

American Taxation Association

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Ed Foth, Editor
DePaul University

Letter From Raby

PRESIDENT'S REMARKS

The Federal Tax System in the Eighties

Tax teachers are uniquely qualified to speak out to Congress and to the public on the fundamentals of our federal tax system. The need to repeatedly examine and explain the Dick, Jane and Puff of the tax system to successive generations of embryonic J. K. Lassers and Sylvia Porters should mean that teachers can help tax policy discussions get "back to basics." Since the "basics" at the moment seem to indicate that Dick has a hernia, Jane is fat and sterile, and Puff is turning out to be a "paper" rather than a "magic" dragon, there is probably a lot of speaking out we ought to do — individually and collectively.

What Is Wrong With The Income Tax?

The present federal income tax can be viewed as a ratchet mechanism in at least one sense. It is relatively easy to increase tax benefits. In fact, it is politically difficult to avoid increases.

1. Reclassify alimony so that it can be taken as a deduction in addition to taking the standard deduction.
2. Then charitable organizations start clamoring for reclassification of charitable contributions so that they can be taken as a deduction in addition to the standard deduction.

But the ability to use tax benefits to manage the economy erodes because it is difficult, almost impossible, to substantially curtail tax benefits that affect large numbers of taxpayers. Deductions for mortgage interest and real estate taxes act as tremendous subsidies to the housing market. They have been in the tax law for decades — perhaps long before they were even viewed as subsidies. No one consciously determined that the federal tax system should be structured to stimulate the conversion of apartment buildings to cooperatives or condominiums in 1981 — and yet the tax system contributes substantially to that result given the present shortage of rental apartments. And the system is not able to do anything major about the perversions that creep in — a proposal to completely eliminate deductibility of mortgage interest and real estate taxes would probably never clear the House Ways and Means Committee.

Attempts to limit and curtail benefits are, in fact, a major cause of the tax law's present complexity. The 1969 and 1976 Tax Reform Acts, plus intervening technical amendments, illustrate the nature of the type of tax reform that our Congressional tax leaders feel is politically palatable. These acts do not withdraw tax benefits so much as they impose limits on their use. The limits are drafted with exquisite care so as not to hurt large numbers of taxpayers so much that they will raise a ruckus.

Thus, deductibility of interest paid is not directly challenged. Instead, the 1969 Tax Reform Act initially made excess investment interest expense a tax preference. Since few people were affected by, and even fewer understood, tax preferences, this slid by quite easily. The same act provided automatically for a shift of the investment interest out of the tax preference category at a later date. Limits were then put on the tax benefit derived from investment interest if it exceeded investment income, including long-term capital gains, by \$25,000. The limit was one-half the remainder. In 1976, the net investment interest that triggered tax deduction limitations shrank to \$10,000 — and long-term capital gains were eliminated from the definition of investment income. Thus, most of the benefit of the interest expense deduction was withdrawn bit by bit from a handful of taxpayers. (Ironically, the impact of the new limits on deductibility of interest expense is mainly on the entre-

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NOMINATING COMMITTEE SEEKS MEMBER INPUT

During the annual business meeting of the ATA in Chicago (to be held on Thursday morning, August 6), the election of officers for 1981-82 will be conducted. The positions to be filled are President-Elect, Vice-President, Secretary-Treasurer and three members of the Board of Trustees.

Four members have agreed to serve as a nominating committee. They are:

N. Allen Ford (Chairman), University of Kansas, The School of Business, Lawrence, KS 66045, 913/864-4500.

P. Michael Davis, University of Kentucky, College of Business, Department of Accounting, Lexington, KY 40506, 606/257-1876, 606/277-0326 (home).

Sally M. Jones, University of Texas at Austin, College of Business Administration, Department of Accounting, Austin, TX 78712, 512/471-5216.

Albert R. Mitchell, Arthur Young & Company, 11800 Sunrise Valley Drive, Reston, VA 22091, 703/620-3888.

Please give some serious thought to this matter. Contact any member of the nominating committee with your nominations. If you can gain the consent of your nominee to allow his or her name to be placed on the ballot it will assist the committee. However, if you would prefer to have the committee obtain the nominee's approval, they will carry out your request. Also, feel free to place your name in nomination for any of the vacancies.

Textbook Review

Commerce Clearing House 1981 Federal Tax Course

The CCH text is designed for a multiple course sequence but is essentially a first course text. While there is ample topic coverage beyond the scope of any introductory course, the material and topic coverage available for the second course are somewhat limited. The text can also be used as a student reference source in conjunction with a second tax course or for preparation for the CPA exam.

A major consideration for adopting CCH is the timeliness of publication. Since the editor, publisher, and printer are the same, annual text production can be postponed to a later date than most other tax texts in order to accommodate the latest tax law changes.

Some undergraduate students may find the format and literary style of CCH difficult when compared to other college textbooks. The CCH text is written by the Editorial Staff of the *Standard Federal Tax Reporter* who are not typically writing from a pendant prejudice. But while there may be other tax texts written in easier styles for student reading, something must be said for an educational experience which requires the use of nontraditional methodology in order to more closely replicate actual tax practice conditions. Given the fact that tax education is essentially the development of a comprehension for a codified system of rules, using the CCH text has an advantage and distinctiveness as a practical educational tool.

Several format techniques are favorable text characteristics. One favorable format technique is found in the footnotes which reference both official and unofficial citations and the CCH *Standard Federal Tax Reporter* to provide a crossbridge to practicable student research skill development. In addition, each chapter provides a research oriented problem to further develop research skills.

Another favorable format technique includes the "Reason for the Rule." An editorialized explanation is provided to the underlying reasons for particular tax rules. By setting the reasoning apart from textual

material, there is an emphasis of theoretical and conceptual understanding of tax law.

Also desirable is the technique of highlighting practical "Taxpayer's Elections." Explanations indicate tax-saving choices available by elections. This technique illustrates and creates sensitivity for tax-planning.

The CCH text has been criticized because of its student work-problems. In the past, the text used somewhat simplistic exercises which was further exacerbated by the fact that there was not uniform coverage of the topics presented. The publisher has recognized this problem and now provides a better array of exercises. As an improvement, the text now includes one or more comprehensive problems for each chapter that integrates and reemphasizes previous topics. A new publication, the *CCH Study Guide*, should further remedy this criticism by providing an additional and ample source of work-problems with solutions. The *Study Guide* also assists in classroom preparation and eases student comprehension of complex areas.

Supplemental materials provided by the publisher allow the instructor selecting this text to integrate tax return preparation with the study of tax law. There are blank facsimile tax form booklets containing fact patterns requiring students to adopt a preparer approach to comprehensive tax problems. In addition, the publisher provides annotated, filled-in tax forms that are coordinated with the fact patterns found in the tax form booklets.

The high note of the CCH text is the manner in which the text explanations are written and presented. There is strong organizational integrity as the chapter-by-chapter development unfolds. Most characteristic of this text is its analysis of tax rules with a viewpoint toward accounting decision making. This dimension is consistent throughout the text.

In making a text selection, the CCH text is compatible to an eclectic array of instructional approaches for the introductory tax course. The instructor's manual gets the highest marks when compared to others. The supplemental tax form practice books, the research problems, and the abundance of general tax reference materials, present a broad horizon of choices for the instructor.

CCH continues to develop a better

Profile Of A Program: Bentley College Graduate Program in Taxation

by Frank Wolpe, Director

The graduate program in taxation at Bentley College Graduate School is intended to meet the needs of qualified men and women who have already had taxation, accounting or legal experience, and now have the personal goal to be a tax specialist. The program is designed to further develop professional skills so that graduate tax program graduates are significantly more employable, promotable, and mobile. About two-thirds of the current enrollment of 413 students are CPAs and more than one-third have academic degrees beyond the baccalaureate. The most common graduate degrees held by incoming students are the MBA, MSA and JD.

Since most graduate tax students are working professionals, the program is scheduled so that two courses may usually be taken on the same day in the late afternoon with classes beginning at 4:00 p.m. Each class meets once a week; there are fall, spring, and summer semesters.

The program leads to a degree, so students must be accepted into the program; there are no walk-in registrations; application for admission must be made in advance; and no auditors or single course registration is permitted.

A match between the applicant's career plan and the educational objectives of the program is of particular importance. Applicants must show evidence of adequate preparation for specialized tax study via achievements in learning or work. Prior course work and current professional/executive responsibility typically combine to provide that preparation.

The Graduate School has a rolling admissions procedure, announcing admission decisions for both fall and

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text with each year. Considering its strengths against its weaknesses, the *CCH Federal Tax Course* remains a solid choice for tax education.

William F. Marutzky
DePaul University

CERTIFICATION OF TAX SPECIALISTS

Exposure Draft Issued For Comment By The ATA Committee On Certification Of Tax Specialists

1. The Committee on Certification of Tax Specialists was appointed in 1980 by the Executive Committee of the American Taxation Association and given the following charge:

To explore the feasibility and desirability of ATA, alone or in cooperation with others, of bringing standards to the field of tax education by the creation of a tax specialization certification process which might result in the award of a Certified Tax Accountant (CTA) designation, the creation of a Fellow of the American Taxation Association (FATA), or another appropriate designation.

This stands in contrast to attempting to achieve standards by accrediting programs in the sense that accreditation looks at the inputs while certification looks at the outputs.

2. The Committee was not called on to make a study of the need for specialists in taxation. Certainly no one familiar with the professions of accounting, law and teaching could deny the existence of de facto specialization in taxation. Tax specialization is, and long has been, a fact beyond dispute.
3. The Committee was directed to explore the feasibility and desirability of ATA to develop a tax certification process thus putting into motion STEP I of ATA's project to analyze and answer the questions of how it can play a role in regulating tax specialization, the form it will take and the development of appropriate standards. This approach made it possible for the Committee to step back and take a look at the underlying realities of an extremely complex issue.
4. Three subcommittees were formed to study and answer the following questions:

SUBCOMMITTEE 1 — What transpired in the certification process undertaken by the professions?

SUBCOMMITTEE 2 — What are the political ramifications of certification with respect to professional organizations, educational associations and government agencies?

SUBCOMMITTEE 3 — How do tax practitioners and academicians regard the certification of tax specialists?

CONCLUSIONS AND RECOMMENDATIONS

1. The Committee finds it desirable for the American Taxation Association to certify tax specialists.
2. The Committee believes it is feasible for the American Tax Association, alone or in cooperation with others, to develop a program for the certification of tax specialists.
3. The Committee recommends that the American Tax Association proceed with the development of a program for the certification of tax specialists.

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PRESIDENT'S REMARKS

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prenuerial individual whose disappearance from the economic scene has led to great lamentation.)

Some who have been intimately involved in the Congressional tax-writing process in recent years conclude from such behavior that the federal income tax is "burned out." It has lost its drive, its creative potential, its flexibility.

But even if that is a correct diagnosis today, we are stupid if we let the condition persist. If the U.S. is to successfully control inflation and improve our ability to both satisfy the needs of our people and to compete effectively in the world economy, we need to do something to restore our tax system to its former state of usefulness as a fiscal tool.

Basic Tax Reform

William Simon, Charles M. Walker and the staff of the U.S. Treasury Department wrestled with the same problem — albeit at a time when the inflation situation seemed less unmanageable. The result, in January 1977, was a 230 page opus, *Blueprints for Basic Tax Reform* (Government Printing Office). Simon et al cited the three basic principles of equity, efficiency, and simplicity as the cornerstone that would rejuvenate the income tax system. *Blueprints* concluded that either of two models was feasible, depending on the degree to which taxation should foster investment and inhibit consumption.

One model was essentially the present federal income tax system, with a number of specific modifications including:

1. Integration of corporation and individual income taxes, coupled with elimination of the corporate income tax;
2. Full taxation of capital gains after allowing a step-up in basis for inflation (and full deduction of capital losses);
3. Taxation of municipal bond interest.

The other model emphasized taxation of consumption and was based on cash flow. "A consumption tax differs from an income tax in excluding savings from the tax base. In practical terms, this means that net savings, as well as gifts made, are subtracted from gross receipts to compute the tax base. Withdrawals from savings, and gifts and bequests received but not added to net savings, are included in gross receipts to compute the tax base." (*Blueprints*, P. 9)

Implementation of either model would require radical alteration in our present income tax structure, but would be a natural outgrowth and a total replacement of what already exists. The objection to either approach might be that it has no constituency. But taxation of one's self seldom does attract enthusiastic support — at least until compared to some alternative even less attractive. The U.S. may have to choose radical tax change or risk disastrous and uncontrolled inflation. The consumption model of *Blueprints* would fight inflation by encouraging investment as against consumption, and would do so

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without the direct inflationary impact that, for instance, imposition or increase in a VAT would tend to have.

More Sticky Tape and Paper Clips

If basic tax reform a la *Blueprints* be regarded as too revolutionary, perhaps an evolutionary approach may be more palatable — and thus more politically possible. The 1969 Tax Reform Act spawned what is now called the "add-on" minimum tax on tax preferences; the Revenue Act of 1978 spawned the "alternative" minimum tax. Both were attempts to tinker with the income tax structure by offsetting the more extreme results produced by other tax provisions.

An alternative consumption tax against inflation (ACT against inflation) would be a similar approach, but oriented to the encouragement of investment and discouragement of consumption. The description that follows is intended as an illustration only, sine the basic concept is quite flexible.

A separate ACT tax return schedule, to be filed with forms 1040 showing gross income over \$20,000, would start with adjusted gross income, to which would be added:

1. The long-term capital gain deduction;
2. The tax basis of assets sold;
3. Tax free municipal bond income;
4. Gifts and bequests received.

From the resulting total, which would be ACT gross receipts, would be subtracted:

1. Gifts made;
2. Investments made.

A 25% tax would be imposed on the resulting ACT net receipts. Negative ACT net receipts, unless caused by gifts made, would entitle one to a 25% refund (or reduction in the amount of income tax otherwise due).

The effect of such an ACT would be to impose a 25% tax on consumption or provide a 25% subsidy for any form of investment.

Conclusion

The U.S. income tax has evolved over a seventy-two year history. It is part and parcel of our history and is woven into the framework of our institutions. Radical changes in it create justified outcries that established relationships are being disturbed and existing values destroyed. We thus feel trapped within our own history and within the framework of our own institutions. But we can break out if we wish.

Our alternatives involve either a radical approach to revamping and purifying the present federal income tax system a la William Simon's *Blueprints*, or resort to some more of the paper clip and cellophane tape tax tinkering that has characterized tax legislation since 1964. The former does not seem likely. Given the latter, then the Alternative Consumption Tax might well be the approach to take. That, plus more liberal capital cost recovery legislation (already agreed to as a major priority by both political parties) might give us the momentum to make it through the eighties in better style than the prognosticators of stagflation would believe possible.

One final note: No tax law and no tax bureaucracy can succeed in administering the U.S. tax structure unless it is given the funds and the Congressional support to get the job done. Much of the present public distrust of the federal income tax stems, I am convinced, from Congressional unwillingness to provide IRS with the people, the money and the legislation to adequately administer existing law. The IRS should be able to get funds so long as it can demonstrate that there is a net "profit" to the Treasury on each added dollar appropriated. While we have to be sensitive to the dangers of IRS over-reaching, there may be even greater dangers in turning IRS into a paper tiger or a long-shot losing number in "the tax lottery." There are always critics who can point to IRS flaws and specific horror stories — and both exist in abundance. Missing are the educators, tax scholars, and practicing professionals who can help appropriations and oversight committees put such problems into a balanced perspective. Perhaps we can step forth to more fully play that role.

William L. Raby

Profile: President-Elect Larry Phillips



During 1981-82, Larry Phillips will serve as President of the American Taxation Association. A graduate of Case Western Reserve University (B.S. and M.B.A.) and Ohio State University (Ph.D.), Larry now serves as Chairman of the newly created Department of Accountancy at Case Western Reserve University.

Larry previously served on the faculties of Michigan State University and the University of Houston where he participated in the development of the Master's in Tax Program. His teaching interests include both taxation and financial accounting, and he is currently developing a Master's in Accountancy with tax concentration at Case Western Reserve.

Larry's extensive publication record includes five books and numerous articles that have appeared in both tax and accounting journals such as *The Tax Advisor*, *Taxes*, *The Accounting Review*, and *The Journal of Accountancy*. He is co-editor and contributing author to West's *Federal Taxes-Individuals*, and also contributing author to West's *Federal Taxation-Corporations, Partnerships, Estates, and Trusts*.

As a practitioner, Larry has had substantial consulting and employment experience involving tax training and special projects with several CPA firms including Ernst & Whinney, Arthur Andersen & Co., and Peat, Marwick, Mitchell & Co. He presently serves as Coordinator of

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Bentley College Graduate Program in Taxation

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spring semesters as soon as an applicant's file is completed and processed.

The teaching corps of 27 people includes "Lawyer/CPA/LLM in Taxation" practitioner/scholars who are reality-tested, academically sound, practical, and up-to-date. Leaders in government, industry, accountancy and law also come from around the nation as guest lecturers.

To be eligible for an MST degree, the student must successfully complete ten graduate courses of which five are required (see Table A). All courses in the program earn 3 hours of credit. Two courses constitute a full load for part-time students, but some full-time students, taking four courses each semester, are enrolled.

TABLE A — Graduate Tax Courses — Bentley College

Required Courses

Federal Taxation of Income
Sales, Exchanges and Other
Dispositions of Property
Corporations and Shareholders
Estate and Gift Taxation
Practice and Procedure

Elective Courses

Federal Taxation of Income from
Trusts and Estates
Tax-Exempt Organizations
Pension, Profit Sharing and Other
Deferred Compensation Plans
Problems of Corporations and
Shareholders
Corporate Reorganizations
Problems of Partnerships and
Partners
Estate Planning Techniques
Tax Accounting Problems
Affiliated Corporations
Business Planning
Research Methodology
State and Local Taxation
International Tax Practice

Professional ethics are an important part of the tax Practice and Procedure course, public policy and economic effects of taxation are included in the tax policy dimension of each substantive tax law course; and written communication skill is

taught in the Research Methodology course.

Graduates and current students are members of the Graduate Tax Program Alumni Association. The Association publishes a newsletter each semester; meets monthly for downtown "Harvard Club" and suburban tax luncheons; and sponsors a distinguished-guest lecture and dinner. Alumni also join in the sponsorship of the Graduate School's Annual Institute on Federal Taxation.

The MST is only one of the programs of the Bentley College Graduate School which also offers an MSA, Master of Science in Accountancy; an MSCIS, Master of Science in Computer Information Systems; and MSF, Master of Science in Finance; and an MBA, Master of Business Administration.

For additional information about the graduate tax program, call (617) 891-2117, or write to:

Director, Graduate Program
in Taxation
Bentley College Graduate School
Waltham, MA 02154

NEW ATA PUBLICATION

The American Taxation Association is providing all members with a complimentary copy of *Publication Opportunities for Tax Researchers*. This recent publication was authored by Jane Burns (Indiana University), Dale Davison (Deloitte Haskins & Sells), Janis Reeder (Pennsylvania State University), and James Wittenbach (University of Notre Dame). The publication should prove to be beneficial to all ATA members, and Newsletter readers may want to suggest that it be purchased for their school libraries. Additional copies may be obtained by sending \$10 to:

American Accounting
Association
5717 Bessie Drive
Sarasota, Florida 33585

ATA BRIEFS

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:

Ed Foth
School of Accountancy
DePaul University
25 E. Jackson
Chicago, IL 60604

President-Elect Larry Phillips

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Staff Development for the firm of Walthall and Drake.

A CPA in Ohio, Larry's strong commitment to the profession is evidenced by his service on many state and national committees that have recently included the Ohio Society of CPAs' Accounting and Auditing Standards Committee, and the AICPA Federal Tax Committee's Task Force on Tax Simplification.

Larry, his wife, and two children currently reside in Shaker Heights, Ohio.

Certification of Tax Specialists

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COMMENTS

In considering and commenting on this exposure draft, please give particular attention to the charge of the Committee. Comments should be submitted in writing so as to be received by **June 30, 1981**, and addressed to:

Professor Bernard B. Goodman
University of Hartford
200 Bloomfield Avenue
West Hartford, Connecticut 06117

The full report of the Committee findings, conclusions and recommendations will be presented to the membership at the American Taxation Association Annual Meeting in Chicago in August 1981.

CALL FOR COMMITTEE PARTICIPATION

If you have an interest in serving on an ATA committee during 1981-82 please contact President-Elect Larry Phillips no later than **May 30th**. It is necessary to activate these committees prior to the annual meetings in August since most of the committees will meet at this place and time.

Existing committees which may need new members include the following:

1982 Annual Meeting Program

Editorial Board of the Journal of the ATA

ATA/Alexander Grant & Co.
Doctoral Dissertation Grant

Tax Manuscript Awards

Nominating Committee

A tentative list of new committees for the 1981-82 year includes the following:

EDUCATIONAL STANDARDS FOR TAX FACULTY COMMITTEE

Charge: To act as a liaison between the appropriate authoritative educational agencies (i.e., the AACSB and/or AICPA) and the ATA with regard to matters of implementation and interpretation of standards for tax faculty in accounting programs. Relevant issues involve faculty qualification including relevant experience, academic degree requirements and professional certification. The charge also includes an evaluation of existing standards upon the following areas:

- Supply and demand for tax faculty
- Implications for teaching faculty with non-terminal qualifications
- Recommendations for modifications to existing standards

STATE AND LOCAL TAXATION CURRICULUM ISSUES COMMITTEE

Charge: To review the extent to which state and local taxation topics are currently being covered in tax courses at both undergraduate and graduate levels and to make specific recommendations for course coverage in both undergraduate and graduate tax programs. The review may include a survey of practitioners' attitudes toward coverage of state and local tax topics. The charge also includes making recommendations as to topic coverage and educational materials.

If you are interested in serving on any of the above committees, please write Larry Phillips, 656 Sears Building, Case Western Reserve University, Cleveland, Ohio 44106. Please include a Vita and request which committee or committees you would prefer.

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