

Includes full coverage of the Tax Cuts and Jobs Act of 2017

SOUTH-WESTERN
FEDERAL TAXATION

Raabe
Hoffman
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Nellen
Maloney

CORPORATIONS, PARTNERSHIPS, ESTATES & TRUSTS

2019

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Income Tax Rates—Estates and Trusts

Tax Year 2018

Taxable Income		The Tax Is:	
Over—	But not Over—		Of the Amount Over—
\$ 0	\$ 2,550	10%	\$ 0
2,550	9,150	\$ 255.00 + 24%	2,550
9,150	12,500	1839.00 + 35%	9,150
12,500	3,011.50 + 37%	12,500

Income Tax Rates—C Corporations, 2018 and after

For all income levels, the tax rate is 21%.

Tax Formula for Corporate Taxpayers

Income (from whatever source).....	\$ xxx,xxx	
Less: Exclusions from gross income.....	— xx,xxx	
Gross Income	\$ xxx,xxx	
Less: Deductions.....	— xx,xxx	
Taxable Income	\$ xxx,xxx	
Applicable tax rates.....	× xx%	
Gross Tax	\$ xx,xxx	
Less: Tax credits and prepayments.....	— x,xxx	
Tax Due (or refund)	\$ xx,xxx	

Unified Transfer Tax Rates

For Gifts Made and for Deaths after 2012






If the Amount with Respect to Which the Tentative Tax to Be Computed Is:	The Tentative Tax Is:
Not over \$10,000	18 percent of such amount.
Over \$10,000 but not over \$20,000	\$1,800, plus 20 percent of the excess of such amount over \$10,000.
Over \$20,000 but not over \$40,000	\$3,800, plus 22 percent of the excess of such amount over \$20,000.
Over \$40,000 but not over \$60,000	\$8,200, plus 24 percent of the excess of such amount over \$40,000.
Over \$60,000 but not over \$80,000	\$13,000, plus 26 percent of the excess of such amount over \$60,000.
Over \$80,000 but not over \$100,000	\$18,200, plus 28 percent of the excess of such amount over \$80,000.
Over \$100,000 but not over \$150,000	\$23,800, plus 30 percent of the excess of such amount over \$100,000.
Over \$150,000 but not over \$250,000	\$38,800, plus 32 percent of the excess of such amount over \$150,000.
Over \$250,000 but not over \$500,000	\$70,800, plus 34 percent of the excess of such amount over \$250,000.
Over \$500,000 but not over \$750,000	\$155,800, plus 37 percent of the excess of such amount over \$500,000.
Over \$750,000 but not over \$1,000,000	\$248,300, plus 39 percent of the excess of such amount over \$750,000.
Over \$1,000,000	\$345,800, plus 40 percent of the excess of such amount over \$1,000,000.



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	<p>MOVE BEYOND MEMORIZATION TO APPLICATION</p> <p>Interactive simulations and videos move you beyond memorization, helping you apply concepts – a critical component of the CPA Exam.</p>	<p>CPA SkillMaster Videos</p> <p>Tackle Task-Based Simulations with confidence. Our expert instructors take you through the most complex questions step-by-step.</p> <p><i>It's like having your own CPA coach!</i></p>
	<p>STUDY SMART</p> <p>Adapt2U pre-assessment provides you a recommended study path.</p>	
	<p>TRACK PROGRESS AND BUILD CONFIDENCE</p> <p>Mock exams, progress tests and a study planner help you focus on where you need the most help.</p>	
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¹ Based on Intuit internal data of the number of paid users of ProConnect Tax Online for Tax Year 2016 compared to publicly available statements from competitors for the same time period.

² If you sign-up for the free version of ProConnect Tax Online for students and educators, you will not have access to certain features, including functionality such as Electronic Filing Services and Intuit Link.

**SOUTH-WESTERN
FEDERAL TAXATION**

2019 EDITION
**CORPORATIONS,
PARTNERSHIPS,
ESTATES & TRUSTS**

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**South-Western Tax Federation:
Corporations, Partnerships, Estates,
and Trusts, 2019 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.

Corporations, Partnerships, Estates & Trusts, 2019 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.

Corporations, Partnerships, Estates & Trusts, 2019 Edition covers tax concepts as they affect corporations, partnerships, estates, and trusts. The authors provide accessible, comprehensive, and authoritative coverage of relevant tax code and regulations, as well as all major developments in Federal income taxation. This edition has been fully updated and revised to reflect changes included in the Tax Cuts and Jobs Act of 2017. This market-leading text is intended for students who have had a previous course in taxation.

In revising the 2019 Edition, we focused on:

- **Accessibility. Clarity. Substance.** The text authors and editors made this their mantra as they revised the 2019 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*.
- **Developing professional skills.** SWFT excels in bringing students to a professional level in their tax knowledge and skills, to prepare them for immediate success in their careers. In this regard, we include development of speaking and writing communications skills, the use of tax preparation and tax research software, orientation toward success on the CPA exam, consideration of the time value of money in the tax planning process, and facility with advanced applications of spreadsheet construction.
- **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

19. **LO.1** Marie and Ethan form Roundtree Corporation with the transfer of the following. Marie performs personal services for the corporation with a fair market value of \$80,000 in exchange for 400 shares of stock. Ethan contributes an installment note receivable (basis \$25,000; fair market value \$30,000), land (basis \$50,000; fair market value \$170,000) and inventory (basis \$100,000; fair market value \$120,000) in exchange for 1,600 shares. Determine Marie and Ethan's current income, gain, or loss; calculate the basis that each takes in the Roundtree stock.
20. **LO.1** Grady exchanges qualified property, basis of \$12,000 and fair market value of \$18,000, for 60% of the stock of Eadie Corporation. The other 40% of the stock is owned by Pedro, who acquired it five years ago. Calculate Grady's current income, gain, or loss and the basis he takes in his shares of Eadie stock as a result of this transaction.
21. **LO.2** Jocelyn contributes land with a basis of \$60,000 and fair market value of \$90,000 and inventory with a basis of \$5,000 and fair market value of \$8,000 in exchange for 100% of Zion Corporation stock. The land is subject to a \$15,000 mortgage. Determine Jocelyn's recognized gain or loss and the basis in the Zion stock received.

BECKER PROFESSIONAL EDUCATION REVIEW QUESTIONS: End-of-Chapter CPA review questions from Becker PREPARE STUDENTS FOR SUCCESS. Students review key concepts using proven questions from Becker Professional Education®—one of the industry's most effective tools to prepare for the CPA Exam.

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

Becker CPA Review Questions



1. Olinto, Inc., has taxable income (before special deductions and net operating loss deduction) of \$92,000. Included in that amount is \$12,000 interest and dividends income. Forty percent of Olinto's property, payroll, and sales are in its home state. What amount of this taxable income will be taxed by Olinto, Inc.'s home state?

a. \$12,000	c. \$44,000
b. \$36,800	d. \$90,000
2. In which of the following cases will Federal law prohibit a state from imposing an income tax on net income?
 - a. The business has a retail outlet store in the state.
 - b. The business has its corporate headquarters in the state and generates sales from there.
 - c. Orders are taken within the state and accepted at corporate headquarters outside of the state and shipped from a location outside of the state.
 - d. Orders are taken within the state and accepted at corporate headquarters outside of the state and shipped from a location inside the state.



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

THE BIG PICTURE

STRUCTURING ACQUISITIONS

Rock & Water Corporation (R&W) specializes in industrial park landscaping featuring rock walls, holding ponds, water fountains, and indigenous vegetation. One of R&W's central missions is to cause as little negative impact on the environment as possible. Until recently, R&W applied this policy only to its own work, but the new CEO, Tony Turner, wants to extend its corporate responsibility to its suppliers.

R&W uses several types of chemicals and fertilizers in its business and is aware that three of its suppliers do not use environmentally sound practices. Realizing that simply changing suppliers will not eliminate these problematic practices, R&W is considering acquiring these three suppliers. Using this strategy, R&W would control the production practices of these corporations.

R&W is unsure about how to structure these potential acquisitions of its suppliers and seeks your advice. R&W gives you the following information about these potential acquisitions.

- BrineCo is a profitable corporation that has been owned predominantly by the Adams family since its incorporation in 1990. It has virtually no debt because most of its assets date from its incorporation.
- AcidCo, started in 1997, has been having legal troubles and has continually been fined since more stringent EPA standards came into existence. Besides chemicals used by R&W, AcidCo produces acids for the mining industry. R&W is only interested in acquiring the landscaping chemical business.
- ChemCo is a new fertilizer producer with the technology to produce environmentally safe products. Its management is inexperienced, however, and the result has been inefficiencies in production and unintended harm to its surroundings. ChemCo has yet to show a profit.

How will you advise R&W to approach each of these acquisitions?

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 concepts they are learning play 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.

FINANCIAL DISCLOSURE INSIGHTS:

Tax professionals need to understand how taxes affect the GAAP financial statements.

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.

FINANCIAL DISCLOSURE INSIGHTS
Where Does GAAP Come From?

Tax law has many sources, including Congress and the legislators of other countries, the courts, and the IRS. Similarly, accounting principles also have many sources. In reconciling the tax and financial accounting reporting of a transaction, the tax professional needs to know the hierarchy of authority of accounting principles so that the proper level of importance can be assigned to a specific GAAP document. The diagram shown below presents the sources of GAAP listed in general order of authority from highest to lowest.

Professional research is conducted to find and analyze the sources of accounting reporting standards in much the same way tax professionals conduct research into open tax questions. In fact, many of the publishers that provide tax research materials also can be used to find GAAP and IFRS documents. The Financial Accounting Standards Board (FASB) also makes its standards and interpretations available by subscription.

Highest Authority	<ul style="list-style-type: none"> - Financial Accounting Standards and Interpretations of the FASB - Pronouncements of bodies that preceded the FASB, such as the Accounting Principles Board (APB)
Second Highest Authority	<ul style="list-style-type: none"> - FASB Technical Bulletins - Audit and Accounting Guides, prepared by the American Institute of CPAs (AICPA) and cleared by the FASB - Practice Bulletins, prepared by the AICPA and cleared by the FASB
Third Highest Authority	<ul style="list-style-type: none"> - Interpretation Guides of the FASB Staff - Accounting Interpretations of the AICPA - IASB Accounting Standards - FASB Concepts Standards - Widely accepted accounting practices, professional journals, accounting textbooks, and treatises



ETHICS & EQUITY The Costs of Good Tax Planning

High Tech Tops (HTT), a C corporation based in California, manufactures resilient cases and covers for laptops, smartphones, and tablets. Its sales and profits have more than doubled in each of the last five years (i.e., the company is growth-oriented and recession-proof). Its employees and contractors make above-average wages, so they make important contributions to the local individual income, sales, and property tax collections.

But the Federal and state corporate income tax is another story. Using legal and effective transfer pricing techniques, HTT shifts most of its operating profits to low-tax subsidiaries in Ireland and Singapore. Most of the firm's executives, engineers, and designers are based in the United States, but almost all of the sales operations are run from overseas. HTT's customers live around the

world, but its tax liabilities are concentrated in the low-tax jurisdictions.

You are the president of State University, across town from HTT's headquarters. The company sends hundreds of its employees to take graduate and professional courses on your campus, and several of the corporate leaders are frequent guest speakers and adjunct lecturers in classes.

Still, the state income tax the company avoids through its transfer pricing plans would fund millions of dollars of campus growth and improvements for State University.

Should you become involved in the politics of the matter and lobby at your statehouse for tighter rules on transfer pricing? Such an action might result in tax increases that would improve your university's situation, but it might also force HTT to consider moving its headquarters to another location.

ETHICS & EQUITY: Some tax 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: Chapters include a separate section calling attention to how taxpayers can use the law to reach financial and other goals. Tax planning applications and suggestions also appear throughout each chapter.

9-8 TAX PLANNING

Return to the timeline of Exhibit 9.6, and consider the decision to operate a multinational business entity as a branch and when to convert the structure of the business to an overseas subsidiary. Exhibit 9.9 identifies the major advantages and disadvantages for each of these decisions from a Federal income tax standpoint.

Additional tax planning opportunities and considerations are discussed below.

9-8a The Foreign Tax Credit Limitation and Sourcing Provisions

The FTC limitation is partially based on the amount of foreign-source taxable income in the numerator of the limitation formula. Consequently, the sourcing of income is extremely important. Generally, in this regard, the U.S. taxpayer benefits when the sourcing rules work to:

- Generate *income* items that are *foreign-source*, so as to maximize net foreign-source income, the numerator of the FTC fraction. This might be accomplished through favorable elections under the sourcing rules (e.g., as to inventory sales).
- Realize *deduction* items as *U.S.-source*, so as to minimize any reduction in net foreign-source income, the numerator of the FTC fraction.



GLOBAL TAX ISSUES Tax Reform Adds a New Wrinkle to the Choice of Organizational Form When Operating Overseas

When the management of a corporation decides to expand its business by establishing a presence in a foreign market, the new business venture may take one of several organizational forms. As each form comes with its respective advantages and disadvantages, making the best choice can be difficult. And, the choice is even more difficult now since a new set of rules applies to the taxation of international operations beginning in 2018.

Nonetheless, one common approach is to conduct the foreign activity as a *branch* operation of the U.S. corporation. The foreign branch is not a separate legal entity, but a division of the U.S. corporation established overseas. As a result, any gains and losses produced by the foreign unit are included in the corporation's overall financial results.

Another possibility is to organize the foreign operations as a *subsidiary* of the U.S. parent corporation. If this route is chosen, the subsidiary may be either a *domestic subsidiary* (i.e., organized in the United States) or a *foreign subsidiary* (organized under the laws of a foreign country).

One fundamental tax difference between these two approaches is that the gains and losses of a domestic

subsidiary may be consolidated with the operations of the U.S. parent, while the operations of a foreign subsidiary cannot. Thus, the use of a domestic subsidiary to conduct foreign operations generally yields the same final result as the use of a branch. With both approaches, the financial statements of the U.S. parent reflect the results of its worldwide operations.

As noted, the tax rules associated with international operations and their impact on organizational forms have changed with the passage of the Tax Cuts and Jobs Act (TCJA) of 2017. Now, the United States uses a "territorial system" when taxing foreign earnings, which, generally, requires U.S. corporations to pay U.S. tax only on their domestic income. Given the complexity of the organizational form decisions and the significance of the changes to international taxation rules in the TCJA of 2017, it will take time for tax professionals to determine the most tax effective ways of structuring foreign operations of U.S. corporations. See Chapter 9 for additional discussion of the taxation of international operations.

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 to guide them to complete taxation problems on their own
- ❑ **MASTERY:** help students make the leap from memorizing concepts to actual critical thinking

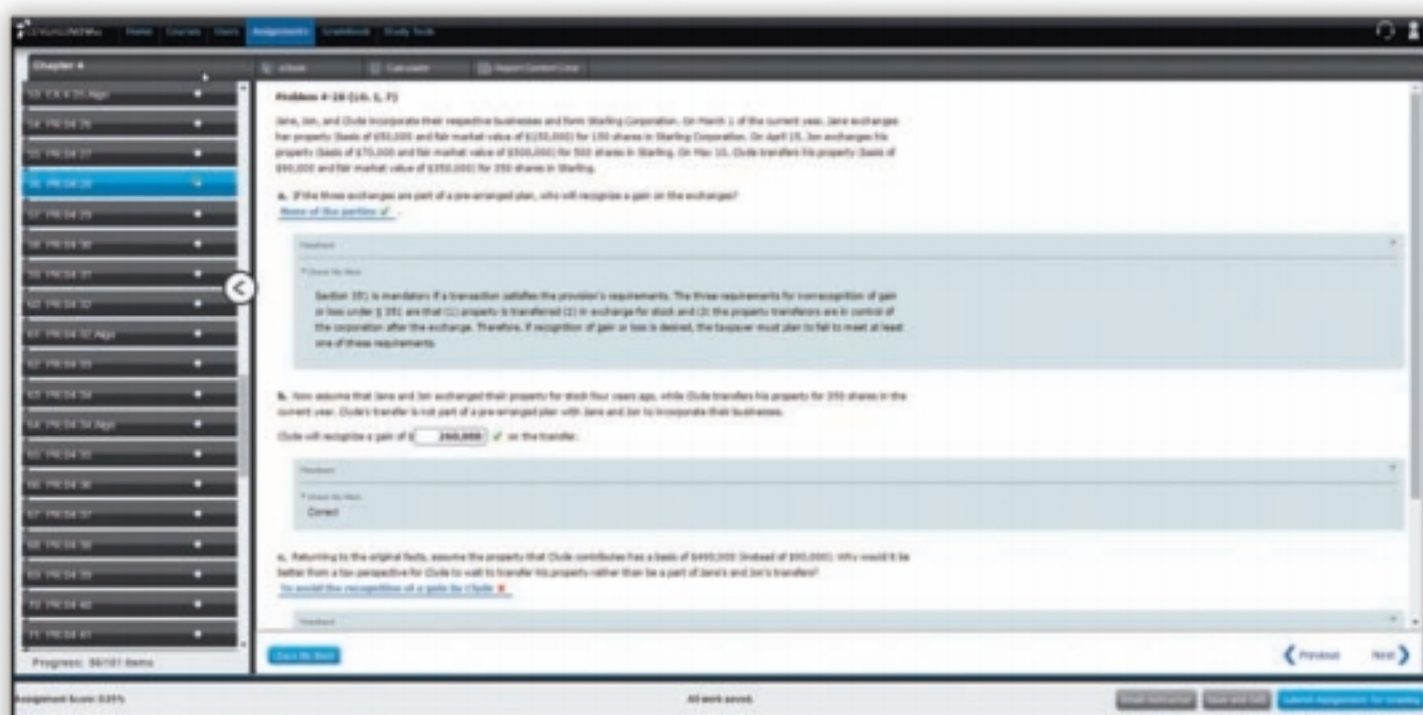
Motivation —

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

- ❑ **“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, to guide them to complete taxation problems on their own. However, as students try to work through homework problems, sometimes they become stuck and need extra help. To 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 —

- ❑ **Tax Form Problems** give students the option to complete the Cumulative Intuit ProConnect Problems and other homework items found in the end-of-chapter manually or 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. This edition is fully updated and revised to reflect changes included in the Tax Cuts and Jobs Act (TCJA) of 2017 (Public Law 115–97; 12/22/17).**

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 2019 Edition.

- Updated materials to reflect changes made by Congress through legislative action.
- 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 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://community.cengage.com/t5/Taxation-in-the-Real-World-Blog/bg-p/taxationintherealworldblog>)

Chapter 1

- Revised text to reflect TCJA of 2017 changes as needed.

- Updated references and citations throughout the chapter.
- Updated discussion of taxation on the CPA exam.

Chapter 2

- NEW chapter covering both an introduction to entities and the new deduction for qualified business income (§ 199A).
- Added extensive coverage of the QBI deduction, including a Concept Summary and multiple examples to assist students in navigating this challenging provision.
- Developed significant end-of-chapter materials illustrating the § 199A rules (including Discussion Questions, Computational Exercises, Problems, and Research Problems).

Chapter 3

- Updated entire chapter for TCJA of 2017 (Chapter 2 in previous editions).
- Added new content on the business interest deduction limitation, excessive executive compensation, and restrictions on corporate accumulations.
- Revised end-of-chapter materials extensively to reflect TCJA of 2017 changes; added communications component to several problems; added Microsoft Excel component to one problem.
- Deleted materials on domestic production activities deduction and the tax liabilities of related corporations.

Chapter 4

- Added another “forms problem” to the end-of-chapter material.
- Added a spreadsheet requirement for two end-of-chapter assignments.
- Added a new Research Problem requiring the use of IRS Tax Statistics and Excel.

Chapter 5

- Updated for changes made by the TCJA of 2017, such as tax rates and repeal of the § 199 deduction.
- Revised and updated chapter materials as needed; clarified chapter materials when necessary.

- Updated end-of-chapter materials as needed.
- Identified critical thinking problems and added communications requirements to several problems.

Chapter 6

- Streamlined and clarified materials throughout the chapter.
- Revised text examples and Exhibit 6.2 to address TCJA of 2017 (e.g., effect of increase in estate tax exemption on § 303 problems and changes in individual and corporate income tax rates). Also revised end-of-chapter materials for these changes.
- Added communications component to several end-of-chapter problems and identified critical thinking problems.
- Added new Research Problem 7 (with communications component).

Chapter 7

- Expanded discussion of step transaction doctrine to purchase of stock in close time proximity of a “Type B” or “Type C” reorganization.
- Revised Ethics & Equity item *Voicing Ethical Values*.
- Revised Financial Disclosure Insight item *When an Acquisition Fails*.
- Revised materials affected by TCJA of 2017, including tax rates and the treatment of NOL and the dividends received deduction.
- Added numerous Microsoft Excel/spreadsheet end-of-chapter problems.
- Revised end-of-chapter net present value problems for adjustments in the long-term Federal tax-exempt rate.

Chapter 8

- Updated for changes made by the TCJA of 2017, such as for the treatment of NOLs.
- Changed placement of discussion of state income tax treatment of consolidation elections.
- Deleted Financial Disclosure Insights item *The Consolidated Group’s Deferred Tax Asset Accounts*.
- Added a Microsoft Excel question to an exercise.
- Added a new Research Problem on finding, organizing, and displaying IRS statistical data related to filings of consolidated returns.

Chapter 9

- Completely revised to reflect TCJA of 2017 changes, including the movement towards a territorial system, the one-time transition tax, the additional tax on intangible income, the anti-base erosion tax, and changes to the foreign tax credit.
- Added and revised Financial Disclosure Insights items.
- Revised end-of-chapter materials to reflect TCJA of 2017 changes.
- Updated statistics about the global economy and tax results, global corporate tax rates, tax treaty withholding rates, and various indexed amounts.
- Updated statistics about advanced pricing agreements, and added information about the number and location of CFCs.

Chapter 10

- Reduced discussion in “Character of Gain or Loss on Disposition of Receivables, Inventory, and Built-In Loss Properties.”
- Reduced coverage of nonrecourse debt allocations among the partners.
- Adjusted discussion of liability allocations to reflect both the Regulations and the allocations shown on Schedule K-1 (including qualified nonrecourse financing).
- Revised materials affected by TCJA of 2017, including the application of the § 199A deduction, the DPAD, and the AMT.
- Modified Discussion Question 14 to focus on comparing partnership and Subchapter C entities and to be a written communications problem.
- Modified the amounts in Problem 31 to simplify the computations in Problem 32, which uses the same facts.
- Created Problem 32 to compare and contrast the present values of two alternatives for forming the LLC created in Problem 31.
- Modified Problem 34 to require the balance sheet to be created in Microsoft Excel.
- Modified Problems 42 and 43 to require the balance sheet to be created in Microsoft Excel.
- Modified Problem 44 to require the basis calculation to be created in Microsoft Excel.

- Added Problem 48, part b, to require preparation of Form 1065, pages 1 and 4, for the given fact pattern.

Chapter 11

- Simplified and clarified Concept Summaries 11.1 to 11.4.
- Reduced scope of coverage of “Other Dispositions of Partnership Interests.”
- Clarified application of mandatory basis adjustment rules for substantial built-in losses and substantial basis reductions.
- Expanded Example 33 to carry illustration through depreciation and sale of underlying partnership property.
- Substantially reduced discussion of family partnerships.
- Simplified the discussion of partnership administration and the anti-abuse regulations.
- Revised materials affected by the TCJA of 2017, including the application of the § 199A deduction and the technical termination of partnerships.
- Added two more items that can be solved by using Microsoft Excel.
- Added new Problem 45 requesting a memo advising a client on two alternatives for disposing of an LLC interest, compared by future after-tax cash flows.

Chapter 12

- Clarified AAA treatment of unrecognized losses for distributed property.
- Revised materials affected by TCJA of 2017, including the application of the § 199A deduction.

Chapter 13

- Clarified the availability of limited liability by business entities at the state level.
- Revised discussion of the accumulated earnings tax concerning distribution policies.
- Revised materials affected by the TCJA of 2017, including tax rates, distribution policies, the application of the § 199A deduction, and the use of NOLs.

Chapter 14

- Revised text materials to reflect TCJA of 2017 changes.
- Referenced the revised revenue recognition rules required by GAAP; revised the comments

regarding the balance sheet treatment of the deferred tax accounts; updated data for goodwill on the balance sheet for certain U.S. corporations.

- Updated end-of-chapter materials, including Research Problems (including a reference to a recent Institute on Taxation and Economic Policy report).

Chapter 15

- Included materials on new excise taxes added by the TCJA of 2017 (private college/university endowments and exempt organization highly paid employees).
- Revised statistics about the tax-exempt sector of the economy.
- Updated material involving political activities of churches, added information about the number and size of private foundations, and updated statistics about taxes on private foundations and unrelated business income.
- Revised end-of-chapter materials and added two new Research Problems.

Chapter 16

- Updated statistics about state tax collections.
- Updated state/local tax expenses for Financial Disclosure Insights item.
- Added comment about economic development motivations for state/local tax waivers.
- Added material about an effort by some states to apply economic nexus for sales tax and that the U.S. Supreme Court will decide the *South Dakota v. Wayfair, Inc., et al* case in 2018.
- Revised some Research Problems to reflect the current economy.

Chapter 17

- Updated statistics about the size of the IRS and its audit rates.
- Updated fees for letter ruling requests, installment agreements, and compromises.
- Updated information about the informant and whistleblower programs.
- Updated various penalty amounts, including adding a footnote reference to the TCJA of 2017 change to § 6662(d) that reduces the 10% penalty threshold for determining if a substantial understatement exists to 5% if the taxpayer claims a § 199A deduction.

- Updated explanation of the § 6695(g) due diligence penalty to include application if the client claims head-of-household status (added by the TCJA of 2017).
- Updated operating rules concerning PTINs.
- Added another item to an existing exercise to require the use of Microsoft Excel.

Chapter 18

- Updated for changes made by the TCJA of 2017, including the increase in the unified credit and related exemption amount.
- Updated for changes to the annual gift exclusion amount.
- Added another item to an existing exercise to require the use of Microsoft Excel.

Chapter 19

- Updated for changes made by the TCJA of 2017, including the increase in the unified credit and related exemption amount.
- Updated for changes to the annual gift exclusion amount.

Chapter 20

- Updated for rate and AMT changes made by the TCJA of 2017.
- Updated statistics concerning the income and tax liabilities of fiduciary entities.
- Modified discussion of rules concerning the additional tax on NII.
- Clarified the grantor trust status of a reversionary trust.

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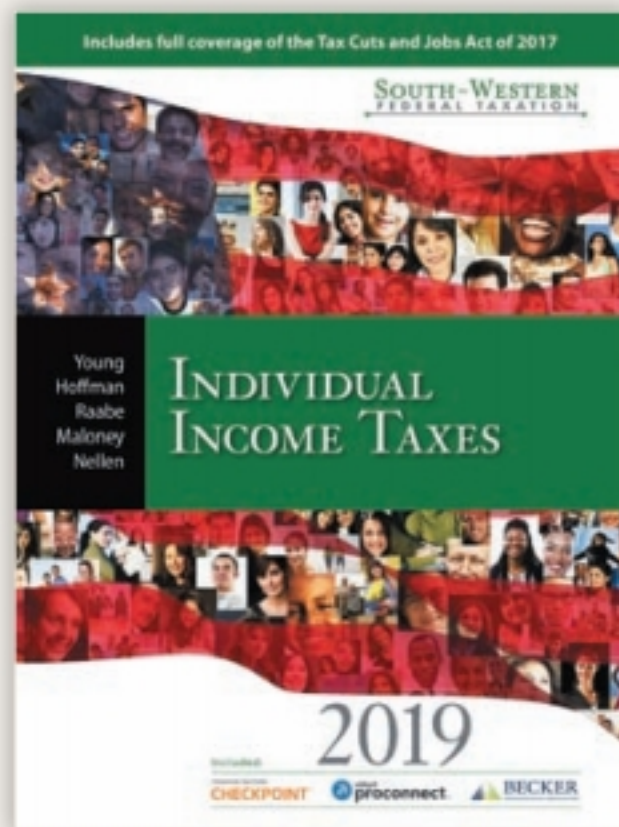
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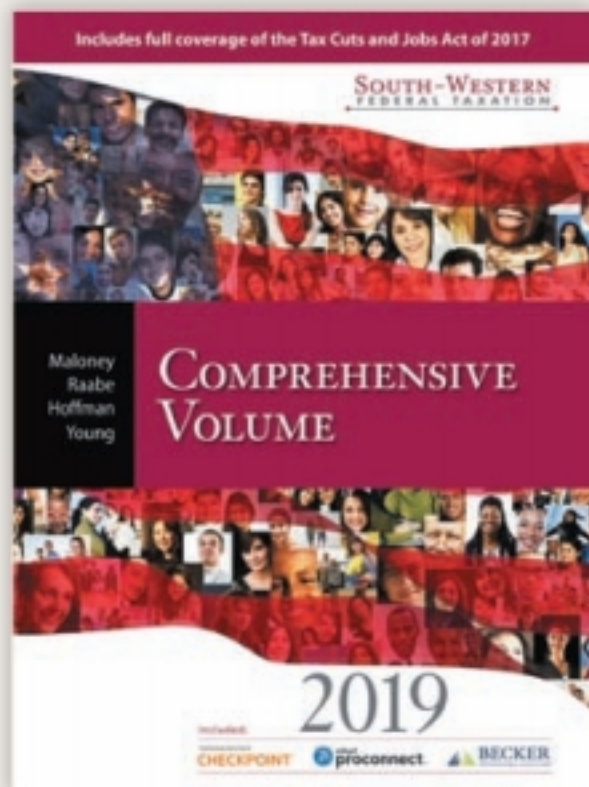
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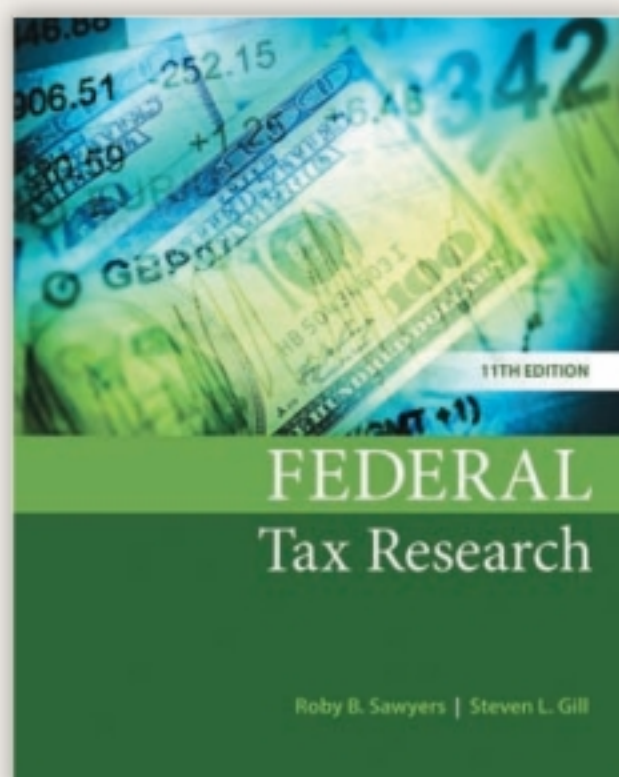
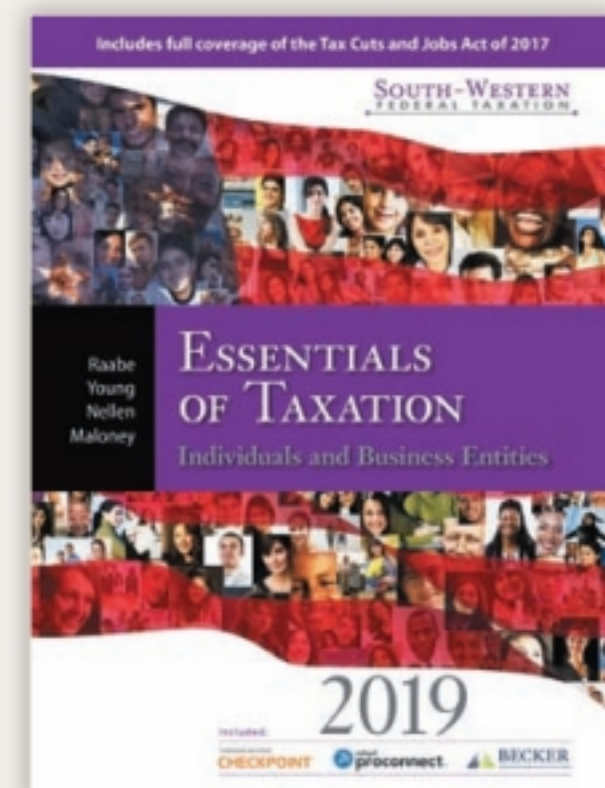
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