

American Taxation Association

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Ed Foth, Editor
DePaul University

Letter From Raby

PRESIDENT'S REMARKS

Each of us has a pet peeve. Perhaps my pet peeve is the tax person who is apologetic about teaching or practicing taxes. "I teach the tax course. You know — how to fill in 1040s and how to cheat the government." Or, "I'm only a tax partner." Our academic colleagues sometimes seem to view tax courses in the department of accounting as being refugees from some sort of a vocational education curriculum. Our status in the practicing profession is somewhat better, mainly because we are the fastest growing and possibly the most profitable segment of practice for many firms. I would like to have you think a bit about tax teaching and tax practice as a type of social service!

If you are vitally involved in administering a federal subsidy program that channelled over \$200 billion a year into the economy, would this strike you as a significant social service? Well, being in tax practice or teaching future tax practitioners is exactly that. Or, at least, this is a way to describe the role in our economy of the tax practitioner and his or her mentors.

The social role of the attest function of the CPA needs little discussion. But often the tax person is viewed as being engaged "merely" in trying to obtain special tax benefits for his clients — finding loopholes, seeking some modicum of support for far-out tax positions, acting as a taxpayer advocate in tax controversies. Any such descriptions display a woeful unsophistication as to how the U.S. tax system works. The tax system is as complex and ever-changing as it is because legislators and administrators alike have found it the most responsive and efficient way of fine-tuning the American economy and meeting the volatile needs and desires of the American taxpayer/voter. To set up a subsidy program that would generate new jobs for teenagers meeting certain income and family characteristics would be a time consuming and administratively expensive task. First, enabling legislation would have to be passed. Then an appropriation would be required. Either an existing agency would have to staff-up to meet the demands of this new program or a new agency be brought into existence. Regulations would have to be written and application forms and procedures adopted. The first requests for the subsidy money might take quite some time to process. Finally, perhaps two years after the legislation was proposed, an actual program might be in operation — perhaps after the problem had passed beyond the ability of that program to cope with it. Contrast this with using the tax system to provide the subsidy. The minute a program was proposed, tax people would start monitoring on behalf of their clients. The enactment of the proposal would result in almost instantaneous communication to affected clients of information as to how they could best take advantage of it. While regulations from Treasury might be years away, programs would be operational based upon tax practitioner interpretations of the new statute — and the first jobs generated would be almost concurrent with legislative enactment.

This is hardly the whole story of the social role of the tax consultant. But it is one part that is often overlooked. We, not the IRS or the Treasury, are the essential element in making viable the tax system's role as a fine-tuner of the economy. And the \$200 billion figure? The tax expenditures budget is well over \$100 billion currently. But these tax subsidies are not themselves subject to tax, nor do they generally reduce other deductions. Thus, as compared to subsidies that are taxable income or reduce basis for depreciation, a dollar of tax benefit is probably worth two. And \$200 billion is bigger than any other subsidy program that the federal government administers.

William L. Raby

ATA OIL AND GAS SEMINAR

On October 30 and 31, 1980, the American Taxation Association's first educational seminar was held in Dallas, Texas, at the Airport Marina Hotel. The topic for the seminar was Taxation in the Oil and Gas Industry. Twenty-five tax professors from twenty-three different universities participated in the one and one-half day seminar. Arrangements were made by Horace Brock.

Lecturers for the seminar were: Professor Don Jones (North Texas State University); Professor John Klingstedt (University of Oklahoma); Mr. Vance Maulsby (Peat, Marwick, Mitchell & Co.); and Mr. Kenneth Huffman (Sun Oil Company).

Major areas covered included: physical activities in the industry; financial reporting; taxation of acquisition, exploration and drilling costs; mineral conveyances; depletion; partnerships and undivided interests; and the windfall profits tax.

Major financial support was provided by Atlantic Richfield and Peat, Marwick, Mitchell and Company. The Professional Development Institute at North Texas State University arranged for the lecturers and provided equipment and instructional materials. The *Basic Oil and Gas Tax Manual* was provided by the AICPA at cost.

Textbook Review

Phillips & Hoffman, West's Federal Taxation: Individual Income Taxes

In over twenty years of teaching federal tax courses, much time, effort, and frustration has gone into selection of text material for such classes.

What should the tax text stress? Concepts of taxation; identification of points of law; compliance; tax

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Report of the ATA Committee on Undergraduate Tax Education (1979-1980)

Ken Heller, University of Georgia

SUMMARY OF CONCLUSIONS

- Objectives for the first and second undergraduate tax courses should be oriented towards accounting degree majors. A separate tax course should be available for non-accounting degree majors.
- The second undergraduate tax course should be viewed as a continuation of the first undergraduate tax course and both courses should have the same objectives.
- The primary objectives of the first and second undergraduate tax courses should be the development of a general tax consciousness and the development of a foundation of tax knowledge.
- The first and second undergraduate tax courses should be required of all accounting degree majors.
- Twenty-two general topic areas were identified for coverage in the first and second undergraduate tax courses.
- The topical content of the first undergraduate tax course should be directed towards concepts and rules applicable to all taxpaying and reporting entities. The second undergraduate tax course should be directed towards concepts and rules applicable to specific entities.
- The instruction of the first and second undergraduate tax courses should involve a mixture of fundamental concepts of taxation and specific rules and procedures of taxation.

CONTENT OF COURSE SYLLABI

The committee concluded that 22 general topic areas should be covered in the first and second undergraduate tax courses (see Exhibit), with designation of specific topics within the general topic areas.

Classroom hours were used as the basis for allocating relative weights of coverage among the general topic areas. A total of 86-90 hours for the two tax courses was assigned as follows: (1) 64 hours to general topic areas, (2) 10-14 hours to examination and other administrative and academic matters, and (3) 12 hours subject to instructor discretion. The 22 general topic areas were divided between the two tax courses as follows:

- First tax course: topic areas 1-10 (33 hours)
- Second tax course: topic areas 11-22 (31 hours)

EXHIBIT

GENERAL TAX TOPIC AREAS

Class Hours	
1	1. <i>Sources of Tax Law</i> Formation of the tax law — roles of Congress, courts, Treasury, and I.R.S.
1	2. <i>History, Development, and Systems of Taxation</i> Historical development of present federal income tax system; alternative systems of taxation; impact of tax policy on economy
1	3. <i>Basic Tax Models (Format)</i> Income — Exclusions from Gross Income = Gross Income — Deductions = Taxable Income × Tax Rates = Gross Tax Liability — Tax Credits = Net Tax Liability or Refund
1	4. <i>Identification of Entities</i> Individuals

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planning; tax research; individual tax problems; corporate tax problems; court decisions; business deductions; current legislation and developments — all of these and more may emerge as possible answers to that question. How can a text cover any sizeable combination of these, yet be readable, reliable, well-organized, up-to-date, etc.? Obviously, to expect so much produces the frustration mentioned earlier.

I began my tax teaching from the service-based texts. I have tried texts strong on concepts and "philosophy" of taxation. I have used a text heavily loaded with briefs of court cases. Students have complained about every one of them, and in general I acknowledge the validity of their complaints.

The text I have used for the past two years has generated fewer complaints than any of its predecessors. It has also enabled me to stress the concepts of taxation, problems of the individual and/or business entity (irrespective of its legal form), some compliance, some tax research, and some tax planning. The text is WEST'S FEDERAL TAXATION: INDIVIDUAL INCOME TAXES, Phillips & Hoffman General Editors.

Let me hasten to state that it has not been the perfect package. In fact, I supplement it by using IRS Publication 796 FUNDAMENTALS OF TAX PREPARATION/COURSEBOOK as a means of getting more specific compliance provisions, more emphasis on depreciation, inventories, disposal of business assets, and other special topics.

However, the West book does seem to me to have strengths in readability, reliability, up-to-dateness, emphasis on tax research and tax planning at an early point, good question and problem material, and good organization.

As indicated, students have had few complaints about readability. They may doze while working on some of the longer chapters, but apparently don't fall into the sound sleep that some of my earlier choices produced. They can and do work and discuss the problems. In many chapters I am able to assign odd-numbered problems to one half the room and even-numbered to the other half. They discuss their findings and solutions to the benefit of the entire group. I give open-book

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- Sole Proprietorships
- Corporations
- Partnerships
- Fiduciaries
- 3 5. *Accounting Methods and Periods (Sec. 441-483)*
 - a. When is income taxed? Realization and recognition; claim of right; constructive receipt.
 - b. Basic accounting methods — cash and accrual
 - c. Inventories
 - d. Long-term construction contracts
 - e. Installment sales
- 4 6. *Gross Income and Exclusions (Sec. 61-128)*
 - a. What is income? Inclusions in and exclusions from gross income; tax benefit rule
 - b. To whom is income taxed? Assignment of income principle
- 8 7. *Property Transactions — Gain, Loss, Basis (Sec. 1001-1255)*
 - a. Basis of property — purchase, gift, and inheritance
 - b. Capital gains and losses — capital asset definition, holding period, long-term capital gain treatment, limitations on capital losses
 - c. Gains and losses on trade or business (Section 1231) property, including depreciation recapture provisions
 - d. Like-kind exchanges — gain and loss recognition; basis of property received
 - e. Sale of personal residence
 - f. Involuntary conversions — casualty, theft, and condemnations; gain and loss recognition; basis considerations.
- 8 8. *Deductions in General (Sec. 161-281)*
 - a. General provisions on deduction of ordinary and necessary expenses and nondeductible expenditures
 - b. Deductions — interest, taxes, contributions
 - c. Travel; transportation; entertainment expenses
 - d. Limitations on deductions — hobby losses
 - e. Transactions between related parties; wash sales
 - f. At risk provisions
 - g. Bad debts; worthless securities
 - h. Net operating losses
 - i. Depreciation; amortization
- 4 9. *Tax Liability Computation — Rates and Structure (Sec. 1-58, 1301-1351)*
 - a. Rates and structures applicable to taxable entities
 - b. Income Averaging
 - c. Maximum tax on personal service income
 - d. Minimum tax on tax preference items; alternative minimum tax
 - e. Alternative tax on long-term capital gains
- 2 10. *Tax Credits and Prepayments (Sec. 31-53)*
 - a. Investment tax credit
 - b. Credits based on employment — work incentive program credit; targeted jobs credit
 - c. Other credits — credit for the elderly, child care credit, earned income credit, political contribution credit, energy credits
 - d. Prepayment of taxes — withholding and estimated tax
- 6 11. *Tax Research Methodology*
 - a. Tax research procedures
 - b. Preparation of tax communications — memoranda, working papers, and letters
- 4 12. *Individuals (Sec. 1-3, 62, 143, 151-153, 211-221)*
 - a. Classification of deductions "for" versus "from" adjusted gross income
 - b. Itemized deductions — interest, taxes, contributions, and medical expenses
 - c. Education, moving expenses
 - d. Limitations on deductions — office-in-home; vacation home

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REMINDER!! CALL FOR PAPERS!!

Individuals who wish to make a presentation at the American Accounting Association's Annual Meeting Program, August 6-8, 1981 in Chicago, Illinois in the field of *TAXATION* are requested to submit three copies of their manuscripts together with an abstract and their current telephone numbers and addresses.

Tax manuscripts should not exceed in length fifteen typewritten, double spaced pages. Manuscripts of more than fifteen pages and mere outlines may be accepted, but will be assigned a lower priority than complete manuscripts of fifteen pages or less. The tax manuscripts should not contain any author identification. To be considered, all submissions must include an abstract of a maximum of two double-spaced, typewritten pages. The heading of the first page of the abstract must contain the title of the paper (capitalized) and the full names of the author(s) and their affiliations double spaced below. Margins should be 1¼ inch on both sides and ¾ inch at the top and bottom.

The submitted material should be mailed to the Program Chairman of the *American Taxation Association* by **February 1, 1981**. No person will be permitted to participate in the technical program in more than one capacity. Submissions will be promptly acknowledged.

Decisions on acceptance will be made by independent review, and authors will be notified by April 15, 1981. Manuscripts, with accompanying materials should be sent to: Myron S. Lubell, Chairman, ATA Technical Program Committee, Accounting Department (SBOS), Florida International University, Tamiami Trail, Miami, Florida 33199.

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.

ATA TAX MANUSCRIPT AWARD ESTABLISHED

The "Report Of The ATA Committee On The Feasibility Of An Award System" was modified and accepted by the officers and trustees of the ATA on August 10, 1980.

The American Taxation Association has established a standing Manuscript Awards Committee that annually will be responsible for reviewing published papers, books, treatises, etc. in taxation for the three calendar years immediately preceding the calendar year of the Committee's official appointment. The purpose of the review will be to determine if an individual, by way of a published manuscript, has made a significant contribution to tax knowledge which merits a recognition award by the American Taxation Association. No more than one award will be made by the Association in a calendar year, such an award will be made only for a truly superior quality published tax manuscript, coauthors will share equally in the award, and the selection process and Awards Committee will not be biased in favor of one research methodology over another. If the Awards Committee cannot identify a manuscript that meets such a high quality standard, no award will be made for that year.

AWARDS COMMITTEE

In order to insure fair consideration of all eligible manuscripts, the Awards Committee (comprised of a chairperson and six members) will be appointed annually by the President of the American Taxation Association for a one-year term and its composition changed from year to year. Further, no more than two members of an Awards Committee will be permitted to succeed themselves, and the chairperson, where possible, will be chosen from the membership of the previous year's Awards Committee. Therefore, any particular Awards Committee might consist of a maximum of three carry-over individuals from the prior year's committee (i.e., the chairperson and two members). The maximum time an individual can serve consecutively on the Awards Committee is three years: two years as a member and one year as chairperson. The current chairperson and members will each have one vote on all matters coming before the Awards Committee.

AWARD CRITERIA

Except for three situations, the published manuscripts of all individuals who, in the Awards Committee's opinion, have devoted a substantial portion of their time to accounting education are eligible for award consideration. Accounting education includes, but is not limited to, the following activities: university or college instruction in accounting education, instruction in public accounting education, and instruction in accounting education programs conducted by professional organizations, the government, or industry. The three situations for which a published manuscript may not be considered for an award are as

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- e. Divorce — alimony; property settlement; child support
 - f. Zero bracket amount
 - g. Personal exemptions — taxpayers and dependents
 - h. Filing status — joint and separate returns; head of household; surviving spouse
- 3 13. *Corporations — General (Sec. 11, 241-250, 531-565, 1501-1564)*
 - a. Corporations — rates; dividends received deduction; amortization of organization expenses; charitable contributions
 - b. Accumulated earnings tax
 - c. Tax on personal holding companies
 - d. Multiple corporate groups — consolidated returns
 - 3 14. *Corporations — Shareholders (Sec. 301-385)*
Corporations — formation; distributions; redemptions; liquidations; reorganization; earnings and profits
 - 2 15. *Subchapter S Corporations (Sec. 1371-1379)*
 - 2 16. *Partnerships (Sec. 701-761)*
 - 1 17. *Fiduciary Income Taxation (Sec. 641-692)*
Income taxation of estates and trusts
 - 2 18. *Specialized Taxpayers and Problems (Various Sections)*
 - a. Farming
 - b. Banking and insurance
 - c. Natural resources
 - d. U.S. taxation of foreign source income
 - e. Exempt organizations
 - 2 19. *Compensation and Retirement Plans (Sec. 401-425)*
Compensation — fringe benefits; deferred compensation; pension and profit-sharing plans; individual and self-employed retirement plans.
 - 3 20. *Non-Income Tax Considerations (Various Sections)*
 - a. Federal estate and gift taxes
 - b. Payroll taxes — social security and unemployment taxes
 - c. State and local income taxes
 - d. Sales and excise taxes
 - 2 21. *Administration and Compliance (Practice) (Sec. 6001-7852)*
 - a. Administrative and enforcement procedures — audit, appellate, and settlement processes; penalties, interest and refunds
 - b. Tax ethics and return preparer rules
 - c. Computer applications in tax practice
 - 1 22. *Accounting for Taxes*
Accounting for income taxes — accruals and financial statement presentation

follows: (1) manuscript authored or coauthored by an Awards Committee's chairperson or member during their appointment period, (2) manuscripts which appear only in the proceedings of professional associations, and (3) manuscripts which have already received this award. The author of a nominated manuscript is not required to be a member of the American Taxation Association or American Accounting Association.

While there is no limit on the type of manuscript meriting the award, it is suggested that a manuscript which integrates existing tax knowledge into a meaningful conceptual framework, identifies existing tax problems and provides new solution

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Doctoral Research In Taxation

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

"Income Tax Simplicity: An Examination of an Elective Filing System"

By William Raabe, University of Illinois

Several empirical indicators can be used to document the difficulty which taxpayers encounter in complying with prevailing income tax requirements. Given a lack of desire or ability by taxpayers to compute correctly their annual tax liabilities, the Internal Revenue Service could assume additional computational duties in the taxing process, based upon the information provided by third parties.

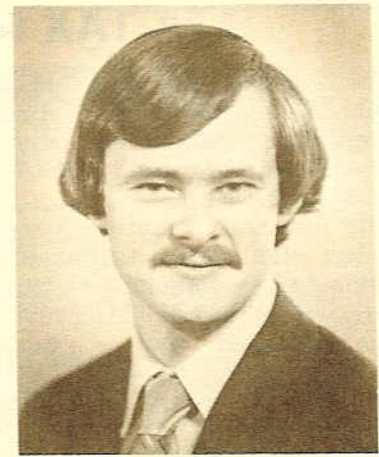
An elective filing system is proposed and described in the study. Such a system of procedures would promote income tax simplicity, as it presently is perceived by Congress, by reducing to a minimum the number of mathematical computations and clerical procedures which are required of the individual taxpayer. Under an elective system, the Service would compile and process all relevant information returns and issue by February 28 a tentative computation of the individual's income tax liability, and his balance due or refund receivable. New information returns could be created upon implementation of the filing system, including a form submitted by the taxpayer to convey his choices concerning filing status, exemptions, and other elections. Upon receipt of the tentative return, the taxpayer determines whether the tentative return reflects the extent of his taxable transactions for the year. If the tentative return were complete, the individual would accept the IRS' computation of the tax and submit his balance due or wait for his refund check; no further computations would be required of the taxpayer. If the tentative return were incomplete, the taxpayer would file a revised return to reflect the items of income, deduction, or exemption that were not included in the IRS data bank.

Testing, implementation, and education responsibilities with respect to an elective filing system would fall upon the Treasury. The precise number of taxpayers whose entire computational burden will be relieved under the proposed system will depend solely upon the scope of the information returns required of third parties by the Service.

A laboratory experiment was conducted to examine taxpayer response to an elective filing system. Subjects received an explanation of the purpose and mechanics of the elective system and computed the taxable income of a hypothetical family. Taxable income was clearly determinable. One-half of the subjects received facsimile tentative returns which overstated taxable income, and one-half received tentative returns which understated taxable income. The compensation schedule encouraged the subject to minimize taxable income, although the presence of an auditor tempered this motivation.

At a level of significance which is adequate for an exploratory study ($\alpha = .09$), subjects whose tentative returns understated taxable income reported the correct revised income less often than did those whose tentative taxable income was overstated. This raises the question whether the elective system induces a marginal loss of integrity among taxpayers. There were no significant differences in the nature of experimental responses made by student and non-student subjects. The observed math error rate under the elective system was found to be 1.4 percent. When compared with the historical math error rate, under the prevailing filing system, which exceeds eight percent, the elective system appears to be simpler for the taxpayer to use than the existing system.

Two hundred subjects participated in the experiment, about one-half were full-time students. Reported income levels of the subjects exceeded the national average, but income tax preparation experience approximated population rates. About sixty percent of the subjects, exposed to the proposed system for the first time during the experiment, called for the Treasury to adopt an elective filing system, chiefly on the grounds of the system's simplicity.



Outsley Receives Dissertation Fellowship

Ed Outsley, a Ph.D. candidate at the University of Michigan, is the first recipient of the American Taxation Association — Alexander Grant & Co. Tax Dissertation Fellowship. The \$4,000 award caps a series of honors garnered by Outsley during his student years at Furman University (where he won a South Carolina Association of CPA's Scholarship and the Wall Street Journal Student Achievement Award) and at the University of Michigan (where he received an American Accounting Association Fellowship and two Paton Fellowships).

Outsley taught Federal Income Taxation while at Michigan and is committed to teaching and research in the area of taxation. "I enjoy teaching, and I look forward to participating in the design and development of tax courses in the accounting program. My research interests are primarily directed toward providing empirical data analyses for tax policy making."

The American Taxation Association — Alexander Grant & Co. Tax Dissertation Fellowship will enable Ed to concentrate his full attention on his dissertation research which is focused on the "degree to which wealth distribution and individual equity is achieved in the current benefit provisions of the social security program." As Outsley views it, his research is "part of a broader research interest involving the combined impact of the social security tax and income tax on the progressivity of the U.S. tax system on individuals. I see my role as a researcher in taxation as providing a balance between economic theory and accounting compliance."

DISSERTATION FELLOWSHIP APPLICATION DATA

The American Taxation Association — Alexander Grant & Co. Tax Dissertation Fellowship is designed to encourage and assist doctoral students having a teaching and research interest in taxation, toward completion of their doctoral dissertations.

The fellowship award of \$4,000 is payable either during the fall semester of 1981 or the spring semester of 1982, depending upon the awardee's preference.

Applications should be submitted to the Chairman of the Selection Committee by April 1, 1981:

Professor Allan H. Savage
Department of Accounting and Finance
College of Business
Administration and Economics

New Mexico State University
Las Cruces, New Mexico 88003

Each candidate is required to submit two copies of: relevant biographical data; a dissertation proposal (including a timetable covering work to be completed between the submission date and the target date for completion); a certified transcript covering the applicant's doctoral studies; and a list of five references. The applicant's dissertation chairman should submit a letter of recommendation directly to the Chairman of the Selection Committee. Letters from the other four references may be submitted, but are not required.

To be eligible, the recipient must be:

(1) A student in a Ph.D. or D.B.A. program in an accredited university;

(2) Completed with all of the requirements for the degree except the dissertation prior to the beginning of the semester for which the grant is made;

(3) Working on a dissertation in the taxation area;

(4) Committed to teaching and research activities in the area of taxation;

(5) A member of the American Taxation Association; and

(6) Devoting his/her time exclusively to the dissertation during the semester in which the grant is received (this requirement excludes teaching and other outside employment).

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quizzes and open-book examinations. Students can and do use this textbook as a reference source in completing the quizzes and examinations.

Each chapter (after the introductory ones) has a section on tax planning as well as one or more research problems (mostly closed fact but some research on choices and decisions among alternatives). I have found this material useful to me and stimulating to students.

A companion volume on *Corporations, Partnerships, Estates and Trusts*, is also edited by William Hoffman and is patterned along the same lines as the *Individual* book. It was reviewed in the Summer 1979 ATA Newsletter.

John Ruble
Professor
Bradley University

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insights, communicates knowledge of new tax laws in a way that enhances understanding, or applies methodologies from other areas to the solution of tax problems, would be appropriate topics for award consideration.

THE AWARD

The American Taxation Association will present a plaque to the selected recipient at the Association's annual meeting. In the case of a coauthored manuscript, the names of all coauthors will be inscribed and each coauthor will receive a similar plaque. A congratulatory letter will be given to the recipient by the President of the American Taxation Association and copies will be distributed to selected supervisory personnel within the recipient's organization as deemed appropriate by the Awards Committee.

NOMINATIONS FOR THE AWARD

Any member of the ATA, including those serving on the Awards Committee, can nominate a manuscript for the award. Nominated manuscripts that do not receive the award must be renominated if they are to be considered by a subsequent Awards Committee. Nominations for the first award must be received by the Awards Committee on or before **March 1, 1981**, and the award decision will be made by July 1, 1981.

Nominations for the 1981 Award should be sent to:

Professor Flavio Guerra
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AMERICAN TAXATION ASSOCIATION

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