

SOUTH-WESTERN
FEDERAL TAXATION

Hoffman
Maloney
Raabe
Young

COMPREHENSIVE VOLUME

2016

Included:

**H&R
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Student Edition



**SOUTH-WESTERN
FEDERAL TAXATION**

2016 EDITION
**COMPREHENSIVE
VOLUME**

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**South-Western Federal Taxation:
Comprehensive Volume, 2016 Edition**

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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 2016 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 2016 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.

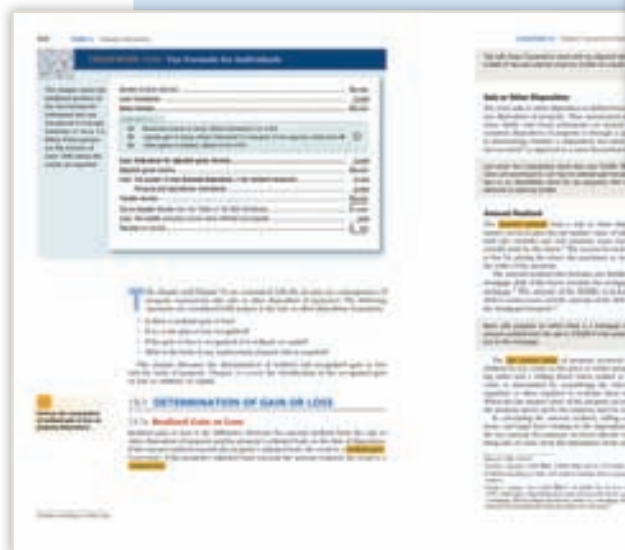
In revising the 2016 Edition, we focused on:

- **Accessibility. Clarity. Substance.** The text authors and editors made this their mantra as they revised the 2016 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.
- **CengageNOW 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 CengageNOW to meet evolving student and instructor needs. CengageNOW 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.

Learning Tools and Features to Help Students Make the Connection

NEW! FULL-COLOR DESIGN: We understand that students struggle with learning difficult tax code concepts and applying them to real-world scenarios. The 2016 edition has been developed with an invigorating use of color that brings the text to life, captures student attention, and presents the tax code in a simple, yet logical format.

- Selected **content has been streamlined** to guide students in focusing on the most important concepts for the CPA exam while still providing in-depth coverage of topics.



- Examples are clearly labeled and directly follow concepts to assist with student application. An **average of over 40 examples in each chapter** use realistic situations to illustrate the complexities of the tax law and allow students to integrate chapter concepts with illustrations and examples.

- Additional **concept summaries** have been added to provide clarification and simplify difficult tax concepts.



NEW! COMPUTATIONAL EXERCISES: Students need lots of practice in computing tax return problems, adjusting rates, etc. We've developed these new exercises to give students practice in calculating the solutions they need to make business decisions.

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

Computational Exercises

16. **LO.1** Sally owns real property for which the annual property taxes are \$8,000. She sells the property to Shelley on February 28, 2015, for \$550,000. Shelley pays the real property taxes for the entire year on October 1.
 - a. How much of the property taxes can be deducted by Sally and how much by Shelley?
 - b. What effect does the property tax apportionment have on Shelley's adjusted basis in the property?
 - c. What effect does the apportionment have on Sally's amount realized from the sale?
 - d. How would the answers in (b) and (c) differ if the taxes were paid by Sally?
17. **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?
18. **LO.1** On July 1, 2015, 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%.

NEW! 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 have been added to further prepare students for success on the CPA Exam.

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

Roger CPA Review Questions

1. In the current year, Harper, a married taxpayer filing jointly, sustained an \$82,000 loss on Code Sec. 1244 stock in WWW Corp., a qualifying small business corporation, and a \$27,000 loss on Code Sec. 1244 stock in RRR Corp., another qualifying small business corporation. What is the maximum amount of loss that Harper can deduct for the current year?
 - a. \$106,000 capital loss and \$5,000 ordinary loss.
 - b. \$9,000 ordinary loss and \$100,000 capital loss.
 - c. \$100,000 ordinary loss and \$9,000 capital loss.
 - d. \$109,000 capital loss.
2. In Year 1 Keller, an individual, purchased depreciable real property for \$80,000. In Year 5 Keller sold the property for \$100,000. At the time of sale the property had a basis of \$50,000 due to \$50,000 depreciation taken during the holding period. Of the



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.

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 |
| <small>FORM 1040 (p. 11)</small> | |
| 12 Business income or (loss). Attach Schedule C or C-EZ..... | (x,xxx) |
| 13 Capital gain or (loss). Attach Schedule D if required. If not required, check here <input type="checkbox"/> | (x,xxx) |
| 14 Other gains or (losses). Attach Form 4797..... | (x,xxx) |
| Less: Deductions for adjusted gross income..... | (x,xxx) |
| Adjusted gross income..... | \$xx,xxx |
| Less: The greater of total itemized deductions or the 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 Tax and Book Depreciation

A common book-tax difference relates to the depreciation amounts that are reported for GAAP and Federal income tax purposes. Typically, tax depreciation deductions are accelerated; that is, they are claimed in earlier reporting periods than is the case for financial accounting purposes.

Almost every tax law change since 1980 has included depreciation provisions that accelerate the related deductions relative to the expenses allowed under GAAP. Accelerated cost recovery deductions represent a means by which the taxing jurisdiction infuses the business with cash flow created by the reduction in the year's tax liabilities.

For instance, recently, about one-quarter of General Electric's deferred tax liabilities related to depreciation differences. For Toyota's and Ford's depreciation differences, that amount was about one-third. And for the trucking firm Ryder Systems, depreciation differences accounted for all but 1 percent of the deferred tax liabilities.

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.

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.



TAX IN THE NEWS Losses from Day Trading

Many investors were caught up with "rising market frenzy" during 2014. One such investor made 15,000 trades during the year. No stock was held more than one year, so each transaction resulted in a short-term capital gain or loss. Each trade had to be documented as to the basis for the stock sold, its holding period, and the selling price net of the sales commission. Unfortunately, there was a \$75,000 net short-term capital loss after all transactions were

accounted for. Only \$3,000 of this loss was deductible in 2014 because the investor had no long-term capital gains to offset the loss and there is an annual \$3,000 capital loss deduction limit. The \$72,000 balance of the loss carried forward could be deducted against capital gains of later years. However, the investor had no capital left to invest. Consequently, his annual loss deduction will be limited to \$3,000 for many years to come.



ETHICS & EQUITY Your Turn or Mine?

Natalie (a CPA), Mathew (an attorney), Jacob (a banker), and Avery (an insurance agent) all live and work in the same community. They have been friends since college. Every Friday, they have lunch together and make it a point to discuss some business matters. They take turns

paying for the group's lunches, and each deducts the amount he or she paid for the lunch as an entertainment expense. Presuming that one of the four is audited, do you anticipate any difficulty with the IRS? Explain.

ETHICS AND 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 Expatriates and the Moving Expense Deduction

Expatriates, U.S. persons who accept work assignments overseas, enjoy several favorable tax advantages regarding foreign moves. First, the cost of storing household goods qualifies as a moving expense. This could lead to a major tax saving because expatriates do not ship most of their household effects to the foreign location. Furthermore, the cost of storage, particularly in a climate-controlled facility, is not insignificant.

The second advantage expatriates could enjoy is an exemption from the time test. Those who return to the United States to retire are absolved from the 39-week or 78-week work requirement. Thus, the return home expenses are treated as qualified moving expenses.

Source: Internal Revenue Code § 2170.

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 CengageNOW

CengageNOW 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.

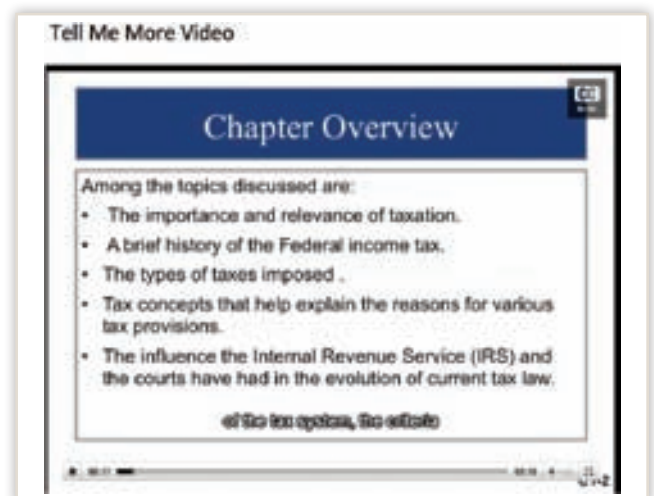


- **MOTIVATION:** engage students and better prepare them for class
- **APPLICATION:** help students learn problem-solving behavior and skills in order to complete taxation problems on their own
- **MASTERY:** help students make the leap from memorizing concepts to actual critical thinking

Motivation —

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

- **“Tell Me More” videos provide a summary of the chapter at a glance.** These videos help students become familiar with key terms and concepts presented in each chapter, prior to class lectures.
- **“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 —



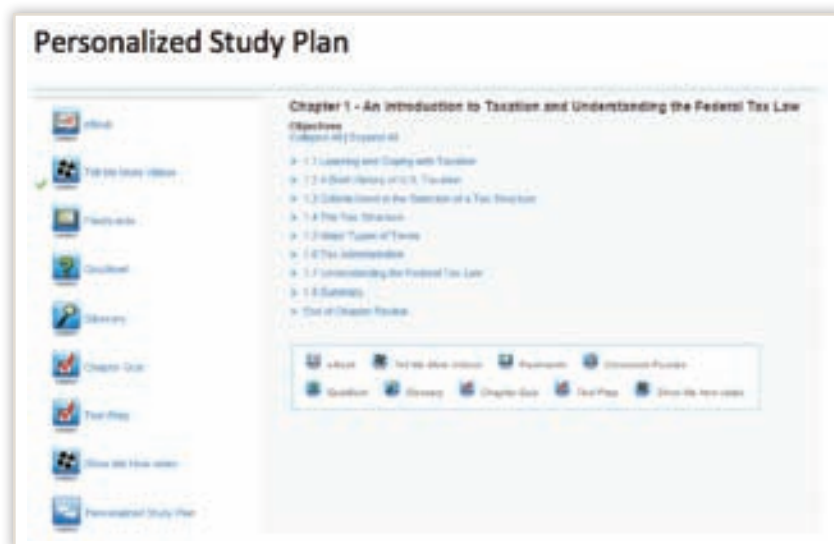
Students need to learn problem-solving behavior and skills in order to complete taxation problems on their own. However, as students try to work through homework problems, sometimes they become stuck and need guidance. To help reinforce concepts and keep students on the right track, CengageNOW for SWFT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

- **“What-If” versions of problems** 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.
- **Personalized Study Plan.** Complete with pre-tests, post-tests, an eBook, and practice quizzes. 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 of the chapters up to date and accurate. All chapters of the *Comprehensive Volume* contain the following general changes for the 2016 Edition.

- 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. Added Computational Exercises and CPA Exam problems for additional skill-building by the reader.
- Updated *Tax in the News* items with coverage of recent events.
- Added guideposts to make Examples easier to use.
- 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.

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.
- Added a Concept Summary on the major types of taxes imposed in the United States and the political jurisdictions that impose these taxes.

Chapter 2

- Updated references and citations throughout the chapter.
- Revised and clarified text and examples throughout the chapter.

Chapter 3

- Updated materials to reflect inflation indexation.
- Expanded discussion of the additional taxes to support the Medicare system.
- Added discussion on Form 8958, Allocation of Tax Amounts Between Certain Individuals in Community Property States.

Chapter 4

- Discussed inversion issue as well as individuals renouncing their U.S. citizenship in a *Global Tax Issues* item.
- Added additional case reference for the alimony and child-related contingency issue.

Chapter 5

- Updated materials to reflect inflation indexation.
- Covered new § 529A ABLE plans, added by legislation late in 2014.
- Added a new *Global Tax Issues* item on a GAO report about lack of evidence that foreign earned income exclusion aids U.S. exports.
- Improved terminology to clarify dividend and other corporate distributions.

Chapter 6

- For ease in reference, placed the more common deductions *for* AGI in Exhibit format.
- Reviewed the facts of a recent case whereby a U.S. taxpayer incurred a large fine for making a foreign bribe in contravention of the Foreign Corrupt Practices Act (FCPA).
- Discussed new rules promulgated by the IRS regarding when repairs and maintenance must be capitalized or can be expensed.

Chapter 7

- Revised and clarified text and examples throughout the chapter, such as for rules on treatment of R&D expenditures.
- Added a new *Tax in the News* item about lost bitcoin.
- Modified material to reflect annual indexation for inflation.

Chapter 8

- Revised and updated text and examples throughout the chapter.

- Streamlined material on MACRS special rules and amortization.
- Updated materials to reflect tax extender legislation involving additional first-year depreciation and § 179 expense election.

Chapter 9

- Updated the standard mileage allowance for 2015.
- Added two Concept Summaries related to moving expenses.
- Added a Concept Summary on the deductibility of regular education expenses.
- Simplified 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 2015 inflation adjustments and legislative changes.
- Eliminated discussion of rarely used charitable contribution exceptions (i.e., a limitation on the deduction of capital gain property and the reduced deduction election).
- Added two new *Tax in the News* items and updated one regarding the impact of the overall limitation on itemized deductions on President and Mrs. Obama's 2013 tax return.
- Enhanced Concept Summary 10.3 by linking the points in the Concept Summary to particular text examples.
- Streamlined discussion of the interest deduction material.

Chapter 11

- Added a new *Tax in the News* item describing a unique aspect of the tax law definition of passive activities.
- Noted the authority that grants material participation status to an owner of an LLC or LLP based on the taxpayer's general involvement in the business.
- Developed a new Concept Summary that illustrates the relationship of the at-risk and passive activity loss limitations.
- Clarified the meaning of the term "deduction equivalent."
- Provided a new Concept Summary identifying common investment loss limitation provisions contained in the Federal income tax law.
- Converted two tables to Concept Summaries.

Chapter 12

- Updated chapter materials for inflation adjustments.
- Updated various computational formulas and amounts.
- Revised discussion of general business credit.
- Added material concerning Affordable Care Act.

Chapter 13

- Added a discussion of the tax implications of virtual currency (bitcoin) and related IRS Notice 2014–21.
- Simplified discussion of basis allocation related to nontaxable stock rights.
- Clarified discussion of the holding period for gifted property and property acquired from a decedent.
- Updated the *Tax in the News* item related to cost basis reporting.
- Revised and clarified text and examples throughout the chapter.
- Simplified discussion and examples related to like-kind exchanges.
- Updated Form 8824 illustration.
- Simplified the tax planning material on the sale of a principal residence.

Chapter 14

- Revised and clarified text and examples throughout the chapter.
- Revised Concept Summary 14.7.

Chapter 15

- Added the *Tax in the News* item "Does the AMT Accomplish Its Goals?"
- Created new Concept Summaries 12.1 and 12.2.
- Modified and updated the *Tax in the News* item "AMT Liabilities by State."
- Revised discussion of the ACE adjustment.
- Revised tax planning discussion, "Avoiding Preferences and Adjustments."

Chapter 16

- Clarified eligibility for making a § 444 election.
- Broadened discussion of treatment of advance payments received by accrual method taxpayers.
- Explained the concept of positive and negative § 481(a) adjustments.

- Updated to reflect new method change procedures of Revenue Procedures 2015–13 and 2015–14.

Chapter 17

- Placed further emphasis on differences between the income taxation of individuals and C corporations.
- Updated text and problem materials to reflect current indexation.
- Revised and clarified text and numerous examples in the chapter.

Chapter 18

- Developed a new Concept Summary that illustrates the major shareholder consequences of a taxable property transaction as compared to one that is tax deferred under § 351.
- Added a Concept Summary that shows the tax rules that apply when liabilities are transferred in property transactions, including the special rules that apply in a § 351 transaction.
- Provided a new *Tax in the News* item that describes ways in which local and state jurisdictions compete to attract new businesses and employers in exchange for tax breaks.

Chapter 19

- Included a Concept Summary that reflects the tax effect of noncash property distributions made by a corporation.
- Updated several *Tax in the News* items and added one new *Tax in the News* item.
- Added a new Concept Summary that illustrates the fundamental differences between a stock redemption treated as a dividend and a stock redemption treated as a sale or exchange.
- Streamlined the discussion of § 303 stock redemptions.

Chapter 20

- Reduced the discussion of the use of the installment method in a complete liquidation.
- Added the *Financial Disclosure Insights* item “When an Acquisition Fails.”

Chapter 21

- Modified and relocated the discussion of guaranteed payments to clarify their effect on partnership operations.

- Incorporated a Form 1065 as part of the Big Picture example.
- Placed added emphasis on the proper use of Form 1065 as a means of reporting partnership operations.

Chapter 22

- Updated statistics as to S corporation and LLC Federal income tax filings.
- Clarified the treatment of a QSSS.
- Revised explanations concerning straight debt.
- Reduced discussion of the Form 1120S Schedule M-3.
- Revised discussion of effects of losses on stock and debt basis.

Chapter 23

- Revised chapter materials on prohibited transactions, private foundations, unrelated business income definition, debt-financed property, indebtedness and income, and annual filing requirements.
- Updated statistics on the non-profit sector in the U.S. and the data and comments in the *Tax in the News* item “Who Are the Donors?”
- Revised and clarified text and examples throughout the chapter.

Chapter 24

- Updated statistics in the *Tax in the News* item “Paying the States’ Bills.”
- Revised the *Tax in the News* item “Tax Incentives for Hollywood Glitter.”
- Modified the *Tax in the News* item “So Where Did You Work Today?”
- Updated comments about the states’ apportionment factors and treatment of Federal S corporations.
- Revised the *Tax in the News* item “How Do You Tax a Cloud?”
- Reduced coverage of “Other State and Local Taxes.”
- Reduced tax planning materials for “Selecting the Optimal State in Which to Operate.”

Chapter 25

- Revised and clarified text and examples throughout the chapter.
- Revised introductory statistics about the global

economy, modified Exhibit 25.1 to include additional countries and added local taxes to the tax rates, updated the withholding rates in Exhibit 25.4, and updated various indexed amounts and limitations.

- Modified the discussion of the sourcing rules for personal services income, revised the discussion of foreign corporations controlled by U.S. entities, and reduced coverage of overall foreign losses and nonresident aliens engaged in a U.S. trade or business.

Chapter 26

- Updated statistics as to the size and operations of the IRS.
- Revised the *Tax in the News* item “How Big is the Tax Gap?”
- Updated statistics in the *Ethics & Equity* item “Our Taxing System of Self-Assessment.”
- Updated interest rates that apply to underpayments and overpayments.
- Revised the *Tax in the News* item “First-Time Tax Violators Can Get Off with Just a Warning.”
- Updated material concerning the licensing of tax preparers.

- Updated material about Circular 230 treatment of contingent fees.
- Revised tax planning materials concerning penalties.

Chapter 27

- Updated various amounts for indexation.
- Revised material as to the historical background of U.S. transfer taxation.
- Reduced material involving gift loans.
- Reduced discussion of gross estate inclusion of annuities.

Chapter 28

- Modified the contents of Exhibit 28.1.
- Modified the discussion “What Is an Estate?”
- Modified the discussion of the fiduciary entity’s tax year.
- Updated materials regarding indexed tax rate schedules for 2015.
- Expanded discussion of tax planning for additional taxes on the fiduciary’s investment income, and moved it to Tax Planning Considerations.

TAX LAW OUTLOOK

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Concerns about income inequity and job creation will keep income tax issues at the forefront of Congressional discussions throughout 2015 and 2016. Revenue raisers of all sorts will be considered as Federal budgets are crafted, including those to support the retirement and health care systems. 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 throughout the year involving broad-based tax changes. Expect provisions to be considered involving child tax credits and tax incentives for education, as well as other items to help middle-class taxpayers. Most likely the tax provisions that expired in 2014 will be extended to 2015 on a retroactive basis.

Congress may consider Federal corporate tax law changes during 2015–2016, 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 attention. 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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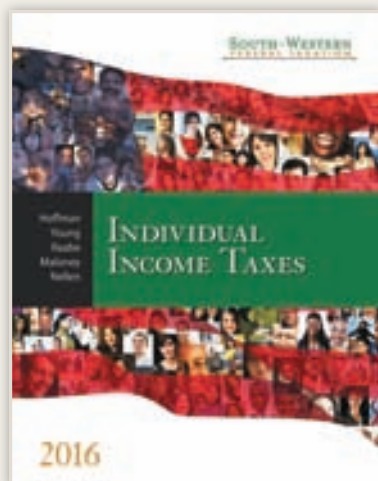
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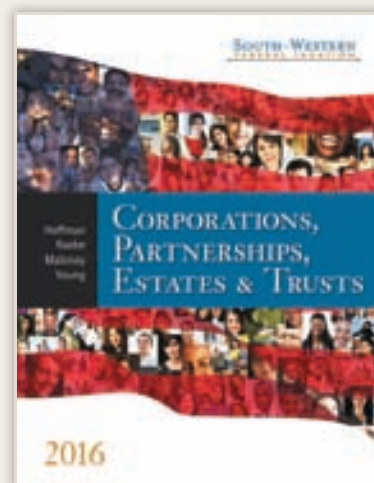
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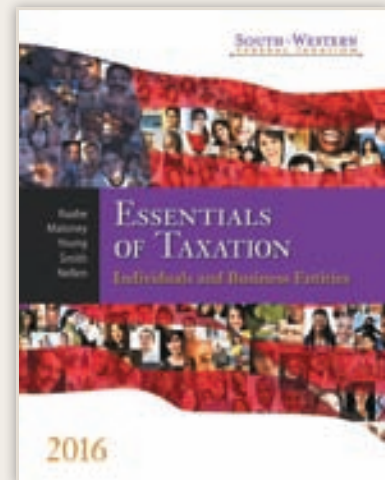
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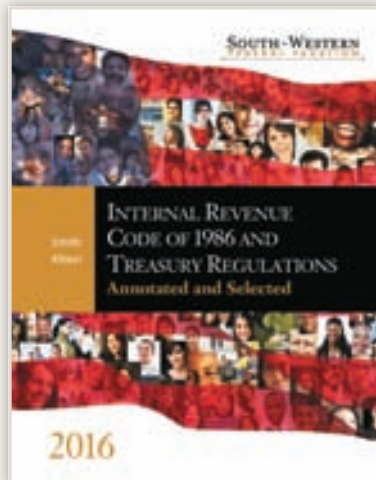
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PART

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 discussed briefly. 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:*

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

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