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# Announcements

American Institute of Accountants

a tenant under a lease covenants to pay the taxes upon real estate. The rental of the leased premises is thereby increased by the amount of the taxes and the total becomes income to the lessor, subject under the revenue acts to deduction, but nevertheless income equally with the rent named in the lease.

The tax-free covenant in the bonds is equivalent to an agreement of the obligors to pay the owners the agreed rate of interest plus the taxes, and it is immaterial whether the taxes are paid by the owners of the bonds to the government and the amount thereof paid by the obligors to the owner or whether under the covenant and the statute the taxes are paid direct to the government by the obligors.

This conclusion is sustained by the reasoning in the case of *Houston Belt and Terminal Railway Co. v. United States* (250 Fed. 1); *Blaylock v. Georgia Railway & Electric Co.* (245 Fed. 387); *Rensselaer & Saratoga Railroad Co. v. Irwin* (239 Fed. 739, affirmed in 249 Fed. 726).

The taxes paid for the plaintiff by the corporation come within the definition of income as "gains, profit, and income derived from any source whatever" in the act of 1917.

The contention of counsel for the plaintiff is that the duty imposed upon corporate obligors by the act of 1917, where their obligations contain tax-free covenants, constitute in effect an imposition of the tax directly upon the corporation and that the argument is strengthened because the corporation is not allowed to deduct taxes under tax-free covenants from its gross income while deducting certain portions of the interest paid upon its obligations. I perceive nothing in this argument to indicate that the tax is laid upon the corporation rather than upon the individual. It is the normal tax of 2 per cent. upon the individual which the corporation is obliged to withhold. The argument that congress intended to lay the tax on the corporation because it did not permit the tax so paid to be the subject of a deduction has little weight when we find that congress also did not allow corporations a deduction for all of the interest paid by them, but only for interest upon the amount of their indebtedness not in excess of their paid-up capital stock or, if none, the amount of capital employed plus one-half of the interest-bearing indebtedness then outstanding. The net income upon which taxes are payable is what remains out of gross income after deduction of what is permitted to be deducted by law and we can not draw the broad conclusion that congress intended the 2 per cent. normal tax imposed on the individual to be construed as a tax not upon him but upon the corporate obligor because of the denial of the right to deduct such taxes so paid from the gross income of the obligor. —*Traylor Engineering and Manufacturing Co. v. Lederer* (266 Fed. 583); *First National Bank of Jackson v. McNeel* (238 Fed. 559).

The conclusion is that the plaintiff is not entitled to recover and judgment will be entered for the defendant.

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John A. Maught, Emile Bienvenu, George C. H. Kernion and L. E. Schenck announce the formation of a partnership under the firm name of Maught, Bienvenue, Kernion & Schenck, with offices in the Canal-Commercial building, New Orleans, Louisiana.

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Barrow, Wade, Guthrie & Co. announce the removal of their New York office to the Equitable building, 120 Broadway.

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O'Toole & O'Toole, Minneapolis, Minnesota, announce that Thos. H. Bibbs has been admitted to partnership.

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Ornstein, Rifkin & Co. announce the removal of their offices to 331 Madison avenue, New York.

In my opinion the rents received during the period before the leases to tenants expire should be treated as other income. As long as the leases continue in force, the property can not be used for plant purposes but is necessarily held as an outside investment. The rents received constitute income from this investment, and taxes and other expenses applicable to this period are a deduction from the income.

Magnifying things makes them clearer. Suppose that the leases did not expire for two years. It becomes more evident that during that time the property is an outside investment. The amount of the item involved does not affect the principle governing its treatment, and it seems to me that the governing factor here is the fact that temporarily the property is unavoidably an outside investment.

After the leases expire the property changes its nature. It is no longer an outside investment and ceases to earn income. The taxes paid during the construction period should not be charged to income, since the property is not an income-producing investment. The taxes are properly chargeable to the cost of the completed property.

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It is announced that the firm of Hilton, Mahon & Knowles, of Chicago, has been dissolved, and that W. P. Hilton and D. E. Knowles have withdrawn. The practice will hereafter be continued by Mahon & Dvorak.

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Eric L. Kohler and Paul W. Pettengill announce the formation of a partnership under the name of Kohler, Pettengill & Co., with offices in State-Lake building, Chicago, Illinois.

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Francis A. Wright & Co. announce the removal of their offices to 515-517 Republic building, Kansas City, Missouri.

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Abadie, Burgess, Hessenbruch & Tanner announce the removal of their offices to 50 Church street, New York.

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Harry B. Mills announces the opening of an office at 820 Central building, Los Angeles, California.

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Alfred Rose & Co. announce the removal of their office to 140 Cedar street, New York.

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Robert J. Hyland announces the removal of his offices to 126 Liberty street, New York.

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Park, Potter & Co. announce the removal of their New York office to 141 Broadway.

the room where the examination was to be given a week before the date of the examination and spent the afternoon there so that he would be accustomed to his surroundings. Concentration in a problem, however, is the best method of avoiding nervousness. No doubt college students and others who have taken many examinations have the advantage over the rest in this respect.

Fourth, it always has seemed to me that many failures are due to the lack of ability on the part of the candidate to convey his ideas in good, coherent English. This is a very important matter but is easily underestimated because most of us believe we express ourselves perfectly. However, I quote a sentence taken from the April, 1922, number of THE JOURNAL OF ACCOUNTANCY to prove that this is not always so.

"It seems to me that part of the explanation as to why so many are crowding the so-called accounting schools and colleges is that it has frequently been stated in the public press, through speeches by accountants and statements by others, that the public accounting field is a gold mine with unlimited income, and that there are not enough certified public accountants to take care of the business that is waiting for them every day; and this publicity is capitalized by many schools." By the time one reaches the end of a sentence like the above he is apt to have forgotten the thought at the beginning of it.

Fifth, another important cause of failure is the unwillingness of the candidate to admit that he does not know the answer to a given problem. It is best to remember that the man who is correcting the paper is a human being. If there is a particularly abstruse problem, such as, for example, the question on municipal accounting in the November, 1921, examination, and ninety per cent. of the candidates do not know the answer to this question but proceed laboriously to fill pages of material conveying what they know of municipal accounting in general, the examiner is apt to mark the bluffers rather severely and will certainly welcome a frank confession on the part of the candidate that he does not know the answer.

Yours truly,

HARRY OBER, C.P.A.

Boston, Massachusetts, April 4, 1922.

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George V. Whittle & Co. announce the removal of their offices to the L. C. Smith building, Seattle, Washington.

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Wm. J. Weinhoff & Co. announce the opening of offices at 536 M. & M. Bank building, Milwaukee, Wisconsin.

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Hyman Friedman announces the removal of his office to 32 Union square, New York.