**Case 1-8 Shifty Industries**

Shifty Industries is a small business that sells home beauty products in the San Luis Obispo, California, area. The company has experienced a cash crunch and is unable to pay its bills on a timely basis. A great deal of pressure exists to minimize cash outflows such as income tax payments to the Internal Revenue Service (IRS) by interpreting income tax regulations as liberally as possible.

You are the tax accountant and a CPA working at the company and you report to the tax manager. He reports to the controller. You are concerned about the fact that your supervisor has asked you to go along with an improper treatment of section 179 depreciation on the 2015 tax return so you can deduct the $100,000 full cost of eligible equipment against taxable income. The problem as you see it is the 2014 limitation of $500,000, which would have been fine for 2015 had Congress extended it, was rolled back to a maximum of $25,000. Therefore, your supervisor is planning to allow Shifty to deduct $75,000 more than allowed by law. Using a 35 percent tax rate it means the company is “increasing” its cash flow by $26,250.

Answer the following questions to prepare for a meeting you will have tomorrow morning with the tax manager.

**Questions**

1. **What values are most important to you in deciding on a course of action? Why?**

As an accounting professional, the important values are to place the public interest ahead of all other interests, make decisions objectively, exercise due care in the performance of professional services, and act with integrity. A tax professional does not have to be independent. (However, if a public accounting firm does assurance and audit services, as well as tax services, then the tax professionals in that firm have to be independent of the clients). Tax accountants are held to the same ethical standards as auditors and also have additional standards to meet, so-called Statements on Standards for Tax Services (SSTS), which will be discussed in Chapter 4.

1. **Who are the stakeholders in this case and how might they be affected by your course of action?**

The stakeholders include Shifty Industries (company), the employees, clients, creditors, the IRS, and the taxpayers. The company wants to minimize cash outflows and show net income. The reduction in cash outflows and improvement will help the company obtain financing at a good interest rate. The employees wants the company to remain in business so that they continue to get paid and enjoy a good job and employment. The clients like the products of Shifty Industries; they want to continue to have a favorite product available at a reasonable price. The IRS wants tax returns on a timely basis and completed with honesty. The taxpayers want all individuals and companies to pay their fair share of taxes. When one taxpayer does not pay taxes, eventually the remaining taxpayers pay a higher tax rate to make up for the taxes that were not paid and owed.

1. **What would you do and why, assuming your approach will be based on the application of the ethical reasoning methods discussed in the chapter?**

The only things certain in life are death and taxes. As humans, we do not like either of those things. However, taxes are generating revenue for the government to provide services that we do appreciate, such as safety from fire, crime, attacks, trash pick-up, roads, highways, bridges, dams, power, libraries, safety net for the elderly, poor and abused, to name a few. From utilitarian, deontological, and virtues approach, the government provides services for the community and the greater good. As a citizen of where we live, we should be willing to pay our fair share of taxes to continue those services.

Ethical reasoning indicates that you should not go along with the improper tax accounting. You do not want to be blamed for sanctioning improper tax accounting and possibly be blamed for inaction down the road. The stakeholders have a right to expect accurate tax reporting and it is in the public interest to do so. While an act utilitarian approach might open a pathway to rationalize going along with improper tax accounting, the rule utilitarian perspective says that tax rules should never be violated. What if every taxpayer did that? The system of taxation in the U.S. might collapse.