

SOUTH-WESTERN
FEDERAL TAXATION

Hoffman
Maloney
Raabe
Young

COMPREHENSIVE VOLUME

2017

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Student Edition



SOUTH-WESTERN FEDERAL TAXATION

2017 EDITION COMPREHENSIVE VOLUME

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**South-Western Federal Taxation:
Comprehensive Volume, 2017 Edition**

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Cover Image: Getty Images/John Lund

Design Images:

Concept Summary, Global Tax Issues, Tax in
the News, Bridge Discipline:

iStockphoto.com/Andrey

Ethics & Equity: iStockphoto.com/LdF

Comprehensive Tax Return Problems: peepo/
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Framework 1040: Concept Photo/
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WCN: 02-200-203

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All tax forms within the text are: Source: Internal Revenue Service.

Student Edition ISBN: 978-1-305-87416-9

Student Edition with H&R Block and RIA Checkpoint ISBN: 978-1-305-87416-9

ISSN: 0741-5184

2017 Annual Edition

Cengage Learning

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USA

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Printed in the United States of America

Print Number: 01

Print Year: 2016



Preface

COMMITTED TO EDUCATIONAL SUCCESS

South-Western Federal Taxation (SWFT) is the most trusted and best-selling series in college taxation. We are focused exclusively on providing the most useful, comprehensive, and up-to-date tax texts, online study aids, tax preparation tools, and research tools to help instructors and students succeed in their tax courses and beyond.

SWFT is a comprehensive package of teaching and learning materials, significantly enhanced with each edition to meet instructor and student needs and to add overall value to learning taxation.

Comprehensive Volume, 2017 Edition provides a dynamic learning experience inside and outside of the classroom. Built with resources and tools that have been identified as the most important, our complete learning system provides options for students to achieve success.

Comprehensive Volume, 2017 Edition provides accessible, comprehensive, and authoritative coverage of the relevant tax code and regulations as they pertain to the individual and business taxpayer, as well as coverage of all major developments in Federal Taxation.

In revising the 2017 Edition, we focused on:

- **Accessibility. Clarity. Substance.** The text authors and editors made this their mantra as they revised the 2017 edition. Coverage has been streamlined to make it more accessible to students, and difficult concepts have been clarified, all without losing the substance that makes up the *South-Western Federal Taxation* series.
- **CengageNOWv2 as a complete learning system.** Cengage Learning understands that digital learning solutions are central to the classroom. Through sustained research, we continually refine our learning solutions in CengageNOWv2 to meet evolving student and instructor needs. CengageNOWv2 fulfills learning and course management needs by offering a personalized study plan, video lectures, auto-graded homework, auto-graded tests, and a full eBook with features and advantages that address common challenges.

COMPUTATIONAL EXERCISES: Students need lots of practice in areas such as computing tax return problems and adjusting rates. We have developed these exercises to give students practice in calculating the solutions they need to make business decisions.

- Found in end-of-chapter section of the textbook
- CengageNOWv2 provides algorithmic versions of these problems

Computational Exercises

27. **LO.1** Melba purchases land from Adrian. Melba gives Adrian \$225,000 in cash and agrees to pay Adrian an additional \$400,000 one year later plus interest at 5%.
 - a. What is Melba's adjusted basis for the land at the acquisition date?
 - b. What is Melba's adjusted basis for the land one year later?
28. **LO.1** On July 1, 2016, Katrina purchased tax-exempt bonds (face value of \$75,000) for \$82,000. The bonds mature in five years, and the annual interest rate is 6%. The market rate of interest is 2%.
 - a. How much interest income and/or interest expense must Katrina report in 2016?
 - b. What is Katrina's adjusted basis for the bonds on January 1, 2017?
29. **LO.3** Luciana, a nonshareholder, purchases a condominium from her employer for \$85,000. The fair market value of the condominium is \$120,000. What is Luciana's basis in the condominium and the amount of any income as a result of this purchase?
30. **LO.3** Sebastian purchases two pieces of equipment for \$100,000. Appraisals of the equipment indicate that the fair market value of the first piece of equipment is \$72,000 and that of the second piece of equipment is \$108,000. What is Sebastian's basis in these two assets?

ROGER CPA EXAM REVIEW QUESTIONS: While the SWFT series has always provided the most in-depth coverage of tax concepts, Roger CPA Exam Review Questions are included to further prepare students for success on the CPA Exam.

- Located in selected end-of-chapter sections
- Tagged by concept in CengageNOWv2
- Similar questions to what students would actually find on the CPA Exam



Roger CPA Review Questions



1. Stephen purchased a video game console five years ago for \$500. In order to raise money for the "latest and greatest" console, Stephen sold his console for \$100. Because of advances in technology, Stephen can purchase the new console for \$400. What is the tax treatment of Stephen's sale of his console?

| | |
|-------------------------------------|------------------------------------|
| a. Stephen recognizes a \$400 loss | c. Stephen recognizes a \$300 loss |
| b. Stephen does not report the sale | d. Stephen recognizes a \$100 gain |
2. Uncle Ubb gave his nephew, Leroy Lamprey, a gift of stock worth \$10,000. Uncle Ubb's basis in the stock was \$15,000. Leroy sold the stock to an unrelated party for \$11,000. What amount of gain or loss should Leroy report as a result of this sale?

| | |
|-----------------|-----------------|
| a. \$0 | c. \$200 gain |
| b. \$4,000 loss | d. \$1,000 gain |

See how the SWFT series helps students understand the big picture and the relevancy behind what they are learning.

THE BIG PICTURE

THE FIRST JOB

After an extensive search, Morgan, a recent college graduate with a major in finance, has accepted a job with Kite Corporation. The job is in sales and will require travel and some entertainment (i.e., business lunches). She will be based in a major metropolitan area in another state. Kite has no available space in the locale, so Morgan will have to maintain her own work facility. In addition to her salary, Morgan will receive a travel allowance. However, Kite has made it clear that the allowance *will not* cover all of her travel expenses. Kite requires all travel expenses to be appropriately documented (e.g., receipts provided, business purpose explained) and submitted in a timely manner.

Morgan is delighted with the new job because it will enable her to maintain a flexible work schedule. Furthermore, working out of her own apartment avoids a time-consuming and costly commute.

What are some of the income tax problems presented by this situation?

Read the chapter and formulate your response.

THE BIG PICTURE: Tax Solutions for the Real World.

Taxation comes alive at the start of each chapter as The Big Picture Examples give a glimpse into the lives, families, careers, and tax situations of typical filers. Students will follow this one family, individual, or other taxpayer throughout the chapter showing students how the concept they are learning plays out in the real world.

Finally, to solidify student comprehension, each chapter concludes with a **Refocus on the Big Picture** summary and tax planning scenario. These scenarios apply the concepts and topics from the chapter in a reasonable and professional way.

FRAMEWORK 1040:

Fitting it all Together.

This chapter-opening feature demonstrates how individual income tax topics fit together, using the Income Tax Formula for Individuals as the framework. The framework helps students organize their understanding of the chapters and topics to see how they relate to the basic tax formula and then identify where these items are reported on Form 1040. Framework 1040 helps students navigate topics by explaining how tax concepts are organized.

FRAMEWORK 1040 Tax Formula for Individuals

This chapter covers the boldfaced portions of the Tax Formula for Individuals that was introduced in Concept Summary 3.1 on p. 3-3. Below those portions are the sections of Form 1040 where the results are reported.

| | |
|--|-----------------|
| Income (broadly defined) | \$xx,xxx |
| Less: Exclusions | (x,xxx) |
| Gross income | \$xx,xxx |
| Less: Deductions for adjusted gross income | (x,xxx) |
| FORM 1040 (p. 11) | |
| 12 Business income or (loss). Attach Schedule C or C-EZ | \$xx,xxx |
| 13 Capital gain or (loss). Attach Schedule D if required. If not required, check here <input type="checkbox"/> | \$xx,xxx |
| 14 Other gains or (losses). Attach Form 4797 | \$xx,xxx |
| 17 Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E | \$xx,xxx |
| Adjusted gross income | \$xx,xxx |
| Less: The greater of total itemized deductions or the standard deduction | (x,xxx) |
| FORM 1040 (p. 23) | |
| 40 Itemized deductions (from Schedule A) or your standard deduction | (x,xxx) |
| Personal and dependency exemptions | (x,xxx) |
| Taxable income | \$xx,xxx |
| Tax on taxable income (see Tax Tables or Tax Rate Schedules) | \$ x,xxx |
| Less: Tax credits (including income taxes withheld and prepaid) | (xxx) |
| Tax due (or refund) | \$ xxx |

Use this chapter-opening **Framework 1040**, which shows the topics as they appear in the individual tax formula, to understand where on Form 1040 these chapter topics would appear.

FINANCIAL DISCLOSURE INSIGHTS

Overseas Operations and Book-Tax Differences

Non-U.S. operations account for a large portion of the permanent book-tax differences of U.S. business entities. These differences may relate to different tax bases, different tax rate structures, or special provisions concerning tax-based financing with the other country. For instance, lower tax rates applied by Ireland, Bermuda, and the Netherlands recently reduced Cisco's current-year tax liabilities by about \$1 billion per year.

Tax planning strategies using non-U.S. operations also are found in the deferred tax asset and liability accounts. Tax deferrals allowed under current U.S. tax rules and carryforwards of the foreign tax credit can be substantial for some businesses. For example, IBM recently reported a deferred tax asset relating to delays in using its FTCs amounting to about \$500 million. For the operating arm of General Electric, that amount was about \$2 billion.

FINANCIAL DISCLOSURE INSIGHTS:

Tax professionals need to understand how taxes affect the income statement and balance sheet. **Financial Disclosure Insights**, appearing throughout the text, use current data about existing taxpayers to highlight book-tax reporting differences, effective tax rates, and trends in reporting conventions.

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TAX IN THE NEWS: Drawn from today's business and popular press, **Tax in the News** features enliven class discussions by presenting current issues that illustrate the chapter material and applying them to real life.

In addition, editors offer weekly updates for instructors designed for use in the classroom with links, assignments, and activities included. See the **SWFT** blog at <https://taxintherealworld.wordpress.com>.



TAX IN THE NEWS The Watchdog Is Watching

A recent report by the SEC listed the watchdog agency's areas of focus with respect to the financial statements of publicly traded corporations as they pertain to issues in accounting for income taxes. The most important of the focus areas include the following:

- Realizability of deferred tax assets—how positive and negative evidence supporting the deferrals is assessed by the taxpayer.
- Uncertain tax positions—whether ASC 740-10 (FIN 48) disclosures are comprehensive and complete.

- Foreign earnings—whether sufficient information is provided concerning the reinvestments of overseas earnings and their effects on the effective tax rate.

Income tax matters remain the accounting area most frequently identified as a material weakness for large entities, and income taxes always rank among the 10 most frequent restatement issues.

The Edgar database⁴⁶ is a good place to follow trends in the agency's information requests and the taxpayer's responses.



ETHICS & EQUITY What Is a Sound Business Purpose?

Natural Recycle, owned and operated by Caleb Liven, wants to expand and would like to acquire Metro Publishing, Inc., owned and operated by Jae Liven, Caleb Liven's sister. Its major assets are large net operating losses (NOLs), unused credits, and antiquated printing equipment. Natural Recycle is very profitable and could benefit from the NOLs and unused credits.

Natural Recycle wants the acquisition to qualify as a tax-free corporate reorganization. Caleb informs his accountant, Mei Xiang, that Natural Recycle is engaged in reclaiming

waterways in the proximity of strip mines and that Metro Publishing prints tour guide books for major cities. When asked about the business purpose of the merger, Caleb answers, "We need the NOLs and unused credits to offset Natural's high taxable income. I would also like to help my sister get out from under her failing business."

Does Xiang face any ethical problems in structuring the acquisition of Metro Publishing by Natural Recycle as a tax-free reorganization?

ETHICS & EQUITY: Most issues do not have just one correct answer. **Ethics & Equity** features will spark critical thinking and invite classroom discussion, enticing students to evaluate their own value system. Suggested answers to Ethics & Equity scenarios appear in the Solutions Manual.

TAX PLANNING: Most chapters include a separate section, with its own Learning Objective, calling attention to how the tax law can be applied to reach the taxpayer's goals. Tax planning applications and suggestions also appear throughout each chapter.

14-14 TAX PLANNING

14-14a Importance of Capital Asset Status

Why is capital asset status important? Capital asset status enables the taxpayer to be eligible for the alternative tax on net capital gain. Individuals who receive income in the form of long-term capital gains or qualified dividend income have an advantage over taxpayers who cannot receive income in these forms.

Capital asset status is also important because capital gains must be offset by capital losses. If a net capital loss results, the maximum deduction is \$3,000 per year.

Consequently, capital gains and losses must be segregated from other types of gains and losses and must be reported separately on Schedule D of Form 1040.



GLOBAL TAX ISSUES Foreign Shareholders Prefer Sale or Exchange Treatment in Stock Redemptions

As a general rule, foreign shareholders are subject to U.S. tax on dividend income from U.S. corporations but not on capital gains from the sale of U.S. stock.

In some situations, a nonresident alien is taxed on a capital gain from the disposition of stock in a U.S. corporation, but only if the stock was effectively connected with the conduct of a U.S. trade or business of the individual. Foreign corporations are similarly taxed on gains from the sale of U.S. stock investments.

Whether a stock redemption qualifies for sale or exchange treatment therefore takes on added significance for foreign shareholders. If one of the qualifying stock redemption rules can be satisfied, the foreign shareholder typically will avoid U.S. tax on the transaction. If, instead, dividend income is the result, a 30 percent withholding tax typically applies. For further details, see Chapter 25.

GLOBAL TAX ISSUES: The **Global Tax Issues** feature gives insight into the ways in which taxation is affected by international concerns and illustrates the effects of various events on tax liabilities across the globe.

Take your students from Motivation to Mastery with CengageNOWv2

CengageNOWv2 is a powerful course management tool and online homework resource that elevates student thinking by providing superior content designed with the entire student workflow in mind.

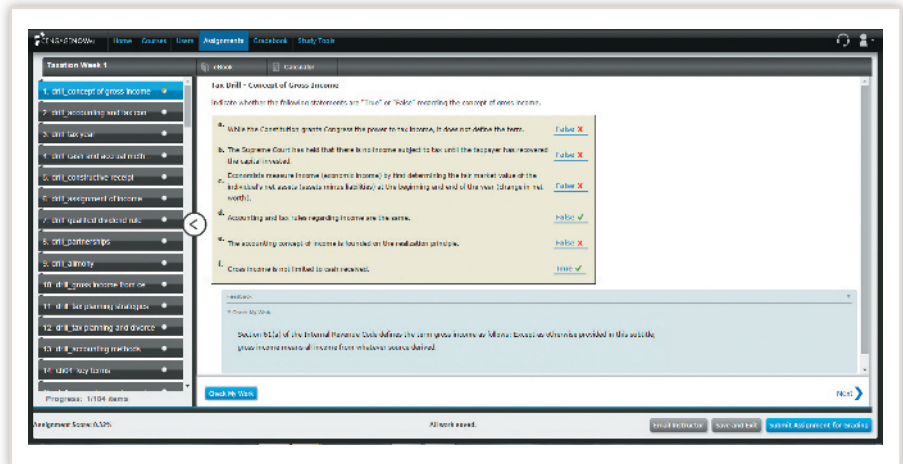


- **MOTIVATION:** engage students and better prepare them for class
- **APPLICATION:** help students learn problem-solving behavior and skills in order to complete taxation problems on their own
- **MASTERY:** help students make the leap from memorizing concepts to actual critical thinking

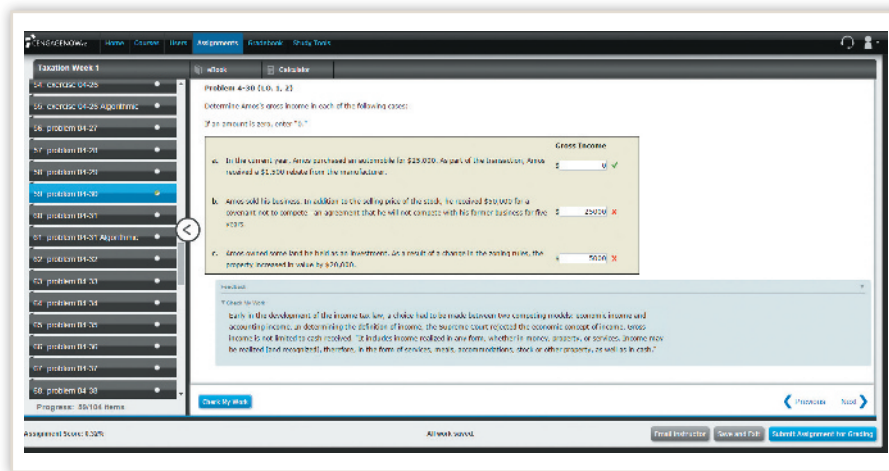
Motivation —

Many instructors find that students come to class unmotivated and unprepared. To help with engagement and preparedness, CengageNOWv2 for SWFT offers the following features:

- **“Tax Drills” test students on key concepts and applications.** With three to five questions per learning objective, these “quick-hit” questions help students prepare for class lectures or review prior to an exam.



Application —



Students need to learn problem-solving behavior and skills in order to complete taxation problems on their own. However, as students try to work through homework problems, sometimes they become stuck and need guidance. To help reinforce concepts and keep students on the right track, CengageNOWv2 for SWFT offers the following:

- **End-of-chapter homework from the text** is expanded and enhanced to follow the workflow a professional would use to solve various client scenarios. These enhancements better engage students and encourage them to think like a tax professional.

- **Algorithmic versions** of end-of-chapter homework are available for computational exercises and at least 15 problems per chapter.
- **“Check My Work” Feedback.** Homework questions include immediate feedback so students can learn as they go. Levels of feedback include an option for “check my work” prior to submission of an assignment.
- **Post-Submission Feedback.** After submitting an assignment, students receive even more extensive feedback explaining why their answers were incorrect. Instructors can decide how much feedback their students receive and when, including the full solution.
- **Built-in Test Bank** for online assessment.

Mastery —

- **NEW! Tax Form Problems** are **NEW** to CengageNOWv2. Students can now complete the Cumulative H&R Block Problems found in the end-of-chapter manually in a digital environment.
- **“What-If” Questions** allow students to develop a deeper understanding of the material as they are challenged to use their prior knowledge of the tax situations and critically think through new attributes to determine how the outcome will change.
- **An Adaptive Study Plan** comes complete with an eBook, practice quizzes, crossword puzzle, glossary, and flashcards. It is designed to help give students additional support and prepare them for the exam.

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EXTENSIVELY REVISED. DEFINITELY UP TO DATE.

Each year the *South-Western Federal Taxation* series is updated with thousands of changes to each text. Some of these changes result from the feedback we receive from instructors and students in the form of reviews, focus groups, web surveys, and personal e-mail correspondence to our authors and team members. Other changes come from our careful analysis of the evolving tax environment. **We make sure that every tax law change relevant to the introductory taxation course was considered, summarized, and fully integrated into the revision of text and supplementary materials.**

The *South-Western Federal Taxation* authors have made every effort to keep all materials up to date and accurate. All chapters contain the following general changes for the 2017 Edition.

- Updated materials to reflect changes made by the Protecting Americans from Tax Hikes (PATH) Act of 2015 and other Public Laws of 2015.
- Streamlined chapter content (where applicable) to clarify material and make it easier for students to understand.
- Revised numerous materials as the result of changes caused by indexing of statutory amounts.
- Revised Problem Materials, Computational Exercises, and CPA Exam problems.
- Updated *Tax in the News* items with coverage of recent events.
- Updated Chapter Outlines to provide an overview of the material and to make it easier to locate specific topics.
- Revised *Financial Disclosure Insights* and *Global Tax Issues* as to current developments.

In addition, the following materials are available online.

- An appendix that helps instructors broaden and customize coverage of important tax provisions of the Affordable Care Act. (Instructor Companion Website at www.cengage.com/login)
- The Depreciation and the Accelerated Cost Recovery System (ACRS) appendix. (Instructor Companion Website at www.cengage.com/login)
- The Taxation in the Real World weekly blog posts for instructors. (<https://taxintherealworld.wordpress.com>)

Chapter 1

- Updated materials to reflect inflation indexation including the unified transfer tax credit and exemption amount, annual gift tax exclusion amount, and FICA base amount.

- Updated information related to interest on assessments and refunds.

Chapter 2

- Updated references and citations throughout the chapter.
- Added a new *Ethics & Equity* feature on tax fraud.
- Updated materials on administrative tax law sources and commercial tax services.

Chapter 3

- Updated materials to reflect inflation indexation.
- Reorganized materials on filing status and related filing requirements.
- Revised and expanded the Concept Summary related to dependency exemption tests.

Chapter 4

- Added Concept Summary comparing taxation of income and distributions from partnerships, S corporations, and estates/trusts.
- Modified exercises, where appropriate, to have students look up present values in an appendix rather than be given the present and future value amounts.

Chapter 5

- Updated scholarship examples to illustrate the tax effect of cost of attendance scholarships that many student-athletes receive today. Also added a *Tax in the News* feature on this NCAA development and the effect of taxable scholarships on the kiddie tax.
- Added a *Tax in the News* feature on a 2015 tax court decision as to whether compensation received for donating eggs was excludable damages.
- Added an *Ethics & Equity* feature on employee meals offered by some high-tech companies.
- Revised foreign earned income exclusion examples to reflect that 2016 is a leap year.
- Expanded coverage of Education Savings Programs to include not only § 529 plans but also § 530 Coverdell Education Savings Accounts.
- Modified coverage on income from discharge of indebtedness to highlight differences between recourse and nonrecourse debt.
- Updated amounts for inflation and 2015 law changes, such as the parity for the qualified transit pass fringe benefit.

Chapter 6

- Updated the exhibit on the more common deductions *for* AGI and provided links to text coverage.
- Revised and relocated the time value of money discussion to an earlier part of the chapter.
- Revised the *Tax in the News* feature on executive compensation.
- Added a Concept Summary related to common questions posed by the IRS related to hobby losses.
- Revised the discussion of the materials regarding when repairs and maintenance must be capitalized or can be expensed and added several examples.

Chapter 7

- Added a Concept Summary on casualty losses.
- Revised the bad debt deduction Concept Summary.
- Updated the discussion of worthless securities and small business stock losses.
- Revised and clarified text and examples throughout the chapter, including modifications for annual inflation indexation.

Chapter 8

- Added a Concept Summary on MACRS (class lives, methods, and conventions), enhanced the exhibit on cost recovery periods for personalty, and revised and updated text and examples throughout the chapter.
- Streamlined material on MACRS special rules.
- Updated materials to reflect tax extender legislation involving additional first-year depreciation and § 179 expense election.

Chapter 9

- Added a Concept Summary on employee vs. independent contractor, including the IRS categories of behavioral control, financial control, and the relationship of the parties.
- Updated the standard mileage allowance for 2016.
- Expanded the discussion of the record-keeping and substantiation requirements for entertainment expenses.
- Updated the summary dealing with the many tax provisions involving education.
- Updated various retirement contribution amounts for inflation.

Chapter 10

- Revised and clarified examples throughout the chapter.
- Updated chapter materials for 2016 inflation adjustments and legislative changes.

- Revised three *Tax in the News* features: one relating to the current cost of tax expenditures, another covering the maximum HSA contribution amounts, and one regarding the impact of the overall limitation on itemized deductions on President and Mrs. Obama's 2014 tax return.
- Rewrote a *Global Tax Issues* feature with a focus on the recent Nepal earthquake.

Chapter 11

- Changed the term “passive loss/income” to “passive activity loss/income” to be consistent with the statutory language.
- Clarified language at several points in the chapter to eliminate ambiguity.
- Noted judicial authority that held a trust also could qualify for the real estate professional rule.

Chapter 12

- Revised and clarified text and examples throughout the chapter, including changes made by the PATH Act of 2015.
- Updated chapter materials for inflation adjustments and for various computational formulas and amounts.

Chapter 13

- Added a Concept Summary (and related examples) on the wash sale rules.
- Added opening overviews to multiple sections of the chapter.
- Clarified the discussion of the tax implications of easements.
- Revised and clarified text and examples throughout the chapter.
- Updated the discussion and examples related to like-kind exchanges.
- Added a Concept Summary on delayed like-kind exchanges.
- Updated the Form 8824 illustration.

Chapter 14

- Updated Concept Summary 14.4 (the alternative tax on capital gain computation).
- Revised and clarified text and examples throughout the chapter.

Chapter 15

- Updated statistics as to filing patterns for the AMT and AMT liabilities by state residents.
- Revised *Ethics & Equity* feature about accelerating AMT preferences and adjustments.

- Augmented materials concerning adjustments for incentive stock options.
- Revised materials as to AMT preference for sales of § 1202 stock.
- Added problems featuring Excel commands and present value computations.

Chapter 16

- Updated information on due date for Form 1128.
- Clarified examples involving changes from cash to accrual method to reflect that inventory is treated as non-incidentals while on the cash method.
- Added a *Tax in the News* feature on FASB revenue recognition standards and tax relevance.
- Added a new problem on computing and reporting a § 481(a) adjustment.

Chapter 17

- Added a Concept Summary comparing the tax attributes of various forms of business entities.
- Added a Concept Summary on Schedule M-1 (Form 1120).
- Added a new *Tax in the News* feature and a new *Global Tax Issues* feature.
- Updated text to reflect new filing due dates for corporations.
- Updated text and examples throughout the chapter.
- Revised the computational templates for annual changes in deferred tax assets and liabilities.

Chapter 18

- Revised several sections of the chapter, including a Concept Summary, to improve readability and clarity.
- Provided a new *Tax in the News* feature that describes ways in which local and state jurisdictions compete to attract new businesses and employers in exchange for tax breaks.
- Revised the facts in an example that illustrates the tax effects of debt versus equity to be more realistic with current market interest rates.
- Updated qualified small business stock materials to reflect changes made by the PATH Act of 2015.

Chapter 19

- Enhanced and expanded the chapter examples on determining corporate E & P and allocating E & P to distributions.
- Added examples on constructive dividends when a corporation pays a shareholder's obligations.
- Revised and clarified text and examples throughout the chapter.

Chapter 20

- Added a new *Tax in the News* feature entitled "State Dissolution of Corporate Status Not Determinative of Liquidation Status under Federal Tax Law."
- Deleted *Ethics & Equity* feature "Possible Sour Notes."
- Modified Concept Summary 20.4.
- Modified *Ethics & Equity* feature "What Is a Sound Business Purpose?"
- Modified *Financial Disclosure Insights* feature "When an Acquisition Fails."

Chapter 21

- Added discussion of qualified joint ventures.
- Updated text to reflect new filing due dates for partnerships.
- Updated discussion of administrative issues related to changes in partnership audit procedures.
- Added discussion of Proposed Regulations on disguised payments for services.
- Updated Research Problem 3 to reflect current rules for the § 179 deduction.
- Made minor revisions, updates, and clarifications throughout the chapter.

Chapter 22

- Added *Tax in the News* feature "Distribution of Loss Property."
- Enhanced and updated material concerning the recognition period for built-in gains tax.
- Revised discussion concerning material participation by S shareholders.
- Expanded discussion of self-rental income as part of the § 1411 Medicare tax.

Chapter 23

- Updated statistics related to the charitable sector and the donor base, private foundations, and filing deadlines.
- Added *Tax in the News* feature "NFL Gives Up Exempt Status."
- Updated tax rates and ceilings for the excise taxes on private foundations.
- Clarified materials concerning UBTI adjustments and debt-financed income.
- Revised materials concerning the application process for exempt entities, filing due dates, and public disclosure of Forms 990.

Chapter 24

- Updated data and statistics about state and local tax revenues.

- Revised Exhibit 24.1 to emphasize data flows.
- Updated the *Tax in the News* feature about state tax credits for filmmakers.
- Revised discussion of application of P.L. 86–272 in today’s economy.
- Modified introductory discussion of allocation and apportionment of income.
- Revised material involving the sales factor and the throwback rule.
- Modified material discussing combined versus consolidated returns.
- Reorganized material listing sales/use tax exemptions.
- Added materials about the sales/use taxation of online transactions.

Chapter 25

- Added a Concept Summary regarding the income and deduction sourcing rules.
- Streamlined the discussion of § 367 asset transfers.
- Revised the materials for Subpart F income, stock basis, and application of E & P on flow-throughs.
- Added a Concept Summary illustrating the transactions involved when Subpart F flow-throughs apply.
- Updated information about the international economy and location of multinationals’ income and assets, and corporate income tax nominal rates and withholding for various countries.
- Added a *Tax in the News* feature about the location of U.S. companies’ overseas profits.
- Expanded Tax Planning materials that highlight the optimization of the foreign tax credit computations by use of the income sourcing rules.

Chapter 26

- Updated various amounts and statistics as to audits, refunds, fees, and filing practices.

- Updated citations to various annual documents.
- Added discussion of the role of the National Taxpayer Advocate.
- Revised material concerning the IRS’s regulation of tax return preparers.
- Updated and augmented material involving Circular 230 and tax preparer penalties.
- Added problems featuring Excel commands and present value computations.

Chapter 27

- Condensed the material on the historical background of the Federal estate and gift taxes.
- Simplified the tax treatment of gifts made within three years of death (§ 2035).
- Updated examples that compute the Federal estate and gift tax to reflect the new 2016 unified transfer tax credit and exclusion amount.
- Added Exhibit 27.2 that illustrates the use of the QTIP election in avoiding the terminable interest prohibition to obtaining the marital deduction.

Chapter 28

- Updated amounts concerning fiduciary tax rates and exemptions.
- Clarified that a trust is created and defined under state law, not Federal income tax law.
- Updated statistics about fiduciary returns, gross and taxable income, and tax liability generated.
- Added rules concerning the NIIT to Concept Summary 28.1.
- Updated amounts related to the NIIT for fiduciaries.
- Clarified the availability of the DPAD when a fiduciary operates a trade or business.
- Deleted material relating to beneficiaries’ treatment of losses in the year of the entity’s termination.

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From your SWFT Series Editors:

Concerns about income inequity and job creation will keep income tax issues at the forefront of tax-related discussions throughout 2016 and 2017. Candidates and office holders will focus tax proposals on middle-class tax relief and tax increases for the wealthy. Federal tax treatments of income from overseas sources also may be reviewed. While a comprehensive “tax reform” bill is not likely, there will be serious consideration of various proposals, especially involving college tuition relief and the taxation of capital gains.

Congress may consider Federal corporate tax law changes during 2016–2017, including a decrease in the top tax rate and a move toward a territorial system in taxing income from overseas sources. Tax deferrals for unrepatriated global profits also may receive congressional and regulatory attention. Corporate tax reform remains difficult to craft, though, as so many businesses operate using pass-through structures. State and local governments also have budget problems, and they are looking for new revenue sources, including an adoption of the unitary concept and a broadening of the income and sales/use tax bases.

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ACKNOWLEDGMENTS

We want to thank all the adopters and non-adopters who participated in numerous online surveys as well as the following individuals who provided content reviews and feedback in the development of the ***South-Western Federal Taxation*** 2017 titles.

William H. Hoffman, Jr. / David M. Maloney / William A. Raabe / James C. Young

- Lindsay G. Acker, *University of Wisconsin-Madison*
 Deborah S. Adkins, *Nperspective, LLC*
 Mark P. Altieri, *Kent State University*
 Amy An, *University of Iowa*
 Susan E. Anderson, *Elon University*
 Henry M. Anding, *Woodbury University*
 Jennifer A. Bagwell, *Ohio University*
 George Barbi, *Lanier Technical College*
 Terry W. Bechtel, *Texas A&M University – Texarkana*
 Chris Becker, *LeMoyne College*
 John G. Bell
 Tamara Berges, *UCLA*
 Ellen Best, *University of North Georgia*
 Tim Biggart, *Berry College*
 Rachel Birkey, *Illinois State University*
 Patrick M. Borja, *Citrus College / California State University, Los Angeles*
 Dianne H. Boseman, *Nash Community College*
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 Machiavelli W. Chao, *Merage School of Business University of California, Irvine*
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 Andrew L. Whitehair
 Kent Williams, *Indiana Wesleyan University*
 Candace Witherspoon, *Valdosta State University*
 Sheila Woods, *DeVry University, Houston, TX*
 Xinmei Xie, *Woodbury University*
 Thomas Young, *Lone Star College – Tomball*

SPECIAL THANKS

We are grateful to the faculty members who have diligently worked through the problems and test questions to ensure the accuracy of the ***South-Western Federal Taxation*** homework, solutions manuals, test banks, and comprehensive tax form problems. Their comments and corrections helped us focus on clarity as well as accuracy and tax law currency.

Sandra A. Augustine, *Hilbert College*
 Bradrick M. Cripe, *Northern Illinois University*
 Debra M. Johnson, *Montana State University, Billings*
 Stephanie Lewis, *The Ohio State University*

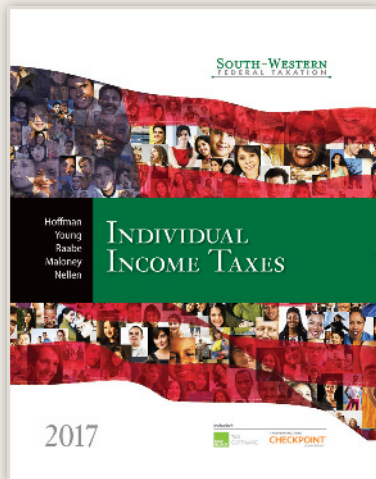
Kate Mantzke, *Northern Illinois University*
 Ray Rodriguez, *Murray State University*
 George R. Starbuck, *McMurry University*
 Donald R. Trippeer, *State University of New York College at Oneonta*

Raymond Wacker, *Southern Illinois University, Carbondale*
 Michael Weissenfluh, *Tillamook Bay Community College*
 Marvin J. Williams, *University of Houston, Downtown*

We are also grateful for the editorial assistance of **Bonnie Hoffman**, CPA, on many of the chapters. We also wish to thank Thomson Reuters for its permission to use Checkpoint® with the text.

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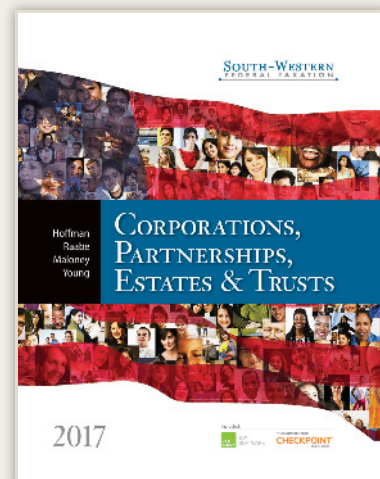
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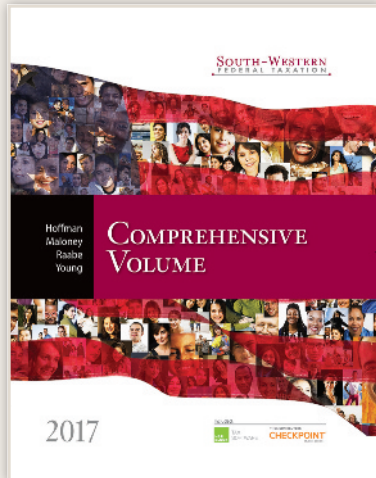
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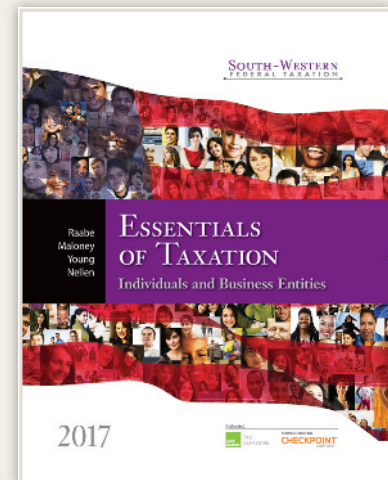
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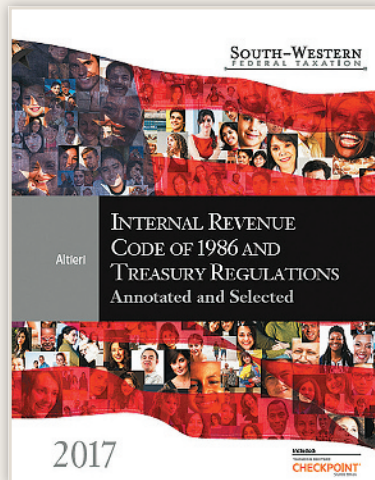
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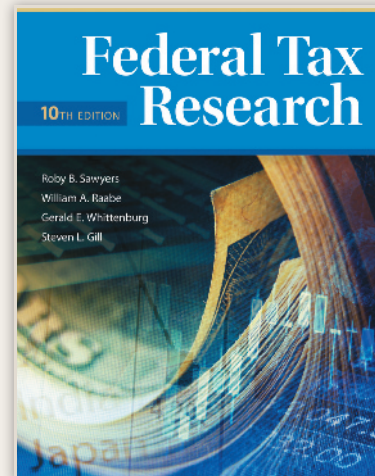
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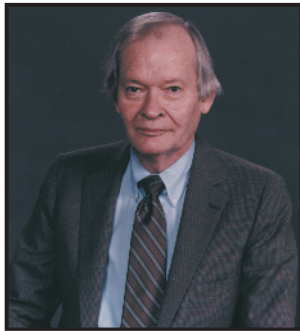
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PART

1

INTRODUCTION AND BASIC TAX MODEL

CHAPTER 1

An Introduction to Taxation and Understanding the Federal Tax Law

CHAPTER 2

Working with the Tax Law

CHAPTER 3

Computing the Tax

Part 1 provides an introduction to taxation in the United States. Although the primary orientation of this text is income taxation, other types of taxes are also briefly discussed. The purposes of the Federal tax law are examined, and the legislative, administrative, and judicial sources of Federal tax law, including their application to the tax research process, are analyzed. Part 1 concludes by introducing the basic tax model for the individual taxpayer and providing an overview of property transactions.

An Introduction to Taxation and Understanding the Federal Tax Law

LEARNING OBJECTIVES: *After completing Chapter 1, you should be able to:*

- | | |
|--|--|
| <p>LO.1 Demonstrate why taxation is important.</p> <p>LO.2 Describe some of the history and trends of the Federal income tax.</p> <p>LO.3 Assess some of the criteria for selecting a tax structure; recognize the components of a tax structure.</p> <p>LO.4 Identify the different taxes imposed in the United States at the Federal, state, and local levels.</p> | <p>LO.5 Explain the administration of the tax law, including the audit process utilized by the IRS.</p> <p>LO.6 Evaluate some of the ethical guidelines involved in tax practice.</p> <p>LO.7 Recognize the economic, social, equity, and political considerations that justify various aspects of the tax law.</p> <p>LO.8 Describe the role played by the IRS and the courts in the evolution of the Federal tax system.</p> |
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