



1. A abandonment better than a cap loss.

- a. Ordg.
- b. No limit
- c. No offset
- d. No recapture.
- e. First out end.

2. Lease acqn. is hi % of total spend.

Stk. Maria sale, \$2.27 B

3. abundant, also winter off prelease ex plan.

4. Imputed inc.

Info. - to drill next tract.

5. Free riding - gain from adjacent dev.; from new tech.

Tendency to hold & wait.

Diversification / King Ranch.

6. Cost dep'n.

Bonus; exp'n. + o' head
alloc. to lease.

Now sell - establish new
basis for dep'n.

Acc'd. dep'n by low-balling,
reserves

Ec. 132

1:30 Fri. M. Fong

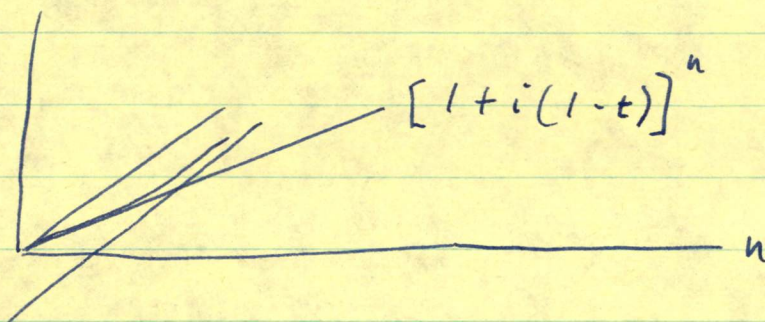
Tues. May 26, 1981

I. Finish land treatment.

A. Infln. and value of deferral.

Advantage of deferral is higher at higher i .

B. Pictorial diff. of neutral tax & actual tax.



C. Deferral of tax after sale

Resid.

Banker

Installment sale. Understate interest: inflate price.
" " by land contract. Convert

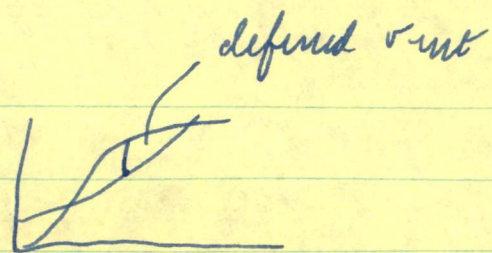
rent into cap. gain.

Profit participn. All profits are on principal until principal is recovered.

Condemnation. Gain deferred if you invest in like property.

D. Defu income from land use.

1. Timber.



Defined rent is $a \frac{(1+i)^n - 1}{i}$

Favors timber over sheep.

Due. Chap. 10. Concept of Inc.

4 reqs.

1. Uniformity. Horiz. equity. (How about eff.)
2. Vertical inequity (this may cause ineff.)
3. Elastic
4. Enforceable.

(Other canons?)

Incentives. Neutrality. No excess burden

Raise rev. Adequacy

Δ cap. frnts.

Δ cap. "inc" (T)

Δ land inc

Equity re productivity. (combine w. progressivity if possible)

Certainty

Benefits mid. Reasons for subsidy, price, seed money, etc.

Ability to pay

Sumptuary

Surrogate for pricing, for user charge

Tax Δ cost inclines to subsid. decr. cost

Cheap to administer

Objective

Acceptable

)

224

Simons def. of inc. = $C + \Delta W$

Imputed:

Accrued

In kind

Housework

Do it + yourself

Communes, pools

Religious

Muni. amenities

229

Gifts - not inc.

Inc. proceeds not taxed, a loophole

Annuities. Divided in 2, based on life expect.

Inc. part taxed.

230-33

Cap. gains

Land Inc. -- Schultze paper

Timber Inc. --- Blackberry paper

Herber on personal inc. tax.

1. Def. of Inc.

a. Heng-Simons

(Classical econs, wages were not inc. but for motive of labor)

Both ~~are here~~ focus on prop. inc. more than our system does.

Even might include inheritance (but not if done on family basis.)

b. The Law - complex

Exclusions, ~~p. 144~~ p. 153

2. Steps in calculating

Go thru 1040

Mgnl. vs. Ave. rates.

3. Exclusions

a. S + L bond int. Good e.g. of shifting

b. 20,000 fr. inc. (now \$75k)

c. $.6 \frac{2}{3}$ of realized cap. gains.

(Deferral of tax. Show benefit by e.g.
No tax on unrealized
Step-up at death

Resid. deferral etc.

Kinds of prop. ty. qualifying:

- ~~all~~ r.e., appreciating
- oil, minerals
- timber, 1944
- stocks. Internalization of profit results.

4. Psal deductions

Go thru Sched. A

5. Family status. Tax on marriage? For some not others.

6. Tax credits.

Depreciation

Not in Huber.

a. Importance

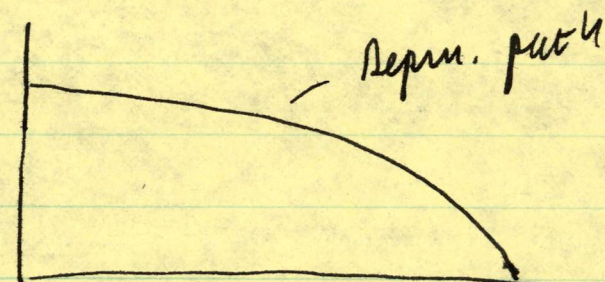
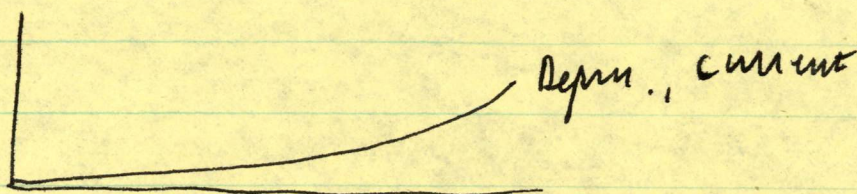
Expensing is exemption

b. Durable K depreciates the way a loan is amortized

$$PV = \frac{1 - I^{-n}}{i}$$

$$\Delta PV = \frac{1 - I^{-n}}{i} - \frac{1 - I^{-(n-1)}}{i} = \frac{I^{-(n-1)} - I^{-n}}{i}$$

$$= \frac{I^{-n}(I - 1)}{i} = \frac{I^{-n}(i)}{i} = I^{-n}$$



c. Whittling away at depress.

1. Changing paths

a. SL

b. DAB

2. Shortening ^{tax} lives (not real lives)

3. ITC

d. Is this bad?

1. Discrim. against ~~retirees~~, depositors, lenders.
Forces people to lend less, borrow more: into equities,
out of liquid assets.

Coupled w. inflation, created extreme
bias for equities. But this in turn is
inflationary, self-reinforcing, feedback.

2. Forces up i.r.; forces down returns on
equity. Arbitrage. Mkt. equalizes after-tax
returns.

3. "Encourages risk-taking". A false
advantage. There is excessive risk, too (Dave Cook case;
100,000 farmers, going bankrupt: etc.)

4. Encourage real ~~estate~~ investment. Land not depreciable. J. R. Commons. Raise rate.

5

Tax on land income (include oil)

Public Face.

10/4/81.

LA Times

ITC

Cos. w. unused ITCs can now sell them to winners.

Involves leasing.

A needs new airplanes

B .. tax credit.

A borrows on B's credit.

B assumes loan, pays interest, gets airplanes

A leases airplanes from B, pays rent.

B gets tax credit, + acc. deprec.

A gets cash laguerre = PV of TC + deprec.

Recapture is a complex risk, unresolved. Hence, little action so far.

Tsy. officials who worked this out have gone into brokering + consulting to make \$ out of it.

Ernest Christian, Jr.

Chuck Walker

Fred Hickman

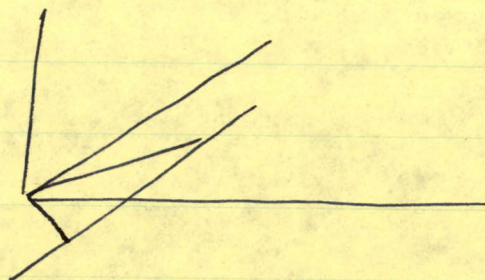
Wed, Oct 4

Next ass: Forer Tax, TYPLS.

Ex. 217

11, Lig. value & inv. value.

Gross.

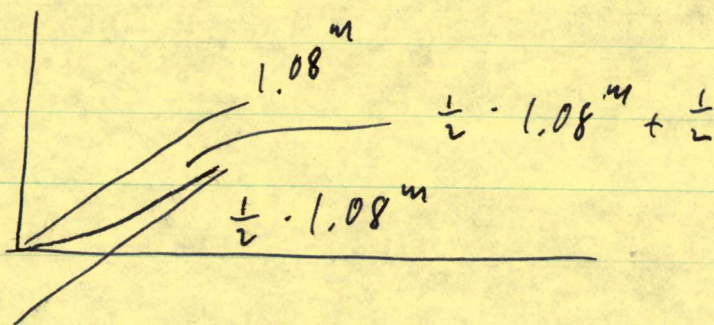


$$r = (1+i)(1-t)^{\frac{1}{m}} - 1$$

Automatic plowback.

Taxing turnover. VAT, too.

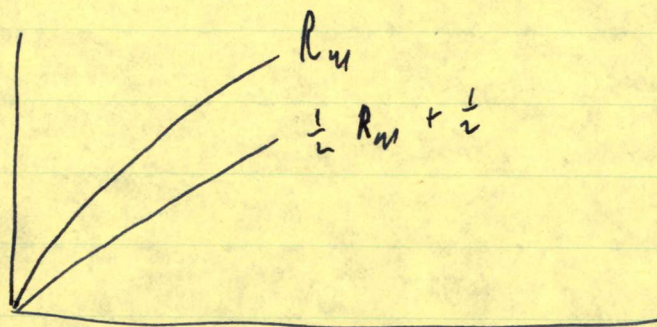
Net



Table, p. 183

Ad justment

"orthoproxy"



Expensing, $E=0$ p. 189

Expensing elim. tax (but not on land)

p. 190. Faults of expensing,

Neutral tax, pp. 193-94

Ad. 226

May 2, '78

Tax Planning & Avoidance. (Inc. Tax)

Topics

0. Inc. Tax, catchword of the retiring generation. Will gradually yield, to cons. & wealth taxes.
1. TISTOC
2. Interstate sharing.
3. Ex-empt income.

Do-it-yourself

Imputed. Pvt. prop; public prop. Enormous bias.

Ans gratia artis. Enjoyable work

Housewife work

Crime

Welfare

Unrealized gains

Muni. bonds

Expense accts.

Farm food & fun -- hunting, swimming, riding, fishing.

Life ins.

4. Inflated & accel. deductions.

% dephn.

Acc. deprecn

Benchmark deprecn, from PV curve.

SL

DB, DDB, $1\frac{1}{2}$ DB

SYD

(Query: how many wd. like to learn more of this?)

ITC

Expensing

Expensing variations -- Russell Long & oil. Canada.

R & D

Advertising

} "Intangibles"

5. Defer inc. (or recognition)
Extend edn.
Durable K
Apprec. land
Growth stocks
Corps. defer realize.
Unrepatriated inc.
Installment sale
(If you loaned, & took full price. Taxable)
6. Is sav'g discouraged?
Not rationally. Have to save. to join the game.
D&F say sav'g less attractive, b/c inc. of sav. taxed. But it may be
taxed much less.
7. K Turnover is discouraged.
8. Taxes have sub. effects, altho wealth effects.
Head tax not neutral

9. Avoid variable inc. (2 aspects of "risk")
Avoid uncertain inc.

(Corps. w/o progressive rates, ~~can~~ are vehicle for variable & uncertain inc.)

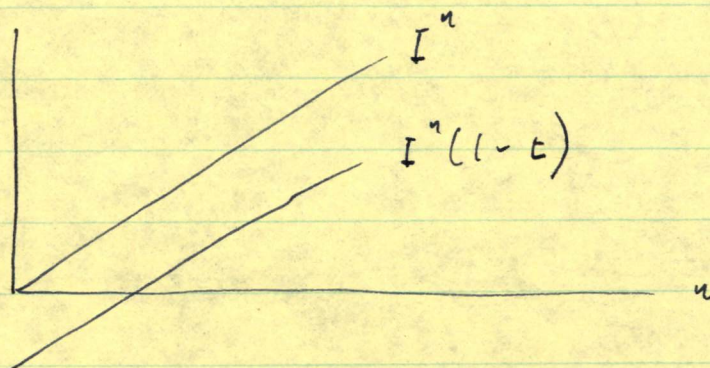
"Risk" is not neclly. good.

Innovation may be good. But R&D is expensive.
application lag.

Ec. 217, 10-10-84
T15T0C

1. Importance of advancing, deductions & deferring,
realize.

11. ~~222~~



$$(1+r)^m = (1+ti)^m (1-t)$$

$$r = (1+ti)(1-t)^{\frac{1}{m}} - 1$$

13. Cf. growth of wealth

$$1.08^{50} \cdot \frac{1}{2}$$

$$1.04^{50}$$

1
The Corp. income in Annual Reports is in part on cash basis, (+ $\therefore$ misleading.)

Deprec. is deducted; but apprec. is not added.

OK, old hat. But corps. do sell land, too, + in that year, when accrued apprec. is realized in cash, all is reported as income.

The conservative view is that infl. understates deprec. They ignore that it omits (or defers) apprec., which may be greater.

✓ Banks do funny things w. "non-performing loans". They add the int. to the debt, and report it as income! In this case, accrual is recognized, ^{when} accrued. — but legal limit is 90 days.

After 90 days, they are supposed to reclassify loans as non-performing. Not clear if that affects past unpaid int., or only future.

Seiy Regan seems to say that past due int. is then removed from earnings.

✓ E.g. #3 of int. accrual is CWIP — the case where IOU report int. on CWIP as current income, but it goes into their rate base.

~~WAA~~

$$\frac{I^n - 1}{i} \times i + 1 = I^n$$

check

$$\frac{I^n - 1}{i} + I^n = \frac{I^n - 1 + i I^n}{i} = \frac{I^n(1+i) - 1}{i} = \frac{I^{n+1} - 1}{i}$$

check

Inc. is $I^n - 1$
 New outside cap is 1
 E is I^n

Utility calls $(I^n - 1)$ income. Sets up fund as reserve for taxes accrued. Passes thru. But keeps the money, plows back.
 No pay Treas. until plant goes on line.

Mon, Feb. 4

1 3

Begin on p. 2

~~Full Salvage Case~~

Distrib article.

Land Tax

1. Is written off by unallocating basis.
Once this is done, the benefit is forever

2. Appreciation tax is deferred.

Perpetual Appren. model

$$S = \frac{1}{i-g}$$

$$S_i = 1 + Sg$$

Shows Sg treated as

ordinary income.

$$S_1 - S_0 = \frac{1+g}{i-g} - \frac{1}{i-g} = \frac{g}{i-g} = S_0 g$$

TT Land Inc.

a. Current write-off
$$r = \frac{a(1-t)}{P(1-pt)}$$

b. Exemptions

1. Imputed income. Golf course, vacation home, duck clubs, pvt. beach, slip, ski lodge, horse farm, travel time.

2. Unrealized appren. *Maybe forever.*

Buy in advance of need; or possible need; or leasing

3. Cap. gains at death. Step-up. *Corps. never die, so they just hold.*

4. Requests

5. Cap. gain of exempt owners. Churches, RCC.

Stanford. LLU. Cal Baptist. Mormon Tract, Van Buren Ave. Church; UCR; Pentagon, MAFB; §

c. Deferral on realized appren. p. 411

i.e. when you do sell, tax has been deferred.

d. Cap. gains on gains. v. ordinary offset for int. & fees, & any other holding costs.

e. Deferral beyond date of sale

Residence

Barter for like prop. - e.g. S&P extras.

Installment sale. Face buyer at low i.v.,

sell for hi price.

- Promoting principal + int., instead of using formula.
Profit partic. by seller
Condemnation
Sell option.

f. Defer rent by land use.

Timber, etc.

Expense early off losses when appropriating, e.g. wtr.
Cut-throat corp. selling below cost. Starting new branches,
Expensing by farmers.

Taking early losses to establish rt. of use.

Sell slow to tone up total holding; Chevron; Irvine.

Is inc. tax becoming a pure rent tax? No, but
it has that potential.

When you hear about loopholes, remember,
some are more functional than others.

✓ Strange bedfellows

Chicago School, tax capt.

Keyserian, exempt it. Allyn.

Tare, NAM, Heniss, etc.

Bias for deferred cash; slow payout.

Expensing is of no value re working cap; class lives, etc.

4

We lower t on cap. for 2 purposes

1. Encourage ΔK . But we cause misuse of the K .

2. Encourage flow of inv. But we slow down turnover.

Points to check

1. Unempl. comp. Fully taxable, beginning 1981.
But welfare benefits not.
2. SS ~~profits~~ "benefits" (not just profits) $\neq$ X.
 $\frac{1}{2} X - 32k$ ~~is~~ + AGI is taxable.
3. Pensions. Untaxed part gets taxed. Gain from deferred.
But taxable part keeps earning int., that too is taxable.
4. Annuities. Partly taxable.
5. Vets benefits. Not disability. But mil. retirement pay.
6. Inter corp. dividends
7. Timber, cost depn. method. P-uts
8. Bonuses
9. Corp. tax rate 46%. © 1981.
10. Country clubs
11. Holding pd. for cap. gains 6 mos.
12. State tax. of inc. from out of state
13. Divs. from mutual funds? It's "mutual ins. co.
dividends that reduce premiums you pd."

Fri

14. Scholarship - expenses other than tuition

15. Exclusion of inc. earned while abroad.

You lose ETC. It is mostly to benefit those who visit low-tax countries.

Ex 16. Rents, royalties: see Sched. E

~~bad paper~~

1. Cap. gains.

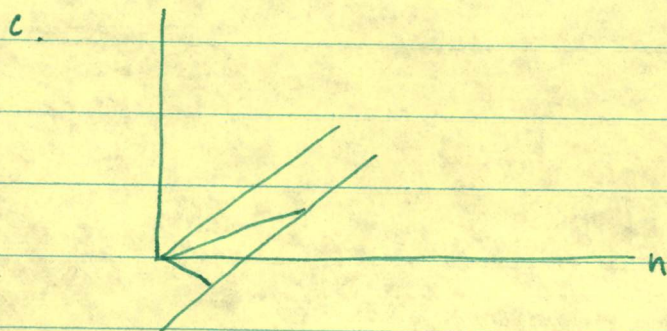
a. Herby 1. 159; 178; 180

b. $(1+r)^n = (1+i)^n (1-t)$

$$n \ln(1+r) = n \ln(1+i) + \ln(1-t)$$

$$nr \approx ni - t$$

$$r \approx i - \frac{t}{n}$$



d. $(1+r)^n = (1+i)^n (1-t) + t$

$$n=1$$

$$1+r = 1+i - t - ti + t$$

$$r = i - ti = i(1-t)$$

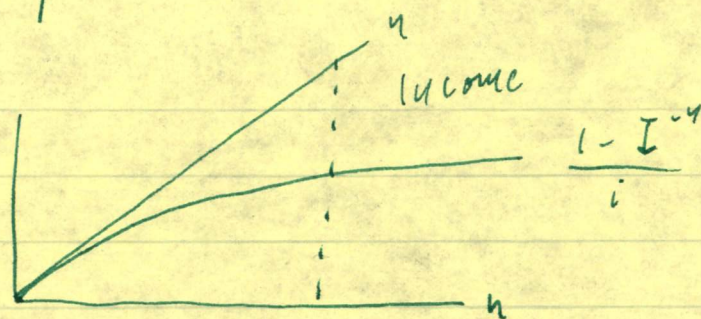
~~n > 25~~ $n > 25$, t negligible.

Show on graph

e. $1.072^{60} (1-.5) = 64 (.5) = 32$

$$1.036^{60} = 8$$

Imputed inc.



Fri, Pub. Fucc,

1. Inc. narrow or broad based?

Narrow ~~for~~ for prop. ty.

Broad for ~~for~~ wages.

2. Ability to pay

Wed,

Liquidity.

Income.

Wealth

Sales, payroll, Intangible prop. Realized cap. gains

Inc. tax

Prop; death duties; xfr;

Wed.

3.

Sovereignty. (jurisdiction)

Nulle tene sans seigneur.

Base, rate, taxable event. ... + situs

E.g. of Cal. tax on oil transit

Prop. tax, no ambiguity. (minor ones)

Inc. tax, complex

Unitary tax, world inc.

Sales tax subsidize exports.

Use tax.

Ser. tax, Commerce Clause

4. Poll tax - Maggie Thatcher.

Wed.

5.

Stability

~~Wed~~

6.

Income - sensitivity

1.

Elasticity.

Wed 8. Withholdings

9. Imputed inc. (inc. in kind)

10 Tax credit.
Oil credits

11. Internalizing profits.

Wed 12. Amortization - Means total profit. "Cap. recov." is
non-int. portion.

Wed. 13. Specific.

Review Mon.

$$P = a \frac{1 - r^n}{1 - r} = a \frac{1}{1+i} \frac{1 - (1+i)^{-n}}{1 - (1+i)^{-1}} = a \frac{1 - I^{-n}}{1 + i - 1}$$

$$P_{int} = P i = a [1 - I^{-n}]$$

2) Why not deduct cons. debt?

3) How is imputed inc. taxed?

4) Refunds of state taxes,

Ec. 132. Mon, Mar. 10

Case for Universal Expanding, by Gaffney. Pretty Strong!

Resolved: We shd. let all investments ~~be~~ ~~expended~~ in new capital be expended.

Advantages.

1. Increase the flow of new inv. hiring U.S. workers.

Sources:

a. M. from overseas

i. U.S. multi-nats., etc.

This means, limit the benefit to invts. inside U.S.

ii. Foreigners.

Some object, but mainly to for. land purchase, bcs. of its political aspect. This benefit goes only to those who actively create jobs for ~~the~~ U.S. workers by new invts. in U.S.

Also, shd. exclude purchase of imported machines. This gets administratively complex, but is better than the alt.

2

b. U.S. money that would have gone overseas.

c. Accelerated recovery of existing K.

i. S.r.

~~K.K.K.~~

d. "Fund" ^{capl.} ~~the~~: inventories, timber, livestock.

Holding costs rise, ~~for~~ imputed int. Owner wants to get his cap. out.

B. Depreciating capl.

Recovery is harder to accelerate, but willing is possible, by:

- neglecting maintenance.
- using harder

also, positive externalities ~~from~~ + synergy from replacing old priv. bldgs. with squeeze more value from neighboring bldgs. + the public infrastructure.

ii. L.v.

All K will recycle faster, bcs.:

- Remove intertemporal bias of existing law. E.g. no multiple deprec.
- Receive $\times$ after taxes
- Every site + "quasi-site" needed for new inv.

This l.v. will arrive soon, bcs.

$\frac{1}{3}$ of all K recycles ea. yr.

d. New K

i. Imported K stays here + recycles.

ii. New saving

Some are not sure if Δi causes new saving. But it does, by lowering value of old assets, esply. land.

2. Absolutely uniform, among kinds of inv.

a. Apply both to corp. + uninc.

"Quasi-site" is floor space, etc.

b. Special problem for invs. lasting less than a year,

Carry fwd. w. monthly interest.

c. Special problem for investors w/o outside income,
Carry fwd. w. int.

Disadvantages are either a) Due to error & misconceptions, or b) Solvable.

1. Make tax regressive, help the rich?
Partly imaginary, but mostly solvable.

- a. Remove all other prefs. for prop. inc.
- Cap. gains
 - ITC
 - Multiple deprec.
 - Deduction of int. & prop. taxes.

b. Raise the rate, so yield from prop. inc. stays same.

Thus, becomes a tax on pure land income. All cap. requires land, so no one is exempt. Still tax same income, just do so in a diff. way. Reward the enterprising, not the sleepy.

2. Displace labor?

Allegation based on a profound misunderstanding of relation of K to labor; plus implicit assum. that we neglected s.v. invts., innovations.

5-
There is (almost) no hiring labor w/o inv.

New proposal is better than now, remove
present biases to long life, K-increasement.

Also, Δ total K stock, plus the
yearly flow of inv. for replant.

Proof that $r = i$ when $n = \infty$

$$(1+r)^n = (1+i)^n (1-t) + t$$

$$1+r = \left[(1+i)^n (1-t) + t \right]^{\frac{1}{n}} \geq \left[(1+i)^n (1-t) \right]^{\frac{1}{n}}$$

If $n = \infty$, and $1+r = \left[(1+i)^n (1-t) \right]^{\frac{1}{n}} = (1+i)(1-t)^{\frac{1}{n}}$

$$1+r = (1+i)(1-t)^0 = 1+i$$

$r = i$

But ()

$$\therefore r \geq i$$

0

Fri., Feb. 1

1. Show how expensing means $\text{tax} = 0$

a. P100

B. Annuity - full salvage

a.

$$(1+r)^n = (1+i)^n (1-t) + t(1+r)^n$$

$$(1+r)^n (1-t) = (1+i)^n (1-t)$$

$$r = i$$

I. P1P0

A. Yield Tax

$$(1+i)^m = R_m$$

$$(1+r)^m = R_m (1-t)$$

$$(1+r)^m = (1+i)^m (1-t)$$

$$1+r = (1+i)(1-t)^{\frac{1}{m}} - 1$$

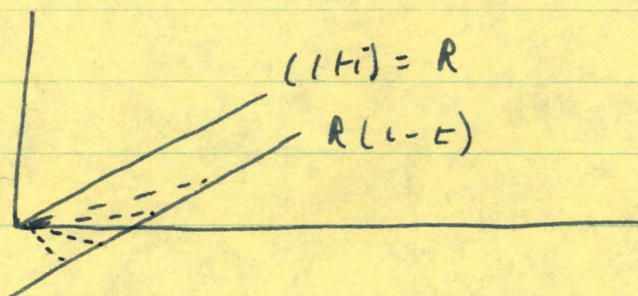
if $m=1$

$$\begin{aligned} r &= (1+i)(1-t) - 1 = i(1-t) - t \\ &= i - it - t \\ &= i - t(i+1) \end{aligned}$$

$$r < 0 \quad \text{if} \quad t > \frac{i}{1+i}$$

if $m=\infty$

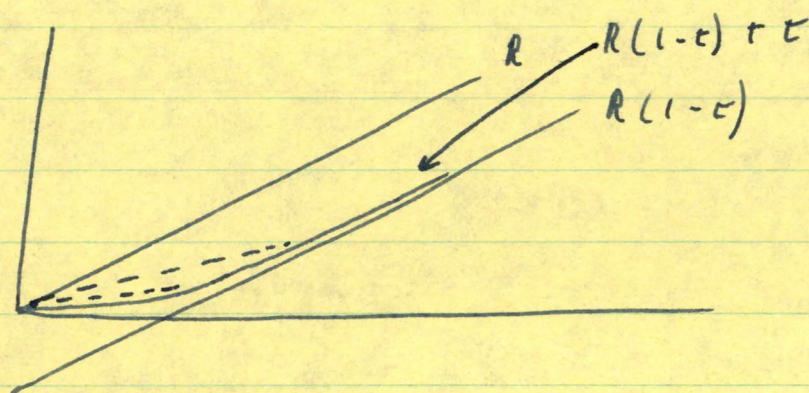
$$r = 1+i-1 = i$$



B. Inc. Tax

$$(1+r)^m = (1+i)^m (1-t) + t$$

$$r = [(1+i)^m (1-t) + t]^{\frac{1}{m}} - 1$$



But this is unstable. Investors will ~~not~~ want same R in all uses. So they shift out of short, + into long, until rates are equalized.

Thurs., 4-26-84

Ec. 132

I. Finish treatment of land income; clarify fuzzy points.

b. ii. Exemption of unrealized apprec. (This refers to holders who never sell.)

a. Buy in advance.

This is what makes mkt. sticky, too.

Every firm requires own reserve for future expansion, b/c each assumes mkt. will be too sticky to let them buy in the open mkt. when they need it.

Thus, incl. land mkt. in Mich. is clogged up.

Self-fulfilling prophecy.

Same w. vertical intr. into oil reserves;
~~timber feedstock~~ (deple. allowance).

b. Hold for decades, then use — or lease,
like Irvine.

c. Oil &c. mineral holders who hold for a
rise, then produce and take deple. allowance based on
appraised value.

b, V. Exempt holders. Certificates!

c) Deferral of tax on ~~un~~ realized apprec.

(Refers to ~~all~~ holders who do sell.)

This, too, makes land mkt. sticky. Locked-in effect defers sale.

$$1.10^{50} = 119$$

$$1.20^{50} \cdot \frac{1}{2} = 9100 / 2 = 4550$$

(Unlikely? Case of Apple Valley)

f) Deferral of income from land use

i) Sacrificing early rents for later rents.

- Turning up p.u.d.

- Storing up rents in trees

ii) Taking early losses to establish position

E.g. a water right

a zoning grandfatherhood. Gas station

rush of 1960s. "The importance of being a nuisance."

40% of recent land in gas station sites.