

# American Taxation Association

Volume 6, June 1980

Ken Milani, Editor  
University of Notre Dame

A Filing From Ford

## PRESIDENT'S REMARKS

The date for our annual meeting is rapidly approaching, and hopefully all of you are making plans to attend. In addition to our normal technical program, we will have the opportunity to hear both Jerome Kurtz and Wilbur Mills speak. Mr. Kurtz will be one of the speakers for a plenary session.

### Luncheon Agenda

Mr. Mills, as noted elsewhere in this newsletter, will be the speaker for our annual luncheon. I encourage you to make your reservations as soon as possible. The first recipient of the American Taxation Association-Alexander Grant & Co. Tax Dissertation Fellowship will be announced at the luncheon.

### Business Meeting Matters

Our business meeting will be on the morning of August 11, 1980, prior to the luncheon. We expect to have reports from various committees and the editors of our journal and newsletter. Some committee reports involve issues which may need to be submitted to the members for a vote. In addition to the possible creation of an award system as described below, recommendations concerning the newsletter, *The Journal of the American Taxation Association*, and dues may have to be considered.

### Committee Report

The Committee on the Feasibility of an Award System, chaired by Bill Stevenson, has recommended that the ATA establish a standing Manuscript Awards Committee. This committee would be charged with reviewing published papers, books, treatises, etc., in taxation for the past three calendar years and would be empowered to provide an annual award to recognize a manuscript which represents a significant contribution to tax knowledge.

### Other Matters

Please note the announcements in this newsletter concerning the Nominating Committee's report and the Seminar on Oil and Gas Taxation. Again I encourage you to contact Bill Raby if you have an interest in serving ATA next year.

Allen Ford

### Call For Committee Participation Issued by Raby

President-Elect Bill Raby is interested in hearing from members who will participate in ATA's committee activities during 1980-81. Because of time and budget constraints, most or all committees will find the annual

(continued on page 3)



### Wilbur Mills to Address ATA at Annual Luncheon

The Honorable Wilbur Mills has accepted an invitation to serve as speaker at the ATA luncheon in Boston. Mr. Mills is currently serving as counsel to the law firm of Shea & Gould in Washington, D.C. He served as a member of the Ways and Means Committee for more than thirty years and served as Chairman of that Committee from January, 1958, to December, 1974.

The luncheon is scheduled for Monday, August 11, 1980, in the Sheraton-Boston Hotel. Tickets to the luncheon may be obtained by returning the form enclosed within the newsletter to Boyd Randall. A limited number of tickets may be obtained at the door or after July 21, 1980, but only at a higher price.

### ATA Briefs

If you are planning to attend the ATA luncheon, please send the reservation insert to Boyd Randall before July 22, 1980. This will save you \$2.50 and assist those making arrangements for the luncheon. Thank you!

## Doctoral Research In Taxation

As a regular feature in the newsletter, we provide continuous reporting of doctoral dissertations in progress and completed.

### EVALUATING SELECTED ESTATE-PLANNING TOOLS: A PROBABILISTIC SIMULATION APPROACH

by John O. Everett,  
Oklahoma State University

The Tax Reform Act of 1976 changes the fundamental nature of wealth transfer taxation. This substantial revision comes at a time when rules of thumb and a myriad of uncoordinated planning techniques dominate the estate tax planning literature. The purpose of this study is to develop a computer simulation model which evaluates the expected results and risks involved in the application of various estate-planning techniques under the provisions of the Tax Reform Act of 1976. This model will test several popular planning tools and possible combinations of planning tools as applied to hypothetical fact situations.

Government wealth statistics were used to construct 18 hypothetical estate-planning environments of an unmarried individual and 54 hypothetical environments of a married individual. A total of 11 estate plans for an unmarried individual and 108 estate plans for a married individual were also developed. Each estate plan was applied to each planning environment by means of a Monte Carlo simulation model. Such a model contained probability distributions for several key estate-planning variables, as identified by a review of the estate-planning literature. These variables included the date of death of an estate holder and his (her) spouse (if married), the earnings capacities of the estate holder and his (her) spouse and beneficiaries, the appreciation and income potential of estate assets,

the type of gift property and the timing of gifts, and the potential liquidity constraints associated with a plan. Probability distributions were constructed from average economic data for several of these planning variables.

The model was designed for two basic types of input: initial (factual) environmental conditions and combinations of estate-planning tools. Both sets of data were reduced to quantifiable terms, such as the initial age of the estate holder (an environmental condition) and the dollar amount of lifetime gifts (an estate-planning tool). The variable of interest for each simulation run was defined as total assets of a third-party beneficiary at the end of a given planning horizon. The repetitive process of applying one plan to one planning environment generated a distribution of possible estate-planning outcomes. Several statistics and graphical plots (including efficient frontier lines) were computed for each distribution, and the analysis of results consisted of comparisons of these statistics and plots across the various estate plans and planning environments. Such an analysis was simplified by ranking each estate plan for each environment according to the various statistical measures.

The simulation results indicated that a program of lifetime gifts is still the most effective estate-planning tool after the Tax Reform Act of 1976. The computed statistics indicated a positive correlation between the terminal wealth values and the size of the lifetime gift policy. Gifts of property with appreciation potential produced the highest terminal wealth values. However, in many cases these gifts of appreciation property also involved more risks than gifts of income-producing property (when risks are measured by coefficients of variation). The simulation procedure also generated low expected values and high risk factors for estate plans using only an estate marital deduction.

The results also disclosed a significant cost when no estate plan is formulated. Such a passive plan consistently generated low average wealth values, high transfer costs, and significant risk factors. Furthermore, the results generated with no estate plan are inefficient (i.e., not part of the efficient frontier line) in all 72 planning environments. Finally, the sensitivity of results indicated that estate planning is a highly individualistic process, in that changes in environmental assumptions or estate-planning tools caused significant changes in expected wealth values, associated risk factors, and distributional shapes.

## Textbook Reviews — 4

### Prentice-Hall Federal Tax Course

A review of this textbook uncovers strengths and weaknesses. On balance, the strengths outweigh the weaknesses. The stated objectives of the textbook are "to provide a comprehensive explanation of the Federal tax structure and to provide training in the application of tax principles to specific tax problems." The content, organization, presentation, and coverage lend to the attainment of these objectives.

The text is generally well-organized and covers tax reporting requirements for individuals, partnerships, estates and trusts, and corporations. The textbook can be used in a course in individual taxes, corporate taxes, or other offering by appropriate elimination. It is flexible and can be used for a long or short tax course. The tax concepts of gross income (exclusions and inclusions), gains and losses, capital gains and losses, dividends and deductions are explained and illustrated in depth. The incorporation of tables, charts, tax forms and illustrations into the textual material, makes it easier to use and understand. The inclusion of many footnote

(continued on page 3)

(continued from page 2)

references, relating the textual material to the Internal Revenue Code, Regulations, court cases, official information booklets, and other sources, provides a basis for further exploration and research on a particular issue.

The "highlights" feature, summarizing in outline format the essential points covered, at the end of each chapter is a useful tool to both teacher and student. It directs the attention of the teacher to the items which at a minimum ought be covered in classroom presentation. It serves the student as a launching pad for studying the chapter contents by calling his or her attention to the essentials to be garnered in reading the material and completing the assigned problems. A subsequent review then becomes more meaningful and reinforcing in the learning process.

The textbook is updated annually. This is of particular benefit for it assures as nearly as possible the teaching and learning of current tax information.

Ample assignment material is included at the end of each chapter. Of special value are the cumulative problems, providing a continuous thread through previous and current text materials. Moreover, these problems, when assigned, enable the teacher to determine the degree to which students grasp the central thread and integrate their tax knowledge. The explanatory approach to the tax structure with an emphasis on the "walk-through" method to problem solving is a pragmatic, practice-oriented vehicle for learning and encourages maximum student involvement.

Though not a textbook on tax planning and research, it includes introductory sections on tax planning, tax shelters and estate planning. These sections focus on the futurity of present decisions and undergird the importance of a course in Tax Planning and Research for those who wish to become tax specialists.

The teacher's manual is well-written and offers guidance to the

new or seasoned teacher. Booklets and lecturers on Research in Federal Taxation are available to users of the textbook upon request.

Though this textbook can be used by the student who needs only to be able to recognize the tax consequences of business and personal decisions, it perhaps is more readily used by those students who wish to become specialists in taxation.

Several aspects of the textbook may be viewed as weaknesses; however, most can be remedied without undue hardship. The small type in this textbook is more difficult to read than that of many textbooks presently on the market. The number of assignment problems in the categories of cumulative, discussion, reasoning, and master review problems is a limiting factor, particularly where there is a need to assign problems to multiple classes. At least one additional problem in each category might be added. Accompanying student workbooks are unavailable. There is limited coverage of the socioeconomic-political milieu in which tax development takes place as well as the implications thereof. Discussion problems at the end of each chapter overcome to some extent this weakness. There is a dearth of instructor aids such as publisher-prepared transparencies and tax examinations.

The shortcomings can be overcome by the use of other tax materials such as official pronouncements, journals, IRS materials, other tax textbooks, as well as complete tax loose-leaf services. Moreover, teacher preparation of examinations and transparencies can be directly geared to coverage achieved and focus desired.

On balance, this textbook continues to be a satisfactory choice for multiple purposes.

**Johnnie L. Clark**  
Professor  
Atlanta University

(continued from page 1)

meeting in Boston their first and only 1980-81 face-to-face meeting. Your contribution to, and satisfaction from, committee service may thus be considerably enhanced if you volunteer now and meet with your committee in Boston. Committees tentatively planned for 1980-81 include:

1981 Annual Meeting  
Nominating Committee

Editorial Board of the  
Journal of the ATA

ATA Newsletter  
Advisory Group

ATA/Alexander Grant & Co.  
Doctoral Dissertation Grant

Graduate Tax  
Education Symposium

Certification of  
Tax Specialists

Charge: Explore the feasibility and desirability of ATA, alone or in cooperation with others, bringing standards to the field of tax education by creation of a tax specialist certification process which might result in award of a Certified Tax Accountant (CTA) designation, creation of an FATA status (Fellow of the American Taxation Association), or something else. This stands in contrast to attempting to achieve standards by accrediting programs in the sense that accreditation looks at the input while certification looks at the output.

Scope of Tax Practice

Charge: Clarify the proper scope of, and approach to, tax practice for accountants in terms of the public interest, giving due regard to legal restrictions. This should include consideration of such issues as ASR 264, questions of unauthorized practice of law, Tax Court practice, and the preparer regulations.

If you are interested in serving on any of the above committees, please write William L. Raby, P.O. Box 919, Radio City Station, New York, NY 10019 or telephone Pat LaBattaglia (212/489-1600).

## ATA Seminar on Oil and Gas Taxation

The American Taxation Association will conduct its first educational seminar on October 30 and 31, 1980. The topic for the seminar is Taxation in the Oil and Gas Industry. Financial support has been provided by Atlantic Richfield Company and Peat, Marwick, Mitchell & Co. The seminar will be held at the Airport Marina Hotel at the Dallas-Ft. Worth Airport.

The purpose of the seminar is to provide tax educators with a basic understanding of the most important tax and accounting problems encountered in finding, acquiring, developing and producing oil and gas.

The costs of materials, instruction, room and board and part of the participant's transportation costs will be covered by grants received from the two sponsoring firms.

Attendance will be limited. Members of the ATA who wish to attend should contact Allen Ford at the University of Kansas in Lawrence, Kansas 66045. Invitations to the seminar will be issued on August 31, 1980. Please express your interest in attending as soon as possible.

### AMERICAN TAXATION ASSOCIATION

Ken Milani  
230 Hayes-Healy Center  
University of Notre Dame  
Notre Dame, Indiana 46556

## GEORGIA JOURNAL OF ACCOUNTING COMMENCES PUBLICATION

The School of Accounting at the University of Georgia is preparing to publish the first issue of the *Georgia Journal of Accounting*. The *Georgia Journal* will be published each spring on an annual basis and will concentrate each issue on a theme of critical importance to the profession of accounting. Patterned in a "law review" format, the *Journal* is supported by a staff of student fellows and a faculty editor.

The theme for the first issue of the *Georgia Journal* is "Competition in Public Accounting: Issues and Impact." Articles by Norman E. Auerbach, the Chief Executive Partner of Coopers & Lybrand, William R. Mette, Jr., Chief Executive Partner of Alexander Grant & Co., and Samuel A. Derieux, former Chairman of the AICPA, as well as articles by several prominent academicians will be featured. Through the generous support of Arthur Young & Co., the first issue will be distributed upon request, free of charge.

The theme for the 1981 issue of the *Georgia Journal* will be "Current Problems in Tax Compliance." Unsolicited manuscripts are welcome and will be submitted to an editorial review

board. Manuscripts for the 1981 issue are due by October 1, 1980. Requests for the 1980 issue and manuscripts for the 1981 issue should be sent to Professor Carl Warren, Editor; *Georgia Journal of Accounting*; School of Accounting; University of Georgia; Athens, Georgia, 30602.

## Nominating Committee Reports

At the annual meeting in Boston, the Nominating Committee, chaired by Ron Bagley, will present the following slate of nominees for officers and trustees for 1980-81:

### President-Elect

Larry C. Phillips  
Case Western Reserve  
University

### Vice-President

John C. Williams  
Golden Gate University

### Secretary-Treasurer

Ed Milam  
University of Mississippi

### Trustees

Michael Moore  
University of  
Southern California

Ken Milani  
University of Notre Dame

William C. Penick  
Arthur Andersen & Co.



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

MO 63130