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## Correspondence: Tax Legislation

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## Correspondence

### Tax Legislation

*Editor, Journal of Accountancy:*

SIR: Your editorial on proposed tax legislation in the February issue of THE JOURNAL, while presenting the prevalent view of the income-tax question, is not in the writer's opinion borne out by the facts. The theory that the income tax must be paid ultimately, to a large extent (almost entirely some would have us believe) by the consumer of goods, has been the talking point of those who fostered the Mellon tax-reduction scheme. Aside from the question of whether the Mellon plan should or should not be adopted one of the arguments put forward by its champions will certainly not bear scrutiny—it is this theory of "tax shiftability."

If the income-tax law is not a law that places the burden of taxation on those who can afford to pay, according to certain specified gradations, then it has failed dismally in its purpose. To many it had seemed the most nearly perfect plan ever devised of putting the burden of taxation where it can best be borne. In the face of what we thought was proven in this country as well as abroad, i. e., that those who make the return actually pay the tax, there have been brought out an array of fallacies to show how and why income taxes are shifted from the person who pays them to someone else in the form of higher rents, higher interest rates, etc. This possibly might have seemed so during the period of war when those in a position to do so took advantage of every pretext to boost the selling prices of their products. They were not adding the income, excess profits or surtaxes to the selling price of their article; however, they were simply profiteering, that is, carrying the economic law of supply and demand to its logical conclusion. A number of our prominent journals and leading citizens have given voice to this idea that surtaxes paid are shiftable. The secretary of the treasury asserts that "no thoughtful person longer doubts that irrespective of his income, he pays the high surtaxes in the general price level." Roger Babson tells us that the wheat farmer adds the tax which he pays to the cost of wheat and recovers it in the price which he receives. President Coolidge's Lincoln day address, when he followed the course of a steer from the time it left the farm until the hide returned to the farmer as a pair of shoes, indicates that the president thinks the farmer had to pay the taxes of all the intermediate distributors and producers who handled the steer and its leather. The president said: "If the farmer ultimately wears the shoes he pays everybody's taxes from the farm to his feet." This overlooks the fact that the farmer, according to this theory, had originally added his taxes to the price of the steer.

It is obvious that this shifting theory is ridiculous; the margin of shiftable tax is little or nil. If we are going to argue for lower taxes, let us do so, but for goodness' sake let us get sound reasons for our opinions. In the first place if selling prices are based on supply and demand—and they largely are—then taxes can have no effect on selling price, for the selling price of a given commodity is the same for all producers whether they pay high surtaxes, little or no surtaxes or actually sustain operating losses. If one says that the selling price is indirectly affected by taxes through curtailed supply he is confronted with the wonderful prosperity we are enjoying in most lines of enterprise. It can not be said that the general scale of taxes has resulted in any business depression. On the contrary reports on employment indicate that business is in a healthy condition and that present indications are that it will remain so for a long period ahead. Professor Friday, the economist, has recently estimated our increase in national wealth for the year 1923 at twelve billion dollars. To those who view the faulty distribution of earned wealth as a greater evil than any alleged limited or hampered production of wealth, heavy surtax provisions

in a law probably would appear beneficial rather than detrimental to the general well-being. Professor Friday's figures if they bear any relation to fact certainly do not indicate any impediment in the way of the nation's productive forces.

Commenting on one of the points in your editorial, it can be said that one of the methods by which surtaxes are evaded, viz., the distribution of profits to employees in the form of bonuses, might in the minds of many be deemed a most beneficent reason for the levying of the surtax and a most gratifying result of heavy graduated taxes. That high taxes take money that might otherwise be invested in profitable enterprise from the pockets of those who have large incomes is true. If the country feels that the collection of taxes under the 1921 law will give a surplus revenue which will be squandered in needless governmental expenditures then by all means reduce taxes. But let it not be done under any false assumption that the man whose income is so small that he pays no tax is going to benefit proportionately with the man who at present must give half his income to the government in taxes. One of our journals has given two puzzles left for solution to believers in this theory of accumulated shiftable taxes:

(1) Why does anybody except the farmer complain of his taxes if he can always meet them by making corresponding additions to the sales price of the goods?

(2) How is it possible under a graduated system of general income taxation for business competitors of unequal incomes to transfer their unequal tax burdens to their customers and still continue to compete with one another?

This is putting the matter tersely. The fact that those who pay the highest surtaxes are those who most bitterly complain and most strongly urge the reductions is the best proof that the levy is felt by those who pay it. The advocates of surtax reduction can hardly claim that surtaxes could affect any great amount of our production cost even though this tax could be added to the cost of a commodity. Most of our big business is carried on by corporations, and these organizations could not be expected to know in advance, nor to care, what the surtaxes of their stockholders a year hence would be in order that they might pass them on to the consumer by adding them to the cost of production.

Considering now the matter of "tax exempts," it has been said that since tax-exempt securities are an avenue of escape for the rich man from the payment of his taxes we should reduce taxes and invite a return of capital to private enterprise. This is another argument which will not bear study. In the first place there seem to be no conclusive statistics to support the contentions of the secretary of the treasury that rich men have the great mass of their wealth in tax-exempt securities. There are many people who maintain that a large supply of money available for public purposes at low interest rates is of more good to the country than if it be invested in business. Schools and hospitals, they tell us, do not pay dividends—but their ultimate benefit is not to be counted in dollars and cents. It would appear that the merits or faults of the tax-exempt security should be and must be handled by separate legislation, and if an evil exists end it rather than temporize with it by adjusting surtax rates. Let us change the law if we must, although nothing can be done to affect those securities now outstanding.

No one can logically appeal to the national electorate with the argument that the money that representatives in the several state governments and political subdivisions thereof have spent has been spent not so wisely as it might have been and that the bond issues might better never have been floated but the money invested in private business, and that, to avoid this mistake in the future and limit the funds available to purchase public bond issues, the citizens should endorse drastic surtax reductions. This means that the public is called upon to impugn its representatives in state legislatures and municipal councils as having unwisely issued state and municipal bonds and that the people do not trust them, but that they intend in the future to safeguard their interests in that respect by making the flotation of bond issues more difficult. They can

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accomplish this by diverting presently available capital into the field of business and this the Mellon plan is supposed if adopted to bring about.

When presented in this light it would seem that the public is called upon to urge its representatives in congress to save it from the ignorance and waste of its state and local authorities. We are indeed in a horrible plight if we must go to Washington to save ourselves from the stupidity and prodigality of our several state governments, overlooking, perchance, the judicious use of the ballot for local and state election purposes.

In the circumstances the conclusion logically follows that high surtaxes have not been detrimental to the progress of business nor felt in a higher price level by the general public, nor is a change in surtaxes advisable to cope with the tax-exempt problem.

Yours truly,

VICTOR G. GOUGH.

New York.