

3-1919

Editorial: Revenue Act, 1918; Filing Income Tax Returns

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Recommended Citation

Richardson, A. P. (1919) "Editorial: Revenue Act, 1918; Filing Income Tax Returns," *Journal of Accountancy*. Vol. 27: Iss. 3, Article 2.

Available at: <https://egrove.olemiss.edu/jofa/vol27/iss3/2>

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The Journal of Accountancy

Published monthly for the American Institute of Accountants by
THE RONALD PRESS COMPANY, 20 Vesey Street, New York, N. Y.
Thomas Conyngton, President; L. G. Henderson, Secretary;
Hugh R. Conyngton, Treasurer.

A. P. RICHARDSON,

Editor

EDITORIAL

The Revenue Act, 1918

This issue of THE JOURNAL OF ACCOUNTANCY might fitly be described as "income tax number." The text of titles 1, 2, 3 and 14 of the revenue act of 1918 are printed in the income tax department and occupy the bulk of the magazine.

No apology is necessary for this extended reproduction of the tax provisions of the revenue act. No piece of legislation is of comparable importance with it from the accountant's point of view, and while most readers of THE JOURNAL OF ACCOUNTANCY have seen the full text of the law it is desirable that they should have in the magazine all those provisions to which reference will be made in later issues in the form of treasury decisions, court judgments, etc.

The revenue act of 1918, of course, is far from perfect. It seems to be humanly impossible to prepare a taxing measure which will be regarded as faultless. But taken as a whole the act is an infinite improvement upon its predecessor, and we believe that by means of judicious administration it will be productive of an enormous amount of revenue with a minimum of public discomfort.

No government can extract six billion dollars from the pockets of one hundred million people and avoid annoyance and even actual injustice. Probably many of the taxpayers of the United States will feel themselves seriously aggrieved by the methods of administration adopted by the treasury department, and no doubt many of them will have good grounds for their complaints. But these things are inseparable from taxation on a grand scale. The

probability is that the great bulk of taxes will be assessed and collected without undue annoyance to the taxpayer, and without arousing general opposition.

Most Americans feel that the greater the amount of taxes raised, provided the proceeds be judiciously used, the better for the country at this particular time. We are saddled with a stupendous national debt and we enjoy enormous national prosperity. It seems, therefore, that the course of wisdom is to wipe out as much of the debt as is practicable during these times of prosperity and thus rid posterity of a burden of continuing debt.

The four Liberty bond issues and the fifth, if it be issued, will make demands upon the national treasury to an unprecedented extent. It will be well to meet all obligations even before the date of their maturity if it can be done without jeopardizing the stability and efficiency of the business machine of the country.

The new revenue act provides for a levy upon practically everyone outside the class of unskilled labor. The taxes run in the case of high incomes to a point which leaves comparatively little for the pocket of the taxpayer, but we do not hear complaints as to the burden of taxation. The public demands an equitable and fairly administered tax law. So long as it has that there will be no widespread opposition to paying our bills as a nation.

After the tax has been collected, however, the public will demand that some attention be paid to the fundamental principles of economy. We have run into a time of billions, and it will be hard work for the national mind as expressed in government to get back to thinking in mere millions. Thousands, of course, are inconsiderable.

It is to be feared that we were not long enough in the war. The people of the country were beginning to feel the pinch of war and to learn the value of conservation and saving. The government, however, reached the point of magnificent ideas without having experienced any difficulty in obtaining money, and a spirit of extravagance of the most ridiculous kind pervaded congressional and administrative departments of the government.

The Republicans having acquired control of both houses of congress are making loud protestations of their intentions to supplant extravagance by economy, to call a halt on unconsidered expenditures—and generally to clean house. The history of party government reveals many such protestations and comparatively few ful-

Editorial

fillments. But it is to be hoped that at least some of the undertakings of what has now become the majority party may be carried out. Goodness knows there is room for improvement.

The public will not protest against heavy taxation fairly applied, but it will protest vigorously and effectively against continued disregard of the laws of economy.

It has been said that the new law is an improvement on its predecessor. The double taxation which was created by the 1917 amendment to the 1916 law is ended, and we have a straightforward tax which the ordinary man will be able to understand if he applies himself intelligently to the matter.

Many people are expressing the opinion that the revenue bill is incomprehensible. As a matter of fact, most of those who make this statement have not even read the bill, but going by precedent and bearing in mind the hopeless muddle of 1917 have come to the conclusion that 1918 can be no better.

There are, of course, many things which the ordinary business man would desire to amend in the new act, but it marks so great an improvement that adverse criticism might well be suspended until we see how the administration of the law will turn out. The government has recently had the advantage of the advice of many accountants, and we believe that much of the improvement in the act is due to the influence of expert advisors in the department.

As time goes on the question of income taxation will resolve itself more and more into a science. Ultimately it may not be Utopian to hope that a few men who really understand the principles of taxation will find their way into congress and will be able to embody their ideas in law. We are still in the experimental stage, but finally we shall come to the point where the public may reasonably expect that congress can be relied upon to enact tax measures conforming to the sound principles of business and economics.

Filing Income Tax Returns

Under the provisions of the new revenue act returns must be filed by March 15th accompanied by a payment of 25 per cent. of the amount of the tax estimated by the taxpayer to be due. The law contains a provision that extension of time may be granted in the discretion of the commissioner of internal revenue. This year

the circumstances are peculiar and it is necessary that the treasury, in order to meet certain certificates of indebtedness falling due, should receive the amount of tax revenue required by the law.

With this thought in mind the secretary of the treasury made an announcement to the effect that there would be no extension granted in any case. Apparently he did not stop to consider the effect of such a statement if literally interpreted, and there was in consequence great consternation among taxpayers. The forms were not expected to be available before March 1st, and it was immediately recognized that it would be a physical impossibility for all the taxpayers in the country to make returns within fifteen days after receipt of forms.

The thing was so manifestly impossible that the public came to the conclusion that an extension must be granted whether the secretary agreed or not.

The bureau of internal revenue on February 13th issued a statement, which was printed in part in many of the daily papers, explaining how an extension might be obtained, and this considerably relieved the anxiety of the public. Unfortunately, however, many taxpayers seem to have seen the statement of the secretary of the treasury and to have missed the announcement of the bureau of internal revenue.

In view of the great importance of the question we reproduce in full the announcement of the bureau.

Bureau of Internal Revenue,
Washington, D. C.

Although no general extension of time will be authorized for filing federal income tax returns due March 15, the commissioner of internal revenue has approved a novel feature of tax collection which will serve for all practical purposes as a possible extension of 45 days for the filing of corporation income and excess profits tax returns in cases where corporations are unable to complete and file their returns by March 15.

If a corporation finds that, for good and sufficient reason, it is impossible to complete its return by March 15, it may make a return of the estimated tax due and make payment thereof not later than March 15. If meritorious reason is shown as to why the corporation is unable to complete its return by the specified date, the collector will accept the payment of the estimated tax and agree to accept the revised and completed tax returns within a period of not more than 45 days.

Under the plan adopted for corporation payments and returns, the government will be able to collect approximately the amount of tax due on or before March 15, thus meeting its urgent needs; and corporations actually requiring further time for the preparation of their complete returns will be granted ample time in which to do so.

One of the advantages of this plan is that it relieves the taxpayer of one-half of one per cent. interest per month that would attach to the payment of the taxes under an extension granted at the request of the tax-

Editorial

payer. The taxpayer will, of course, not be relieved of interest on such amount as his payment may fall short of the tax found later to be due on the basis of his final return.

Should the payment on March 15 of the estimated tax due be greater than the tax eventually found to be due on examination of the completed return, the excess payment will automatically be credited to the next instalment which will be due on June 15.

Provision for systematically handling this new feature will be made in the construction of the new return blanks for corporations. The new form will be a combined income and excess profits blank, embodied in which is a detachable letter of remittance. Any corporation which finds that, for sufficient reasons, it cannot complete its return by March 15, may detach and fill out the letter of remittance and forward same to the collector on or before March 15, together with a cheque, money-order or draft for the tax due on that date.

If the exact date is not known, the estimated tax due will be paid in this manner. A statement in writing of the reasons why it is impossible for the corporation to complete the return by the specified date must accompany every such remittance.

Individual taxpayers will be given similar privileges in cases in which it is made clear by the taxpayer that the time available is not sufficient to enable him to complete his return by March 15. No reason exists, according to the internal revenue officials, for delaying the filing of the returns of individual incomes, except in unusually difficult cases.

Forms for returns of individual incomes up to \$5,000 will be distributed by collectors within a few days. Forms for larger incomes will be available about February 24. Corporation blanks will be distributed by March 1. Regulations governing the administration of the new income tax will also be available before March 1.

Reading between the lines of this announcement we think it might be safe to say that the taxpayer, corporate or individual, with a valid reason for requesting extension, will have small difficulty if he will observe the rules laid down in the foregoing announcement, estimate the probable tax and send a cheque for 25 per cent. of the amount.

As there will be hundreds of thousands of requests for extension it may reasonably be expected that extensions will be granted without unnecessary questionings and delays.

In other words the bureau of internal revenue realizes that it must cooperate with the taxpayer in order to achieve results, and there is no reason to expect needless rigidity in the administration of the law.