

American Taxation Association

Volume 5, Fall 1978

Ken Milani, Editor
University of Notre Dame

A MESSAGE FROM MITCHELL

PRESIDENT'S REMARKS

The recently completed meetings of ATA in Denver were, I believe, extremely successful. Papers on tax topics were presented during four different time periods. These technical sessions and the annual business meeting on Monday morning were all very well attended.

Report on Annual Luncheon

The annual luncheon was, quite literally, a sellout. There were 133 present to hear Arthur Dixon make a very interesting presentation concerning the organization and operations of the Federal Tax Division of the American Institute of CPA's. Arthur is the Chairman of the Federal Tax Division and is Senior Partner of the firm of Oppenheim, Appel, Dixon & Co. in New York City. He is also a newly elected Trustee of ATA.

As Chairman of the Federal Tax Division of the AICPA, Arthur invited ATA to send a representative to the meetings of the Federal Tax Division to inform their members concerning our goals and our activities. Representatives of the American Bar Association, Tax Executives Institute and other tax related groups regularly report on their activities at the meetings of the Federal Tax Division. This recognition of ATA is, I feel, a very significant milestone in the growth of our organization.

Committee Activity

The committee appointments for 1978-79, which were announced at Denver, appear elsewhere in this issue of the newsletter. The Legislative and Regulation Proposals Committee has been intentionally omitted. The reason for doing so is because the Executive Committee of AAA has invited ATA to request the appointment of a Federal Tax Committee by AAA. We are making this request and feel the AAA committee will be the one to respond to proposals. Again, I want to express my appreciation to those of you who have volunteered to serve on our committees. A major portion of whatever ATA is able to accomplish will depend directly upon the activities of our committees.

Proposed Journal

I have requested four of our Trustees to investigate and report back on a number of issues related to the publication of a journal by ATA. A. J. Cheifetz will serve as chairman and will be assisted by Arthur Dixon, Don Skadden and Vic Tidwell.

1978-79 Goals and Objectives

During the annual meeting in Denver, I informed those present of the goals set for 1978-79. The publication of the first issue of our new journal is my primary objective. In addition, the implementation of our new status as the tax section of AAA has a high priority. Also, I would like to see as many of our ATA committees as possible publish and distribute to the membership the results of their investigations. ATA can and should publish monographs on selected tax topics and hopefully this series can begin during 1978-79. Lastly, I want our 1979 meetings in Honolulu to be the best yet. All of these goals can be realized, if we really want to do so. Will you all help?

(continued on page 2)

CALL FOR PAPERS!! CALL FOR PAPERS!! HAWAII, 1979

August 21 through 25 are the dates of the 1979 American Accounting Association annual meeting. Once again, the American Taxation Association will be responsible for a portion of the program. Submission of papers on all aspects of taxation is encouraged.

Please submit your effort on or before January 15, 1979, to the Program Chairman:

Barry C. Broden
University of Miami
P.O. Box 248031
Coral Gables, Florida 33124

ATA BRIEFS

Copies of the 1977-78 ATA membership list are available from Boyd Randall, School of Accountancy, Brigham Young University, Provo, Utah 84602 . . . **A formal title for the new journal is still to be decided. A ballot seeking input on the journal title is included as an insert. Please complete it . . .** The newsletter is always seeking input from members. If you have an item you would like considered for publication, an announcement, etc., please send it to Ken Milani, 230 Hayes-Healy Center, University of Notre Dame, Notre Dame, Indiana 46556.

ATTENTION!! ATTENTION!!

The new journal to be introduced by the American Taxation Association during 1979 is seeking submissions. Please send your articles to:

Fred Streuling
Box 22 — 153 FOB
Brigham Young University
Provo, Utah 84602

Kudos and Conclusion

In closing and on behalf of the entire organization, I want to express our appreciation to each of the retiring officers and trustees for all of the time and effort they have so willingly given to ATA. In particular, we are deeply indebted to Don Skadden, our immediate Past-President, for the very successful year we enjoyed in 1977-78. Also, Fred Streuling gave us two outstanding years of service as Secretary-Treasurer. I am certain I speak for all of you in expressing our gratitude.

Finally, I want to thank you for the confidence you have shown in me by electing me as your President this year. I will serve you to the best of my ability. — Al Mitchell

AMERICAN TAXATION ASSOCIATION OFFICERS, TRUSTEES AND COMMITTEES 1978-79

Officers

President..... Albert R. Mitchell, West Texas State University
President-Elect..... Allen Ford, University of Kansas
Vice-President..... Jane Burns, Indiana University
Secretary-Treasurer..... Boyd Randall, Brigham Young University

Trustees

A. J. Cheifetz, Lester Witte & Company
Earl F. Davis, University of Georgia
Catherine E. Miles, Georgia State University
Lyle Petit, Peat, Marwick, Mitchell & Co.
Donald H. Skadden, University of Michigan
Willis C. Stevenson, University of Wisconsin
Vic H. Tidwell, Arizona State University
Arthur Dixon, AICPA and Oppenheim, Appel, Dixon & Co.

The Journal

Charge — Implement the recommendations of the 1977-78 ATA Publications Committee

Editor — G. Fred Streuling, Brigham Young University
Box 22 — 153 FOB
Provo, Utah 84602

Editorial Board —

Ron Bagley, University of Utah
James H. Boyd, Arizona State University
D. Larry Crumbley, Texas A&M University
Anna C. Fowler, University of Texas — Austin
J. W. Giese, North Texas State University
Philip J. Harmelink, University of Cincinnati
J. Warren Higgins, University of Connecticut
Ken Milani, University of Notre Dame
James E. Parker, University of Missouri — Columbia
James L. Pyle, Laventhol & Horwath
Allan H. Savage, New Mexico State University
Richard P. Weber, University of Wisconsin — Madison
James E. Wheeler, University of Michigan
Eugene Willis, University of Illinois

ATA Newsletter

Charge — Continue the preparation and distribution of the *ATA Newsletter*.

Editor — Ken Milani, University of Notre Dame

Advisory Group —

Charles Calhoun, University of Miami
Dale Davidson, Arizona State University
Kevin Misiewicz, University of Notre Dame

(continued on page 3)

PROFILE



Since receiving her doctorate from Penn State in 1976, Jane O. Burns has been involved in several ATA activities (e.g., Member and Chairman of Subcommittee on Tax Case Writing, Member of the Committee on Relations with the Government). During 1978-79, Jane will serve the ATA as its vice-president.

Presently an Assistant Professor at Indiana University-Bloomington, Jane has held faculty positions at Penn State, Southern Illinois and Eastern Kentucky. Her employment history includes experience with Brown and Williamson Tobacco Corporation (where she served as a member of the tax department and the international accounting department) and McGrain and McGrain, a CPA firm.

Jane earned both a BSC and an MBA from the University of Louisville. A CPA, her primary research interest is international taxation with an emphasis on U.S. based multi-national corporations. Jane is presently serving on the Editorial Board of *The International Tax Journal* and is Chairman of the Education Committee of the International Accounting Section of AAA.

Tax Course Syllabi Committee

Charge — Based upon research conducted during 1977-78, develop and present to the membership syllabi for first and second courses in taxation.

Chairman — Kenneth H. Heller, University of Georgia

Members —

Richard F. Bebee, Alexander Grant
Rick Boley, University of Michigan
Jane O. Burns, Indiana University
Arthur E. Carlson, Washington University
John D. Everett, Bowling Green State University
Sally Jones, University of Texas — Austin
James E. Smith, College of William and Mary
Jay Morgan White, Brigham Young University

Tax Case Development Committee

Charge — Collect, write and prepare for publication by ATA cases suitable for use in college and university tax courses, including suggested solutions, discussion points and/or research notes for each case.

Chairman — Jack L. Kramer, University of Texas — Austin

Members —

Jane O. Burns, Indiana University
P. Michael Davis, University of Kentucky
Leslie E. Greenberg, Deloitte Haskins & Sells
Philip J. Harmelink, University of Cincinnati
Naomi McCarty, Kansas State University
Ronny Ross, Indiana University
Richard P. Weber, University of Wisconsin — Madison

Monograph Committee

Charge — Review and, as deemed appropriate, recommend for publication by ATA as monographs papers submitted on topics in taxation.

Chairman — D. Larry Crumbley, Texas A&M University

Members —

Patricia Elliott, University of New Mexico
Ted D. Englebrecht, University of Oklahoma
Eugene Seago, Virginia Polytechnic Institute
Martin Spencer, St. John's University
Willis C. Stevenson, University of Wisconsin — Madison

History Committee

Charge — Collect and preserve for future reference copies of all pertinent documents and correspondence related to the formation and operations to date of ATA. Investigate and if deemed feasible inaugurate a system of cataloging and indexing of these materials.

Co-Chairmen — Don C. Marshall, University of Missouri — Columbia
Ephraim P. Smith, Cleveland State University

Members —

Robert M. Anderson, Attorney-at-Law
Ted L. Fisher, Louisiana Tech University
Frederick P. Jacobs, University of Minnesota

Accreditation Committee

Charge — Coordinate with and provide input to the Accounting Accreditation Planning Committee of the American Assembly of Collegiate Schools of Business concerning collegiate tax education.

Chairman — Allen Ford, University of Kansas

Members —

Durwood L. Alkire, University of Washington
John B. Barrack, University of Georgia
Jerome S. Horvitz, University of Houston
Harold Q. Langenderfer, University of North Carolina
Ray Sommerfeld, University of Texas — Austin

DOCTORAL RESEARCH IN TAXATION

As a regular feature in the newsletter, we attempt to provide continuous reporting of doctoral dissertations in progress and completed. Please forward abstracts of completed dissertations or dissertations in progress that are tax related to the editor.

"DEFINING CAPITAL GAINS IN REAL ESTATE TRANS- ACTIONS BY APPLYING DISCRIMINANT ANALYSIS TO DEFINITIONAL ELE- MENTS" BY RONALD L. TAYLOR, UNIVERSITY OF TENNESSEE

The Internal Revenue Code provides for preferential treatment of gains resulting from the disposition of capital assets. Proposals for reform of provisions related to capital transactions have been discussed for many years. The basic difficulty with the present method of providing preferential treatment for capital gain involves the identification of those gains which qualify for preferred treatment.

The purpose of this study was to contribute to a refinement of the definition of capital gain. Only those characteristics which are useful for distinguishing between capital gain and ordinary income can contribute to a definition. Characteristics which have a common effect in both groups do not identify group membership. The identification of characteristics which are significant discriminators of group membership provides a definition for the average taxpayer receiving capital gain treatment.

For the purpose of this study, a definition was developed which was based on characteristics which were used by the Tax Court to distinguish capital gain from ordinary income in real estate transactions. Discriminant analysis was used to build a model which distinguished best between capital gain and ordinary income in the classification of 108 Tax Court cases decided between 1960 and 1977, inclusively. The data were comprised of 17

(continued on page 4)

qualitative variables and 3 quantitative variables. The variables were based on characteristics (definitional elements) used by the Tax Court.

The discriminant model was tested on a jackknife holdout sample. The null hypothesis, that discrimination between capital gain and ordinary income in real estate transactions is not possible based on the appearance of definitional

elements in the written opinion of Tax Court Judges, was rejected with an alpha-level of 5 percent. Variables which were individually significant contributed the most to distinguishing between capital gain and ordinary income, and thereby formed a definition which is useful for identifying group membership. Variables in the best discriminant model were the strongest characteristics in the definition.

Significant characteristics were: (1) sales frequency (average sales per year), (2) time regularly spent buying and selling real estate, (3) distinctiveness of investment property, (4) improvements, (5) reluctance to sell, (6) percentage of total income from real estate sales, (7) use of sales personnel, (8) use of advertising, and (9) purpose acquired. Weak characteristics were: (1) large real estate holdings, (2) total number of real estate transactions, (3) reinvestment in similar real estate, (4) large gross sales, (5) large gross profit, (6) necessity of advertising, (7) length of holding period, (8) possession of a real estate license, (9) number of years considered by the court, and (10) taxpayer's business.

The strongest predictors of group membership were: (1) sales frequency, (2) time, (3) distinctiveness, and (4) reluctance to sell. Sales frequency in excess of 1.61 sales per year was a strong indicator of ordinary income, but a lower sales frequency did not discriminate between groups. The holding period was a weak discriminator with an average holding period of five years from the capital gain group and six years for the ordinary income group. The conclusion was made that an increase in the holding period requirement for capital gain treatment will not simplify the identification of capital gain transactions in real estate, and that other characteristics will continue to be important.

AMERICAN ACCOUNTING ASSOCIATION — SOUTHEAST REGIONAL CONFERENCE — CALL FOR PAPERS

The 1979 Southeast Regional Conference of the American Accounting Association will be held at Miami Beach, Florida, on April 26-28, 1979. The program plan includes the presentation of 48 papers on subjects that include financial accounting, taxation, auditing, pedagogy, accounting history, international accounting, not-for-profit accounting, community colleges, schools of accountancy and miscellaneous matters.

Florida International University is sponsoring this program and in order to present a meaningful series of discussions we ask that drafts of presentations be submitted before October 31, 1978. These drafts should contain the essential structure, form and content of the final presentation. Results of the refereed decision on papers accepted will be released by December 31, 1978, and finished papers suitable for inclusion in the proceedings must be submitted by February 28, 1979.

Please address all correspondence to:

Irving L. Fantl
Director, Technical Sessions
Florida International University
Accounting Department
School of Business and Organizational Sciences
Miami, Florida 33199

AMERICAN TAXATION ASSOCIATION
Boyd Randall
School of Accountancy
Brigham Young University
Provo, Utah 84602

Non-Profit Org.
U.S. Postage
PAID
Permit No. 12
Provo, Utah 84601

SILVIA A. MADEO
GRAD SCH OF BUS.
WASHINGTON UNIV.
SAINT LOUIS MI 63130