

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

SOUTH-WESTERN
FEDERAL TAXATION

Young
Hoffman
Raabe
Maloney
Nellen

INDIVIDUAL INCOME TAXES

2019

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2017 Tax Rate Schedules

Single—Schedule X				Head of household—Schedule Z			
If taxable income is: Over—	But not over—	The tax is:	of the amount over—	If taxable income is: Over—	But not over—	The tax is:	of the amount over—
\$ 0	\$ 9,325	.....10%	\$ 0	\$ 0	\$ 13,350	.....10%	\$ 0
9,325	37,950	\$ 932.50 + 15%	9,325	13,350	50,800	\$ 1,335.00 + 15%	13,350
37,950	91,900	5,226.25 + 25%	37,950	50,800	131,200	6,952.50 + 25%	50,800
91,900	191,650	18,713.75 + 28%	91,900	131,200	212,500	27,052.50 + 28%	131,200
191,650	416,700	46,643.75 + 33%	191,650	212,500	416,700	49,816.50 + 33%	212,500
416,700	418,400	120,910.25 + 35%	416,700	416,700	444,550	117,202.50 + 35%	416,700
418,400	.....	121,505.25 + 39.6%	418,400	444,550	.....	126,950.00 + 39.6%	444,550
Married filing jointly or Qualifying widow(er)—Schedule Y-1				Married filing separately—Schedule Y-2			
If taxable income is: Over—	But not over—	The tax is:	of the amount over—	If taxable income is: Over—	But not over—	The tax is:	of the amount over—
\$ 0	\$ 18,650	.....10%	\$ 0	\$ 0	\$ 9,325	.....10%	\$ 0
18,650	75,900	\$ 1,865.00 + 15%	18,650	9,325	37,950	\$ 932.50 + 15%	9,325
75,900	153,100	10,452.50 + 25%	75,900	37,950	76,550	5,226.25 + 25%	37,950
153,100	233,350	29,752.50 + 28%	153,100	76,550	116,675	14,876.25 + 28%	76,550
233,350	416,700	52,222.50 + 33%	233,350	116,675	208,350	26,111.25 + 33%	116,675
416,700	470,700	112,728.00 + 35%	416,700	208,350	235,350	56,364.00 + 35%	208,350
470,700	.....	131,628.00 + 39.6%	470,700	235,350	.....	65,814.00 + 39.6%	235,350

2018 Tax Rate Schedules

Single—Schedule X				Head of household—Schedule Z			
If taxable income is: Over—	But not over—	The tax is:	of the amount over—	If taxable income is: Over—	But not over—	The tax is:	of the amount over—
\$ 0	\$ 9,525	.....10%	\$ 0	\$ 0	\$ 13,600	.....10%	\$ 0
9,525	38,700	\$ 952.50 + 12%	9,525	13,600	51,800	\$ 1,360.00 + 12%	13,600
38,700	82,500	4,453.50 + 22%	38,700	51,800	82,500	5,944.00 + 22%	51,800
82,500	157,500	14,089.50 + 24%	82,500	82,500	157,500	12,698.00 + 24%	82,500
157,500	200,000	32,089.50 + 32%	157,500	157,500	200,000	30,698.00 + 32%	157,500
200,000	500,000	45,689.50 + 35%	200,000	200,000	500,000	44,298.00 + 35%	200,000
500,000	.....	150,689.50 + 37%	500,000	500,000	.....	149,298.00 + 37%	500,000
Married filing jointly or Qualifying widow(er)—Schedule Y-1				Married filing separately—Schedule Y-2			
If taxable income is: Over—	But not over—	The tax is:	of the amount over—	If taxable income is: Over—	But not over—	The tax is:	of the amount over—
\$ 0	\$ 19,050	.....10%	\$ 0	\$ 0	\$ 9,525	.....10%	\$ 0
19,050	77,400	\$ 1,905.00 + 12%	19,050	9,525	38,700	\$ 952.50 + 12%	9,525
77,400	165,000	8,907.00 + 22%	77,400	38,700	82,500	4,453.50 + 22%	38,700
165,000	315,000	28,179.00 + 24%	165,000	82,500	157,500	14,089.50 + 24%	82,500
315,000	400,000	64,179.00 + 32%	315,000	157,500	200,000	32,089.50 + 32%	157,500
400,000	600,000	91,379.00 + 35%	400,000	200,000	300,000	45,689.50 + 35%	200,000
600,000	.....	161,379.00 + 37%	600,000	300,000	.....	80,689.50 + 37%	300,000

Tax Formula for Individuals

Income (broadly defined)	\$xx,xxx
Less: Exclusions	<u>(x,xxx)</u>
Gross income	\$xx,xxx
Less: Deductions for adjusted gross income	<u>(x,xxx)</u>
Adjusted gross income	\$xx,xxx
Less: The greater of—	
Total itemized deductions	
or standard deduction	(x,xxx)
Less: Personal and dependency exemptions*	(x,xxx)
Deduction for qualified business income**	<u>(x,xxx)</u>
Taxable income	\$xx,xxx
Tax on taxable income	\$ x,xxx
Less: Tax credits (including Federal income tax withheld and prepaid)	<u>(xxx)</u>
Tax due (or refund)	<u>\$ xxx</u>

*Exemption deductions are not allowed from 2018 through 2025.

**Only applies from 2018 through 2025.

Basic Standard Deduction Amounts

Filing Status	2017	2018
Single	\$ 6,350	\$12,000
Married, filing jointly	12,700	24,000
Surviving spouse	12,700	24,000
Head of household	9,350	18,000
Married, filing separately	6,350	12,000

Amount of Each Additional Standard Deduction

Filing Status	2017	2018
Single	\$1,550	\$1,600
Married, filing jointly	1,250	1,300
Surviving spouse	1,250	1,300
Head of household	1,550	1,600
Married, filing separately	1,250	1,300

Personal and Dependency Exemption

2017	2018*
\$4,050	\$4,150

*Note: Exemption deductions have been suspended from 2018 through 2025.



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AMT Formula for Individuals

Taxable income (increased by any standard deduction taken)

Plus or minus: Adjustments

Plus: Preferences

Equals: Alternative minimum taxable income (AMTI)

Minus: Exemption

Equals: Alternative minimum tax (AMT) base

Multiplied by: 26% or 28% rate

Equals: Tentative minimum tax before foreign tax credit

Minus: AMT foreign tax credit

Equals: Tentative minimum tax (TMT)

Minus: Regular tax liability (less any foreign tax credit)

Equals: AMT (if TMT > regular tax liability)

2017 AMT Exemption and Phaseout for Individuals

Filing Status	Exemption	Phaseout	
		Begins at	Ends at
Married, filing jointly	\$84,500	\$160,900	\$498,900
Single or Head of household	54,300	120,700	337,900
Married, filing separately	42,250	80,450	249,450

2018 AMT Exemption and Phaseout for Individuals

Filing Status	Exemption	Phaseout	
		Begins at	Ends at
Married, filing jointly	\$109,400	\$1,000,000	\$1,437,600
Single or Head of household	70,300	500,000	781,200
Married, filing separately	54,700	500,000	718,800

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FEDERAL TAXATION

2019 EDITION
INDIVIDUAL
INCOME TAXES

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**South-Western Tax Federation: Individual
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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.

Individual Income Taxes, 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.

Individual Incomes Taxes, 2019 Edition provides accessible, comprehensive, and authoritative coverage of the relevant tax code and regulations as they pertain to the individual taxpayer, as well as coverage of all major developments in Federal Taxation. This edition has been fully updated and revised to reflect changes included in the Tax Cuts and Jobs Act of 2017.

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.

Learning Tools and Features to Help Students Make the Connection

FULL-COLOR DESIGN: We understand that students struggle with learning difficult tax code concepts and applying them to real-world scenarios. The 2019 edition uses color to bring the text to life, capture student attention, and present the tax code in a simple, yet logical format.

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

CHAPTER 14 Property Transactions: Determination of Gain or Loss and Basis Considerations

LEARNING OBJECTIVES: After studying Chapter 14, you should be able to:

- 1. Analyze and explain the computation of adjusted gain or loss on property dispositions.
- 2. Analyze and explain the computation of adjusted basis on property dispositions.
- 3. Analyze and explain the computation of adjusted basis on property dispositions.

CHAPTER OUTLINE

- 14.1 Determination of Gain or Loss, 14.1
- 14.2 Basis Considerations, 14.2
- 14.3 Basis Adjustments, 14.3
- 14.4 Basis Reductions, 14.4
- 14.5 Basis Increases, 14.5
- 14.6 Basis Reductions, 14.6
- 14.7 Basis Increases, 14.7
- 14.8 Basis Reductions, 14.8
- 14.9 Basis Increases, 14.9
- 14.10 Basis Reductions, 14.10
- 14.11 Basis Increases, 14.11
- 14.12 Basis Reductions, 14.12

THE BIG PICTURE

PROPOSED SALE OF A HOME AND OTHER PROPERTY TRANSACTIONS

After seeing a house that she owned from her mother, Paula, seven months ago, Paula paid \$275,000 for the house. After considering selling the house to her brother, Robert, she decided to sell it to her brother, Robert, who she will have to give to her on the transaction. She wants to see if she can do this.

As she has no other real estate in the following questions:

- 1. How much gain or loss will Paula recognize on the sale of the house to her brother, Robert?
- 2. How much gain or loss will Robert recognize on the sale of the house to her brother, Robert?
- 3. How much gain or loss will Robert recognize on the sale of the house to her brother, Robert?
- 4. How much gain or loss will Robert recognize on the sale of the house to her brother, Robert?

TABLE 14.1 Tax Formula for Individuals

This chapter covers the individual's portion of the tax formula for individuals for the tax year 2019.

Income (Adjusted Gross Income) is calculated as follows:

- 1. Gross Income
- 2. Less: Exemptions
- 3. Less: Deductions
- 4. Less: Credits

Adjusted Gross Income is calculated as follows:

- 1. Gross Income
- 2. Less: Exemptions

Adjusted Taxable Income is calculated as follows:

- 1. Adjusted Gross Income
- 2. Less: Deductions

EXAMPLE 14.1

Example 14.1 illustrates the determination of gain or loss on the sale of a house. The house was purchased for \$100,000 and sold for \$150,000. The adjusted basis is \$80,000. The gain is \$70,000.

Adjusted Basis

The adjusted basis is calculated as follows:

- 1. Original Basis: \$100,000
- 2. Less: Depreciation: \$20,000
- 3. Adjusted Basis: \$80,000

Gain

The gain is calculated as follows:

- 1. Sale Price: \$150,000
- 2. Less: Adjusted Basis: \$80,000
- 3. Gain: \$70,000

This chapter and the following three chapters explain the income tax consequences of property transactions (the sale or other disposition of property). These chapters explain the tax consequences of the following:

- In the case of a sale or other disposition of property, the tax consequences of the sale or other disposition of property.
- In the case of a sale or other disposition of property, the tax consequences of the sale or other disposition of property.



14.1 DETERMINATION OF GAIN OR LOSS

Gain or loss results from "realization events," such as a sale, exchange, or other disposition of property. This gain or loss is recognized when the property is sold, exchanged, or otherwise disposed of. Realization events include a significant change in ownership rights and a realization event has occurred. A realization event has occurred if the property is sold, exchanged, or otherwise disposed of. Realization events include a significant change in ownership rights and a realization event has occurred. A realization event has occurred if the property is sold, exchanged, or otherwise disposed of.

EXAMPLE 14.2

Example 14.2 illustrates the determination of gain or loss on the sale of a house. The house was purchased for \$100,000 and sold for \$150,000. The adjusted basis is \$80,000. The gain is \$70,000.

Adjusted Basis

The adjusted basis is calculated as follows:

- 1. Original Basis: \$100,000
- 2. Less: Depreciation: \$20,000
- 3. Adjusted Basis: \$80,000

Gain

The gain is calculated as follows:

- 1. Sale Price: \$150,000
- 2. Less: Adjusted Basis: \$80,000
- 3. Gain: \$70,000

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.

EXAMPLE 14.3

Example 14.3 illustrates the determination of gain or loss on the sale of a house. The house was purchased for \$100,000 and sold for \$150,000. The adjusted basis is \$80,000. The gain is \$70,000.

Adjusted Basis

The adjusted basis is calculated as follows:

- 1. Original Basis: \$100,000
- 2. Less: Depreciation: \$20,000
- 3. Adjusted Basis: \$80,000

Gain

The gain is calculated as follows:

- 1. Sale Price: \$150,000
- 2. Less: Adjusted Basis: \$80,000
- 3. Gain: \$70,000

EXAMPLE 14.4

Example 14.4 illustrates the determination of gain or loss on the sale of a house. The house was purchased for \$100,000 and sold for \$150,000. The adjusted basis is \$80,000. The gain is \$70,000.

Adjusted Basis

The adjusted basis is calculated as follows:

- 1. Original Basis: \$100,000
- 2. Less: Depreciation: \$20,000
- 3. Adjusted Basis: \$80,000

Gain

The gain is calculated as follows:

- 1. Sale Price: \$150,000
- 2. Less: Adjusted Basis: \$80,000
- 3. Gain: \$70,000

EXAMPLE 14.5

Example 14.5 illustrates the determination of gain or loss on the sale of a house. The house was purchased for \$100,000 and sold for \$150,000. The adjusted basis is \$80,000. The gain is \$70,000.

Adjusted Basis

The adjusted basis is calculated as follows:

- 1. Original Basis: \$100,000
- 2. Less: Depreciation: \$20,000
- 3. Adjusted Basis: \$80,000

Gain

The gain is calculated as follows:

- 1. Sale Price: \$150,000
- 2. Less: Adjusted Basis: \$80,000
- 3. Gain: \$70,000

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

16. **LO.1** Sally owns real property for which the annual property taxes are \$9,000. She sells the property to Kate on March 9, 2018, for \$550,000. Kate pays the real property taxes for the entire year on October 1, 2018.
 - a. How much of the property taxes can be deducted by Sally and how much by Kate?
 - b. What effect does the property tax apportionment have on Kate'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 parts (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, 2018, 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 2018, assuming that straight-line amortization is appropriate?
 - b. What is Katrina's adjusted basis for the bonds on January 1, 2019?

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. Jasmin purchased 100 shares of Pinkstey Corporation (publicly traded company) on January 1 of year 1 for \$5,000. The FMV of the shares at the end of year 1 was \$6,000. On January 1 of year 4, Pinkstey Corporation declared a 2-for-1 stock split when the fair market value of the stock was \$65 per share. On January 1 of year 5, Jasmin sold all of her Pinkstey Corporation stock when the fair market value was \$40 per share. Which of the following statements is true?
 - a. Jasmin reports \$6,500 in gross income for the 2-for-1 stock split in year 4.
 - b. Jasmin's basis in the Pinkstey Corporation stock at the end of year 4 is \$65/share.
 - c. Jasmin has no taxable income for the Pinkstey Corporation stock in year 4.
 - d. Jasmin owns 100 shares in Pinkstey Corporation stock at the end of year 4.
2. Alice gifted stock to her son, Bob, in year 5. Alice bought the stock in year 1 for \$8,300. The value of the stock on the date of gift was \$6,400. Bob sold the stock in year 7 for \$15,800. What is Bob's recognized gain or loss on the sale in year 7?
 - a. \$0
 - b. \$7,500 gain
 - c. \$9,400 gain
 - d. \$15,800 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 child development, has accepted a job with Enrichment Child Care Center (ECCC) in a neighboring state. ECCC is located in the western suburbs of a large metropolitan city, roughly 30 miles from the center of the city. Morgan will be moving into a two-bedroom apartment about two miles from ECCC. At ECCC, Morgan will work with preschool children Monday to Friday from 7 a.m. to 5 p.m. One of the reasons she accepted the position at ECCC is the flexibility it provides. Because she is eager to pay off her student loans and save to buy a house, she has decided to freelance in the late afternoons and evenings and on weekends—joining the “gig economy.”

She finds two ways to freelance: (1) transporting people, packages, and meals for a few companies where she finds work through an “app” (like driving for Uber) and (2) tutoring elementary school students in English and math. Her tutoring can take place online or in person (either in her apartment or at the child’s home). She has dedicated the second bedroom in her apartment for freelancing. She has a large table and several chairs in this bedroom that allow her to meet her tutoring students or connect with them via her laptop. She keeps all of her freelancing records in a file cabinet, which she keeps in a closet in the bedroom. She also purchases and keeps various supplies for her tutoring activities in the closet. Although there are some freelance driving options in the suburbs, most often Morgan heads for the city, where there are more passengers and higher fares.

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 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.

FRAMEWORK 1040:

Fitting It All Together.

This chapter-opening feature demonstrates how topics within *Individual Income Taxes* 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. Before those portions are the sections of Form 1040 where the results are reported.

Income (already defined)	\$ 43,000
Less: Exclusions	(1,000)
Gross income	\$ 42,000
Less: Deductions for adjusted gross income	(8,000)
Adjusted gross income	\$ 34,000
Less: The greater of itemized deductions or the standard deduction	(5,000)
40 Itemized deductions (from Schedule A) or your standard deduction	(5,000)
Personal and dependency exemptions**	(3,000)
Deduction for qualified business income**	(3,000)
Taxable income	\$ 23,000
Tax on taxable income (see Tax Tables or Tax Rate Schedules)	\$ 3,500
Less: Tax credits (including income taxes withheld and prepaid)	(500)
Tax due (or refund)	\$ 3,000

**Nonrefundable credits are not allowed from 2018 through 2025.
**Only applies from 2018 through 2025.

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 professionals need to understand how taxes affect 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 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.



ETHICS & EQUITY Punching the Time Clock at Year-End

As the end of the tax year approaches, Julie, a successful full-time real estate developer and investor, recognizes that her income tax situation for the year could be bleak. Unless she and her spouse, Ralph, are able to generate more hours of participation in one of her real estate rental activities, they will not reach the material participation threshold. Consequently, the tax losses from the venture will not be deductible. To ensure deductibility, Julie suggests the following plan:

- She will document the time she spends "thinking" about her rental activities.
- During the week, Ralph will visit the apartment building to oversee (in a management role) the operations of the rentals.

- On weekends, she and Ralph will visit the same units to further evaluate the operations.
- Also on the weekends, while they are doing their routine household shopping, they will be on the lookout for other rental properties to buy. Julie plans to count both her and Ralph's weekend hours toward the tally of total participation.

Julie contends that the law clearly allows the efforts of one's spouse to count for purposes of the material participation tests. Likewise, nothing in the tax law requires taxpayers to be efficient in their hours of participation. How do you react?

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.

16-7 TAX PLANNING

16-7a Importance of Capital Asset Status

Why is capital asset status important? Because of 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.

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 Filing a Joint Return

John Garth is a U.S. citizen and resident, but he spends much of his time in London, where his employer sends him on frequent assignments. John is married to Victoria, a citizen and resident of the United Kingdom.

Can John and Victoria file a joint return for U.S. Federal income tax purposes? Although § 6013(a)(1) specifically precludes the filing of a joint return if one spouse is a nonresident alien, another Code provision permits an exception. Under § 6013(g), the parties can elect to treat the nonqualifying spouse as a "resident" of the United States. This election would allow John and Victoria to file jointly.

But should John and Victoria make this election? If Victoria has considerable income of her own (from non-U.S. sources), the election could be ill-advised. As a nonresident alien, Victoria's non-U.S. source income would not be subject to the U.S. income tax. If she is treated as a U.S. resident, however, her non-U.S. source income will be subject to U.S. tax. Under the U.S. global approach to taxation, all income (regardless of where earned) of anyone who is a resident or citizen of the United States is subject to tax.

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.
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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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The screenshot displays a digital tax form interface for a 2016 U.S. Individual Income Tax Return. The main form is titled "1040 U.S. Individual Income Tax Return 2016" and includes fields for the taxpayer's name, address, and Social Security number. A pop-up window titled "Form 1040" provides a summary of the taxpayer's information, including the name "SANDRA B", address "12345 Main St, Anytown, NY 12345", and Social Security number "123-45-6789". The interface also shows a "File" button and a "Print" button.

The screenshot displays a digital tax form interface for a 2016 U.S. Individual Income Tax Return. The main form is titled "1040 U.S. Individual Income Tax Return 2016" and includes fields for the taxpayer's name, address, and Social Security number. A pop-up window titled "Form 1040" provides a summary of the taxpayer's information, including the name "SANDRA B", address "12345 Main St, Anytown, NY 12345", and Social Security number "123-45-6789". The interface also shows a "File" button and a "Print" button.

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)
- An appendix that has comprehensive tax return problems for the 2017 tax filing year as well as 2018 problems updated to the Tax Cuts and Jobs Act of 2017 (once 2018 forms are available) (Appendix E). (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

- Updated Exhibit 1.1 (Federal Tax Revenues) and Exhibit 1.4 (IRS Audit Types and Rates) with current data.
- Revised text to reflect the TCJA of 2017 and revised various inflation-adjusted information in the chapter.
- Identified critical thinking questions and problems.
- Added a new Research Problem to analyze a soda tax or sweetened beverage tax proposal against the AICPA's *Principles of Good Tax Policy*.

Chapter 2

- Created new Big Picture example and updated related examples throughout the chapter.
- 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 3

- Updated to reflect changes made by the TCJA of 2017, including tax rates, the child and dependent tax credits, and the new calculation of the kiddie tax (several examples added on this).
- Updated chapter materials to reflect inflation adjustments.
- Revised and clarified materials as needed throughout the chapter.
- Updated end-of-chapter materials to reflect TCJA of 2017 changes and inflation adjustments.

Chapter 4

- Expanded LO 5 to include present value considerations of tax planning.
- Updated for changes made by the TCJA of 2017, such as to alimony and tax rates.
- Added basics of FBAR reporting requirements.

- Clarified the requirements for alimony.
- Noted that former employees are eligible for the group term life insurance exclusion.
- Added an FBAR exercise.

Chapter 5

- Replaced the Ethics & Equity on employer meals with one on whether Congress made the right decision with the TCJA of 2017 to disallow certain benefit deductions to employers rather than maintaining the deduction and making the benefits taxable to employees.
- Updated for changes made by the TCJA of 2017.
- Updated chapter materials to reflect inflation adjustments.

Chapter 6

- Added new materials related to the TCJA of 2017, including accounting method changes for both accrual (deferral of prepayments) and cash method corporations (increasing the gross receipts limit), executive compensation issues (including performance-based compensation now covered by the \$1 million limit, changing the definitions of “covered employees” and “publicly held corporation”), expanding the disallowance for fines and penalties; disallowing deductions for local lobbying expenses, disallowing deductions for settlements of sexual harassment/abuse suits (if a nondisclosure agreement exists), and an overview of the deduction for qualified business income.
- Modified existing material to reflect changes dictated by the TCJA of 2017 (e.g., effect of the suspension of miscellaneous itemized deductions on hobby losses).
- Updated end-of-chapter materials for the TCJA of 2017.

Chapter 7

- Replaced material on the domestic production activities deduction (§ 199) with the excess business loss limitation rule [§ 461(l)] added by the TCJA of 2017.
- Updated casualty loss materials to reflect that personal casualty losses are only allowed if due to a Federally declared disaster. Updated materials on personal casualty gain and loss netting.
- Updated research and experimental expenditures for changes made by the TCJA of 2017.

- Updated net operating loss materials for changes by the TCJA of 2017.
- Revised and clarified chapter materials as needed, including updating materials for annual inflation adjustments.
- Updated end-of-chapter materials to reflect changes made by the TCJA of 2017.

Chapter 8

- Updated text materials to reflect TCJA of 2017 changes, including expanded immediate expensing, unlimited bonus depreciation, and changes to listed property rules.
- Added materials and examples related to using immediate expensing and bonus depreciation effectively.
- Updated end-of-chapter materials to reflect TCJA of 2017 changes.

Chapter 9

- Added new materials on the deduction for qualified business income (§ 199A) added by the TCJA of 2017. Added Concept Summary 9.4 that provides a flowchart related to the qualified business income deduction. Provided multiple examples to assist students in navigating this challenging provision.
- Revised materials on moving, entertainment, and meals expenses to reflect TCJA of 2017 changes and consolidated these topics, along with some others, into a learning objective on business expenses.
- Updated balance of chapter materials (and end-of-chapter materials) for the TCJA of 2017.
- Updated end-of-chapter materials to reflect revised standard mileage amounts.

Chapter 10

- Added and/or updated materials for the TCJA of 2017, including the revised AGI floor for medical expenses in 2017 and 2018, revised limits on qualified residence interest, the cap on state and local taxes, revisions to charitable contributions (including the new 60%-of-AGI rule on cash contributions), and the suspension of the deduction for miscellaneous itemized deductions.

- Updated chapter materials for 2018 inflation adjustments.
- Added new planning ideas related to changes made by the TCJA of 2017.

Chapter 11

- Updated chapter materials to reflect the TCJA of 2017.
- Updated an Ethics and Equity feature in the chapter.
- Added a spreadsheet requirement to two end-of-chapter problems.
- Added an additional tax form completion section to an end-of-chapter problem.
- Added a new Research Problem requiring the use of IRS data (via the IRS Tax Stats website).

Chapter 12

- Updated discussion of additional first-year depreciation.
- Revised material affected by TCJA of 2017, including exemption amounts and repeal of corporate AMT.
- Expanded solution and explanations for Microsoft Excel problems.

Chapter 13

- Revised materials affected by TCJA of 2017, including the child credits, earned income credit, and withholding/tax estimates.
- Updated amounts for 2018 FICA earnings and taxes.
- Added a new Research Problem asking students to use IRS data to analyze individual income tax credits by AGI class (a Microsoft Excel assignment).
- Updated Affordable Care Act materials.

Chapter 14

- Updated and revised for TCJA of 2017 changes.
- Added communications component to several end-of-chapter problems.
- Identified end-of-chapter problems that include a critical thinking component.

Chapter 15

- Revised chapter materials to reflect TCJA of 2017 changes, including restrictions to like-kind exchanges (real property only).

- Added communications components to several end-of-chapter problems.
- Updated tax form problems (the completion of a Form 8824 for a like-kind exchange).

Chapter 16

- Modified the materials related to the definition of capital assets based on TCJA of 2017 changes (related to patents).
- Updated the chapter tax return example [including the Form 8949, Schedule D (Form 1040), and the capital gains worksheet].
- Updated end-of-chapter materials for the TCJA of 2017 and identified critical thinking items.
- Added communications requirements to several end-of-chapter problems.

Chapter 17

- Modified the material on the calculation of the alternative tax on net capital gains and qualified dividend income to reflect changes made by the TCJA of 2017.
- Updated the chapter tax return example, linking the example computations to placement on the various tax forms [Form 4797 and Schedule D (Form 1040)].
- Updated end-of-chapter materials for the TCJA of 2017, including identifying critical thinking items.
- Added two new Research Problems (one related to bonus depreciation and § 1250 and one related to information available from IRS Tax Stats).

Chapter 18

- Updated for the method changes of the TCJA of 2017, including the addition of favorable methods for small taxpayers (average annual gross receipts in the prior three-year period of \$25 million or less) and the additional rules for accrual method taxpayers at §§ 451(b) and (c).
- Updated for current list of automatic changes (Rev.Proc. 2018-31).
- Updated for change in applicable Federal interest rates.
- Updated end-of-chapter problems to reflect TCJA of 2017 changes.

Chapter 19

- Revised chapter materials and end-of-chapter materials to reflect TCJA of 2017 changes.
- Updated materials for 2018 inflation adjustments.

Chapter 20

- Updated for changes made by the TCJA of 2017.

- Reflected most current IRS position on six-month corporate tax extensions.
- Added Microsoft Excel-based exercise requiring use of =IF statements.
- Added problems with new corporate tax rate, including for a fiscal year ending in 2018.
- Added new tax form problem involving trial balance and Form 1120.

TAX LAW OUTLOOK

From your SWFT Series Editors:

Given the significant changes made by the Tax Cuts and Jobs Act of 2017, we are anticipating guidance from the Treasury Department and IRS in many areas, including the qualified business income deduction, excess business losses, net operating losses, and various changes to itemized deductions (including the cap on state and local taxes). Taxpayers and their advisors will be evaluating how all of these changes affect their financial planning strategies and will adjust their plans appropriately. The SWFT editors will be monitoring these activities and provide updates to adopters as needed.

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- **Built-in Test Bank for online assessment.** The Test Bank files are included in CengageNOWv2 so that they may be used as additional homework or tests.

Solutions Manual

Written by the *South-Western Federal Taxation* editors and authors, the Solutions Manual features solutions arranged in accordance with the sequence of chapter material.

Solutions to all homework items are tagged with their Estimated Time to Complete, Level of Difficulty, and Learning Objective(s), as well as the AACSB's and AICPA's core competencies—giving instructors more control than ever in selecting homework to match the topics covered. The Solutions Manual also contains the Solutions to Appendix E: Comprehensive Tax Return Problems and lettered answers (only) to the end-of-chapter Becker CPA Review Questions. **Available on Instructor Companion Website at www.cengage.com/login.**

PowerPoint® Lectures with Notes

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Test Bank

Written by the *South-Western Federal Taxation* editors and authors, the Test Bank contains approximately 2,200 items and solutions arranged in accordance with the sequence of chapter material.

Each test item is tagged with its Estimated Time to Complete, Level of Difficulty, and Learning Objective(s),

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All of the following instructor course materials are available online at www.cengage.com/login. Once logged into the site, instructors should select this textbook to access the online Instructor Resources.

- Instructor Guide
- Edition-to-edition correlation grids by chapter
- Detailed answer feedback for the end-of-chapter Becker CPA Review Questions in Word format (Lettered answers only are available in the Solutions Manual.)
- An appendix that helps instructors broaden and customize coverage of important tax provisions of the Affordable Care Act
- The Depreciation and the Accelerated Cost Recovery System (ACRS) appendix
- Comprehensive Tax Return Problems appendix

Custom Solutions

Cengage Learning Custom Solutions develops personalized solutions to meet your taxation education needs. Consider the following for your adoption of *South-Western Federal Taxation 2019 Edition*.

- Remove chapters you do not cover or rearrange their order to create a streamlined and efficient text.
- Add your own material to cover new topics or information.
- Add relevance by including sections from Sawyers/Gill's *Federal Tax Research* or your state's tax laws and regulations.

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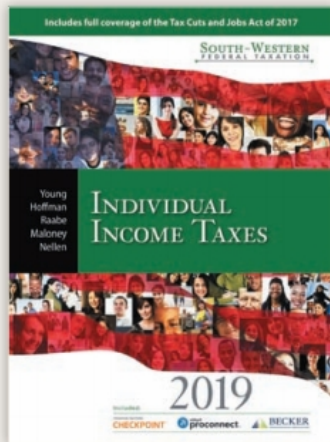
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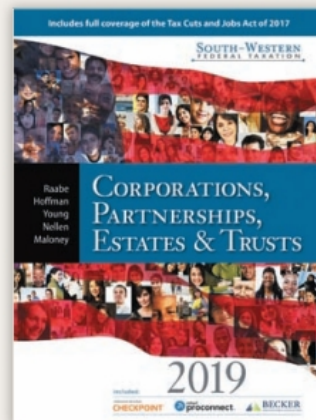
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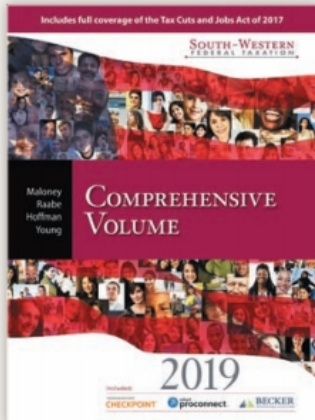
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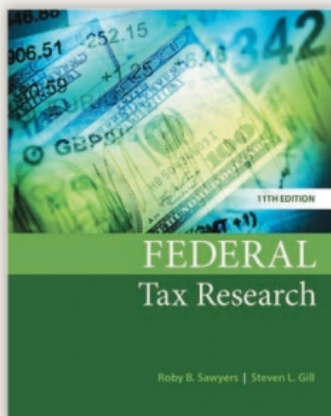
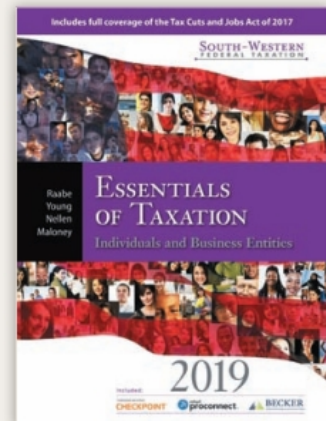
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