

The Logic of Tax - Federal Income Tax Theory and Policy by Joseph M. Dodge

reviewed by

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Joanne R. Borg

Taxation and the tax law affects everyone and is a factor in business and personal decision-making. This book provides an overview in general terms and is an excellent reference which attempts to aid in understanding federal income tax law. An overview is provided with the foundation being that tax law is logical and fair.

This text is very general and is meant to be used in conjunction with other texts. It is an excellent source for the economist or an accounting student who does not have occasion to deal with the Internal Revenue Code on an ongoing basis. The fact that the book contains a Table of Cases, a Table of Code Sections, a Table of Regulations, and a Table of Revenue Rulings gives direction if additional depth is desired.

I would recommend this book as a good supplementary reference source.

Kenneth M. Huggins

Financial concepts are important in understanding changes in the value of assets and wealth of a taxpayer. The book provides a review of principal, interest, and valuation concepts using the discount cash-flow approach. A very good explanation is given of the valuation procedure for "original issue discount" (OID) securities thereby being able to identify any gain as "capital" or ordinary. Several court cases relating to OID's are cited and discussed.

The present-value analysis discussed includes different issues such as OID's, below-market

loans, and imputed interest on deferred-payment sales. There is an excellent discussion on the different perspectives of a consumption tax, realization principle, and financed valuation including the theory of cost recovery (depreciation). Numerous cases are cited and discussed which provide references for all financial concepts discussed.

The book is an excellent reference source and would be a good supplementary text for an advanced tax course.

R. Michael Brown

The author does an excellent job in one chapter of reviewing the principle foundations of economic theory and examining tax imposition and the incidence effect they have on gainers and losers in a market economy. The writing style is direct, the economic theory concepts and applications are correct, and the references following the chapter are current and credited to experts in public finance and tax law.

The main contribution by the author is that the chapter on economics does not stand isolated by itself. Instead, the author has made a strong case illustrating the consequences that tax expenditure provisions have on the U. S. economy, especially as they relate to the economic principle of neutrality and allocation efficiency. The provisions of selective exclusions and deductions from the tax base, in addition to the granting of subsidies, both serve as applied examples of profitable incentives or recipient enrichment. Examples such as these are used by the author to illustrate deviations from the desired Pareto-

optimal solution and the ultimate reduction in allocation efficiency.

The author's pedagogical technique of integrating accounting, finance, and economics gives the reader a better insight into and greater understanding of the evolutionary process of tax law and the opportunity to evaluate in advance their intended and unintended consequences. Hopefully this approach will serve the end of acquainting the "student of tax" with the basics of these disciplines.