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## Editorial

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# *The* JOURNAL of ACCOUNTANCY

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A. P. RICHARDSON, *Editor*

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## EDITORIAL

### **Some Aspects of Tax Avoidance**

Recognition of the truth of Secretary Mellon's statement that the high surtaxes are steadily becoming unproductive appears to be gradually dawning on congress. In some quarters this recognition is evidenced mainly in a display of indignation that men or even natural laws should fail to conform to the ideas of congress.

Recently a senator characterized as "little short of actual disloyalty to this republic" the truism repeated by a wealthy man, that wealth always seeks to avoid what it regards as excessive taxation.

Now we can all agree that in an ideal republic every man would conduct his affairs and pay his taxes according to the intent of the law-making body, and no one would change his business conduct as so to reduce his taxes in ways not contemplated by the legislature.

In this ideal republic, of course, the tax would be administered not upon technicalities and nice interpretations of the letter of the law, but upon broad considerations of equity and regard for its spirit.

And above all the legislature would frame the tax law with an eye single to the apportionment of the inevitable burden among the citizens of the republic in the most equitable way that could be conceived.

So long, however, as the guiding principle in the allocation of the tax burden is political advantage and the assignment (in the first instance, at any rate) of the maximum burden to the minimum number of voters; so long, too, as the rule governing court

decisions is that quoted by the supreme court recently from an English decision—

“If the person sought to be taxed comes within the letter of the law, he must be taxed, however great the hardship may appear to the judicial mind to be. On the other hand, if the crown, seeking to recover the tax, cannot bring the subject within the letter of the law, the subject is free, however apparently within the spirit of the law the case might otherwise appear to be.”

so long as these conditions continue, is it not a little naïve for any one to expect those at whom the measures are aimed to make no move either to defend themselves or to escape from the impost?

The more serious aspect of the situation is that the next phase is apt to be an ill-considered attempt to assert the dignity and power of congress.

If one law fails to produce the result the legislator desires let another more drastic be enacted. Its practical efficiency will probably be no greater and it will almost assuredly do much harm to many at whom it is not directed, but for the moment it will satisfy the outraged dignity and serve the political fortunes of the legislator who has pledged himself to the policy of making the rich pay without passing the tax on to others, natural laws and all other opposition to the contrary notwithstanding.

The professional man whose means of protection or escape are meagre views the situation with deep concern realizing that measures which the capitalist would probably be able gracefully to avoid would be likely to fall in their full weight upon him.

The ostensible beneficiary of such measures, too, would, if he appreciated the situation, be equally concerned because unsound schemes of taxation are sure in one way or another ultimately to prove injurious to the general community.

Much of the tax is passed directly on to the community; the demand for tax exempts stimulates improvident state and municipal expenditures, which in turn increase local taxes falling on everyone; the interest rate on issues not exempt is increased and the increase ultimately reflected in costs and prices. Thus and in innumerable other ways do men and economic forces “conspire” to defeat the efforts of congress to run counter to natural laws.

In this connection the following extract from the examination of a witness by the English house of commons is of interest:

“Q. How is the assembly composed? What kind of people are the members; landholders or traders?

A. It is composed of landholders, merchants and artificers.

Q. Are not the majority landholders?

A. I believe they are.

Q. Do not they, as much as possible, shift the tax off from the land, to ease that, and lay the burden heavier on trade?

A. I have never understood it so. I never heard such a thing suggested. And indeed an attempt of that kind could answer no purpose. The merchant or trader is always skilled in figures, and ready with his pen and ink. If unequal burdens are laid on his trade, he puts an additional price on his goods; and the consumers, who are chiefly landholders, finally pay the greatest part, if not the whole.”

The examination took place in 1766, and the witness was Benjamin Franklin.

**Earned Income  
and  
Tax Exempts**

The ways and means committee though retaining the 25 per cent. deduction of tax on earned income proposes to treat all income under \$5,000 as earned, and all over \$20,000 as unearned; in other words, the committee has concluded that anybody can earn \$5,000 and that nobody is worth more than \$20,000 a year.

As a recognition of the economic fact that the earner has to set aside out of his income capital to provide for himself in his old age, whereas the possessor of investment income is under no such necessity, the committee's action hardly merits consideration, however interesting it may be as indicating the result of introspection and personal experience of members of committee. Its maximum effect would be to save the earner about \$400 a year under the present scale of taxes, and \$300 a year under the suggested Mellon scale. Such sums set aside annually for twenty years at 5 per cent. would provide capital sums which would yield perhaps \$500 or \$600 a year thereafter.

The relief is in substance insignificant but being nominally large (25 per cent.) may deprive taxpayers of real relief in some other form.

The salaried, professional, and artist classes whose hopes were raised by the secretary's letter may well say with Macbeth—

“And be these juggling fiends no more believ'd  
That palter with us in a double sense:  
That keep the word of promise to our ear,  
And break it to our hope.”

Many will regard this language as equally applicable to those members of the house who voted to continue tax exemption as a refuge for the rich, while vigorously demanding high surtaxes.

The opponents of the constitutional amendment differed on the question how much the exemption feature saves in interest to the issuers of tax exempt bonds. Clearly, however, this saving is trivial compared to the saving of tax to the rich buyers. Whether it is a little more or a little less than the Treasury estimated is of slight consequence. The greater it is, the more savings bank investors are being mulcted for a privilege that is valueless to them; the smaller it is, the less the wealthy are paying for a privilege that is most valuable to them.

The vital point is that it is entirely contrary to the principles of a democratic state that an amount of wealth increasing, it is estimated, at the rate of something like a billion dollars a year, should be completely beyond the reach of the taxing power, however great a national emergency may arise.

### **Profit-Sharing Plans**

In another section of this month's JOURNAL OF ACCOUNTANCY appears a very interesting description of the profit-sharing plans in operation today in banks and financial institutions. Not the least interesting of this material is that setting forth the reason for the adoption of these plans and the primary purposes to be served by them. Two things stand out noticeably: firstly, the desire "to put the employees into closer relation with the officers of the bank and to give them a real interest in the results of its operations," and secondly, possibly in some cases a more immediate reason, "to find some satisfactory substitute for the war bonuses or extra salary payments which many banks gave their employees during the years of the world war." One of these purposes, it will be observed, has directly in mind the benefit to the institution by which the individual is employed, while the other seems to be more immediately interested in the employee himself. Both motives are entirely praiseworthy.

The results of these plans, while not uniform and not always entirely satisfactory, are likewise of real interest. "Through the operation of the plan all employees are made partners in the institution" seems to be the more common feeling with reference

to the matter. Employees as a whole like to feel and to believe that their services are appreciated, and, other things being equal, a recognition of this nature is bound to bear fruit. Greater loyalty, more constant attention to duties, and a real desire for constructive service are some of the positive advantages of such plans; a smaller labor turnover reduces, and perhaps largely offsets, the cost of its operation.

In a new and rapidly-growing profession like public accountancy is there not, in the experience of these bankers and financial houses, real food for thought? Nowhere so much as in a personal service organization does the personality of the individual worker count; and how better can the practising public accountant of today assure himself of competent help than by giving the members of his staff a share in the profits of the firm? Already a number of profit-sharing plans are being used by large and small firm accountants alike, and on the whole we believe such schemes have proved most satisfactory both to employer and to employee. It means a great deal to an ambitious employee to feel that he is a partner in the profits of the firm which employs him; it means much to an employing public accountant to have a staff of loyal, ambitious and satisfied assistants. Nobody loses, everybody gains, by such an arrangement. With such complete coöperation of employer and employee many of the ills of our present economic order would completely disappear.

**Prize Competition** At the moment of going to press we are advised that the successful paper in the prize competition is that submitted under the nom de plume of Francis Parker Elliott by Mr. S. Gundelfinger, C. P. A., of Sacramento, California. We extend our congratulations to him.

We are advised that the jury considered the papers as a rule disappointing, and that it is not contemplated that any subsidiary prizes will be awarded, except that for the best paper submitted by a member of the Institute which has not yet been decided upon.