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THE WOMAN C.P.A.

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Taxation, Ethics: A Single Standard

By MARY S. TROSS, C. P. A.
Newark, New Jersey

The field is so broad, the subjects so varied and the ramifications so dispersed, I decided not to touch the technical, or practical side of taxation, but rather to write about ethics; ethics in dealing with taxation, and the standards involved. Are there standards? or is there only one standard?

Standard means a model, an example, a criterion of accepted and established rule for measuring—and with respect to ethics—for measuring, testing, and judging conduct; with respect to taxation it's the standard of ethics of the personnel in the taxing agencies—the standard of ethics of the taxpayer, the standard of ethics of the tax practitioner.

The test is the same for all, there are no varying standards and no flexible ethics.

That's how I came to choose the title: "Taxation, Ethics: A Single Standard," and I should like to confine the discussion to the federal taxes on income, and on estates and gifts.

Let's ask a few questions.

Why taxation?

Among primitive peoples joint or combined efforts were accidental, if they existed at all; certainly not conscious and certainly not for a common good.

The seeds of civilization were sown to produce a common benefit. That common benefit became possible when people agreed to contribute toward the common good, by work—labor—services, and later a substitution for work—the substitution being money—the means of exchange—and the contributions were toward the common wealth.

As governments were established, duties and obligations were divided and shared; and taxation was born—spelled either born or b-o-r-n-e.

In the early stages all took part willingly and cooperatively. Then great strides were taken.

Nations grew.

Government became complicated.

More and more taxes were levied, willingness began to change to reluctance; so that today we must agree upon codes of ethics—and a standard of conduct.

Is there any reason that the internal revenue commissioner—and the taxpayer should look upon each other as unfriendly adversaries?

Should the tax practitioner be engaged by either the government or the taxpayer for only one purpose? To agree with his client?

The single standard that I have in mind is the accepted measure of ethical conduct to be practiced by the taxing agency—by the taxpayer—and by the tax practitioner.

I'm assuming that the persons involved will be mature, thoughtful, honorable individuals, who can distinguish between right and wrong, and having recognized the difference, willingly choose the right.

When does the tax practitioner have to think about ethics, when does the taxpayer, when does the government agent who represents the commissioner have to think about ethics?

Let us consider for the moment the agent. He is engaged in examining a return; he finds underpayment in taxes. Must he suspect at once that he is dealing with a deliberate evasion? I would say, no. His conduct should be prompted by the same single standard we have already mentioned. It is his duty to audit, but he should approach it with the attitude that the audit is a checking process for the purpose of approving if correct, or pointing out errors, whether in computation or interpretation so that the taxpayer shall have an opportunity of correcting the error. Or, in other words, the agent must believe that just as he performs his duty honorably, the taxpayer does the same. The first approach by all concerned with taxation should be free from suspicion on anybody's part.

In the event that the agent discovers during the course of his examination that there is an error, but that it was made in the government's favor, it is as much the agent's duty to point out this error, and he should willingly prepare his report showing the overpayment. Under what I mean by the single standard the agent should be as diligent to find perfection in the return whether that perfection will result in a deficiency or an overpayment of tax.

Now let's consider the taxpayer. When he retains his tax adviser who will assemble the information available for the computation of a tax—whether it be income, estate or gift tax, the taxpayer's approach must be honorable. He must divorce his thinking from the foolish suspicion that taxes are levied against him as a burden or a penalty. The taxpayer's ethical conduct which fits in with the test of the single standard requires him to acknowledge that his share of taxes must be paid and that the amount arrived at must result from a fair and honest disclosure to his tax adviser of the facts to be used and that he retains his tax adviser to help him and to advise him with respect to his tax obligations and not for the purpose "of getting away with anything."

And now last and to us most important, the tax practitioner's ethical conduct with respect to taxation.

Because of the pride that I have always felt in practicing our profession and because of the high regard that I have always had for our colleagues, I wonder sometimes why so much discussion has developed about ethics. Codes of ethics are adopted, articles appear in periodicals, as witness this one. As recently as August 30, 1960, sixty scholars met in New York City to talk about ethics and the challenge to traditional ethics in government, politics and administration. Are there so many borderline situations or serious problems? Am I naive when I think there are not, and I repeat I think there are not. When the tax practitioner deals with his own client he can guide him through all the paths and sometimes by-paths that lead to a final determination of a tax liability. He can point out with utmost frankness and candor what he thinks should be done, whether it be to pay or not to pay a tax—basing his opinions on his knowledge, experience and skill. He need never by implication or overt advice put a taxpayer in a precarious situation or himself in a dubious position. Thereafter the tax practitioner may be required to deal with the government representatives. Again his task is one that requires the same frankness, the same candor, the same honorable approach to satisfy the government that the matter in dispute is one in which he and his client have conducted themselves with propriety and fairness and in which they expect the same attitude on the part of the government. When all involved in the question of taxation, the "all" being the three elements of personnel: the government, the taxpayer and the tax practitioner, have conducted themselves with the knowledge that the integrity of each has not been strained, we can be certain that ethics with respect to taxation can comfortably fit within a single standard.

As an example—we might consider the question of improper accumulation of corporate surplus. Unless the representative of the commissioner takes the attitude that there is an improper accumulation there is no problem. The taxpayer was not required to take any stand on the question of improper accumulation. It is only when the representative of the government asserts that surplus is being improperly accumulated that it becomes necessary to assemble factual data and historical financial information to dispel the claim that there is an improper accumulation of surplus. This does not mean that there is anything other than a single standard. It simply means that each party is endeavoring to conform the facts as interpreted by that party with the single standard which is, that a corporation can neither be formed nor availed of for the purpose of preventing the imposition of income tax upon the shareholders. The answer lies in the proper classification of the facts and the final decision must be in conformity with the single standard.

The tax practitioner is sometimes consulted by a new client who advises that he has filed a tax return which had omitted certain reportable income and that the statute of limitations with regard to such return had not yet run. The client wants to know whether he must file an amended return and pay the additional tax or can he wait for the government to demand the additional tax upon audit of the return. The client states that at the time the return was filed he did not believe the omitted income to be taxable and did not mention the income to the person who prepared the return.

The tax practitioner must decide the ethical aspects of the advice to be given to the client and must do so with the consideration of the possibility and maybe the probability that the client will not heed the advice given.

Another troublesome problem is that of a client who seeks advice as to a return prepared by another in which there is omitted income and also understated deductions. This was brought out very clearly in the recent trials of a congressman in which the commissioner had been asserting a tax deficiency for income alleged to have been omitted but was not giving any credit for expenses which were proper deductions and had not been claimed on the return. Had credit been given for those deductions there would have been an overpayment by the taxpayer for the year instead of the asserted deficiency. Certainly the single standard of ethics should not permit the government to fail to allow the proper deductions and to assert a deficiency for the year, rather than an overpayment. The judge who heard this case was quite outspoken on this point when he granted the motion to dismiss the deficiency which had been asserted. A single standard means just what it says. It must grant justice to each party

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Budget Preparation

By DONNA DANIELSON, C. P. A.
Detroit, Michigan

The goal of modern business is to operate "in the black"—to make profits. With the activities of management directed primarily to this one purpose, the assets of equipment, inventories and talent of personnel must be utilized to the fullest extent. This means the company should have one pre-requisite for good management—proper organization. Well-defined outlines of responsibility avoid overlapping in allocating responsibility. As a guide to define the areas of responsibility, the company should have a formal organization chart for the company as a whole supported by auxiliary charts for each division. These charts are supplemented with written directives specifying definite and exact areas of authority and responsibility, relationships, policies and methods of measuring performance. These charts and written supplementals may be reproduced and distributed in the form of an organization manual to those responsible for the various divisions.

Budgeting is essentially a managerial process. Generally speaking, it is a formal statement of managerial plans and policies for a given period to be used as a guide or blueprint in that period. A budget program can be effective only if each management member knows the exact scope of his responsibility and authority. A successful budget program decentralizes the responsibility so that each division head stands on his own, more or less, and is responsible for the fulfillment of the budget program in his departmental operation.

In addition to a carefully outlined organization structure and defined duties, there must be adequate accounting records. Budget programs are guided by past experience applied to reasonable future expectations. The budget department and others preparing estimates depend heavily on the accounting department for reliable historical data to use as the basis for many estimates. The accounting records must be sufficiently complete to reveal past operations as to the relations of sales, costs and detailed components of costs and departmentalized profit. It must be possible to determine from the records the relationships of costs and results and the efficiency of individual, divisional and functional performances. Current trends must be apparent both in operating and financial relationships. Also, prior to any attempt to adopt budget procedures, there should be a complete study of the chart of accounts and related classifications. In the preparation of any part of the budget, the same chart of accounts and classifications of accounts must be used to facilitate future comparisons between the actual and related budget figures of the same period. In addition supplemental to the chart of accounts there should be accounting instructions as to the components of each type of account.

On the basis of past performance and the expected future, objectives or goals are determined as a guide for the divisional managers in preparing their budget estimates. These goals should be the "expected actual" assuming efficient operations and satisfactory performance under the conditions expected to prevail during the budget period. They—the goals—should be reasonably attainable and yet present a challenge. Objectives set so high as to be, for all practical purposes, impossible to attain tend to discourage any serious efforts to reach them. On the other hand, goals set so low that they call for no special effort will have no meaning or incentive for supervisors.

No effective budgeting can be accomplished without the full support of the chief executive. If he is not willing to study the problems at hand and make the necessary decisions, the enforcement of the budget will be nil and the formality of preparing a budget will have been fruitless.

The chief executive does not generally have the responsibility for the preparation of the budget. The controller or chief accounting officer is the logical person to have this assignment as his knowledge extends to all departments of the business and there is no bias resulting from other functional responsibilities. Some companies of a larger size have a budget committee responsible for the budget program. The person or committee in charge of the budget has the responsibility for the design of the budget program and provides the technical assistance and supervision in bringing the estimates together in final form after they have been prepared by the respective operating department heads. If the decentralization philosophy is to be practiced, the individual members of the management team should be given authority and be held accountable for the results. Therefore, the one to whom an activity has been assigned ought to be the one who prepares the budget for that activity. If he is to be held accountable for accomplishing specified results, he should have something to say about what he has to spend to get them. All managerial or supervisory personnel, starting at the first level of the organization structure, should be participants in the preparation of this budget program. It is not meant that each manager or divisional supervisor be given a blank check to carry out all the programs he considers to be desirable. The department heads set up their own budget estimates, and the budget director or committee makes the final decision after a careful analysis and study of estimates. Any changes of the department head's estimates by the budget director are reviewed with the department head for a mutual agreement on the final estimates. Experience shows that operating supervisors view with extreme doubt a budget prepared without their active participation. Generally, little effort is shown to follow the budget and there may be indications of trying indirectly to make the budget unworkable. Active participation on all managerial levels in shaping goals has a healthy effect, what we can call "togetherness." Each member of management becomes aware how his individual responsibility fits to make the whole picture. Junior members, having participated in planning, are aware of and adequately prepared as to the future with respect to objective problems and other considerations.

The next question—What period should the budget cover? In general, any budget should be prepared only so far ahead as it is possible to make reasonable predictions. There can be no general rule, but the usual period is the accounting period whether it be a calendar year or fiscal year. It is a better policy to base the budget program on an accounting period as a general outline, but to have more detailed and definite budget figures and outlines for a shorter period—for example, on a monthly or quarterly basis. The shorter period can be used as a basis for immediate action whereas the former, the one year plan, can be used as a basis for future planning. The length of the budget period of the more specific schedules might also be governed by such factors as length of the merchandise turnover period, length of the production period, method of financing employed, general market conditions and the adequacy and completeness of data of past operations.

In reviewing the steps to be taken towards the preparation of the budget, we find:

1. The responsibility of the individuals of the management team must be clearly outlined and defined;
2. The accounting records and data should be adequate and in sufficient detail to be used as a basis for future projections;
3. Department heads should be responsible for submitting the goals represented by their budgets to the budget director for review, approval and consolidation into the budgetary program of the company.

We also considered the basis for the appointment of the budget director, the period to be covered, and the relationship of the budget to the accounting records.

Since sales are the key factor in profit making so they are also in budgeting. The deviations from all other budgets will be influenced as to the direction and degree by deviations from the sales budget. It follows then that the sales budget should reflect the most realistic estimate of what will be sold. In budgeting sales, the estimates should be based on actual experience and planned changes, such as the addition of a new product, correlated with some index of business activity. The usable indexes available to small companies are less numerous than that for a large national company. However, data such as population trends, bank deposits, personal income and employment statistics are published in local areas. The trend of these can be used as a guide for budgeting. While a budget of total sales is of more value to management than no budget, the greater the detail as to products, point of sale and distribution outlets the greater value of the budget for planning and control. This goes back to the need of adequate accounting records in detail as budgets are based on past performance adapted to future "expected actual." However, if this information is not available in detail, budget may be based on total sales. Don't wait for the detail!

With this sales budget established, the next step is to plan production and inventories. The investment in, reduction of or retaining same inventory level determines the requirements for raw material, direct labor and related manufacturing expenses for the budget period. In the development stages of budgeting, this step may be ignored on the assumption that what will be produced will be sold. If the procedure is simplified to this extent, the budget cost of production will also be the budget cost of sales. If standard costs are being used, the raw material and direct labor standards, adjusted for anticipated price level and wage rate changes, can be applied to the budgeted sales units to arrive at budgeted material and direct labor costs. Where standards are not available, these costs can be budgeted with reasonable accuracy by determination of experience ratios of those cost elements to sales dollars. These ratios should be modified to reflect anticipated changes in sales prices, raw material costs and wage rates.

The expense budgets are the final step in building the profit budget. For these, factory expenses must be separated from selling, general and administrative expenses. Expense budgets should be flexible rather than fixed. If adjustments cannot be made to budget allowances as activity varies from month to month, the measurement of actual expenses is distorted. In preparing a budget of selling, general and administrative expense it must be remembered that these are generally fixed type expenses, which can be budgeted on the basis of past experience, modified by expected changes in cost levels and any management plans for expanding or contracting specific items.

The operating and financial budgets are best prepared during the last quarter of the accounting period for the coming period. This procedure assures sufficient time for consideration of the important policies and plans involved and assures completion and distribution of the approved plan on or before the first day of the period covered by the budget program. Nothing detracts more from the effectiveness of budgeting than completion and distribution of budget several months after the period has started. When planning begins in ample time on a regular schedule there is full opportunity to enlist the assistance of supervisors, foremen, salesmen, department heads and all operating personnel—major and minor.

The plan which the final budget is purported to represent should evolve from careful consideration and evaluation of alternative courses of action. The planning underlying any industrial budget is predicated on sets of assumptions with respect to such factors as economic climate, competitive strategy, markets, changes in price and cost levels, probability of technical or manufacturing difficulties, introduction of new products, expenditure levels for new plant and equipment, major rearrangement programs and product research and development activities. Obviously plans based on one set of assumptions versus another set can yield radically different results. The planning process in part consists of weighing the various alternatives and arriving at an educated judgment as to what is most appropriate under the circumstances. Analyzing and pricing alternate plans in this orderly fashion and documenting the assumptions in specific terms are of value in that the very process of weighing alternatives tends to result in a more thoughtful and realistic plan. If the analysis is done properly, alternative plans are available to be put into effect quickly in the event that conditions assumed under the primary plan do not materialize. In other words, the planning is done in advance in an atmosphere of reason, rather than on a crash basis in an atmosphere of crisis.

Once the budget procedure is fully developed and the responsibilities carefully and clearly defined, it should be reduced to standard instructions. These should take the form of a manual which will maintain the uniformity of budget practice and the enforcement of the budget program. This manual should also clearly define the manner of preparation of various estimates and schedules for future study. Let me outline what this manual should include. First, in regards to the budget preparation it will outline the instructions and illustrate the forms to be used. Information as to the responsibility of the operational executives, budget director and/or budget committee is defined. Also part of the manual is a budget calendar specifying the definite dates for completion of each part of the budget and the submission of reports for analyzing the effectiveness of the budget. The manual will also outline the distribution of the various budget schedules. In addition, it should specify the responsibility for the preparation of reports for management of actual figures and their analysis as pertaining to the budgetary figures, the form and content of these reports and their distribution.

The preparation of budgets can be summarized by answering three questions phrased in three words. What? Who? When?

What are prerequisites to preparation?

Proper organization,
Adequate accounting records,
Determination of realistic goals and period to be covered,
Support of chief executive.

Who prepares the budget?

Chief accounting officer, controller or budget committee who bring together in the final form the approved estimates of the operational division heads.

When is the budget prepared?

In the accounting period (perhaps the last quarter) preceding the budgeted period and in sufficient time to have the approved budget program reproduced and furnished

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The Accountant Communicates

By: DR. BERNADINE MEYER
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Pittsburgh, Pennsylvania

The work of the accountant is done not in isolation, but in a world of people where the exchange of information, facts, thoughts, and ideas is vital. Consequently, skill in communicating—in the exchange of ideas and information—is of the utmost importance to the accountant who would be successful in his work.

The process of communication, however, involves not only the sending of messages but also the receiving of messages, and a skilled communicator is one who not only transmits information effectively but also receives information effectively. And the most frequently-used means of receiving data are reading and listening.

When one thinks of the events of a typical business day— of the amount of time spent in discussions, conversations, and telephoning; in meetings, conferences, and interviews; in giving and receiving instructions—one is not surprised to learn that a business executive may spend as much as 40 per cent of the business day in listening. Listening, then, becomes an important business skill, yet studies show that most individuals listen at about only 25 per cent efficiency. But studies also show that skill in listening can be improved by following these five guides to effective listening:

1. Good listening is work; it takes energy; one cannot simply sit back, relax, and let the words flow into the ears. Instead, the listener must be mentally alive. All of the senses must be alerted to act as receptors, for the ears are not the only sense involved in listening. The eyes, for instance, are a tremendous aid. A speaker who frowns, who pounds the desk, who gestures wildly, is communicating by his actions as well as by his words, and the wise listener looks for these signs.

2. Good listening requires mental as well as physical conditioning. Most persons realize that physical comfort is essential for good listening; noises and distractions must be eliminated, the ventilation and lighting must be right, seating must be comfortable and close enough so that one can see the speaker. Few people, however, stop to think of the mental conditions that are necessary for good listening: a mind that is open and willing to listen to anyone, willing to listen to difficult material, willing to listen to viewpoints that are contrary to the listener's, willing to listen to material that does not sound too exciting or interesting at first. A receptive mind is the first requirement for learning new things, for hearing new ideas.

3. Good listening results when the listener replaces lapses in concentration with proper use of one's "spare time." The average American does not speak much faster than 125 words a minute, yet the human mind is able to handle the words and thoughts it hears at about 400 words a minute. Consequently, the listener finds himself with spare time; and when that spare time is used for day dreaming, the listener may discover that his mind has wandered far away from the topic being discussed. Effective listening results when one uses his spare time by:

a. trying to outguess the speaker, by trying to determine ahead of time the point the speaker is developing,

b. weighing the evidence the speaker presents: is it truthful, unbiased, acceptable, pertinent?

c. reviewing what has been said so far,

d. listening between the lines: what do the speaker's tone, expression, gestures convey?

Such use of spare time keeps the listener's mind on the subject and increases concentration.

4. Good listening is based on controlled emotional responses to what one hears. When the thoughts expressed by the speaker are those with which the listener agrees, the listener tends to become relaxed, uncritical, ready to accept all of the ideas being presented. On the other hand, when the speaker presents ideas with which one disagrees, the listener's mind becomes overstimulated. He plans a rebuttal, a refutation, or an embarrassing question to ask the speaker. As a result, most listeners do not really hear nor learn viewpoints that are opposed to their own way of thinking; in other words, they never learn anything new. A good listener recognizes that he has prejudices; he knows which topics can arouse an emotional reaction. Consequently,

Editorial Board Members of the Woman C.P.A.

Rosemary Hoban, Margaret White Nalley, and Jane Starr, members of the editorial advisory board conferred with Associate Editor Corinne Childs, and Business Manager Beatrice C. Langley during the joint annual meeting of AWSCPA and ASWA last September.

when those topics are discussed, he does these two things:

a. listens for negative evidence; that is, looks for points that will prove the other side right. Of course, such listening can be dangerous since it may result in the listener's having to change his opinion or in learning that his own viewpoints are not right.

b. listens until the speaker is finished, until he has said everything he plans to say. Many people "listen" by mentally planning what they will say when it is their time to speak; consequently, they do not hear all that the speaker has to say. Often, if the listener will just "hold his fire" until the speaker is finished, he will find that listener and speaker do not disagree to the extent that he may have thought at first.

5. Good listening results when one listens for ideas rather than for facts. Many facts are difficult to remember and so they are soon forgotten, but one central idea or main thought will remain with the listener for a long time. And, is it not far better to remember one main theme than to remember nothing at all?

These five suggestions are your guide to effective listening. If you will put them into practice, you will soon find yourself a better communicator—and a better accountant.

(A digest of the luncheon address given at the AWSCPA ASWA annual meeting on Friday, September 23, 1960, in Philadelphia by Bernadine Meyer.)

Comment and Idea Exchange

Marion E. Davis

MECHANIZED ACCOUNTING AND CONTROL

Congratulations to Theia A. Cascio upon her excellent survey of mechanized accounting in the October issue.

May I comment upon one procedure—that of preparing the bank deposit on an accounting machine . . . "because it means our cash credits to accounts receivable are as current as our deposits to the bank."

We have followed this procedure for several years, and find it expedient. However, it is in direct opposition to a basic tenent of internal control—to separate the functions of handling and accounting for cash. Before adopting this method, the internal control system should be studied and adequate controls established. Would others care to comment upon proper controls?

Janice W. Jamison, Portland Chapter

DIRECT COSTING

Dr. Ramanauskas' consideration, in the December, 1960 issue of The WOMAN CPA, of whether or not acceptance of direct costing concepts is regress by the accounting profession, merits careful reading and thoughtful study. I agree with her conclusion in her final paragraph:

"Direct Costing seems certainly not a regress, but an organic part of a great new movement of broadened accounting thinking and application."

Do You Watch Office Costs as Closely as Factory Costs?

Some inefficiencies in the office wouldn't be tolerated in the factory! Office inefficiency is not as dramatic as plant inefficiency where it is more apt to show, but the costs are there, nevertheless, gnawing away at company profits.

Consider that in most companies a request for a $200 capital expenditure for the plant must be approved by management and the purchase justified in terms of return on investment. Yet, a low-salaried office worker often can increase the number of copies of a particular report to provide an "extra" copy for his department and spend more than $200 in printing costs, filing time, storage space, etc., without management approval.

How many dollars are spent on just this sort of thing? How much of it is questioned? Justified?

A sign posted on many company bulletin boards these days: "Competition is getting keener—are you?"

OPPORTUNITY KNOCKS

The December issue of The WOMAN CPA contains three excellent, meaty, well-written technical papers which reflect creditably upon the abilities of our members.

Editor Marguerite Reimers, in commenting upon the values of writing for professional publication, points out two valuable adjuncts to the cultivation and exercise of this talent. First is the value to the reader in that these writings disseminate a variety of information of substantial interest. Second, the published author gains prestige because she becomes acknowledged as an authority in certain areas.

The ability to collect one's experience, observations, and research and to translate them into language which accurately reflects these factors is in the grasp of all of us if we bend our efforts to it. The WOMAN CPA offers you the opportunity to write for publication. Why pass up your opportunity to appear in print?

The following comments by Firman H. Haas, President of the Michigan Association of Certified Public Accountants appeared in the October, 1960 issue of The Michigan C.P.A.:

"One of the high spots of the visit to Philadelphia occurred when many of us attended the twentieth joint annual banquet of the American Woman's Society of Certified Public Accountants and the American Society of Women Accountants on Saturday evening, September 24, 1960. It was a real thrill to see our own Gertrude Hindelang take over as President of the American Woman's Society of Certified Public Accountants and further to find that Betty Brown of Detroit was Vice President of the American Society of Women Accountants. The girls really taught us the meaning of friendliness and hospitality and the men could learn a lot from the way they handled their banquet and program."

Our thanks to Mr. Haas for his warm words.

Racetracks must now file Form 1099 with the Internal Revenue Service on individuals who win $600 or more on a race.

Social Security Amendments of 1960

Some of the Changes the Silver Anniversary Brought In Old-Age, Survivors, and Disability Insurance

By WALTZIE COOKE, Claims Representative
Social Security District Office
Louisville, Kentucky

Twenty-five years after the enactment of the original Social Security Act, the old-age, survivors, and disability insurance program is firmly established as the basic method in the United States of assuring income to individuals and families who suffer a loss of earnings when the worker retires, becomes disabled or dies.

The Social Security programs have developed to the place where they now account for almost 4 per cent of our total national output of goods and services. The Social Security programs have increasingly contributed not only to individual welfare but also to the stability of the entire society.

The President signed H. R. 12580, the Social Security Amendments of 1960, on September 13, 1960. Significant 1960 revisions in the old-age, survivors, and disability insurance programs include the elimination of age 50 as a qualification for receipt of disability benefits, improvement of the retirement test and liberalization of the insured-status requirement.

DISABILITY. Elimination of Age 50 Requirement.
Effective for November, 1960, if application is filed in or after enactment month. (September, 1960)

The disabled worker must meet two tests: namely, *work test;* (5 years of the 10 years prior to date of disability, called the 20/40 quarters of coverage test); and, *medical test;* (disability must be medically determinable to prove the worker is unable to engage in substantial gainful activity, termed SGA). The dependents of disabled workers were payable under the 1958 legislation and are protected under the 1960 Amendments.

If a disability insurance beneficiary (DIB) claimant has previously had a freeze or disability insurance benefit which ended within 5 years before the month his current disability began, he need not serve a waiting period, but will be eligible for benefits beginning with the first month throughout which he is under a disability and has DIB insured status.

The amendements, also, eliminate the restriction that the waiting period of 6 months cannot begin more than 6 months before the month in which the wage earner attained age 50. Where application is filed in or after enactment month, the waiting period will begin with the first day of the 18th month before the month of filing, except where the disability requirement or the DIB insured status requirements were not met until after that day.

There can be no entitlement to DIB for retroactive months unless the disability continued throughout the retroactive months and up to the date of actual filing. The 12-month period of retroactivity for DIB is unchanged.

Alternate Insured Status Requirement for the disabled—effective for October, 1960. For those disabled before 1956 with 1 QC before 1946.

If the wage earner does not meet the 20/40 work test for freeze or DIB in or before the 9/60 quarter, he will have insured status as of the first quarter he has: (a) at least 20 QC ending with that quarter, and (b) at least 6 QC beginning with the first quarter after 1950 and continuing for each quarter up to, but not including that quarter, *provided* application is filed no earlier than month of enactment and no later than 6/30/61.

Trial Work Period for the Disabled. The amendment deletes the provision in the law relating to services performed under a State-approved rehabilitation program and substitutes a new section which provides for a trial work period.

The trial work period begins with whichever is the latest of the following months: (a) The month in which the beneficiary became entitled by having filed application and having met all other requirements; or (b) The month after the month of enactment, namely 10/60; or (c) In Children Disability Beneficiary (CDB) cases the month in which the child attained 18.

The trial work period ends with the month in which medical recovery occurs, or, if later, with the ninth month (beginning on or after the first day of the trial work period) in which the beneficiary does any work which is remunerative (including work which is of a type that would normally be remunerative).

The 9 months of work need not be consecutive nor substantial.

Only one trial work period may be given in a single period of disability; and no trial work period may be given while a person is entitled to a DIB for which he qualified without a waiting period.

RETIREMENT TEST: Effective for taxable years beginning after 12/31/60

A beneficiary who earns $1200 or less a year will get his benefits for all twelve months of the year. Also, there is no change in the provision which states that regardless of how much a beneficiary earns in a year, he will get a benefit check for any month in which he neither earns more than $100 in gross wage nor renders substantial services in self-employment. When a beneficiary attains age 72 he becomes entitled to payments effective with the month of attainment of age 72 regardless of the amount of his earnings.

Many eligible people who have not applied for their benefits because they are earning amounts over $2,080 a year may now find it to their advantage to apply. Under the new law, a couple entitled to a monthly family check of $180, the maximum now payable to a retired worker and dependent wife, would now get some benefits if the husband earns less than $3510 in a year.

Beginning with 1961, a beneficiary who earns more than $1200 in a year will have $1 of his benefits withheld for each $2 that he earns from $1200 to $1500. For every $1 that his earnings go above $1500, $1 of benefits will be withheld.

Example: Worker entitled to maximum of $120 a month and wife entitled to 1/2 or
60
$180.

Worker works and earns $2259 in 1961. He is exempt for first $1200. Difference between $1200 and $1500 of $300 is charged in the amount of $150; difference between $1500 and $2259 of $759 is charged in the amount of $759; total chargeable excess is $909. Since the couple is due 12 checks of $180 each or $2160 less $909, they will receive benefit payments for $1251. Previous to 1961 they would not have been entitled to any payment.

INSURED STATUS. Effective date: for *monthly benefits*—10/60, based on applications filed in or after enactment month
for *lump-sum death payments*—death must be after enactment month

The amount of work required to be entitled to retirement and survivors payments is reduced.

The amendments retain the minimum requirement of 6 QC for insured status, the maximum requirement of 40 QC and the same rules for determining currently insured status.

1 for 3 Insured Status Requirement. A worker is fully insured if he has 1 QC (whenever required) for each 3 calendar quarters elapsing from 12/31/50 or 12/31 of the year in which he attains age 21, or later, to the year in which he attains retirement age or dies (whichever occurs earlier). If the number of such elapsed quarters is not a multiple of 3 then it will be reduced to the next lower multiple of 3.

Example: A worker born April 10, 1900 dies February 4, 1961 needs 13 QC to be fully insured, which may have been acquired since 1936. There are 10 years elapsing after 12/31/50 to 1961 or 40 quarters and since 40 is not a multiple of 3 the quarters are reduced to 39 and when divided by 3 gives 13.

Death before 1951—Effective for 10/60.

A person who died before 1951 with 6 QC of coverage is fully insured.

Death before 1940—Effective for 10/60.

Widows, aged dependent parents and disabled children of SS workers who died between 3/31/38 and 1/1/40 with 6 QC may be entitled to monthly benefits for the first time.

PROTECTION FOR CHILDREN:

Monthly benefits for some children raised. Effective for 12/60.

Under the Old Law one child was entitled to 3/4 of amount of deceased worker's retirement benefit, but if deceased worker left more than one child each child's share was 1/2 plus an additional 1/4 distributed among all children.

Where there is only one child entitled to benefits, the child is now getting the maximum due and where the family maximum is now paid no increase is due, but where one or more survivors are dropped from that worker's record the remaining children's benefits will be raised to 3/4 each or to a figure within the family maximum.

Child of wage earner who died before 1940: Effective for 10/60.

If the wage earner died after 3/31/38 and before 1940 with at least 6 QC the child may be paid. Because of this element, this provision applies only to disabled children who are over 18 and who were disabled prior to attaining age 18.

Stepchild: Effective for 9/60.

The 3 year step relationship requirement to qualify as a stepchild in life cases is reduced to 1 year, thus duration requirement is now the same in both life and survivor cases.

Deemed Stepchild: Effective for 9/60.

A child is deemed to be the stepchild of the wage earner if his natural or adopted father or mother went through a marriage ceremony with the wage earner (who is not his natural or adopting parent) which would have been a valid marriage except for a legal impediment.

Child of purported marriage: Effective for 9/60.

If the child is the son or daughter of an insured individual it is deemed to be the child of such insured individual if such individual and the mother or father, as the case may be, went through a marriage ceremony in good faith, resulting in a purported marriage between them which would have been valid except for an impediment arising: (a) From the lack of dissolution of a previous marriage or otherwise arising out of such a previous marriage or its dissolution, or (b) From a procedural defect in the purported marriage.

Natural Child: Effective for 9/60.

A child is now entitled on his natural father's record although living with and chiefly supported by a stepfather.

PARENTS EARN COVERAGE: Effective 1/1/61.

Work performed by a parent for his son or daughter beginning 1/1/61 is covered *provided* the work is in or about the son's or daughter's trade or business. Domestic service in or about the private home remains excluded.

AGED DEPENDENT WIDOWERS OF WOMEN WORKERS WHO DIED BEFORE 9/50: Effective for 10/60.

A widower may qualify even though the wage earner (woman) died before 9/1/50 if death occured after 3/31/38, and she had at least 6 QC. A widower who qualifies only under these amendments may file proof of support within 2 years after the month of enactment.

WIVES AND DEPENDENT HUSBANDS: Effective for 9/60.

The 3 years marriage requirement to qualify is reduced to 1 year, thus duration requirement is now the same in both life and survivor cases.

PURPORTED WIVES, HUSBANDS, WIDOWS AND WIDOWERS: Effective for 9/60. 9/60.

Above mentioned persons may qualify as such even though the marriage to the wage earner is invalid because of a legal impediment provided they went through a marriage ceremony in good faith. To be eligible the wife, widow, dependent husband or dependent widower must have been living with the worker at the time of the worker's death, or if the worker is still living at the time benefits are applied for: and there is no other person who has such status, based on a valid marriage or inheritance rights under State law, who is or was entitled to such benefits. Where husbands or widowers could not qualify before the 1960 Amendments the period for filing proof of support is extended for 2 years after 9/60.

LUMP-SUM DEATH PAYMENTS:

Relationship Requirement: This payment continues to be paid to the surviving spouse if the couple were living in the same household at the time of death.

The 1960 Amendments defines the surviving spouse as an individual who, although not validly married to the social security worker at the time of his death nor having the same status as a widow or widower with respect to the taking of the wage earner's intestate personal property, has been deemed to have entered into a valid marriage with the wage earner under the "invalid marriage provision." Effective based on application filed in or after 9/60 provided no other person has filed prior to date of enactment.

Payment requirement: If there is no surviving spouse or if such spouse dies before receiving payment, and

1. Where all or part of burial expenses of insured individual was incurred by or through a funeral home and is unpaid
   a. Payment will be to funeral home to extent of unpaid expenses *provided* person who assumed responsibility for payment of all or any part files application and request lump sum payment be made to home:
   b. Where no person assumed responsibility for payment in 90-day period after insured's death, such payment will be made to funeral home upon application by home.
2. If all of burial expenses *incurred through one or all funeral homes have been paid* in accordance with above, the lump-sum death payment will be made to person or persons, equitably entitled thereto to the extent and in the proportions that he or they shall have paid such burial expenses.

3. If any part of the lump sum payable remains unpaid after all payments have been made as described above, the remainder will be paid to any person or persons equitably entitled thereto to the extent and in the proportions he or they paid other expenses in connection with burial in following priority:
   a. expenses of opening and closing of grave;
   b. expenses of providing the burial plot;
   c. any remaining expenses in connection with the burial.

The payment requirement becomes effective for deaths occurring on or after 9/13/60 and where death occurred prior to enactment date unless a lump-sum application was filed prior to December, 1960.

(Continued from page 4)

in a tax dispute—not favor one side and deny justice to the other.

Sometimes a client may suggest a deliberate income omission on the theory that the omission will never be discovered. The taxpayer might say to his tax practitioner "Why do we have to include that? Let's omit it—we will never get caught—nobody will ever know." The tax practitioner says "Let me tell you something about a clergyman who had a daughter. The clergyman's wife was very eager that the daughter should marry—she was very much worried because they couldn't afford the things that the mother thought they needed for the daughter. On a certain occasion the clergyman came in possession of a substantial amount of money, not his own, which he was to hold for a certain length of time. His wife saw an opportunity to use the money for the benefit of the daughter, in the hope that some day they would restore it. The clergyman remonstrated—kept repeating "We cannot do this." "This is not our money." And when the wife said "But no one will ever know" he answered gently and affectionately, "Darling, *we* will know." And so the tax practitioner would say to the taxpayer, "But *we* will know."

The tax practitioner comes into any tax matter solely at the request of the client and has an obligation to serve the tax interests of the client so far as is consistent with existing laws and rulings. The tax practitioner should endeavor to find any legally correct way in which the client's tax is kept to a minimum. This may be by suggesting possible interpretations of the law applicable to the facts involved.

The tax practitioner must assemble facts and figures as he finds them and not create them to please his client or to mislead the taxing authorities. The tax practitioner's mirror must be clear, pure and flat to reflect conditions as they are. The mirror must not be curved to reflect a more favorable image for the sake of tax savings. He should emerge from every transaction with enhanced prestige and merited respect.

Ours is essentially an involved, complex and perhaps to the layman an esoteric profession. Even to us, the accountants working in the field of books and records, as practitioners in the field of taxation there are times when we wonder if we can extricate ourselves from the maze of laws, rules, regulations and directives without marks and bruises, from stumbling over obstacles that impede our progress towards accomplishing the purposes of the taxing agencies, the client, and the bewildered public. Can all the purposes be accomplished? Can they be accomplished ethically? Can we strive to practice impersonally, unselfishly, honestly—all really interested in our government—our freedom—and our own safety. Of course we can! and when we do, we won't hear so much about conduct and articles like this won't be written.

The purposes can be accomplished by adopting a single standard of ethical conduct for the taxing agency, the client, the tax practitioner and the public. The real test is: How do I feel about all this? what is my reaction to all this? No one could say it better than Shakespeare:

"This above all:
To thine own self be true;
And it must follow, as the night the day,
Thou cans't not then be false to any man."

Acknowledgment is made to Arthur Young and Company for permission to use this material first in The Woman C. P. A. The author, Mrs. Mary Tross, who is with their Newark office, based this article on her talk before the joint annual meeting of AWSCPA-ASWA in Philadelphia in September 1960.

(Continued from page 7)

to the responsible department heads prior to the beginning of the budget period.

This discussion on the preparation of budgets only scratches the surface of the subject. The most important thing to remember about budgets is that to prepare one but not pay any attention to it in attaining the desired goals is a waste of time and time is priceless and not replaceable.

This is the second of a series of three articles based on papers presented at the joint annual meeting of the American Woman's Society of Certified Public Accountants and the American Society of Women Accountants, held in Philadelphia, Pa., September, 1960.

Tips for Busy Readers

S. Madonna Kabbes

WHAT DOES MANAGEMENT WANT OF ACCOUNTING? by John O. Nicklis. The Controller, Vol. XXVIII, No. 10, October, 1960. Page 468 and following.

The author discusses the answer to his challenging title question by stating three others. He believes management wants to know—

1—What has happened—and why?

2—What is happening—and why?

3—What is going to happen—and why?

While accountants have always centered their attention on *what has happened,* they have not in every case given sufficient thought to an analysis of *why* the results are as presented in the reports. The author's criticism that accountants do not present the results in simple, easily digested fashion is one that has been made of accounting reports for some time.

Reporting on *what is happening* is being furthered by more widespread use of electronic data processing. The author feels that even though data is now more readily available, accountants are often guilty of delay in transmitting the information to management.

As to the third area of *what is going to happen* in the future, he suggests more long-range planning in all departments. A five-year forecast, revised at least once a year, is his recommendation.

His concluding challenge to accountants is that the profession has not kept pace with technological changes in other fields. To meet this situation he suggests:

1—Establishment of research departments by the larger public accounting firms.

2—Formation of committees and research groups by accounting organizations to consider the necessary changes in accounting procedures due to automation and other advances.

3—Establishment by industrial companies of groups within their own organization to study accounting operations, and how they may be changed and improved.

4—Individual effort on the part of each member in the accounting profession to adopt a fresh viewpoint, and to approach each problem with the idea of trying to work out a better solution.

FACTORS THAT INFLUENCE ACCOUNTING PRINCIPLES, by George R. Catlett—Journal of Accountancy, October, 1960, Vol. 110, #4, pp. 44-50.

The accounting profession, in this author's opinion, must reappraise accounting principles, if the needs of the various segments of our present economic system are to be met, and if accountants are to fulfill their responsibilities as members of a truly independent profession.

He charges accountants have been inclined to look backward, to overemphasize precedent, and in so doing have failed to keep pace with developments that have occurred in other fields in the past twenty-five years.

He analyzes the effect of such factors as conservation, consistency, disclosure and governmental regulation; illustrates the many alternative practices that have resulted and which are included as "generally accepted." The following statement taken from the report of the American Institute's special committee on research program dated September, 1958 is quoted—

> "The broad problem of financial accounting should be visualized as requiring attention at four levels: first, postulates; second, principles; third, rules or other guides for the application of principles in specific situations; and fourth, research."

With this approach the author feels the profession for the first time would have "sound accounting principles." Accountants could then exercise their judgment as to the fairness of the presentations which resulted, without being influenced by the acceptance of factors which have little to do with the actual principles involved.

An article by the same author entitled "Relation of Acceptance to Accounting Principles" appeared in the March, 1960 issue of the Journal of Accountancy. In this earlier article he develops his theory that "acceptance is not the test of the soundness of accounting principles."

Both articles contain challenging statments and emphasize the need for the profession to assume leadership in order to protect its future, and to fulfill its responsibilities to the public.

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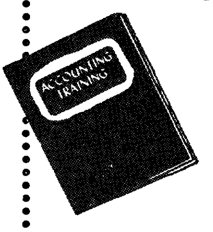

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