

2-1961

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Recommended Citation

Tross, Mary S. (1961) "Taxation, Ethics: A Single Standard," *Woman C.P.A.*: Vol. 23 : Iss. 2 , Article 1.
Available at: <https://egrove.olemiss.edu/wcpa/vol23/iss2/1>

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Taxation, Ethics: A Single Standard

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The field is so broad, the subjects so varied and the ramifications so dispersed, I decided not to touch the technical, or practical side of taxation, but rather to write about ethics; ethics in dealing with taxation, and the standards involved. Are there standards? or is there only one standard?

Standard means a model, an example, a criterion of accepted and established rule for measuring—and with respect to ethics—for measuring, testing, and judging conduct; with respect to taxation it's the standard of ethics of the personnel in the taxing agencies—the standard of ethics of the taxpayer, the standard of ethics of the tax practitioner.

The test is the same for all, there are no varying standards and no flexible ethics.

That's how I came to choose the title: "Taxation, Ethics: A Single Standard," and I should like to confine the discussion to the federal taxes on income, and on estates and gifts.

Let's ask a few questions.

Why taxation?

Among primitive peoples joint or combined efforts were accidental, if they existed at all; certainly not conscious and certainly not for a common good.

The seeds of civilization were sown to produce a common benefit. That common benefit became possible when people agreed to contribute toward the common good, by work—labor—services, and later a substitution for work—the substitution being money—the means of exchange—and the contributions were toward the common wealth.

As governments were established, duties and obligations were divided and shared; and taxation was born—spelled either born or b-o-r-n-e.

In the early stages all took part willingly and cooperatively. Then great strides were taken.

Nations grew.

Government became complicated.

More and more taxes were levied, willingness began to change to reluctance; so that today we must agree upon codes of ethics—and a standard of conduct.

Is there any reason that the internal revenue commissioner—and the taxpayer should look upon each other as unfriendly adversaries?

Should the tax practitioner be engaged by either the government or the taxpayer for

only one purpose? To agree with his client?

The single standard that I have in mind is the accepted measure of ethical conduct to be practiced by the taxing agency—by the taxpayer—and by the tax practitioner.

I'm assuming that the persons involved will be mature, thoughtful, honorable individuals, who can distinguish between right and wrong, and having recognized the difference, willingly choose the right.

When does the tax practitioner have to think about ethics, when does the taxpayer, when does the government agent who represents the commissioner have to think about ethics?

Let us consider for the moment the agent. He is engaged in examining a return; he finds underpayment in taxes. Must he suspect at once that he is dealing with a deliberate evasion? I would say, no. His conduct should be prompted by the same single standard we have already mentioned. It is his duty to audit, but he should approach it with the attitude that the audit is a checking process for the purpose of approving if correct, or pointing out errors, whether in computation or interpretation so that the taxpayer shall have an opportunity of correcting the error. Or, in other words, the agent must believe that just as he performs his duty honorably, the taxpayer does the same. The first approach by all concerned with taxation should be free from suspicion on anybody's part.

In the event that the agent discovers during the course of his examination that there is an error, but that it was made in the government's favor, it is as much the agent's duty to point out this error, and he should willingly prepare his report showing the overpayment. Under what I mean by the single standard the agent should be as diligent to find perfection in the return whether that perfection will result in a deficiency or an overpayment of tax.

Now let's consider the taxpayer. When he retains his tax adviser who will assemble the information available for the computation of a tax—whether it be income, estate or gift tax, the taxpayer's approach must be honorable. He must divorce his thinking from the foolish suspicion that taxes are levied against him as a burden or a penalty. The taxpayer's ethical conduct which fits in with the test of the single standard requires

3. If any part of the lump sum payable remains unpaid after all payments have been made as described above, the remainder will be paid to any person or persons equitably entitled thereto to the extent and in the proportions he or they paid other expenses in connection with burial in following priority:
 - a. expenses of opening and closing of grave;
 - b. expenses of providing the burial plot;
 - c. any remaining expenses in connection with the burial.

The payment requirement becomes effective for deaths occurring on or after 9/13/60 and where death occurred prior to enactment date unless a lump-sum application was filed prior to December, 1960.

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in a tax dispute—not favor one side and deny justice to the other.

Sometimes a client may suggest a deliberate income omission on the theory that the omission will never be discovered. The taxpayer might say to his tax practitioner "Why do we have to include that? Let's omit it—we will never get caught—nobody will ever know." The tax practitioner says "Let me tell you something about a clergyman who had a daughter. The clergyman's wife was very eager that the daughter should marry—she was very much worried because they couldn't afford the things that the mother thought they needed for the daughter. On a certain occasion the clergyman came in possession of a substantial amount of money, not his own, which he was to hold for a certain length of time. His wife saw an opportunity to use the money for the benefit of the daughter, in the hope that some day they would restore it. The clergyman remonstrated—kept repeating "We cannot do this." "This is not our money." And when the wife said "But no one will ever know" he answered gently and affectionately, "Darling, *we* will know." And so the tax practitioner would say to the taxpayer, "But *we* will know."

The tax practitioner comes into any tax matter solely at the request of the client and has an obligation to serve the tax interests of the client so far as is consistent with existing laws and rulings. The tax practitioner should endeavor to find any legally correct way in which the client's tax is kept to a minimum. This may be by suggesting possible interpretations of the law applicable to the facts involved.

The tax practitioner must assemble facts and figures as he finds them and not create

them to please his client or to mislead the taxing authorities. The tax practitioner's mirror must be clear, pure and flat to reflect conditions as they are. The mirror must not be curved to reflect a more favorable image for the sake of tax savings. He should emerge from every transaction with enhanced prestige and merited respect.

Ours is essentially an involved, complex and perhaps to the layman an esoteric profession. Even to us, the accountants working in the field of books and records, as practitioners in the field of taxation there are times when we wonder if we can extricate ourselves from the maze of laws, rules, regulations and directives without marks and bruises, from stumbling over obstacles that impede our progress towards accomplishing the purposes of the taxing agencies, the client, and the bewildered public. Can all the purposes be accomplished? Can they be accomplished ethically? Can we strive to practice impersonally, unselfishly, honestly—all really interested in our government—our freedom—and our own safety. Of course we can! and when we do, we won't hear so much about conduct and articles like this won't be written.

The purposes can be accomplished by adopting a single standard of ethical conduct for the taxing agency, the client, the tax practitioner and the public. The real test is: How do I feel about all this? what is my reaction to all this? No one could say it better than Shakespeare:

"This above all:

To thine own self be true;

And it must follow, as the night the day,
Thou canst not then be false to any man."

Acknowledgment is made to Arthur Young and Company for permission to use this material first in *The Woman C. P. A.* The author, Mrs. Mary Tross, who is with their Newark office, based this article on her talk before the joint annual meeting of AWS CPA-ASWA in Philadelphia in September 1960.

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to the responsible department heads prior to the beginning of the budget period.

This discussion on the preparation of budgets only scratches the surface of the subject. The most important thing to remember about budgets is that to prepare one but not pay any attention to it in attaining the desired goals is a waste of time and time is priceless and not replaceable.

This is the second of a series of three articles based on papers presented at the joint annual meeting of the American Woman's Society of Certified Public Accountants and the American Society of Women Accountants, held in Philadelphia, Pa., September, 1960.