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Joseph O’Meara
Notre Dame Law School

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MIMEOGRAPH 6209 AND THE CEILING ON BAD-DEBT RESERVES FOR BANKS

JOSEPH O'MEARA, JR.
Of the Cincinnati and Columbus Bars

Instead of deducting "debts which become worthless" taxpayers may deduct "a reasonable addition to a reserve for bad debts." Prior to the publication of [Mimeograph 6209 on December 8, 1947] it was the consistent position of the Bureau [of Internal Revenue] . . . that deductions for additions to bad debt reserves were allowable in amounts sufficient to bring such reserves up to a measure of the bad debt risk at the close of each taxable year based solely on the facts and circumstances at such time." In practice a reserve for bad debts was limited in amount

1Sec. 23(k)(1) I. R. C: "In computing net income there shall be allowed as deductions: . . . Debts which become worthless within the taxable year; or (in the discretion of the Commissioner) a reasonable addition to a reserve for bad debts. . . ." For a brief summary of the statutory history of this provision see Vernon, Bad Debt Reserves for Banks, 4 Tax L. Rev. 53-4 (1948).

2Unpublished letter ruling dated May 7, 1948, signed by Deputy Commissioner; italics added. The applicable regulation follows:

"Taxpayers who have established the reserve method of treating bad debts and maintained proper reserve accounts for bad debts, or who, in accordance with section 29.23(k)-1, adopt the reserve method of treating bad debts, may deduct from gross income a reasonable addition to a reserve for bad debts in lieu of a deduction for specific bad debt items.

"What constitutes a reasonable addition to a reserve for bad debts must be determined in the light of the facts, and will vary as between classes of busi-
to the bad-debt losses which were expected to eventuate in the 12-month period immediately following the taxable year.\(^3\)

The practice of limiting the reserve to the estimated bad-debt losses of the ensuing 12 months appears to have been based on the tacit assumption that all debts mature, and so will turn out to be either good or bad, within a year. This remarkable assumption may be well founded so far as concerns trade credit (credit extended by a merchant to his customers) and, as regards such credit, is not without support in the decisions;\(^4\) but it has no basis whatever so far as concerns bank credit, as Mr. Severson demonstrates in the excellent monograph which immediately follows this brief introductory note.\(^5\) In contrast with trade credit bank credit, in large part, is long-term and is increasingly a source of permanent working capital. Nevertheless, prior to Mimeograph 6209\(^6\) there appears to have been no recognition by the Bureau of the fallacy of lumping bank credit and trade credit and treating them as if they were one and the same.

ness and with conditions of business prosperity. It will depend primarily upon the total amount of debts outstanding as of the close of the taxable year, those arising currently as well as those arising in prior taxable years, and the total amount of the existing reserve. In case subsequent realizations upon outstanding debts prove to be more or less than estimated at the time of the creation of the existing reserve, the amount of the excess or inadequacy in the existing reserve should be reflected in the determination of the reasonable addition necessary in the taxable year. A taxpayer using the reserve method should make a statement in his return showing the volume of his charge sales (or other business transactions) for the year and the percentage of the reserve to such amount, the total amount of notes and accounts receivable at the beginning and close of the taxable year, and the amount of the debts which have become wholly or partially worthless and have been charged against the reserve account.” U. S. Treas. Reg. 111, Sec. 29.23(k)-5.

\(^3\)No doubt there were deviations from this practice; Sec. 23(k)(1) was not administered uniformly, at least in the case of banks. See W. L. J. Patton, The Reserve Method of Accounting for Bad Debts for Federal Income Tax Purposes, 22 NATIONAL AUDITGRAM 16 (1945).

\(^4\)E.g., C. P. Ford & Company, Inc., 28 B. T. A. 156 (1933).


II

Mimeograph 6209\(^7\) adopts a new method of determining what is a reasonable addition to a bad-debt reserve in the case of a bank; it approves the use of a formula based upon the bank's bad-debt experience over the preceding 20 years (including the

\(^7\)For an explanation of the mimeograph see Vernon, Bad Debt Reserves for Banks, 4 Tax L. Rev. 53 (1948). The text of the mimeograph follows:

"1. The Bureau has given careful and extended consideration to the situation of banks in general with respect to the use of reserves for bad debts, the proper measure of such reserves, and amounts to be allowed as deductions.

"2. In determining a reasonable annual addition to a reserve for bad debts by a bank it is believed to be fair and sufficiently accurate to resort to the average annual bad-debt loss of the bank over a period of twenty years, to include the taxable year, as constituting a representative period in the bank's history and to accept the equivalent percentage of presently outstanding loans as indicative of the probable annual occurring loss. The Tax Court has held that the 'use of the reserve for bad debts is not inherently inconsistent with a cash basis where, as here, the reserve is against loss of capital only ... and contains no element of income which has never been reported. ... Such a reserve for loss of capital does not differ materially from a reserve for depreciation which is set up on a percentage basis rather than on the basis of actual depreciation suffered.' (Estate of Maurice S. Saltstein, Deceased, Transferee, etc. 46 B. T. A. 774, 777 [1942] Acq. C. B. 1942-1, 14.) However, such reserve cannot be permitted to accumulate indefinitely simply because of the possibility that at some future date large losses may be concentrated within a relatively short period of time and operate to absorb the greatest probable reserve. To permit this would sanction the deduction of a mere contingency reserve for losses, which is not an allowable deduction for income or excess-profits tax purposes. This latter rule makes imperative the imposition of some reasonable ceiling on the accumulation of the reserve other than such indefinite limitation as might eventually prevail under a moving-average method.

"3. The Bureau has accordingly approved the use by banks of a moving average experience factor for the determination of the ratio of losses to outstanding loans for taxable years beginning after December 31, 1946. Such a moving average is to be determined on a basis of twenty years, including the taxable year, as representing a sufficiently long period of a bank's experience to constitute a reasonable cycle of good and bad years. The percentage so obtained, applied to loans outstanding at the close of the taxable year determines the amount of permissible reserve in the case of a bank changing to the reserve method in such year (see 1st year in following computation) and the minimum reserve which the taxpayer will be entitled to maintain in future years (see 2nd year in following computation). A bank following a change to the reserve method of accounting for bad debts, may continue to take deductions from taxable income equal to the current moving average
taxable year)—the so-called "moving average"; and permits annual deductions computed according to this formula until the reserve reaches a ceiling of "three times the moving average loss rate applied to outstanding loans" (hereinafter referred to as the 3-year ceiling).

percentage of actual bad debts times outstanding loans at the close of the year, or an amount sufficient to bring the reserve at the close of the year to the minimum mentioned above, whichever is greater. Such continued deductions will be allowed only in such amounts as will bring the accumulated total at the close of any taxable year to a total not exceeding three times the moving average loss rate applied to outstanding loans (see 5th year in following computation).

Example of the application of the foregoing with amount of outstanding loans remaining unchanged at $1,000,000

<table>
<thead>
<tr>
<th>Year</th>
<th>Moving Average Percent</th>
<th>Actual Bad Debts for Year</th>
<th>Reserve at End of Year Deduction</th>
<th>Ceiling</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1.00%</td>
<td>$2,000</td>
<td>$12,000</td>
<td>$10,000</td>
</tr>
<tr>
<td>2</td>
<td>0.8</td>
<td>11,500</td>
<td>9,500</td>
<td>8,000</td>
</tr>
<tr>
<td>3</td>
<td>0.7</td>
<td>1,000</td>
<td>7,000</td>
<td>14,000</td>
</tr>
<tr>
<td>4</td>
<td>0.8</td>
<td>1,000</td>
<td>8,000</td>
<td>21,000</td>
</tr>
<tr>
<td>5</td>
<td>1.00%</td>
<td>500</td>
<td>9,500</td>
<td>30,000</td>
</tr>
</tbody>
</table>

"4. In computing the moving average percentage of actual bad debt losses to loans, the average should be computed on loans comparable in their nature and risk involved to those outstanding at the close of the current taxable year involved. Government insured loans should be eliminated from prior year accounts in computing percentages of past losses, also from the current year loans in computing allowable deductions for additions to the reserve. Losses not in the nature of bad debts resulting from the ordinary conduct of the present business should also be eliminated in computing percentages of prior losses.

"5. A newly organized bank or a bank without sufficient years experience for computing an average as provided for above, will be permitted to set up a reserve commensurate with the average experience of other similar banks with respect to the same type of loans, preferably in the same locality, subject to adjustment after a period of years when the bank's own experience is established.

"6. Bad debt losses sustained are to be charged to the reserve and recoveries made of specific debts which have been previously charged against the reserve by a bank on the reserve method of treating bad debts should be credited to the reserve.

"7. Omitted.

"8. The term 'banks' as used herein means banks or trust companies incorporated and doing business under the laws of the United States (including
MIMEOGRAPH 6209

Mimeograph 6209 has to do only with the reasonableness of additions by a bank to a reserve for bad debts. As there has been no change in the applicable statute and regulations, the mimeograph reflects merely a change in administrative practice: what it does is simply to recognize that the moving-average method produces reasonable additions in the case of banks.  

III

In Estate of Maurice S. Saltstein the Board of Tax Appeals held that the reserve for bad debts authorized by section 23(k)(1) is a

"... reserve ... against loss of capital only ... [and] does not differ materially from a reserve for depreciation which is set up on a percentage basis rather than on the basis of actual depreciation suffered."  

Mimeograph 6209 adopts this view.

The analogy between a depreciation reserve and a bad-debt reserve is illuminated by the data Mr. Severson has assembled, which support the following analysis. A bank’s loans are an investment of capital. If the past is any guide to the future, an unhappily large percentage of this capital will be lost through the inability of borrowers to repay. Losses from bad debts occur unevenly; when business is good there is only a sprinkling of losses; around the bottom of the business cycle the sprinkle becomes a deluge. The loans which eventuate in these heavy losses are not new or recent loans; by and large they have

laws relating to the District of Columbia), of any State, or of any Territory, a substantial part of the business of which consists of receiving deposits and making loans and discounts.

"9. Omitted."

"The regulations have long provided that “what constitutes a reasonable addition to a reserve for bad debts ... will vary as between classes of business. ...” U. S. Treas. Reg. 111, Sec. 29.23(k)-5.


Severson, Ch. VII, infra p. 70.

Ibid.
been on the books a long while. That is the pattern. Thus at any given time the life of a considerable part of a bank's loan portfolio will correspond with the prosperity phase of the business cycle, or what is left of it—will continue, that is, until the next bust. Of course, there are various categories of loans with differing life expectancies; some are shorter, some are longer. Hence a bank's loan portfolio essentially resembles an aggregate of capital assets, of varying life expectancies, which are depreciated at a composite rate. That is what the moving average authorized by the mimeograph is—a composite rate based primarily on a bank's own bad-debt experience.

To be sure, most commercial bank loans are time loans and no doubt the better part of these nominally mature in less than a year. As is well known, however, a large proportion of these loans, term loans included, are expected to be and are renewed time after time.

In form, of course, these loans are not renewed; in form each note is paid with the proceeds of a new note. But in reality the transaction is not the creation of a new indebtedness but the continuation of an old one. Hence it is customarily and aptly described in banking circles as a "renewal." For precisely the same result is intended and accomplished by the practice of substituting a new note as was intended and accomplished by the former practice of indicating on the back of the original note an extension of the due date. As much in one case as in the other the debt persists, the debtor-creditor relationship continues.

The courts have recognized that a debt is not paid by the substitution of one note for another. The reason, of course,

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13Severson, Chs. II and VIII, infra pp. 29, 78. A survey by one bank revealed that 25% of its bad-debt losses in the preceding 20 years (exclusive of mortgage loans) resulted from the default of borrowers who had been continuously indebted to the bank for as long as 22 years and, on the average, for between 10 and 11 years.

14Severson, Ch. II, infra p. 29.


16Severson, Chs. II and IV, infra pp. 29, 44.

is that the debtor has parted with nothing by his promise to pay what he already owes. The level of indebtedness may and, in many if not most cases, presumably does fluctuate but the relationship of debtor and creditor persists without interruption.

The evidence collected by Mr. Severson points to the conclusion that a solvent and satisfactory borrower is permitted if not encouraged to remain in debt—until the economic storm signals go up.\textsuperscript{7} In other words, a large proportion of the bank loans outstanding at any given time will remain outstanding by virtue of successive renewals as long as times are good. This is the period of gestation for the large losses which banks suffer in times of economic adversity.

On the basis of the depreciation analogy a bank should be entitled to deduct each year its average annual loss of capital from bad debts.\textsuperscript{8} This result is indicated by the correspondence between section 23(k)(1) authorizing a deduction for \textquotedblleft... a reasonable addition to a reserve [i.e., allowance] for bad debts...\textquotedblright and section 23(1) authorizing a deduction for \textquotedblleft... a reasonable allowance [i.e., addition to a reserve] for exhaustion, wear and tear... of property...\textquotedblright.

In one case as in the other the only statutory condition is that the deduction must be \textquotedblleft reasonable.\textquotedblright If, in the case of depreciation, it is reasonable to amortize the consumption of capital \textquotedblleft on a percentage basis rather than on the basis of actual depreciation suffered,\textsuperscript{19} how can it be unreasonable to make similar provision for bad debts?

Depreciation, of course, is customarily provided for on a percentage basis. The method in most frequent use, that is, the straight-line method, spreads the cost or other basis evenly over

\textsuperscript{7}Severson, Chs. II and IV, \textit{infra} pp. 29, 44.

\textsuperscript{8}See Security Materials Co., 1942 P-H BTA-TC Memo. Decs. 42-314, 319, CCH Dec. 12,445-A (\textquotedblleft... the theory of the reserve method, as applied to bad debts, is that the loss from bad debts is spread over the years by taking deductions in each year for additions to the reserve in an amount which represents an average of the charges for bad debts.\textquotedblright)

estimated useful life. Thus the allowable deduction is the average annual loss from exhaustion, wear and tear, not the actual loss at all. In almost all cases, moreover, estimated useful life reflects common experience with types of property, that is, average life expectancy. Thus depreciation on the straight-line method is simply a matter of statistical averages.

In point of fact it could not be otherwise. In the words of Justice Brandeis:

"... an annual depreciation charge is not a measure of the actual consumption of plant during the year. No such measure has yet been invented. There is no regularity in the development of depreciation. It does not proceed in accordance with any mathematical law. . . .

"... The life expectancy of a plant, like that of an individual, may be in fact greater, because of unusual repairs or other causes, at the end of a particular year than it was at the beginning. And even where it is known that there has been some lessening of service life within the year, it is never possible to determine with accuracy what percentage of the unit's service life has, in fact, been so consumed. Nor is it essential to the aim of the charge that this fact should be known."

"The very words of the statute, 'reasonable allowance . . .' indicate that estimates and averages are in view rather than demonstrated actualities."

"The end and purpose of [the statutory allowance for depreciation] is to approximate and reflect the financial consequences to the taxpayer of the subtle effects of time and use on the value of his capital assets. In other words, the function of the allowance for depreciation authorized by section 23(1) is simply to provide for the orderly recovery, by annual deductions from gross income,

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20 MERTENS, LAW OF FEDERAL INCOME TAXATION, §§ 23.31 and 23.32 (1942).


of the net cost of wasting capital assets, and, in this way, to avoid distortion of income.

That the statutory allowance for depreciation is perverted unless so applied as to avoid distortion of income is the gist of the Tax Court's decision in Associated Patentees, Inc., in which the Commissioner has acquiesced. The petitioner in that case purchased a group of patents of varying durations. The consideration was its promise to pay the vendors each year 80 per cent of its royalty income from the patents. In the taxable year, the first after the purchase, the amount thus paid was $40,209.76. What the total cost would be was unknown and unknowable since the annual payments still to be made depended on uncertain future profits. In short, the cost of the patents could not be determined until they expired.

In this situation, which presents essentially the same problem as that posed by the bad-debt losses of a bank, the Tax Court held:

"Of course, it is unquestioned that petitioner is entitled to recover its total cost through reasonable deductions for exhaustion over the period of the lives of the patents. The obstacle to computation of depreciation over the term of the lives of the patents in the ordinary way by a proration of total cost is the fact that we have here the first year of the term. It is impossible to determine in this year what the total cost will be, since it will include a percentage of earnings of petitioner in each year of that term. These earnings can not now be determined.

"Under these conditions, it is respondent's contention that for the year 1940 there should be allowed as depreciation only a proportionate part of the $42,209.76 paid in that year, the balance of that cost to be prorated over the succeeding years of the lives of the patents and that in each succeeding year there should be allowed depreciation upon payments made therein based upon the then remaining lives of the patents, petitioner to be allowed this amount plus the amount of depreciation allocated to such succeeding year from prior payments.

United States v. Ludey, 274 U. S. 295, 47 S. Ct. 608 (1927); Union Electric Co. of Missouri, 10 T. C. 802, 804 (1948), NA 1948-2 CUM. BULL. 6. ("The purpose of [Sec. 23(1)] is to return to the owner the cost of the assets tax free during their useful lives through deductions from income.")


Ibid."
"It will readily be seen that although this method of computation will give to the petitioner aggregate theoretical deductions for depreciation equaling the total ultimate cost, its practical result will be an entirely inadequate allowance for depreciation at the beginning of the term and excessive allowances for depreciation at the end. Actually, in the later years, the depreciation allowances would largely exceed income from the patents. Under such a method of computation the petitioner might not, in fact, recover its cost from income.

"Petitioner's contention is that the cost payment made each year is subject to depreciation in its full amount because it is a cost pertaining to that year alone and measured by income over that period. It is argued that, with an allowance so made, at the close of the lives of the patents the petitioner will have recovered the amount of their cost prorated equitably over their lives.

"... The situation here is unusual. But we think that the method for computing depreciation for which petitioner argues gives it a reasonable, and not more than a reasonable, allowance, whereas the method urged by respondent might deny petitioner the recovery of its cost and would unquestionably result in a distortion of income."²⁸

In short, a taxpayer’s rights are denied by any method of depreciation which results in minor deductions in fat years and major deductions in lean years. Just as "depreciation [cannot] be accumulated and held for use in that year in which it will bring the taxpayer the most tax benefit,"²⁹ so depreciation cannot be withheld and piled into years when it will do the taxpayer no good at all.

That must be true not only of additions to a depreciation reserve but equally of additions to a bad-debt reserve, for the end and purpose of section 23(k)(1) authorizing the latter is the same as section 23(1) authorizing the former. This follows from the parallel phraseology and identity of import of the two sections. The correspondence between the sections demonstrates that the deductions they authorize have a common function. Thus the function of additions to a bad-debt reserve is the same as the


function of depreciation allowances, namely, to compensate for the using-up of wasting capital assets and to do this by means of systematic annual deductions from taxable income.\(^\text{30}\) Hence in the case of a reserve for bad debts, no less than in the case of a reserve for depreciation, the statutory purpose is frustrated by an interpretation which results in disproportionately small deductions (or none at all) in years when profits are up and disproportionately large deductions when profits are down or non-existent. The Tax Court recognized this fact, as regards depreciation allowances, in the *Associated Patentees* case and the Commissioner acquiesced. He had similarly acquiesced when the Board of Tax Appeals earlier recognized the same fact, as regards additions to a bad-debt reserve, in *Fibre Yarn Co.* wherein it held:

"... It was not intended that taxable income might be distorted from year to year by making an inadequate addition to the reserve [for bad debts] in one year and an excessive addition in some future year."\(^\text{31}\)

**IV**

Yet that is precisely the result accomplished by the ceiling provision of Mimeograph 6209.\(^\text{32}\) For, unless history has repeated

\(^{30}\)See note 25 *supra.*

\(^{31}\)10 B. T. A. 479, 481 (1928), acquiesced VII-2 CUM. BULL. 13. The sentence quoted in the text was addressed to the taxpayer's action. It is nonetheless pertinent since it cannot have been intended to give the Commissioner, any more than the taxpayer, the privilege of distorting income.

\(^{32}\)Paragraph 3 of Mim. 6209 says: "The . . . moving average experience factor . . . applied to loans outstanding at the close of the taxable year determines the amount of permissible reserve in the case of a bank changing to the reserve method in such year . . . and the minimum reserve which the taxpayer will be entitled to maintain in future years. . . . A bank following a change to the reserve method of accounting for bad debts, may continue to take deductions from taxable income equal to the current moving average percentage of actual bad debts times the outstanding loans at the close of the year, or an amount sufficient to bring the reserve at the close of the year to the minimum mentioned above, whichever is greater." Thus the mimeograph authorizes "excessive addition[s]" in years of heavy losses in order to take up the slack caused by the "inadequate addition[s]" permitted under the 3-year ceiling. See Fibre Yarn Co., *supra* note 31. Some such provision was necessary to keep the reserve from becoming a minus quantity since, under paragraph 6, all "bad debt losses sustained are to be charged to the reserve. . . ."
itself for the last time, the limited reserve permitted under the mimeograph is unquestionably inadequate to serve the only purpose justifying any accumulation at all, that is, to spread a bank's consumption of capital, resulting from bad debts, systematically over the years and thus to avoid distortion of income.\textsuperscript{33}

The mimeograph attempts to justify this low ceiling as follows:

"... such reserve cannot be permitted to accumulate indefinitely simply because of the possibility that at some future date large losses may be concentrated within a relatively short period of time and operate to absorb the greatest probable reserve. To permit this would sanction the deduction of a mere contingency reserve for losses, which is not an allowable deduction for income or excess-profits tax purposes. This latter rule makes imperative the imposition of some reasonable ceiling on the accumulation of the reserve other than such indefinite limitation as might eventually prevail under a moving average method."\textsuperscript{34}

But the general rule against the deduction of contingency reserves is irrelevant in the face of the explicit provisions of section 23(k)(1). In unmistakable terms the section authorizes the annual deduction of a reasonable addition to a reserve for bad debts. The only question open under this statutory provision is the reasonableness of the annual additions. Whether additions to a bad-debt reserve are reasonable depends primarily upon the purpose they are intended to serve. The purpose of additions to a reserve for bad debts, in the case of a bank, can only be the orderly recovery, from taxable income, of the capital consumed in its lending operations. Hence there is no rational basis for the 3-year ceiling inasmuch as it applies regardless of the inadequacy of the reserve to accomplish that mission.

A bank is entitled under section 23(k)(1) to recoup the net cost of its loan portfolio (loans less probable repayments) in the same way that it is entitled under section 23(1) to recoup the net cost of its banking house (cost less probable salvage value)—that is, by systematic annual deductions from gross income.

\textsuperscript{33}Severson, infra pp. 102-107.

\textsuperscript{34}Par. 2.
There is no more warrant in one case than there would be in the other for arbitrarily limiting the statutory allowances. The fact that the 3-year ceiling is arbitrary and untenable does not mean that there must be no ceiling at all. It may well be, as Mr. Severson argues, that the reserve will be self-limiting and that there is therefore no need for a ceiling. There can be no reasonable objection, however, to a ceiling designed (as the present ceiling is not) to hold the reserve to the amount of probable losses. And there appears to be no reason why such a ceiling should not be geared, as the moving average is, to a bank's own experience.

How the ceiling should be arrived at, if there is to be a ceiling, presents a purely practical problem. No amount of unverified theorizing is apt to produce a workable solution. Approaching the matter from this angle Mr. Severson points out that, on the record, the ceiling should be something more than five times as high as that presently permitted.

The whole problem would be illuminated and its solution facilitated by a factual study to determine (1) what would have been the practical result if Mimeograph 6209, without the ceiling, had been in effect and had been followed by the banks since, say, 1914 when the Federal Reserve System was set up, and (2) what would have been the effect of the mimeograph as it stands, that is, with the ceiling provision. No doubt something like this has been done by a scattering of individual banks. It ought to be done systematically for a fair sampling of representative banks in various sections of the country.

**Conclusion**

Although, as Mr. Severson points out, additional research should be undertaken, the data he has compiled illuminate the analogy between a reserve for depreciation and a reserve for bad

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35 The Commissioner has broad discretion under Sec. 23(k)(1) but may not act unreasonably. Art Metal Construction Co. v. United States, 17 Fed. Supp. 854 (Ct. Cl. 1937); C. P. Ford & Company, Inc., 28 B. T. A. 156 (1933); Apex Brewing Co., 40 B. T. A. 1110 (1939).

36 Severson, infra p. 107.


38 Severson, infra p. 54. The forms appended to his monograph (pp. 108-114.) will greatly facilitate further investigation.
debts. Moreover, in view of the essential likeness of sections 23(1) and 23(k)(1) authorizing, respectively, a deduction for a reasonable addition to a depreciation reserve and a reasonable addition to a bad-debt reserve, it is clear that they reflect a common principle and that the function of the deduction authorized by the latter section is the same as that authorized by the former. It follows that a bank should be entitled to deduct each year its average annual loss of capital from bad debts. This view Mimeograph 6209 adopts. Having done so, it throws over its own logic by limiting arbitrarily the annual deductions it permits. The ceiling it thus imposes is inadmissible. Some ceiling, nevertheless, may be in order. Factual studies should be undertaken to throw needed light on this very practical problem. These studies should be undertaken by the Treasury and the banks in collaboration.