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Tax News

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TAX NEWS

RUTH A. CLARK, Los Angeles, California

City of Los Angeles— Professional License Fee

Los Angeles has recently enacted an ordinance providing that any person engaged in a profession, including accountants, attorneys, doctors and dentists, shall pay a license of \$12.00 per calendar year for the first \$12,000 of gross receipts, plus \$1.00 a year for each additional \$1,000 or fraction thereof.

Deductibility of Accounting or Legal Fees

Regulation III, Sec. 29.23 (a)-15 has been amended by T.D. 5313 to permit the deduction of expenses paid or incurred by an individual in the determination of liability for taxes upon his income.

This provision is interpreted to include accounting or legal fees paid for assistance in the preparation or litigation of a tax return of an individual whose income is derived solely from salary or wages.

Heretofore, the Regulations provided that accounting and legal fees were deductible as non-business expenses only if incurred in connection with the production or collection of income or the management, conservation or maintenance of property held for the production of income.

The interpretation of this ruling did not permit the deduction of accounting or legal fees by a taxpayer whose income was derived from wages and salaries only.

Deduction of Demolition Costs

Under Regulation III, Sec. 29.23 (e)-2, demolition costs are deductible from gross income when a loss is sustained due to the voluntary removal of old business buildings.

However, if a taxpayer acquires real estate upon which a building is located, removes the building and erects a new structure, the Regulations claim he has sustained no deductible loss by reason of the demolition of the old building. The cost of removal is a part of the value of the real estate and should be capitalized.

The Courts have held that demolition costs should be capitalized if the intent of the taxpayer at the time of removal was to replace the building with another and

more valuable structure. It is not always necessary that this be his intention at the time of purchase, though generally such intention is the determining feature.

If the taxpayer purchases property on which there is an obsolete building, intending to remove it and construct a new and more valuable building, then the demolition costs are definitely a part of the capital investment.

However, the Courts have held that the taxpayer sustains a deductible loss if he can substantiate the fact that a demolished building had no useful purpose at the time of removal and that the reason for removal was not to replace it with a more valuable asset.

Furthermore, the Courts have held that if a taxpayer purchases property to be used in his business with the intention of making certain repairs and partial replacements, but subsequently finds he must demolish and rebuild a portion of the building, then the cost of demolition is a loss and is deductible from gross income.

Tax on Membership Dues— Luncheon Clubs

In a recent decision Number 46304 of the U. S. Court of Claims, it was ruled that the Merchants Club, which furnishes luncheon facilities for its members on business days, was not a social club within the meaning of Section 1710 of the Internal Revenue Code and therefore, the dues were not subject to the tax provided therein.

Section 1710 contains the following provision:

There shall be levied, assessed, collected and paid—A tax equivalent to 11 per centum (increased April 1, 1944 to 20%) of any amount paid as dues or membership fees to any social, athletic, or sporting club or organization, if the dues or fees of an active resident annual member are in excess of \$10 per year.

Section 1711 provides for certain exemptions. However, the Merchants Club clearly would not fall within the exemption.

Treasury Regulation 43, Section 105.25 defines a Social Club as follows:

“Any organization which maintains quarters or arranges periodical dinners or

meetings, for the purpose of affording its members an opportunity of congregating for social intercourse, is a social club or organization within the meaning of the Code, unless its social features are not a material purpose of the organization but are subordinate and merely incidental to the active furtherance of a different and predominant purpose."

The opinion rendered stated that the predominant purposes of the Club were to furnish to its members convenient luncheon facilities on business days, as well as a place where they can hold business meetings and conferences, the social features being incidental to these predominant purposes.

The opinion further stated that the Merchants Club was lacking in many social features found in other luncheon clubs. No games have ever been allowed, nor was there any dancing or other form of entertainment.

Since 1942, generally the Bureau has ruled business men's luncheon clubs to be social clubs for the purpose of tax on dues even though their social activities were incidental and subordinate to their predominant business.

According to Reg. 43, Sec. 101.24, every club or organization having social, athletic, or sporting features is presumed to be a social club within the meaning of the code, until the contrary has been proved, and the burden of proof is upon the organization.

Gain or Loss—Exchange of Personal Residences

Many taxpayers have been of the opinion that if they exchange their personal residence for another, there is no gain or loss to report for tax purposes. However, the Internal Revenue Code recognizes such transactions as taxable. The gain would be the difference between the cost of the property relinquished and the fair market value of the property received, and would be treated as a capital gain.

HIGHLIGHTS OF THE YEAR

Continued from Page 4

and a new chapter has been organized in Muskegon, Michigan, through the splendid efforts of Grand Rapids Chapter. Much preliminary work has been done also toward organization of other chapters.

Helen Maddex, San Francisco, national president of ASWA, is planning to make an extensive trip during September, visiting not only various chapters throughout the country but also cities where chapters are in process of organization. From all indications, the number of chapters may be expected to double with the next year.

Two interesting pamphlets have been issued recently as joint projects of the public relations committees of the two Societies. One is a reprint of *The Position of the Woman Accountant in the Postwar Era*, which appeared in *The Accounting Forum, The Journal of Accountancy*, and several other magazines and *Will Women Hold Their Place in Public Accounting*, which appeared in *The New York Certified Public Accountant*. Both articles are the original work of Jennie Palen, C.P.A., New York, and are based upon authentic material obtained through surveys which she made in the public accounting field.

Women's Accounting Societies is the title of the second pamphlet, which was prepared by the public relations committee of AWSCPA. It presents in a concise but comprehensive manner the purpose and objective of the AWSCPA and ASWA, and their relationship with each other.

Much other valuable public relations work has been done during the past year in extending and developing further contacts with libraries and with deans, instructors and counsellors of schools and colleges.

Public relations have been under the direction of Mrs. E. Burcham Crippen, Bell, California, and Jane E. Goode, Los Angeles, California, chairmen of the public relations committee of AWSCPA and ASWA, respectively.

Interest in ASWA chapter activities has been greatly stimulated through the AWSCPA Award. Reports covering the first year reflect a broad scope of activities and a fine spirit of rivalry between chapters. They also indicate the fairness of the rules and regulations in competition between chapters of varying sizes in that the two chapters which have been leading throughout the year are Grand Rapids, one of the largest and Terre Haute, one of the smallest, closely followed by Detroit. The winning chapter will be presented with the AWSCPA Trophy and a cash prize of \$50.00 at the joint annual banquet in New York on September 21. Mrs. Nellie Joling, President of this chapter, was instrumental in the organization of Muskegon chapter.