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7-10-1941

**Letter to the Department of Stock List, New York Stock Exchange,
Regarding Provisions for Federal Taxes Based on Income, Being
Shown on Quarterly or Other Interim Financial Statements of
Income or Profit and Loss, July 10, 1941**

American Institute of Accountants. Special Committee on Cooperation with Stock Exchanges

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**SPECIAL COMMITTEE ON COOPERATION
WITH STOCK EXCHANGES**

**WARREN W. NISSLEY, CHAIRMAN
1 CEDAR STREET, NEW YORK, N. Y.**

**PERCIVAL F. BRUNDAGE
ARTHUR H. CARTER
GEORGE COCHRANE
WILLIAM R. DONALDSON
JOHN F. FORBES
GEORGE W. ROSSETTER
RICHARD D. SEAMANS
HAROLD B. SIMPSON
PRIOR SINCLAIR**

American Institute of Accountants

INCORPORATED UNDER THE LAWS OF THE DISTRICT OF COLUMBIA

13 EAST 41ST STREET, NEW YORK

July 10, 1941

Department of Stock List
New York Stock Exchange
11 Wall Street
New York, N. Y.

Dear Sirs:

You have requested the opinion of our Committee as to how provisions for Federal taxes based on income should be shown on quarterly or other interim financial statements of income or profit and loss. It is the opinion of this Committee that the following procedure should be adopted:

For comparison with other periods, there should be shown in every case the profit before Federal taxes on income. From this amount there should be deducted provisions for Federal taxes on income for such amounts as, in the opinion of the management, and in the opinion of the independent accountant if the accountant's report accompanies the statement, are required to cover taxes that will probably have to be paid from the income of the period.

With the present heavy Federal taxes based on income, the so-called normal tax and the so-called excess profits tax under the Second Revenue Act of 1940, as amended, and the probable increases in such taxes affecting income for 1941, a statement showing net income or net profit should, unless impracticable, include reasonable provision for Federal income and excess profits taxes, although such provision must obviously be tentative.

The way in which the estimate for Federal taxes based on income should be shown in the published statement is subject to some difference of opinion. It is desirable to show separately the provisions for normal income tax and for excess profits tax. There may be cases in which a corporation may desire to show separately the normal income tax and the excess profits tax, computed under the Revenue Acts of 1940, and to supplement these provisions by a third amount representing the provision for increase in tax under a new law applying to income for 1941, or a corporation may wish to show separately the provision for the increase over the 1940 amount in two items, one for normal income tax and one for excess profits tax. The important thing, however, is that the financial statements, or a footnote thereto, should contain appropriate disclosure if the provision is in excess of that which would be required by the tax laws in force at the time.

Yours very truly,

**SPECIAL COMMITTEE ON COOPERATION
WITH STOCK EXCHANGES**

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NEW YORK STOCK EXCHANGE

DEPARTMENT OF STOCK LIST

11 WALL STREET

July 10, 1941.

To the Presidents of Corporations
having securities listed on the
New York Stock Exchange.

Dear Sir:

In view of the importance of the effect of Federal taxes on corporate income at this time and in an effort to have a degree of uniformity in this regard, we have consulted with the Special Committee on Cooperation with Stock Exchanges of the American Institute of Accountants, and there is enclosed a copy of a letter dated July 10, 1941, from this Committee, which outlines the procedure which, in their opinion, should be adopted.

While the present agreement of listed companies with the Exchange provides for the publication of interim earnings statements after all charges, including normal income taxes, we would ask that profits be shown before Federal taxes on income, pursuant to the letter of the Committee, as well as after provision has been made for Federal taxes in accordance with the enclosed letter.

We would suggest that, if there is any doubt in your mind with respect to the procedure as outlined, you consult with your independent accountants, in view of the effect it will have on your reports for the fiscal year.

Yours very truly,



P. L. WEST,

Acting Director.

Following is the text of a letter from the Institute's special committee on coöperation with stock exchanges to the Department on Stock List of the New York Stock Exchange concerning treatment in interim financial statements of provisions for federal taxes based on income.

American Institute of Accountants

INCORPORATED UNDER THE LAWS OF THE DISTRICT OF COLUMBIA

13 EAST 41ST STREET, NEW YORK

July 10, 1941

DEPARTMENT OF STOCK LIST
NEW YORK STOCK EXCHANGE
11 WALL STREET
NEW YORK, N. Y.

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Yours very truly,

SPECIAL COMMITTEE ON COÖPERATION WITH STOCK EXCHANGES

WARREN W. NISSLEY, *chairman*
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