1922

Why the melon-cutting?

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Recommended Citation

Haskins & Sells Bulletin, Vol. 05, no. 11 (1922 November 15), p. 85-86

about which to complain. Under such circumstances, the demand for the services of public accountants would probably be so great that even with the large number of practitioners which the profession has at present, there would be a marked shortage in the supply thereof.

Business needs more of the public accountant, but it needs also to revise or better distribute the fiscal or accounting periods, so that the regular work of public accountants may be spread throughout the year rather than massed during the months of January, February, and March. Much relief in this respect would be afforded if business concerns would so arrange their fiscal years as to close at a time when stocks of merchandise and supplies are lowest, and the liabilities to banks and other creditors smallest. Acceptance of what has been termed the natural business year for fiscal closing would do much to lighten the burden of the public accountant during the peak season, and improve the quality of service to clients. Some clients have already adopted the suggestion.

Why the Melon-cutting?

WHEN a unique event affecting some one business organization occurs, it is customary to attribute the event to some internal cause more or less associated with the organization in question. But when one corporation follows another in action of the same character, it is only natural to seek the reason in some outside source.

The recent series of stock dividends on the part of companies in the oil group is not a coincidence. There is undoubtedly some motive for the action. And the motive seems to be found largely in the fear of prospective legislation affecting taxation.

When the Supreme Court of the United States decided that stock dividends are not taxable as income, it practically checkmated the government in its battle with tax-payers. The decision was a great victory for the latter, not only moral but financial. Citizens today, who are fortunate enough to be recipients of stock dividends, pay a tax only on the profit attaching to such of the shares as they sell.

Corporations at present probably have nothing to fear from a large surplus. The fear lies in future legislation which may make some attempt to tax undistributed profits in excess of the needs of the business. But what constitutes the needs of the business will doubtless be a bigger problem to solve than some of those already encountered in connection with invested capital.

As to the stock dividend decision, the government is concerned, not with the effect on the corporation, since the corporation pays the tax on profits earned and accumulated, but with the effect on the taxation of the individual where the corporation piles up surplus and then distributes it as stock dividends. As accumulated surplus distributed through the medium of a stock dividend, profits produce no revenue to the government from the individuals who receive them because, in effect, while there is a rearrangement of share ownership, the profits remain in the business as additional share capital. That taxation in the hands of recipient stockholders would be double taxation, and obviously unfair, seems to have the support of the Supreme Court.

There is much agitation over the recent action of the oil companies, because of the appearance of evasion which the action has. Declaring stock dividends and issuing shares representing such dividends results in putting into the hands of a shareholder something of value which he did not have before, for which he gave nothing, which is an earning on his investment, and which he may sell for cash. This, it is claimed, is but another way of distributing profits. And the argument has some force, except that it would be rather hazardous to the price of the stock were all shareholders to sell the shares received as a stock dividend. On profits distributed one way the government collects a tax; distributed the other way the government gets nothing unless some of the shares involved are sold.

With the grief generated by this last thought in mind certain persons, whether for reasons political or otherwise, have sought to invoke section 220 of the Revenue Act of 1921 as a means of penalizing the companies recently so affluent as to declare large stock dividends. The section in question is aimed particularly at holding companies formed or availed of for the purpose of preventing the imposition of a surtax through the accumulation of profits instead of a division or distribution thereof, and provides as a penalty an additional tax of 25 per cent. Other parts of the section leave such grave doubts about the administration of the law as to bring its practicability into question. For example: "The fact that any corporation is a mere holding company, or that the gains and profits are permitted to accumulate beyond the reasonable needs of the business, shall be prima facie evidence of a purpose to escape the surtax; but the fact that gains and profits are in any case permitted to accumulate and become surplus shall not be construed as evidence of a purpose to escape the tax in such case, unless the Commissioner certifies that in his opinion such accumulation is unreasonable for the purposes of the business."

What Congress will in the future do with the tax law is perhaps an open question. That some legislator, or faction of influence, will urge strongly some measure taxing undistributed profits is almost a foregone conclusion. Some corporations are taking no chances.

Judgment Guiding Financial Statements
(Continued)

IN the movement towards statistical data as a basis for judgment, the possibilities of the economic or measurement accounts have been very little explored. At least there is little evidence to this effect. The reason for this in the credit field is a very practical one, namely, that customers infrequently submit detailed operating statements which show their business progress. One reason given by bank credit men for using the ratio of sales to merchandise is that they find difficulty in obtaining operating data beyond the sales. But because of the profit element involved in sales this ratio is not as informative as it might be.

Obviously, more accurate and basicly sound information would come from a comparison of merchandise inventories with cost of the goods sold, or what is commonly known as turnover. But the fact remains that in the present state of enlightenment, in so far as the typical borrower is concerned it is not practicable to attempt research work depending on this data. Much discussion, and, in fact, controversy have centered around the question of how, properly, turnover should be computed. So granting it were possible to obtain the figures it would still be necessary to decide on the method before proceeding.

The formula generally accepted prescribes that the initial inventory applicable to any period shall be divided into the figure which results from adding the purchases during the period to the initial inventory and subtracting the inventory