

2015
EDITION



ESSENTIALS OF
FEDERAL INCOME TAXATION
FOR INDIVIDUALS AND BUSINESS

LINDA M. JOHNSON, Ph.D., CPA

Handy Tax Facts

2014 Tax Rate Schedules

Single Schedule X

If taxable income is over—	But not over—	Tax is:	of the amount over—
\$0	\$9,075	....10%	\$0
9,075	36,900	\$907.50 + 15%	9,075
36,900	89,350	5,081.25 + 25%	36,900
89,350	186,350	18,193.75 + 28%	89,350
186,350	405,100	45,353.75 + 33%	186,350
405,100	406,750	117,541.25 + 35%	405,100
406,750	....	118,118.75 + 39.6%	406,750

Married Filing Separately Schedule Y-2

If taxable income is over—	But not over—	Tax is:	of the amount over—
\$0	\$9,075	....10%	\$0
9,075	36,900	\$907.50 + 15%	9,075
36,900	74,425	5,081.25 + 25%	36,900
74,425	113,425	14,462.50 + 28%	74,425
113,425	202,550	25,382.50 + 33%	113,425
202,550	228,800	54,793.75 + 35%	202,550
228,800	....	63,981.25 + 39.6%	228,800

Married Filing Jointly or Qualifying Widow(er) Schedule Y-1

If taxable income is over—	But not over—	Tax is:	of the amount over—
\$0	\$18,150	....10%	\$0
18,150	73,800	\$1,815.00 + 15%	18,150
73,800	148,850	10,162.50 + 25%	73,800
148,850	226,850	28,925.00 + 28%	148,850
226,850	405,100	50,765.00 + 33%	226,850
405,100	457,600	109,587.50 + 35%	405,100
457,600	....	127,962.50 + 39.6%	457,600

Head of Household Schedule Z

If taxable income is over—	But not over—	Tax is:	of the amount over—
\$0	\$12,950	....10%	\$0
12,950	49,400	\$1,295.00 + 15%	12,950
49,400	127,550	6,762.50 + 25%	49,400
127,550	206,600	26,300.00 + 28%	127,550
206,600	405,100	48,434.00 + 33%	206,600
405,100	432,200	113,939.00 + 35%	405,100
432,200	....	123,424.00 + 39.6%	432,200

2014 and 2015* Standard Deductions

	Basic Standard Deduction		Additional Standard Deduction Elderly/Blind	
	2014	2015	2014	2015
Married, filing jointly (MFJ)	\$12,400	\$12,600	\$1,200	\$1,250
Qualifying widow(er)	12,400	12,600	1,200	1,250
Head of household	9,100	9,250	1,550	1,550
Single	6,200	6,300	1,550	1,550
Married, filing separately (MFS)	6,200	6,300	1,200	1,250

Dependents—The 2014 basic standard deduction is limited to the **greater of**

(i) \$1,000 or (ii) earned income + \$350, but cannot exceed the basic standard deduction for dependent's filing status.

2014 and 2015* Exemption Amounts

2014	2015
\$3,950	\$4,000

2014 and 2015* OASDI Rate and Base

2014 Rate	2014 Limit	2015 Rate	2015 Limit
6.2%	\$117,000	6.20%	\$118,500

2014 Standard Mileage Rates

Business	Charitable	Medical/ Moving
\$.56/mile	\$.14/mile	\$.235/mile

* 2015 amounts are based on the best estimates available from November 1, 2014.

2014 Amounts, Thresholds, and Phase-Out Ranges

Reduction of the Exemption Deduction and Itemized Deductions: AGI Thresholds

MFJ and qualifying widow(er): \$305,050	Head of household: \$279,650
MFS: \$152,525	Single: \$254,200

American Opportunity Credit: AGI Phase-Out Range

MFJ: \$160,000 – \$180,000	All others except MFS: \$80,000 – \$90,000
----------------------------	--------------------------------------------

Lifetime Learning Credit: AGI Phase-Out Range

MFJ: \$108,000 – \$128,000	All others except MFS: \$54,000 – \$64,000
----------------------------	--------------------------------------------

Child Tax Credit: AGI Thresholds

MFJ: \$110,000	MFS: \$55,000	All others: \$75,000
----------------	---------------	----------------------

Adoption Credit / Exclusion Amount and Modified AGI Phase-Out Range

For all taxpayers: \$13,190 maximum credit/exclusion	\$197,880 – \$237,880
------------------------------------------------------	-----------------------

Net Investment Income (NII) Tax: Modified AGI Threshold

MFJ and qualifying widow(er): \$250,000	MFS: \$125,000	Single and head of household: \$200,000
-----------------------------------------	----------------	-----------------------------------------

Series I and EE Exclusion: Modified AGI Phase-Out Range

MFJ: \$113,950 – \$143,950	All others except MFS: \$76,000 – \$91,000
----------------------------	--------------------------------------------

Roth IRA Contributions: AGI Phase-Out Range

MFJ and qualifying widow(er): \$181,000 – \$191,000	Single and head of household: \$114,000 – \$129,000
MFS, lived with spouse: \$0 – \$10,000	MFS, did not live with spouse: \$114,000 – \$129,000

Coverdell Education Savings Account Contributions: Modified AGI Phase-Out Range

MFJ: \$180,000 – \$220,000	All others: \$95,000 – \$110,000
----------------------------	----------------------------------

Traditional IRA Deduction: Modified AGI Phase-Out Range for Active Participants

Single, head of household, and MFS living apart from spouse the entire year	\$60,000 – \$70,000
MFJ and qualifying widow(er)	\$96,000 – \$116,000
MFS and living with spouse at some point during the year	\$0 – \$10,000
Nonparticipating spouse filing MFJ with active participant spouse	\$181,000 – \$191,000

Student Loan Interest Deduction: Modified AGI Phase-Out Range

MFJ: \$130,000 – \$160,000	All others: \$65,000 – \$80,000
----------------------------	---------------------------------

Alternative Minimum Tax Exemption Amount and AMTI Phase-Out Range

MFJ and qualifying widow(er): (\$82,100 exemption)	\$156,500 – \$484,900
MFS: (\$41,050 exemption)	\$78,250 – \$242,450
Single and head of household: (\$52,800 exemption)	\$117,300 – \$328,500

Additional .9% Medicare Tax: Earned Income Threshold

MFJ: \$250,000	MFS: \$125,000	All others: \$200,000
----------------	----------------	-----------------------

2015
EDITION

Essentials of
FEDERAL
INCOME TAXATION
For Individuals and Business

LINDA M. JOHNSON, Ph.D., CPA
Accounting Professor (retired), and
CEO, LNV Services Inc.

EDITORIAL STAFF

Production: Jennifer Schencker

Cover Design: Laila Gaidulis

Interior Design: Kathie Luzod

This publication is designed to provide accurate and authoritative information in regard to the subject matter covered. It is sold with the understanding that the publisher is not engaged in rendering, legal, accounting, or other professional service, and that the authors are not offering such advice in this publication. If legal advice or other expert assistance is required, the services of a competent professional person should be sought.

©2014 CCH Incorporated. All Rights Reserved.

4025 W. Peterson Ave.

Chicago, IL 60646-6085

800 248 3248

CCHGroup.com

No claim is made to original government works; however, within this Product or Publication, the following are subject to CCH Incorporated's copyright: (1) the gathering, compilation, and arrangement of such government materials; (2) the magnetic translation and digital conversion of data, if applicable; (3) the historical, statutory and other notes and references; and (4) the commentary and other materials.

List of acronyms used:

AAA—Accumulated Adjustments Account
ACA—(Patient Protection and) Affordable Care Act
ACRS—Accelerated Cost Recovery System
ACV—Amortized Carrying Value
ADS—Alternate Depreciation System
AFR—Applicable Federal Rate
AGI—Adjusted Gross Income
AMT—Alternative Minimum Tax
AMTI—Alternative Minimum Tax Income
AVD—Alternative Valuation Date
CD—Certificate of Deposit
CDE—Community Development Entity
CPA—Certified Public Accountant
CPE—Continuing Professional Education
CPI—Consumer Price Index
CTC—Child Tax Credit
DB—Declining Balance
DOMA—Defense of Marriage Act
DRD—Dividend Received Deduction
E&P—Earnings and Profits
EIC—Earned Income Credit
EFTPS—Electronic Funds Tax Payment System
EIN—Employer Identification Number
FICA—Federal Insurance Contributions Act
FMV—Fair Market Value
FSA—Flexible Spending Account
FTE—Full-time Equivalent
FUTA—Federal Unemployment Tax Act
HI—Hospital Insurance
HOH—Head of Household
HSA—Health Savings Account
IRA—Individual Retirement Arrangement
IRS—Internal Revenue Service
LLC—Limited Liability Company
LLP—Limited Liability Partnership
MACRS—Modified Accelerated Cost Recovery System
MFJ—Married Filing Jointly
MFS—Married Filing Separately
NII—Net Investment Income
NOL—Net Operating Loss
OASDI—Old Age, Survivors, and Disability Insurance
OID—Original Issue Discount
PMI—Private Mortgage Insurance
PSC—Personal Service Corporation
PTIN—Preparer Tax Identification Number
QPAI—Qualified Production Activity Income
SEP—Simplified Employee Pension
SIMPLE—Savings Incentive Match Plan for Employees
SL—Straight-line
SSN—Social Security Number
TI—Taxable Income
TIN—Taxpayer Identification Number
WOTC—Work Opportunity Tax Credit

Preface

WHY STUDY FEDERAL INCOME TAXATION?

Essentials of Federal Income Taxation for Individuals and Business, 2015 Edition, covers the taxation of individuals for the 2014 tax year. It provides complete coverage in an easy-to-read and easy-to-understand format for your first course in taxation. This practical text helps you understand the tax laws and improve the reporting quality of your tax returns. The coverage does not assume that you have had an introductory accounting course. If you are interested in learning how to prepare tax returns, including your own, studying this text and mastering its content will help you solve actual tax problems and succeed in preparing your own tax returns. At press time, the *2015 Edition* contains the latest information and tax forms available for the 2014 tax year. It also contains the latest information for the 2015 tax planning process.

LOADED WITH OUTSTANDING FEATURES

Many outstanding features make the new *2015 Edition* the main reference for completing 2014 federal income tax returns. Before you start reading *Essentials of Federal Income Taxation for Individuals and Business, 2015 Edition*, you are encouraged to spend a little time looking over the next few pages. The *2015 Edition* benefits from the helpful comments and suggestions contributed by instructors and students who have taught and learned federal income taxation from previous editions.

BUSINESS ENTITY OPTION

While this text focuses on the income taxation of individuals, it also makes available an optional course of study that examines the taxation of income earned by corporations and partnerships, as well as sole proprietorships. This option is included in response to the growing number of instructors who believe that an introductory tax course should compare and contrast the tax challenges facing the different forms of business organizations.

Those who choose to place more attention on the taxation of business entities are encouraged to study the chapters in the following sequence: 1, 2, 14, 15, 16, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, and 13. Chapters 1 and 2 cover the basic tax structure for individuals. Chapters 14, 15 and 16 introduce the students to the taxation of C corporations, S corporations, and partnerships. All subsequent chapters (3–13) include at least one special business entity problem. These problems require students to relate material covered in the chapter to the different forms of business.

The business entity problems are located near the end of each chapter's QUESTIONS AND PROBLEMS. The solutions to the business entity problems generally require information from Chapters 14, 15 and 16. Consequently, students will be reviewing these chapters on a regular basis throughout the course. The business entity problems are indicated by the business folder icon (shown here in the left margin).



OTHER SPECIAL FEATURES



- The information icon (shown here in the left margin) next to a shaded box, highlights tax tips, planning opportunities, general observations and fun facts designed to enrich the learning experience.



- The computer mouse icon (shown here in the left margin) indicates homework problems suitable for completion using tax preparation software.



- Since the last edition of *Essentials of Federal Income Taxation for Individuals and Businesses*, several tax provisions were allowed to expire at the end of 2013. At the time this textbook was sent to the printer in October, 2014, efforts to extend these provisions had not been successful. However, many believe that Congress will pass tax legislation late in 2014 or early in 2015 that will retroactively reinstate most, if not all, of these provisions. The potential changes to the tax law that may affect the 2014 tax year are discussed in shaded boxes and are identified with the new developments icon shown here in the left margin.
Feature: This textbook presents the tax laws that will assist you in preparing tax returns for the 2014 tax year. Additional information about possible tax legislation that may affect the current tax year is discussed separately in a legislative developments box identified with the icon shown here to the left of the shaded box.
Benefit: Although there is never any way of knowing for certain what the tax laws will be from year to year, some of the provisions presented in the textbook are expected to change in the near future. The material presented in the legislative developments box will provide you with that information, which, in turn, will assist you in tax planning for the current and future tax years.



- Line-by-line instructions describing how to complete tax forms and schedules are illustrated throughout the chapters. These illustrations are found next to the filled-in forms icon shown here in the left margin.
Feature: Each filled-in tax form is supported by information provided from the taxpayer's records and receipts. References to specific line numbers where the taxpayer's information is entered has been provided for each filled-in form and schedule presented in the chapter. The line number references shown in the textbook correspond to the line numbers on the tax forms and schedules included in the textbook, including draft versions of the 2014 tax forms or the final 2013 version of the form, when necessary.
Benefit: This concise presentation makes it easier for you to relate tax data to the tax form. The format presents information supplied by the taxpayer highlighted in bold. Once this data has been entered on the appropriate line(s) of the tax form, the rest of the lines on the form can be completed by following the instructions provided on the form. This approach helps you see how information is used to complete each tax form and schedule introduced in the chapter.
- COMPREHENSIVE PROBLEMS are included in most chapters; many include two versions of the problem.
Feature: These problems incorporate many concepts introduced in the chapter. Many of these involve completing a tax return or portions of a tax return.
Benefit: This learning application integrates and summarizes the concepts covered in the chapter. Completing the comprehensive problems will help you see how the concepts from the chapter are reported on the tax return. By including multiple versions of the problem, students have more opportunities to solve real-world tax problems, as well as complete real-world tax returns.
- Eleven CUMULATIVE PROBLEMS are included in this textbook.
Feature: Comprehensive problems focus primarily on the concepts introduced in the chapter. Cumulative problems, on the other hand, not only incorporate the concepts from the current chapter, but also include concepts studied in prior chapters. Many of these involve using the taxpayer's information to complete the entire income tax return.
Benefit: These learning applications integrate and summarize concepts from multiple chapters to give students the opportunity to step back and see the big picture. Also, by completing the Cumulative Problems presented at the end-of-chapter homework materials for Chapters 2, 4, 6, 7, 9, and 12, you will gain a greater sense of what all is involved in preparing a real-world income tax return.



- Tax questions and problems requiring use of the IRS website are included at the end of the chapter. These problems are identified by the icon shown to the left here.
Feature: The answers to these questions and problems are found in the information contained in IRS tax forms and schedules, the instructions to IRS forms and schedules, or IRS publications.
Benefit: You will learn how to find answers to tax questions from IRS publications available on the Internet. You will also learn how to find needed tax forms, fill them out while on the Internet, and print out copies of the completed forms. These learning applications provide you the opportunity to obtain knowledge about tax law using information outside of the textbook.

HELPFUL INFORMATION INCLUDED IN THE 2015 EDITION!!

- Frequently used tax facts are provided.
Feature: Handy Tax Facts appear on the inside front cover. Included are the 2014 tax rate schedules and standard mileage rates; standard deduction and exemption deduction amounts for 2014 and 2015; and OASDI base amounts for 2014 and 2015.
Benefit: This helpful page provides a quick and easy reference source for frequently used tax facts.
- Commonly used AGI threshold amounts and phaseout ranges are provided.
Feature: These amounts and ranges appear on the inside back cover.
Benefit: This helpful page provides a quick and easy reference to some of the more commonly-used AGI thresholds and phase-out ranges.
- Paragraph referencing system.
Feature: All major headings and subheadings in the chapter have been referenced using a paragraph referencing system.
Benefit: Paragraph references provide an additional method of indexing the material in each chapter. When referring to information in a chapter, students and instructors can refer to either the page number on the page or the paragraph number where the material can be found. Paragraph references also are used throughout the chapters to cross-reference material discussed elsewhere in the textbook.
- Learning objectives provided at the beginning of each chapter.
Feature: The major learning objectives for each chapter have been provided and referenced in the homework problems.
Benefit: Each homework problem is linked to a learning objective. This helps students make sure that they have mastered all major learning objectives before proceeding to the next chapter.
- Numerous examples are provided.
Feature: Every chapter includes numerous easy-to-follow examples.
Benefit: These examples show you how the tax laws are applied to a variety of real-life situations.
- Self-study questions are included at the end of each chapter.
Feature: Twenty self-study questions (10 true/false; 10 multiple choice) are included at the end of the reading material for each chapter (immediately before the QUESTIONS AND PROBLEMS). These questions are designed to allow you to gauge your understanding of the concepts introduced in the chapter. They are intended to be answered prior to attempting the QUESTIONS AND PROBLEMS.
Benefit: Answering these study questions after reading the chapter material will help you understand which topics from the chapter you may want to review before working through the QUESTIONS AND PROBLEMS at the end of each chapter. The answers to the self-study questions can be found in Appendix C at the back of the textbook.

- Step-by-step instructions on how to access IRS forms and publications from the IRS website is given.
Feature: Information on how to obtain forms and publications from the IRS through the Internet appears in Appendix A after Chapter 16.
Benefit: This information will help you access the most up-to-date forms, instructions to forms, and IRS publications referenced in the text.
- Appendix of commonly-used blank tax forms.
Feature: Blank copies of selected tax forms and schedules are provided in Appendix B.
Benefit: The selected forms and schedules provided are some of the more commonly-used forms and schedules. Having these forms and schedules in one place will help students visualize the flow of tax information on the tax return. The tax forms and schedules included in Appendix B are the most recent ones available at the time the *2015 Edition* was sent to the printer.

OTHER SUCCESSFUL FEATURES OF ESSENTIALS OF FEDERAL INCOME TAXATION FOR INDIVIDUALS AND BUSINESS, 2015 EDITION

- Comprehensive coverage of self-employed taxpayers (Chapter 7)
- Detailed coverage of business entities, including C corporations, partnerships, and S corporations
- Almost 50 filled-in forms, schedules, and worksheets are illustrated, each including details regarding the line numbers where data is initially entered by the taxpayer or tax preparer
- Multiple versions (a./b.) for many comprehensive problems, allowing students the opportunity to work two different problems using the same tax forms
- A table referencing the filled-in tax forms, schedules, and worksheets follows the Table of Contents
- A detailed Table of Contents of headings and subheadings for each chapter is located at the end of this Preface
- Tax tips are provided throughout the textbook to assist with tax planning and tax reduction
- Problems at end of chapters designated for tax software solution
- Assignments that provide actual application and check students' understanding
- Acronym list on copyright page (that precedes this Preface) provides actual words to the acronyms used in this textbook