Tips for Busy Readers

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BASIC PRINCIPLES AND FEATURES OF BUSINESS TAX PLANNING, by J. A. Mauriello. New York Certified Public Accountant, July, 1962. Vol. XXXII—No. 7. P. 460-6.

With federal income tax rates at the today's high level, it is natural that business organizations should attempt to effect tax savings through advance planning. The author urges that "tax planning should be advance planning, rather than post-mortem maneuvering." While keeping taxes at a minimum is an objective of all, the procedures used must be legal and meet the requirements of the Code and Regulations.

The cash effect after taxes is a basic concept to be considered in any attempt to control the amount of taxes. For instance, any expense incurred means a financial loss of only 48 cents on the dollar, and a capital gain produces a value of 75 cents on the dollar. This concept may influence the businessman contemplating large expenditures for advertising, for extravagant entertainment (the deduction for which may be carefully scrutinized), or expenditures for plant expansion from which future benefits are contemplated. While this concept of the reduced cash cost has caused taxpayers to take greater risks in the functional areas of marketing, sales promotion, production, research and development, and financial administration, this concept of the diminished loss through tax savings must not overshadow the economic aspects that may be involved in the actions taken.

Accounting methods used to effect tax savings include the Lifo method of inventory valuation, accelerated depreciation, the installment method of reporting sales revenue, and reporting profits on long-term contracts only after such contracts are completed. There are other methods which serve to increase the income to be reported currently. For example, a new corporation may choose to capitalize research and development costs, instead of expensing such costs when incurred. If the corporation at that time is in the 30 per cent bracket, the deduction in later years when such charges are amortized may well be at the higher 52 per cent rate.

Certain features of the tax law favor the corporate taxpayer and successful tax planning should take full advantage of such features. The graduated rate structure is one example of such a feature. In order to avoid the corporation surtax of 22 per cent, many separate corporations are organized. Considerable litigation has arisen over such multiple corporations, and the Commissioner can deny deductions and credits, including the $25,000 surtax exemption, if tax evasion or avoidance is indicated by the procedures employed.

With Internal Revenue Service constantly increasing both the number of tax returns examined, and the detail of their scrutiny, the accountant must proceed cautiously in all tax problems. In the absence of rulings on matters in question he should apply the same tests as would be applied by Internal Revenue Service, or obtain advance rulings on the procedures he proposes to follow.

CPM—AN EFFECTIVE MANAGEMENT TOOL, by B. E. Wynne, Jr.—The Controller, June, 1962 —Vol. XXX—No. 6. P. 258-64.

Both the Critical Path Method (CPM) and the Project Evaluation and Review Technique (PERT) are procedures for estimating the time required to complete projects. While PERT was first used in the Navy's Special Project Office, CPM development has had an industrial background. Both methods were first used about five years ago.

The first basic concept of CPM requires that the project be definable as to individual steps or activities; the second concept is that the project should be planned, and then the necessary procedures be taken to forecast the time necessary to complete it. Having set out the sequence of the individual activities, the critical path can be traced. Any delay occurring in the performance of such activities will cause equal delay in completion of the total project. Other activities have *float*, or flexibility in the time required for completion; this flexibility allows greater freedom in scheduling such noncritical activities.

Direct costs will increase if activities are performed in a shorter period than the time assigned in the initial planning; the reverse effect on direct costs will result if a longer period is required. Noncritical activities may be performed in a more leisurely fashion and thus entail lower direct costs. CPM attempts to relate these two phases and to show management the most economical time and costs schedule to be followed. The article includes

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dividuals in any one year without incurring any gift tax liability or that the exclusion can amount to $6,000 per year if the husband and wife consent to treat the gifts as having been made one half by each. The gifts must be those of a present interest, of course, and this occasionally presents some problems in gifts to minors but such problems may be overcome rather easily. Taxpayers frequently are unaware that the $3,000 annual exclusion does not reduce the lifetime exemption of $30,000 (or $60,000 in the case of a husband and wife). Making such nontaxable gifts during life is the best way of saving estate taxes and perhaps practitioners should call this to taxpayers' attention more frequently.

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numerous diagrams which depict the interrelationship of time and cost factors.

Other applications of CPM include manpower leveling, that is, the acquiring or releasing of employees may be greatly lessened. This is accomplished through advance planning which allows one activity to be completed before another is started, and prevents peak periods when many activities are being performed concurrently. By scheduling activities as late as possible, carrying charges for investment funds may be reduced. Thus cash flow and investment minimization are other areas where CPM data may serve to reduce costs.

To date CPM has been most widely used in the construction industry. As research continues along these lines, undoubtedly its use will be increased and broadened. The author concludes with this statement—"By whatever means CPM finds its way into individual firms, most executives will welcome the tools, for they are truly a basis for management by exception."

THE MYSTERIOUS WORLD OF THE FED—by D. C. Hastings and R. M. Robertson. Business Horizons, Spring, 1962—Vol. 5, No. 1. P. 97-104.

Granting that the Federal Reserve System deserves its lofty reputation for the way in which it has performed its service functions, the authors feel "it is by no means certain that the Fed has managed the money supply better than the money supply would have managed itself, nor is it clear that Federal Reserve influence on growth, stability, and price levels has been as beneficial as the Fed's reputation would suggest."

Describing (1) the nodes of power which exist, and (2) the lines of communication that carry power impulses from one node to another, the writers feel the System has not developed along the lines intended by the original Federal Reserve Act. The degree of power concentrated in the chairman of the board is cited as one example. While other board members exercise authority in varying degrees, the chairman has the final word on appointments and serves as the System spokesman in negotiations with other government officials, as well as with foreign governments.

Since members of the Federal Open Market Committee perform the important function of passing on the purchases and sales of government securities, this is another area of great power concentration. The trading desk which carries out the directives of the above committee is operated by the Federal Reserve Bank of New York. Because of this important responsibility, the president of the New York bank has continued to exercise great authority. This is contrary to the gradual decrease in the responsibilities assigned to other member banks.

The authors state there is only one instrument of monetary control—the extension and absorption of central-bank credit. They deprecate the importance of changes in reserve requirements, along with changing the discount rate, and feel the true control is through open market operations. The chairman then exercises his most powerful influence when he casts the deciding vote in the actions taken by the Federal Open Market Committee. While it is the custom for each member of the committee (the seven governors and five of the twelve bank presidents) to express his opinion, it is the chairman who speaks last; he either summarizes the consensus of the opinions previously expressed, or lacking agreement among the members, states his own individual opinion. His expression provides the basis for the action taken, and rarely are recommendations voted upon.

While the writers emphasize the competence and integrity of the men who exercise such centralized control, they feel definite advantages would follow a return to the regional system with greater authority actually being exercised at that level.