and its usefulness for persons engaged in business more than one hundred years ago.

Conclusion

The value of the primer described in this paper is two-fold. First, the book is a valuable example of accounting instruction in the United States during the early 1800's. As such, it deserves recognition and preservation as an example of the evolution of accounting education and practice in this country. Second, students of business history would find the primer a useful preliminary study prior to examination of records of 19th century American businesses.

Introducing Important Tax Provisions into Advanced Accounting

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Many accounting courses could be improved significantly by the brief introduction of related tax considerations, preferably in a nontechnical fashion. This is particularly true in the case of advanced accounting courses wherein consolidated financial reporting for multi-entity organizations is usually given considerable attention. Decisions regarding the form of corporate and tax reporting for multi-entity organizations are highly tax-influenced. Thus, the federal income tax consequences which these organizations must face are an important aspect of consolidated reporting, but one which is rarely considered in advanced courses. In the following paragraphs it is suggested that this situation can be easily remedied by developing a simple lecture utilizing a chart either as a transparency projection or as a mimeographed handout. This lecture will give the student a more complete and realistic picture of the reporting problems encountered by multi-entity organizations.

Consideration of Tax Aspects Needed

Tax planning is the art of determining *in advance* what tax liability *will result* and then conducting transactions with a view toward reducing the income tax burden. In the area of multiple corporations[1] a group has a choice of accomplishing the same results by more than one method—one of which may result in a lower tax liability. Prudent tax planning for multiple corporations requires careful consideration of several major alternatives and the selection of the best alternative under given circumstances. Management has an obligation to the stockholders to minimize the income tax liability. In order to minimize the tax burden, however, management must understand the interrelationship between business operations and the tax liability.

[1] In connection with the Internal Revenue Code, "multi-entity organizations" are more appropriately referred to as "multiple corporation."

Two general reasons may be offered to explain the omission of the tax planning aspects of multiple corporations from advanced accounting courses. First, the instructor may not be familiar with the intricate tax provisions in this area. Second, the instructor may feel that the tax aspects of multiple corporations should be a subject matter restricted to income tax courses. With regard to the first of these reasons, only broad coverage is recommended here; there should be no undue problem if a little individual research is coupled with the informative chart discussed below. As for the second reason, most accounting instructors would probably agree that *detailed* coverage of the tax aspects of business combinations should be restricted to tax courses. However, a brief and broad exposure to relevant income tax provisions will not only enrich a course, but will also make it much more realistic.

By lecturing on the tax aspects of multiple corporations, two important areas of accounting knowledge are related—accounting theory and income taxation. Knowledge transference from tax courses to other accounting courses is particularly difficult—complicated tax provisions often confound students unless they have had a repeated exposure to them. This suggested lecture, therefore, provides the needed reinforcement for material which some students may have covered in a tax course.

Chart of Filing Alternatives

There are five filing alternatives open to multi-entity organizations in reporting for federal income tax purposes.

1. Merge the several entities into one corporation, filing a single return as a single entity.
2. File separate returns, claiming a single surtax exemption allocated among the entities.
3. File separate returns, claiming multiple surtax exemptions (and paying a 6% penalty on the first $25,000 of each corporation's taxable income).
4. File separate returns, claiming the 100% (instead of the normal 85%) dividends received deduction.
5. File a consolidated return for the affiliated group of separate entities.

In the accompanying chart, each of these filing alternatives is represented by one of the columns at the right. On the left side of the chart is a list of twelve tax provisions or benefits lettered (a) through (l). The provisions or benefits applicable to each of the filing alternatives have been indicated by placing an (X) in the appropriate column. Only one provision in each of the groups I–V may be applied to a particular filing alternative. Provisions b, d, f, h, j, l are advantageous relative to provision a, c, e, g, i, k. The cost of losing each of these advantages is calculated as follows:[4]

(b) [($5,000×No. of affiliate corporations)−$6,500].[5]
(d) 48%×15%×intercorporate dividends.
(f) Present value of the loss×48%.
(h) Present value of the accelerated payments.
(j) Probability of tax being imposed×[$100,000

[2] Until 1968 the amount of this exemption was $100,000. However, this provision is being phased out over two five-year periods which gradually reduces the importance of this exemption. By 1977 there will only be a $40 exemption from estimated taxes, thereby reducing significantly one of the advantages of multiple entities.

[3] To qualify for the WHTC deduction (1) 95% or more of gross income of the corporation must be derived from sources outside the U. S. and (2) 90% of gross income of the corporation must be from active conduct of trade or business. Note that these two tests are applied on a separate corporation basis. Since filing alternative 1 requires that all entities be merged into one corporation it is very unlikely that this single corporation can meet the tests. In contrast, since the other filing alternatives retain multiple corporations it is much easier for one or more of these corporations to meet the source of income tests.

[4] The total tax rate of 48% used in all of the following calculations does not include the surcharge of 10% for 1968 and 5% for 1969.

[5] If multiple surtax exemptions are lost and no exemption is claimed, the first $25,000 of income of each affiliate is taxed at 48% whereas previously it was taxed at 28% (22%+6% penalty tax). This is a tax rate increase of 20% (48%−28%) on the first $25,000 (i.e., $5,000 additional tax) of income of each affiliate. Thus, the additional tax paid when multiple surtax exemptions are lost is ($5,000×no. of affiliates). Since one surtax exemption can always be claimed the total additional taxes paid is reduced by $6,500 (26%×$25,000).

Filing Alternatives

		1	2	3	4	5
I	a. Single Surtax Exemption	X	X		X	X
	b. Multiple Surtax Exemptions			X		
II	c. 15% of Intercorporate Dividends* From Domestic Corps. Taxable		X	X		
	d. 100% of Intercorporate Dividends* Received Deduction—or Dividends Treated as Merely Cash Transfers	X			X	X
III	e. Immediate Offset of Operating Losses	X				X
	f. Operating Loss Offset Deferred		X	X	X	
IV	g. Single Exemption for Declaration of Estimated Taxes[2]	X			X	X
	h. Multiple $100,000 Exemptions for Declaration of Estimated Taxes		X	X		
V	i. Single $100,000 Exemption from Accumulated Earnings Tax	X			X	X
	j. Multiple $100,000 Exemptions from Accumulated Earnings Tax		X	X		
	k. Additional 6% Tax on First $25,000 of Earnings of Each Affiliate			X		
	l. Western Hemisphere Trade Corp. Deduction of 29.17%[3]		X	X	X	X

* From affiliated corporations.

×(No. of affiliated corps.−1)]×tax rate for undue accumulations of earnings.

(l) 29.17%×income of foreign affiliates.

A simple, highly compressed lecture can be developed around the chart of filing alternatives. With a short problem or two, an advanced accounting instructor can easily provide his student with a valuable insight into the various filing alternatives available to multiple corporations. Since only the major provisions are discussed, the instructor need not have the intimate knowledge of this area which is required of the in-depth study undertaken in typical tax courses.

An Aid to Students

The chart was first developed as a testing device for an advanced accounting course. Since students performed so poorly on the question it was later utilized successfully as a teaching aid—originally in an advanced course and subsequently in a tax course.

The suggested chart is most helpful to students since it provides a rather complete overview of filing alternatives and major tax provisions. Those instructors who have attempted to discuss these major tax alternatives in advanced accounting courses can well appreciate the difficulty of presenting students with a "total picture" of this area. The chart has also proven useful in tax courses as a quick reference for students. When studying and solving homework problems, students find it easier to refer to this chart for the major provisions rather than scanning numerous pages and chapters in search of the same information.