue. The author of the study, Homer

Black, acknowledged the growing acceptance of some kind of allocation, but also recognized that treatment of the issue in practice was not consistent. He identified three underlying concepts that explained all the variations currently in practice, the liability concept, the deferred concept and the net of tax concept. He found that

> Each of the three concepts has been supported in the literature and to some extent in AICPA pronouncements and SEC Accounting Series Releases. The Accounting Research Bulletins imply support for all three concepts and do not select one to the exclusion of others.
>
> [Black, 1966]

He also recommended the comprehensive approach, which involved allocation of both recurring and nonrecurring differences between taxable income and accounting income.

December 1967 — Accounting Principles Board (APB) Opinion #11 was issued which supported the use of the deferred method in conjunction with comprehensive interperiod allocation of the timing differences between taxable income and accounting income. Under the deferred method, the impact on the balance sheet of these timing differences would be the recognition of deferred charges and/or deferred credits which would reverse in future periods. The account(s) did not constitute "receivables or liabilities in the usual sense," and would be classified as current or noncurrent depending on the classification of the related asset or liability. [APB, 1967]

July 1980 — The FASB amended APB Opinion #11 and issued Statement of Financial Accounting Standards (SFAS) #37 which recognized that in some instances no related asset or liability existed. In these cases, the deferred tax account would be classified as current or noncurrent depending on the expected period in which timing differences would reverse. [FASB, 1987]

December 1987 — SFAS #96, Accounting for Income Taxes, was issued effective for fiscal years beginning after December 15, 1988. Adoption of the new statement has been delayed until 1990 by SFAS #100, at which time it will supersede APB Opinion #11. Until that time, firms may still use the deferred method for recognizing interperiod tax allocation. Subsequently, the Board will require the use of an asset and liability approach, however. This will result in the recognition of a deferred tax liability or asset for temporary differences between the tax basis and book basis of assets and liabilities, although recognition of the deferred tax asset will be limited. The accounts will be classified as current or noncurrent based on criteria specified in the statement. Both the deferred tax liability or asset will be adjusted as necessary to conform to changes in the tax laws, or tax rates. The comprehensive method of interperiod tax allocation will also still be required. [FASB, December 1987; FASB, 1988] The statement is extremely controversial and will be very difficult, time consuming and expensive for most firms to enact in practice.

The history of accounting for income taxes, even though I have limited the discussion, is very complicated. Numerous outside interests have influenced decisions on the procedures used to account for income taxes. The profession does not operate in a vacuum, but must be reponsive to a changing environment. The results often are imperfect solutions to problems that evolve over time. Accounting for income taxes will continue to be an issue of concern to the profession. Of course, one solution may be to consider, as an alternative suggestion, that

> a more logical approach to the problems resulting from differences ex-

isting between accounting income and taxable income is to revise the provisions of the Internal Revenue Code to conform more nearly with generally accepted accounting principles.

[Johns, 1958]

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QUOTABLE QUOTES ABOUT TAXES

It is a sad commentary on political honesty to compare the 1913 tax law with that of 1938, and the endless procession of laws in between. "Soak the rich without regard to honesty" should be the official title of the present law. "Take from those who have and give to those who have not" is the theme. The use of a tax on income as a means of social reform is common in an autocracy but novel in a democracy.

In our country it has produced billions of dollars in revenue which is used to pay for killing little pigs, for not raising peanuts, and for 1,000 other purposes which have tended and will continue to tend to check thrift, ambition, and incentive on the part of anyone who has any money left to embark on new enterprises.

Robert H. Montgomery, C.P.A.

FIFTY YEARS OF ACCOUNTANCY; p. 123, PART II. "Taxes and how I was forced into the practice of Law"

"INCOME AND TRANSFER TAX INTEGRATION: HISTORIC POLICY LINKS FOR WEALTH TRANSFER TAX RESTRUCTURING"

by
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and
Sharon K. Brougham
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The process of tax reform remains unfinished business in the U.S. in spite of the enactment of the Revenue Code of 1986. Because that legislation was intended to be revenue-neutral, the on-going need to find additional deficit-reducing revenues are being passed on to the next occupant of the White House, Mr. Bush. Any increase in revenue must be politically palatable to a populace which continues to perceive the present structure as flawed and slanted in favor of those who can afford tax avoidance techniques. Revenue enhancement measures, in the post '86 TRA era, must therefore be "sold" with the representation that they are equitable and base-broadening. In addition, they must somehow "square" with campaign promises not to *raise* taxes. From that perspective, "restructing" can be argued to be distinguishable from new taxes in that it is primarily only a "shifting" within an already established tax structure. A primary target of possible base broadening is the U.S. wealth transfer tax structure, currently made up of the estate, gift and generation-skipping taxes. The American Bar Association (A.B.A.) has submitted its *Report on Transfer Tax Restructing* to the U.S. Treasury Department as its answer to the need for tax policy improvement in this area of the law. This report is found in the Winter, 1988 volume of the *A.B.A. Tax Lawyer* at page 393. An underlying assumption of that report is the continued retention of the dual taxation of individuals: income and wealth transfers. It is the contention of this author that the process of base-broadening, coupled with revenue enhancement, would be better served by the integration of wealth transfers into a unified income tax structure.

Historic Policy Links Between Income and Wealth Transfer Taxes

The reforms proposed by the A.B.A. will not redress the most basic flaw in the present system: that we have allowed historic policy link between income and wealth transfer taxes to become bifurcated into a dual system of taxation on individuals. Income and estate taxes originally traversed a common path in that both were originally used as temporary measures to finance wartime expenditures. Though never enacted jointly, the estate tax was always adopted shortly after the income tax and repealed at about the same time the income tax was being declared unconstitutional prior to the Sixteenth Amendment in 1913. World War I, however, marked a dramatic change in that neither tax was repealed after that war. Congress sought a more consistent and permanent means of raising revenues so as to be better prepared for future conflagrations. From that time on, the original common bond began to loosen and the income tax started to become *the* major source of revenue, far outpacing the revenues generated by the estate tax.

One of the reasons for this disparate treatment of the two taxes was that Congress shifted its policy emphasis away from just raising revenue alone. Each tax was retailored to meet certain common *social* as well as *revenue* goals. These goals were as inherently linked as the revenue needs which gave birth to both taxes in the first place. They were both adopted to achieve some measure of wealth redistribution. The income tax was intended to prevent the undue accumulations of wealth while the estate tax was intended to prevent tax-free intrafamilial transfers of dynastic wealth. Whereas the income tax grew dramatically in raising revenues, the wealth transfer tax structure failed abysmally its social goal as a "trustbuster." While the effectiveness of the income tax is less easily analyzed, its social goals having been so dramatically expanded beyond redistribution, a consensus could no doubt be reached that it can be a significantly more effective *tool* for such purposes. For example, consider the effectiveness of an annual income accounting/reporting requirement versus the generational reporting done in estates.

In addition to being linked in their roles as permanent revenue sources and redistribution tools, the income and wealth transfer taxes are inherently linked in their object of taxation. . .the individual. While all taxes are ultimately borne by individuals, the income, estate and gift taxes have the most widely recognized impact, by far. Few Americans give much consideration to, or spend much time planning for, excises, tariffs or even payroll taxes. They may lament their reported increases and notice their impact on their wallets, but seldom take any direct action. Such is not the case with either the income or wealth transfer taxes. A great deal of time, money and effort is spent by individuals with the sole purpose of reducing the impact of these two forms of individual taxation. The fact that they are two tax structures — the duality of the present system — aggravates the impact and dramatically increases the ultimate cost of compliance for both government and taxpayer alike.

The failure to recognize the common bonds of revenue raising and wealth redistribution between the income and wealth transfer taxes has condemned most efforts at estate and gift reform to mere "loophole closing" within a "secondary" tax structure. However, rather than merely closing existing loopholes, these reforms have most often generated only *more complex* techniques of legal tax avoidance. This is the concern with the approach taken in the A.B.A. report. That report does include a number of positive steps such as a flat tax rate, portability between spouses of a new and higher exemption and clarification of the "completed transfer" rules. But like water finding its own level, can creative responses resulting in continued tax avoidance be far behind?

The Income-Wealth Transfer Tax Integration Proposal

The proposals listed herein are an outgrowth of recent study by this author and Ms. Sharon K. Brougham, M.T., C.P.A., who is a doctoral accounting student at the University of Colorado at Boulder. The scope of this article does not allow for full elaboration so only key highlights of the study are listed. The overall intent is to update prior discussions on estate-income tax unification and to foster further debate as to the efficacy of retaining the present dual-track system of taxation on individuals. It is not, however, intended to be the finite blueprint of tax reform. The full study is scheduled to be published in the Akron Tax Law Journal along with the A.B.A. Report.

In general, basic integration can be achieved by repeal of the present wealth transfer taxes coupled with an amendment to the income tax which would include the receipt of all gifts and bequests on the taxable income of the transferee. This would shift the incidence of taxation from the transferor to the transferee. While this is a radical departure from historical U.S. tax practice, it would finally provide the official matching of tax incidence with the "emotional" incidence already in place in the minds of most lay taxpayers. The average taxpayer who inherits property certainly feels it is he or she who is paying the tax out of *their inheritance* rather than the estate. The average taxpayer does not recognize the estate as a truly separate taxpaying entity. Even those taxpayers who handle the probate of their ancestor will argue it is they, not the estate who have paid the tax. By the time the estate tax return is filed, title and possession of the decedent's property have often passed; the property is "theirs;" "they" write the check; it is "their" bank balance which decreases. Integration will match tax incidence with the person who already emotionally and ultimately bears the tax.

We would favor continued exclusion from taxation of reasonable amounts of gifts and bequests. Such exclusions should favor those least able to bear the burden of the tax. In addition, administrative convenience would dictate that small transfers not be encumbered with undue reporting requirements. Congress should set exclusions based on a balancing of revenue versus vertical equity but it would be expected that a larger segment of the population would be impacted due to the increased revenue needs to deficit reduction. A beneficial offsetting aspect of new inclusions would be that they would be taxed at lower income tax rates as compared to the current wealth transfer rates which top out at 55%.

In addition, current unlimited deductions for qualified transfers to spouses and charities should be retained. Expansion of certain types of qualified transfers should even be encouraged. For example, the U.S. needs an enhanced "payment-in-kind" structure so as to prevent forced liquidation of national treasures in order to pay taxes. At the present time, such arrangements can only be made by a special act of Congress. We would also favor continued deductions for qualified payment of the taxpayer's childrens' school and medical expenses. On the other hand, where any transfer goes "tax free" we would limit the cost basis of the transferee to the carry-over basis of the transferor. Basis otherwise would be "bought" up to fair market value at the time of transfer due to the income tax having been paid on the transfer by the transferee.

Perhaps the greatest area of technical concern is the integration of the two tax structures with regard to transfer into or out of trusts. The most equitable treatment, in theory, is called the "pure conduit" approach. Under this theory, transfers of corpus into trusts would be ignored for tax purposes and be taxed as though they had been constructively received by the beneficiary. This theory has enormous problems in the "real world" due to attribution from multi-beneficiary trusts and has been rightly labeled "Tax Reform by Frankenstein." We would propose, however, an *elective pure conduit approach* wherein all gifts and bequests actually *received* from a trust would be taxed. So as to not discriminate against transferees who have legitimate needs for trust asset management, such as minors or those with diminished capacities, those individuals should be given an elective provision to treat the trust as a conduit. This would allow them to use their personal exclusions at the trust level without generally imposing complex attribution or record keeping costs. To preclude the creation of multiple trusts which could seek to use the exclusion provisions to escape all taxation, the exclusions should not be made available to trusts. Undistributed income would continue to be attributable to the trust and reported by it as income on its fiduciary income tax return.

Finally, the taxation of bequests would create liquidity problems and these should be addressed in any integration proposal. Benefits to alleviate liquidity problems should be made available based on need, not on the form of property received as is the current case under I.R.C. Section 2032A. Our plan would call for a forward-averaging provision so as to smooth out the tax impact of a one-time only large bequest.

Conclusion

The present dual individual federal tax structure has long proven itself to be neither fair, understandable, nor efficient. The current season of fundamental tax reform, started with the Tax Reform Act of 1986, now provides our government with a unique window of opportunity to turn away from patch-work repairs of the wealth transfer tax structure and toward a reunification of the historically-based common bonds between income and wealth transfer taxation. Recent history has shown that Congress is not only capable but willing to undertake "radical" changes in the Internal Revenue Code for the sake of better tax policy. Just three years ago, who would have guessed that capital gains would be repealed or that tax benefits for homeowners would be curtailed. Perhaps the time is right for going back to basics and reuniting the mutual policy goals of the original income and estate taxes. TRA '86 began the process of returning to both economically and procedurally sound tax policy. The time is ripe for Congress to finish the job. The worthwhile goals of the original wealth transfer tax structure should now be accomplished through the income tax.

KISTLER NAMED EDUCATOR OF THE YEAR BY MASSACHUSETTS SOCIETY OF CPAs

The Massachusetts Society of Certified Public Accountants, Inc. and the American Institute of Certified Public Accountants named Linda H. Kistler, CPA, educator of the year in Massachusetts. This award is given for an educator's significant teaching contributions to accounting education and for contributing to the profession through professional activities. The Massachusetts Society honored Ms. Kistler at its annual Recognition Banquet in October.

Currently serving as Dean of the University of Lowell's College of Management Science for 1988-89, Ms. Kistler has served as full professor there since 1974.

Ms. Kistler is an active member of the MSCPA, AICPA, American Accounting Association, Academy of Accounting Historians and American Woman's Society of CPAs. She served on the MSCPA Board of Directors from 1982-84 and 1979-81 and was the Society's first female director and second female officer.

A proficient writer, Ms. Kistler has co-authored three books and authored nearly 70 articles, consulting reports and research monographs since 1966. She has served extensively in university, college and department committees, and has attained a national reputation in financial accounting, professional examinations, accounting history and microcomputer applications.

THE WORKING PAPER SERIES: A FIFTEEN YEAR REVIEW

by
Rasoul H. Tondkar
and
Edward N. Coffman
Virginia Commonwealth University

In 1974, The Academy of Accounting Historians established the Working Paper Series to provide Academy members a means of exposing historical research to a wider audience, exchanging of ideas, and providing feedback from other qualified persons interested in research.

As of December 1988, 76 working papers have been published. Working Papers Numbers 1 through 60 have been bound in three volumes. Volume 1 contains Working Papers Numbers 1-20, Volume 2 contains Working Papers Numbers 21-40, and Volume 3 contains Working Papers Numbers 41-60. The titles of papers appearing in Volumes 1-3 and information for ordering these volumes are presented in an appendix to this article. A thousand copies of each volume were initially published; however, only a small inventory of each volume remains. It is anticipated that a fourth volume containing Working Papers Numbers 61-80 will be published in 1989.

It is estimated that since the Series started, 16,000 copies of individual working papers have been distributed and 800 copies of each of the Volumes 1-3 have been sold. Working papers are published on an irregular basis and are distributed to those whose names appear on a compiled mailing list that includes a broad readership including officers of leading professional accounting associations, members of accounting standard-setting bodies, editors of academic and professional accounting journals, and historian and nonhistorian scholars. In 1982, a Review Board was established as part of the review process of the Working Paper Series. Currently, manuscripts submitted for publication as working papers are reviewed by at least two of the following members of the Review Board: Edward A. Becker (Nova University), Doris M. Cook (University of Arkansas), Hans J. Dykxhoorn (Western Michigan University), O. Finley Graves (University of Mississippi), Dahli Gray (American University), Harvey Mann (Brock University), Patti Mills (Indiana State University), or Owen B. Moseley (Arkansas State University).

Since it has been fifteen years from the time the Working Papers Series was established, it seemed appropriate to undertake a study to evaluate the Series and the extent to which its objectives have been achieved. To obtain information about the Working Paper Series, a questionnaire containing nine questions was designed and mailed to authors of the seventy-six published working papers. In cases of coauthored working papers, the questionnaire was sent only to the author that was listed first. Responses were received from 55 authors representing a 72 percent response rate.

Question one was concerned with determining whether the manuscripts submitted for publication as working papers were considered by the authors as completed papers or as incomplete research papers on which feedback was desired for further refinement and publication elsewhere.

Approximately 74 percent of the authors considered the papers they submitted as completed research. About 24 percent of the authors desired feedback on their research in order to further refine their papers.

Questions two and **three** were concerned with determining whether the authors had published their research papers prior to their publication as working papers. Approximately 10 percent of the authors had published their research papers prior to submitting them for publication as working papers; a majority of these authors had published an abstract or part of their papers in the *Proceedings* of an American Accounting Association meeting.

Questions four and five were concerned with determining whether the working papers were subsequently reprinted or published. Results indicate that 12 working papers (22 percent) were subsequently reprinted or published in other outlets. Reprinted working papers were defined as those working papers that were reprinted substantially in their original form, whereas published working papers were defined as those working papers that were published after having been expanded or revised from their original form. It is interesting to note, that eleven of the twelve authors that subsequently had their working papers reprinted or published considered their manuscripts incomplete research at the time they were submitted as working papers. See information in Table 1 concerning where working papers have subsequently appeared.

TABLE 1

OUTLETS IN WHICH WORKING PAPERS WERE SUBSEQUENTLY REPRINTED OR PUBLISHED

Place of Reprint or Publication	No. of Working Papers
Journal of Accountancy	2
Accounting Historians Journal	2
International Journal of Accounting Education and Research	2
Accounting History (England)	1
Proceeding of AAA Regional Meetings	3
A Chapter in a Book or Monograph	2
Total	12

In **Question six,** the authors were asked how their published working papers were viewed in their annual evaluation at their universities. Eighteen percent of the authors indicated that their published working papers were valued equally with published articles in their annual evaluations. Approximately 55 percent of the authors indicated that their working papers were valued but not equally with published articles. Fifteen percent of the authors indicated that their working papers did not count in their annual evaluations. The remainder of the authors qualified their responses to this question.

In **Questions seven** and **eight**, and **nine** the authors were asked to evaluate the working papers. More specifically, in **Question seven** the authors were asked to identify the benefits to them of having published their papers in the Working Papers Series. A majority of the authors made favorable comments concerning the Series and they indicated that they had benefited in various ways from having published their papers in the Working Papers Series. Some of the typical favorable comments were as follows:

> Personal satisfaction.
>
> [Woring Paper] has received many citations.
>
> Impetus to start and finish a book [on the topic].
>
> Have received some feedback [for further research].
>
> Exposure of research which would not have been made available.
>
> Provided my students with a formal

reference to some of my works.

Because I had to revise my paper twice before it was finally accepted, I learned a great deal about editing and editors.

Assisted in tenure and promotion.

[Provided] the networking and resultant co-authorship of other historical publications.

In addition to the above favorable comments, one author commented unfavorably by indicating that he had "received no feedback whatsoever on the working paper." The particular working paper being referred to here was published prior to the establishment of the Review Board in 1982. As indicated earlier, currently papers submitted for publication as working papers are reviewed by at least two reviewers and the authors receive feedback from the reviewers.

In **Question eight** the authors were asked to comment on their overall evaluation of the Working Papers Series. Once again, responses were overwhelmingly favorable. A sample of the typical comments were as follows:

An interesting mixture of topics & authors. The Working Paper Series fills a role by presenting material that for various reasons may not be found in journals, but yet should be available to researchers.

Good. I have used several of them in my own research and have also used material from others for lectures in other courses.

I think that the Working Paper Series is a very useful forum. The wide range of articles covered. . .provided meaningful areas of interest for accounting scholars.

Very good and informative. Most appear to be high quality research. They vary significantly in quality, which is as it should be.

There was only one unfavorable comment. This author stated that "It [Working Paper Series] is a waste of time, money, and effort. It should be discontinued." It is interesting to note that this comment was made by the same author that made the unfavorable comment referred to in Question seven above.

Finally, in **Question nine** the authors were asked for any additional comments that they might have concerning the Working Papers Series. The responses to this question were varied in nature and some typical comments were as follows:

The Working Paper Series should continue.

Please continue to encourage new authors.

Maintain refereeing process.

Hope that revisions are still required.

Keep the Series—don't let evaluation process kill it.

The Working Paper Series should be expanded to include transcripts of oral histories.

An index of key ideas, issues, etc. may be a useful addition to this publication.

These suggestions provide the editor of the Working Paper Series some input into establishing future direction and policies of the Series.

Summary and Conclusion

The analysis of the responses received in this survey indicated that the Working Papers Series is perceived by the authors as a valuable means of exposing their historical research to a wider audience, exchanging of ideas, and providing feedback from other qualified persons interested in research. In this regard, it appears that the Working Paper Series is accomplishing the objectives established in 1974. Additionally, the subsequent reprint and publication of some working papers, the large number of individual working papers distributed, and the significant number of bound Volumes 1-3 sold indicate that the Series has been received well.

APPENDIX

The titles of the first 60 working papers and the respective volume in which they appear are listed below:

Working Papers 1-20 Volume 1

Working Paper Number

1. "The CPA's Professional Heritage, Part I," by John L. Carey.
2. "The Audit of Historical Records As a Learning Device in Studying Environmental and Socio-Economic Influence on Accounting," by Richard H. Homburger.
3. "The Accounts of Ancient Rome," by Kenneth S. Most.
4. "Survey of the Development of Auditing in Germany," by Rosa-Elisabeth Gassamann.
5. "The CPA's Professional Heritage, Part II," by John L. Carey.
6. "A Chronological Index Prepared for John L. Carey's *The Rise of the Accounting Profession,* Volume I, 1896-1936," by Gary John Previts.
7. "The State of Bookkeeping in Upper Germany at the Time of the Fuggers and Welsers," by Hermann Kellenbens.
8. "A Chronological Index Prepared for John L. Carey's *The Rise of the Accounting Profession,* Volume II, 1937-1970," by Gary John Previts.
9. "A Bibliography on the Relationship Between Scientific Management and Standard Costing," by Marc J. Epstein.
10. "A Significant year (1873) in the History of Bookkeeping in Japan," by Kojiro Nishikawa.
11. "Historical Development of Early Accounting Concepts and Their Relationship to Certain Economic Concepts," by Maurice S. Newman.
12. "Thirty-six Classic Articles from the 1905-1930 Issues of *The Journal of Accountancy,*" by Richard Vangermeersch.
13. "The Development of the Theory of Continously Contemporary Accounting," by R.J. Chambers.
14. "The CPA's Professional Heritage, Part III," by John L. Carey.
15. "Two Papers on the History of Valuation Theory (I. Management of Tangible and Intangible Fixed Assets. II. The Significance of Write-ups of Tangible Fixed Assets in the 1920's)," by Richard Vangermeersch.
16. "The Golden Anniversary of One of Accounting History's Mysterious Contributors: Albert DuPont," by Gary John Previts and S. Paul Garner.
17. "Evidential Matter Pertaining to the Historical Development of the Concepts of Disclosure and Its Uses as a Teaching Aid," by Hans V. Johnson.
18. "The Evolution of Pooling of Interests Accounting: 1945-1970," by Frank R. Rayburn.
19. "The Study of Accounting History," by Vahe Baladouni.
20. "The Evolution of Corporate Reporting Practices in Canada," by George J. Murphy.

Working Papers 21-40 Volume 2

Working Paper Number

21. "Early Greek Accounting on Estates (Fourth Century B.C.)," by George J. Costouros.
22. "The Traditional Accounting Systems in the Oriental Countries—Korea, China, Japan," by Jong Hyeon Huh.
23. "The Evolution of Ethical Codes in Accounting," by Joyce C. Lambert and S.J. Lambert, III.
24. "The Oldest Book of Double Entry Bookkeeping in Germany," by Kiyoshi Inoue.
25. "An Annotated Bibliography for Historical Research in Cost Accounting," by Edwin Bartenstein.
26. "The Role of Academic Accounting Research: An Historical Perspective," by Eric Flamholtz.
27. "The Structure of Scientific Revolutions and Its Implications for the Development of Accounting Policy," by Diana Flamholtz.
28. "The Development of Accountancy in Hungary Since 1946. . . ,"by Rezxo L. Scholcz.
29. "Historic Origins of the Purchase vs. Pooling of Interests Problem," by Wesley T. Andrews.
30. "Current Efforts to Develop a Conceptual Framework for Financial Accounting and Reporting," by William G. Shenkir.
31. "Influence of Nineteenth and Early Twentieth Century Railroad Accounting on Development of Modern Accounting Theory," by James L. Boockholdt.
32. "The Historical Development of Standard Costing Systems Until 1920," by Nathan Kranowski.
33. "The CPA's Professional Heritage, Part IV," by John L. Carey.
34. "The Evolution of Accounting Theory in Europe from 1900 to the Present Day in Its Implications on Industrial Management of Tomorrow," by Paul Weilenmann.
35. "Sombart on Accounting History," by Kenneth S. Most.
36. "A Most Unforgetable Accounting Historian: Frederic G. Gamble," by Paul Garner and Reza Espahbodi.
37. "Historical Overview of Developments in Cost and Managerial Accounting," by M. Zafer Iqbal.
38. "Comments on Accounting Disclosures in the Baltimore and Ohio Annual Reports from 1828 Through 1850," by Richard Vangermeersch.
39. "A Contemporary Review of the Evolution of Value Concepts (1500-1930)," by J.W. Martin.
40. "Tracing the Development of a Conceptual Framework of Accounting—A Western European and North American Linkage: A Partial Examina-

tion," by Stanley C.W. Salvary.

Working Papers 41-60 Volume 3

Working Paper Number

41. "Factors Shaping the Independent Public Auditing Profession in the United States from 1905 to 1933," by Bruce E. Committe.
42. "Frederick W. Taylor and the Evolution of Standard Overhead Costing," by Rosita S. Chen and Sheng-Der Pan.
43. "A Synthesis of an Inquiry into the Contribution of Double-Entry Bookkeeping to Capitalism," by James L. Strachan.
44. "Philosophies of History—Their Basic Tenants," by Owen B. Moseley and Milton F. Usry.
45. "The Development of the Auditor's Report in the United States," by Tonya K. Flesher and Dale L. Flesher.
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58. "The Financial Statements of U.S. Steel, 1902-1951: A Half Century of Leadership in Reporting," by Ed Younkins, Dale L. Flesher, and Tonya K. Flesher.
59. "SFAS 52 in Perspective: Background of Accounting for Foreign Currency Translation in Financial Reports of United States Multinational Corporations," by Dahli Gray.
60. "The Development of Accounting in the West, China and Japan," by Robert Gardella.

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NOTABLE ACCOUNTANTS

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SOME OBSERVATIONS ON THE EXTENT OF BANK AUDITS IN AMERICA: 1800-1863

by
Paul Frishkoff
University of Oregon

It is easy, in the light of today, to look back on the America of yesteryear as a simple bucolic society. And it is true enough that both technology and commercial techniques in the period prior to the Civil War were crude indeed by today's standards. Yet the (largely agrarian) economy did function and prosper; accounting records were (sometimes) kept. And though we may believe that ethical standards of daily conduct were perhaps higher, or people more naive and trusting, surely there was no shortage of devious minds at work, eager to reallocate the wealth of others to themselves. What, then, of the safeguards of that era?

The study described here investigates the extent to which something resembling auditing may have existed or may even have been required by state law. (Most banks which existed had some sort of state or territorial charter before 1863, prior to the creation of a federal central banking system.)

There is no paucity of suggestions that some corroboration of banks' financial statements may have been desirable. Asset valuation was incredibly complex, since most banks (including some totally nonexistent ones), many private companies, and some municipal agencies issued their own notes. Specie also circulated — in some places. (Further, from 1791-1811 and again from 1816-1836, the Bank of the United States, with its own authority to issue "money," existed.)

Uncollectibles were common and were rarely voluntarily written off. Branch banks came and went, often dragging down the parent during their own demise. Monetary panics and localized runs on banks were commonplace. Physical custody and transportation of specie were crude. One might suppose that depositors and governments would have demanded such reassurances as a primitive attest function might provide.

SOURCES

Ideally, accounting history ought to be researched using purely primary sources: original accounting records, reports and supporting evidence. Realistically, this is often extremely costly and awesomely time-consuming, as there is no single repository of primary records. The broader the topic (the less, that is, one wishes to focus solely on, for instance, a single bank), the greater the justification for relying on secondary sources in the form of the works of other historians, though not necessarily accounting historians. Fortunately, there is a richness and diversity of sources on bank hsitory, such that reliance on the judgment of only one or two key authors can be avoided.

One set of documents is a group of studies, done independently and with apparently little recognition of each other, of the banking systems in individual states. Many of these works appear to have been doctoral dissertations which were subsequently published. These works tend to be scholarly, thorough, and rather detached or unopinionated.

There is another set of sources: books written during or shortly after the period 1800-1863. These works are no more abbreviated than the dissertations; indeed, several are in multiple volumes. The authors tend to write in the florid, sardonic style which characterizes much early American prose. The books, though not lacking in scholarliness, read much more like polemics than the first group; the author usually had an axe to grind. These "classics" can be delightful reading, for they shed light not only on the history of accounting and of banking, but on the changing role of the historian and writer. Among the best are the work of Appleton (1857), the economist-journalist Raguet (1840), and a man with the appropriately Dickensian name of Gouge (1833). The somewhat later work by Knox (1903), himself a major commercial figure, is also worthwile.

Of course, these authors, both of the nineteenth and twentieth century, were focusing on banking practices and regulations. References to financial reporting are abundant in some works. (Cable (1923) devotes a whole chapter to the topic.) Others glossed over this facet of banking. The same is true of references to audits and bank examinations. The absence of references does not, of course, prove the absence of accounting and auditing; any such inferences are mine.

EXTERNAL REPORTING BY BANKS

It may be said that the pattern of reporting to the public by banks during this period both parallels and foresees the history of reporting by industrials. That is, reporting was voluntary and sporadic until it was mandated by law in that particular state, and such laws were frequently forthcoming only after abuses: swindles, frauds, panics, and suspensions.

One of the earliest examples of mandatory reporting was in Massachusetts, where, by 1802 (possibly earlier) banks were required to submit semi-annual financial statements to the Chief Magistrate. (Felt, 1839, p. 213). There apparently was no audit required, nor are we told whether the Magistrate's office disseminated the statements to others. In this case, the impetus behind the law was probably prevention, rather than reaction to a particular calamity. The Commonwealth of Massachusetts appears to have evolved the most sophisticated and conservative banking system and laws of any state during those times, including the celebrated "Suffolk system," which required a deposit by country banks in city banks to assure that the country banks' notes would be honored.

It may not be surprising that New England, the longest settled and most industrialized portion of the early nation, developed the first banking regulations. Rhode Island, for one, was a pioneer in both financial reporting and auditing. A compulsory law governing bank reporting was passed in 1809. Even before that, however, bank records were frequently examined — we are not told whether or not in an unannounced manner — by committees selected by the board of directors. (Was this the "audit committee primeval?") Knox, who documents this, goes on to add, "It will be seen that the Legislature of Rhode Island" dealt with the banks in an enlightened manner, and as a result the financial institutions of the State attained a high degree of excellence." (Knox, 1903, p. 373.) Yet even within New England there was no uniformity; Connecticut did not pass a regulatory law until 1836, and reporting in that state and in Maine lagged behind that of their neighbors (Van Fenstermaker, 1965, p. 29).

Elsewhere, in the "Western" United States, reporting was even more haphazard. Though the Territory of Missouri (later a state) had few banks prior to the 1840's, a highly simplistic balance sheet of the State Bank of Missouri was published in the leading newspaper, *The*

Intelligencer, as early as 1820, apparently voluntarily and without audit. (Cable, 1923, p. 337). Rather more detailed balance sheets are available from the Miner's Bank of Dubuque, the first major bank in Iowa, for several reporting dates in 1838, (The fiscal year was an uncommon phenomenon at that time.) though Iowa was still a part of Wisconsin at the time. Alas, the Miner's Bank later failed anyway, and Iowa was left more or less bankless from 1846-1857! (Erickson, 1971, pp. 24 ff.)

Overall, the quality of financial reporting was often abysmal, even where the report itself was mandated by law. As Gouge lamented,

> "Compelling the Banks to give an annual statement of their affairs, is also a favorite measure. But it is not easy to compel them to give a faithful statement. The accounts of the Banks that break look nearly as well on paper as the accounts of the Banks that continue payments. They who are acquainted with the secrets of Bank management say little reliance is to be placed on these accounts." (Gouge, 1833, p. 51).

On the subject of comparability, the ever-disputatious Raguet asserts,

> "The want of knowledge arises from the circumstance, that the nine hundred banks and branches now operating in the United States, are the offspring of six and twenty states, three territorial and one central government, between which there has never been any system of uniform action in relation to the terms of charters of banks, or in reference to uniform periodical returns of their condition as to liabilities and resources. . .In some there is studied mystification in the mode of stating the account, designed to render it unintelligible, and which nobody but the president or cashier of the bank could explain; whilst in others there is a total disregard of particularisation, by placing under the general heads of 'miscellaneous,' 'other liabilities,' 'other specie funds,' and other such items, many important elements of a statement, without which the whole document is deprived of its entity,"

This articulate precursor of Briloff goes on to remark archly that all these reports are then aggregated by the Secretary of the Treasury for his annual report to Congress on the state of the banking system. (Raguet, 1840, pp. 188-189.)

BANK EXAMINATIONS...SOMETIMES

Having looked at evidence from witnesses of the times, as to the lack of reliability of many bank statements, we might expect that means of increasing reliability would be devised. After all, business was already sophisticated enough to adjust its accounts for the time value of money, such that, "Whosoever sells on trust puts on this goods an additional price, equivalent to the interest for the time to which payment is deferred." (Gouge, 1833, p. 22)

It is not evident when the first bank examination or audit took place. The Bank of the United States, in its 1833 report, mentions no audit, and indeed goes to some length and verbosity to defend the propriety of its payment and its planning. (Bank ... 1833, p. 9). A later report of a bank with the same name (chartered in Pennsylvania after President Jackson let its federal charter expire, later failed and revived), shows a line item, "Deduct for the fees and expenses of the Audit, $1,500.00," in a sort of combined cash flow and surplus statement for the year. (Bank ... 1849, p. 36)

In the states, various combinations of laissez faire, audits by committees appointed by legislatures, and examinations by state agencies, existed simultaneously. An 1822 North Carolina balance sheet, for instance, states at the bottom, "I hereby certify that the above statement exhibits the true state & condition of the Bank of Cape Fear on 31st December 1822." The signatory, a Mr. Anderson Clark, is not otherwise identified. (Van Fenstermaker, 1965, p. 30).

A more colorful and enthusiastic opinion was rendered by a committee (membership unknown) in Connecticut in 1836. This followed on the heels of the state's first regulatory law, which, among other things, directed that such a committee be appointed jointly by the State Treasurer, the Comptroller of Public Accounts, and the Commissioner of the School Fund. Vested with the authority to examine under oath and to scrutinize any documents, the committee visited all but one bank in the state, and averred that, "the soundness and solvency of all the banks examined by us is, in our judgment, unquestionable. We believe that the public may place entire confidence in their ability to meet all their engagements; and inasmuch as the present is a time of suspicion and distrust of pecuniary concerns, we feel bound to express ourselves fully on this point. We think nothing short of a state of general bankruptcy can deprive any of our banks of the means of redeeming all their bills." (Knox, 1903, pp. 376-377.)

Of the actual examination technique we know as little as we do of the identity of the auditors. In the neighboring state of Rhode Island, also in 1836, the state authorized a Board of Bank Commissioners to conduct examinations. The Board was later replaced by various designated state officials, only to be revived again in 1857 (not coincidentally, after the banks had temporarily suspended specie payment.) The initial examinations were at preannounced dates, with the not astonishing result that banks glamorized their balance sheets as of those dates by accumulating specie only for the occasion; unannounced audits proved to be more efficacious for the Commissioners. (Knox, 1903, p. 372.) Brice tells us that on an earlier occasion in the same state, an examination, by a temporary committee appointed by the legislature, uncovered one bank — the first one examined — with $580,000 of notes outstanding and some $86 in actual specie! (Brice, 1892, p. 82.) (The same incident is reported, with somewhat different numbers in Gouge, 1833, v. II, p. 47.)

A Louisiana Act of 1842, appointed a Board of Currency. In a commendable display of audit independence, a member of the Board could not be a partner, director or officer of a bank. The Board was to perform a thorough examination of each bank, at least quarterly. Lack of cooperation from at least some of the banks (who had their own political allies) apparently weakened this attempt at regulation. (Caldwell, 1935, pp. 78 ff.)

The law in South Carolina had more teeth in it. The 1840 law was labeled, with refreshing candor, "An Act to provide against Suspension of Specie Payments by the Banks of this State." It was manifestly a reaction to the Suspensions of 1837 and 1839. It called for *monthly* balance sheets, prepared under oath, by the president or cashier for each bank; a monetary penalty of a hundred dollars a day discouraged late filings. Further, the Comptroller General had the power to examine the books of each bank. Failure to make the books available for audit was a misdemeanor. The state also revoked the charters of banks which did not comply. (Clark, 1922, pp. 150-151.)

FRAUDS AND FRUSTRATIONS

It should not be supposed that audits by lay committees were more ineffectual than those by state officials. So little is known about the latter that it is not clear that they were in any sense more qualified than the former. After all, the citizens appointed to committees were often business or professional men (we find no mention of women), that is, "people of substance." We might assume that such individuals were familiar with business practices and with the recording process. Moreover, they may possibly have been more zealous than certain state officials whose salaries rested on political appointments. Their activities in the contiguous states of Illinois and Missouri provide some similarities and contrasts.

In Illinois, the state officials themselves had an unusual incentive to be zealous. In 1822, the state auditor plaintively noted that state officials were being paid in State Bank of Illinois notes, which — partly due to the questionable financial conditions — only commanded consumer goods at about 50% of par! (Dowrie, 1913, p. 40.)

This looseness led to the usual remedy of appointment of citizens' committees. In a commendable example of lay conservatism, a Dr. Murphy (not otherwise identified as to his medical specialty, if any), a member of the committee examining the State Bank in 1840, filed a separate report, demonstrating that almost a quarter of the alleged $4,000,000 (rounded) of assets ought to have been listed as suspended debt. (Dowrie, 1913, p. 94.)

At that, the 1840 committee was more successful than its predecessor of 1825, which was unable to thread its way through the loose and incomplete bookkeeping; nor was an accountant appointed by the governor any more successful three months later. It was discovered, however, that the branch at Shawneetown collected a fee for each note protested! (Dowrie, 1913, pp. 394-396.) In 1834, the state treasurer himself made a complete examination of the bank and all its branches, but was thwarted by the sloppy bookkeeping.

In Missouri, the first regular examination by a committee in 1838, was somewhat unsystematic and relied very heavily on the cooperation and credibility of the bank's officers. The 1840 audit was more complete, including the branches and involving more counting and vouching. After a few years of reversion to more casual examinations, the 1848 audit was quite thorough, including a computation of the rate of profitability of each branch. The 1850 committee was more zealous yet, inquiring carefully into specific asset valuations, testing the worth of each investment, and recommending the writeoff of some $300,000 of notes, principally those of their neighbor, the State Bank of Illinois. (Apparently, sloppy bookkeeping does not pay.) The 1854 committee instituted *sampling* in the verification of coins in boxes, though this seems to have stemmed from lassitude rather than from statistical knowledge. (Cable, 1923, pp. 475-488.)

There was no shortage of devious minds nor fraudulent schemes in those days. A Michigan examination of 1838 found that entries were in ink, but the names of debtors and creditors in pencil and subject to change. In the same audit, the teller profferred a box of coins, which was found to be full; a spot examination by the commissioners revealed that the other boxes were full of nails, except for one which was full of broken glass. (Quoted in Erickson, 1971, pp. 22-23).

CONCLUSION

This article explored the major facets of the state of bank accounting and auditing before the Civil War. The crudity of both may seem blatant by today's standards. For the times, however, perhaps we are looking at a tableau of honest men attempting to do their best to minimize dishonesty and failures. The later era was marked by more uniformity and less catastrophe (on the whole, until 1929), but perhaps also by less romance and less "creative accounting."

It is worth noting that in most of the states which have been researched, the quality of examinations appears to have increased during the nineteenth century, though not — to be sure — in a linear fashion. Apparently, legislatures and "auditors" learned from their own mistakes; some were faster learners than others. As suggested by Penn Square and other recent debacles, we are still learning.

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