

"We are of opinion that any profit made on a transaction recognizable as a business transaction, *i. e.*, a transaction in which the subject matter was acquired with a view to profit-seeking, should be brought within the scope of the Income Tax, and should not be treated as an accretion of capital . . ."

Forest taxation might also be mentioned as affording examples of unsound practices based on the error of confusing capital and income. Today the trend of opinion in America, and for a longer time abroad, is toward a "yield tax" which recognizes that the mere storing up of values in growing stumpage is not income. The forest yields income only when it is cut. It should be noted, however, that forests in America are avowedly taxed not under the income tax but under the general property tax. It affords a good *reductio ad absurdum* of the general property tax. When capital is accumulating and not yielding current income the repeated annual tax on that capital is a very much greater burden than on ordinary property yielding an annual income. Instinctively this is recognized and forest lands are, as a consequence, almost always assessed far below their true value.\*

The foregoing sketch of American experience shows many instances where, in a fairly consistent line of progress, items first misplaced as capital or income have gradually found or approached their true place. The practically attainable goal has not yet been reached and it can never be reached until due allowance is made for reinvestments.

The foregoing legal discussions show how the true theory of capital and income seems to be slowly working itself out. The late Chief Justice Judge Marcus Knowlton, of Massachusetts, accepted fully what I regard as the true point of view. Mr. W. Strachan embodied it in his law book, *The Law of Trust Accounts*. Other legal authorities and many economists have tended toward the service concept and in proportion as this trend increases just so fast will these tax injustices, ambiguities, misunderstandings and objections tend to disappear.

### INCOME STATISTICS

It is interesting to note that, just as with income taxation and forest taxation, experience and injustice have necessitated a truer understanding of income, so have statisticians been compelled by their experience in reckoning income, to recognize a truer concept.

\* An excellent discussion of forest taxation is to be found in the *Scientific Monthly* of May, 1926, by Prof. F. R. Fairchild who, more than any other writer, has been endeavoring to reform forest taxation to make it harmonize with true concepts of capital and income.