Business report: profit and tax

Roger Woodham

THE more one enquires precisely how much meaning can be attached to a company's 'profit' as presented in its annual report, the more the answer seems to be 'relatively little'. This was highlighted in a paper by Parker and Gibbs presented recently to the Institute of Actuaries in London.

The drift of their paper is that companies of most kinds, except those in service industries, would come up with considerably smaller profits if inflation were not taken into account in some way or another. For example, it is conventional accounting practice not to take into account inflation when amounts are set aside for depreciation of plant and machinery, so the profit seems to be that much larger and has to be dipped into to replace that plant or machinery at the inflated prices. Likewise, "profits are overstated by the inclusion of profits on stock which arise solely from a general increase in price levels".

Parker and Gibbs produce some interesting findings using the CPP (current purchasing power) method of accounting. Here allowance is made for inflation by using a single index, for example the retail price index, to set up the company's accounts in terms of end-of-accounting-year pounds. This is a rather crude method, however, for it does not take into account the rise in price of a particular commodity, which may be much more than the increase in a broadly based index.

Parker and Gibbs show that the chemicals sector would have earnings 15% down on average, oil 25% down, and general engineering and eletricals 50% down according to CPP accounting. More specifically, ICI's earnings for 1972 would have been 45% less and BP's 65% less. In 1973 BP earnt £310 million (compared with £70 million in 1972) but on huge total sales of £4,500 million. Only detailed analysis will reveal what inflation accounting would have made of that.

As J. M. Keynes is thought to have said: "It is better to vaguely right than precisely wrong".

●If the United States Internal Revenue Service (IRS) gets its way about the taxing of multinational companies based in that country, some companies may find it financially worthwhile to shift more of their research and development effort abroad.

Even the IRS admits that the situation is complex, but basically what happens now is that tax calculations for multinationals in the United States do not take into account the fact that some earnings outside the United States are generated by money spent in the United States, for example on research and development.

A company can obtain 'foreign tax credits' (which can be offset against United States tax) in respect of taxes paid to foreign governments. The IRS wants a proportion of 'home' expenditure on research and development to be shifted on paper to foreign operations, which means less foreign income and less foreign tax credits in the United States. The IRS has a complex way of calculating these credits and, in the final analysis, the pre-tax profits of multinationals based in the United States would be reduced—some say by 3%, typically. Certain companies, notably in the pharmaceutical industry, stand to lose more because their research and development programmes are particularly centralised; they would face a great pressure to do more research abroad.

The matter is still under consideration at the IRS and a decision is not expected for some months. The interested companies are, however, putting up a formidable legal fight.

Microscopic appeal

David Davies

A microscope as old as the society

THE Royal Microscopical Society has launched an appeal for £50,000 to expand its operations. In particular, it plans to increase its educational activities and publish its *Journal of Microscopy* more frequently. The appeal was launched by retiring President, Professor A. G. E. Pearse on April 30.

The society has had a chequered career. It was founded in 1839 when the microscope was as much as anything the preserve of amateurs but when exciting times were just around the corner for microscopists. Leeuwenhoek's seventeenth century resolving power of 1.25 μm had barely been improved on but the work of J. J. Lister on achromatic objective lens systems was just beginning to open up new horizons. By 1880 the resolution of the best microscopes was down to 0.2 μm and the society's aim to introduce and improve the microscope 'as a scientific instrument' began to be achieved.

Communication amongst microscopists depends very much on quality reproduction but the society was hardly in the forefront of publishing photomicrographs. It had published its first in 1853 (the ubiquitous proboscis of the fly) but it was not until 1906 that the *Journal's* lithographs began to be supplanted by photographs.

After 1890 there was little fundamental technical development possible for the optical microscope and the society went into a long period of decline. "Hibernation" one of its officers says, "is too mild a word for it". The question is whether the society has now been able to catch up with the lost opportunities of the dormant period and whether it will be able in the future to exert influence in the development of microscopy—now, of course, including electron microscopy. Many of the educational activities such as teacher training, provision of a technician's qualification and the publishing of teaching manuals, the bread and butter of many professional societies, are only now being planned. Another field that one fellow described as needing urgent attention is the "abysmally low" general standard of photomicrograph reproduction in books. Yet another problem is that a certain introversion and inscopists seem to possess, perhaps feeling their profession is merely a service industry.

The society has a hard pull ahead of it with much unglamorous work to do in establishing educational programmes. If it fails in its appeal, it will revert to a journal-producing and symposium - organising society, and science will suffer thereby.