



AndersonGriggs

“Common Sense Investing for Intelligent Investors”

Monthly Letter to Our Clients and Friends Letters to the Internal Revenue Service

Kendall J. Anderson, CFA
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Complimentary Copy

On April 8th, just before midnight, our elected representatives reached a compromise to keep our federal government’s doors open for business. The compromise, formed amongst the squabbling between The House, The Senate, and the President, resulted in a reduction of \$39 Billion in spending this year. It was hailed a victory on all sides. Yet we all know that this minor cutback does nothing to alleviate the government’s need to borrow \$6 Billion of new money every working day, just to meet its current obligations.

We may think that this current fight over taxation and spending is greater than it has ever been. It may seem that way, yet every decision Congress has made concerning your money, since the beginning of this great country, has been a struggle. None of us enjoy paying taxes, yet we know it is necessary. None of us who pay taxes want to see our money spent in a way that we personally disagree with. At the same time, none of us want to give up the receipt of cash sent to us by Congress and paid for by other taxpayers. We have deferred this decision, the decision on who will pay and who will receive, to Congress. We can be thankful that the fight is taking place out in the open and not behind closed doors.

As the deadline to send off the annual reporting of our income to the IRS is upon us, I thought it would be a great time to share with you some letters sent to them by a few anonymous taxpayers in the past. The first three letters were written at a time when the Kennedy administration was attempting to crack down on the “entertainment deduction” freely given to corporate America. As you will see, things really haven’t changed that much in fifty years between those who give and those who receive.

The second group of letters, also from the 60’s, explains how two individuals handled an error committed by the Internal Revenue Services. I also offer one of my own from the 70’s, in which I explained my lack of funds.

Until next time,

Kendall J. Anderson, CFA

P.S. It took 25 years to change the rules on the “expense account”. Let’s all hope it doesn’t take 25 years to reduce our deficit.

Entertainment Expense Deductions

Our first writer points out a few questionable liberties taken with the tax code. With the number of corporate yachts on the water today some enterprising accountant may have found a tax benefit somewhere - it is just not classified under entertainment.

Dear Sir:

I am 100% for the crack down on expense accounts. I work for a large motel corporation as a desk clerk, and at times as a dining room hostess. I see the abuses of the expense account deductions. Why should the stockholders, in the case of the corporation man, underwrite his weekend pleasure trips for himself and his inlaws; or in the case of an individual owner business man, why should I and my fellow workers underwrite him by paying additional taxes?

The corporation for whom I work maintains a yacht. I fail to see how this boat would entice the highway traveler to stop at this corporation's motel. Yet the entire expense of the boat probably is taken as a business expense deduction.

If all businesses secured their business on the merits of its products and/or its services, then they could price their wares cheaper and consumers would have more money to spend.

I hope your department does not relent and retreat.

Anonymous

Our second letter is from a housewife who favors the entertainment deductions, as long as it includes and benefits her. Without it, she contends, the family will disintegrate and the "call girl" will flourish.

Dear Sir:

Having access only to the TV and press releases emanating from the recent hearings you held on expense deductions, I can't be sure that the point I want to call to your attention wasn't brought up. However, I feel sure that had it been, the press would have exploited it.

I am a housewife in my fifties. I spent twenty years in the business world from positions of secretary to executive. For the past sixteen years I have been married to a business executive. I think I see the whole picture from a good perspective.

Thirty years ago, the executive who took his wife on a business trip or convention was considered a square or henpecked. In recent years the man in business is a whole man and he and his company give consideration to his wife and family. The more mature, stable business man prefers to take his wife on trips occasionally—it makes her life richer, and therefore his, and it's a welcome change of pace for both. This is a far cry from the times I remember when the visiting

fireman always arrived in the city alone and the host company felt obliged to include in the entertainment escorts from the secretarial pool or a call house. Nearly always either the host or the guest had no taste for the proceedings, but it was the “thing that was done.” The result was not good for the family life either. And I know the deductible tabs for that kind of entertainment ran a lot higher than when the visitor arrives with his wife, her travel expense notwithstanding.

From what I read, corporations take more than a passing interest in the wife of a prospective executive, and it seems of importance to them to find the marital status happy and adjusted. This interest of the company is mature thinking because an executive’s work must extend into his personal life in many ways.

One threat to marriage has always been that the man outgrows his wife because of his travels and experiences that she can’t share. The thing that brings that about is that the man gets on an expense account what he can’t afford personally or for his wife. In recent years mature men have recognized this, and as heads of companies have made it possible for wives to share a bit now and then in the stratosphere in which their husbands are at home. As a result, there is better understanding in families and family life in the United States is more stable. Of course, I don’t attribute this entirely to the fact that wives are sometimes included in expense accounts. Rather it is the result of an evolving maturity and the corporation attitude is one facet of it.

I would hate to see Uncle Sam responsible for turning the tide of this evolving maturity. It would be a shame to be headed back in the other direction where the call girl flourished.

Anonymous

Our third writer is also in favor of the deduction. His point is that without sales, there will not be any taxes. This remains as true a fact today... as is the continuing free flow of liquor at today’s major sales conventions.

Dear Sir:

We tightened up on reporting expenses a couple of months ago to get our people used to it before the new rules go into effect but if you go through with it...it will be a major sized headache for us.

Our people go to a convention and get half boiled right away. (This is the condition which makes salesmen most effective.) The reports they turn in look like second grade arithmetic and they have forgotten most of the expenses. Their reports do not jibe with the money they have actually spent and we know darned well that none of these people are thieves.

The Internal Revenue Bureau Examiners have always agreed that the amount we spend on entertainment is reasonable and fair considering our volume. If we crack down on our Representatives we are bound to lose business. Our hotel suite would look like Coney Island in

January if we didn't serve liquor and if we do our own boys will drink it. If we fail to put our products over at conventions we will not be paying ANY taxes.

A better system would be to allow businesses like ours a certain percentage of sales for entertainment right off the top. Make it a reasonable figure on the conservative side and then if more is needed the department could grant it providing the need could be proved. Each type of business could be granted a certain percent for entertainment. That would save your department a lot of criticism for making arbitrary decisions which are unfavorable to taxpayers.

Anonymous

Computer Errors

Most of us check our returns thoroughly to find and correct any errors prior to filing. Every so often the IRS will make an error. Trying to have it corrected can be a struggle. Here is how two individuals handled the problem.

Dear Sir:

I received the notice from your "idiot box, commonly called computer" indicating that I owe you \$5.00 plus \$.11 interest on my 1963 tax return.

I know it is common practice for your service to charge the taxpayers for information rendered to them about their returns. I am enclosing herewith a bill for my services, and telling you that your computer forgot to apply the \$5.00 filed with my estimated tax return. Please refer to line 19-b.

Inasmuch as my time is extremely valuable, it seems to me that the charge I have made for my services to straightening out your computer is most reasonable. Your prompt remittance will be appreciated so that I will not have to start charging interest on the amount you owe me.

Anonymous

Sir:

You had better check your records of your data processing system again and if you don't come up with the right answer you better have the robot overhauled.

The records of my processing system, which is by the way myself, shows that I wrote and mailed a check, together with depository receipts, in the amount of \$60.57 on April 15. Your dept. endorsed it on May 5. Where it was all that time, I'll be damned. But I have the cancelled check to prove it.

Get it straightened out once and for all. You people have made more errors with our account in the past few months than is necessary.

If we did this to a customer we'd lose their business.

Anonymous

When you cannot pay

For years I would add a short handwritten note to my returns to brighten the day of the person who opened the mail. This is one of my favorites.

Gentlemen:

You have heard of the old saying "You can't get blood from a turnip." Well, I would like to inform you that I am currently in a vegetative state.

I will be paying my bill as soon as I awake or sooner, if circumstances improve.

Kendall J. Anderson

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