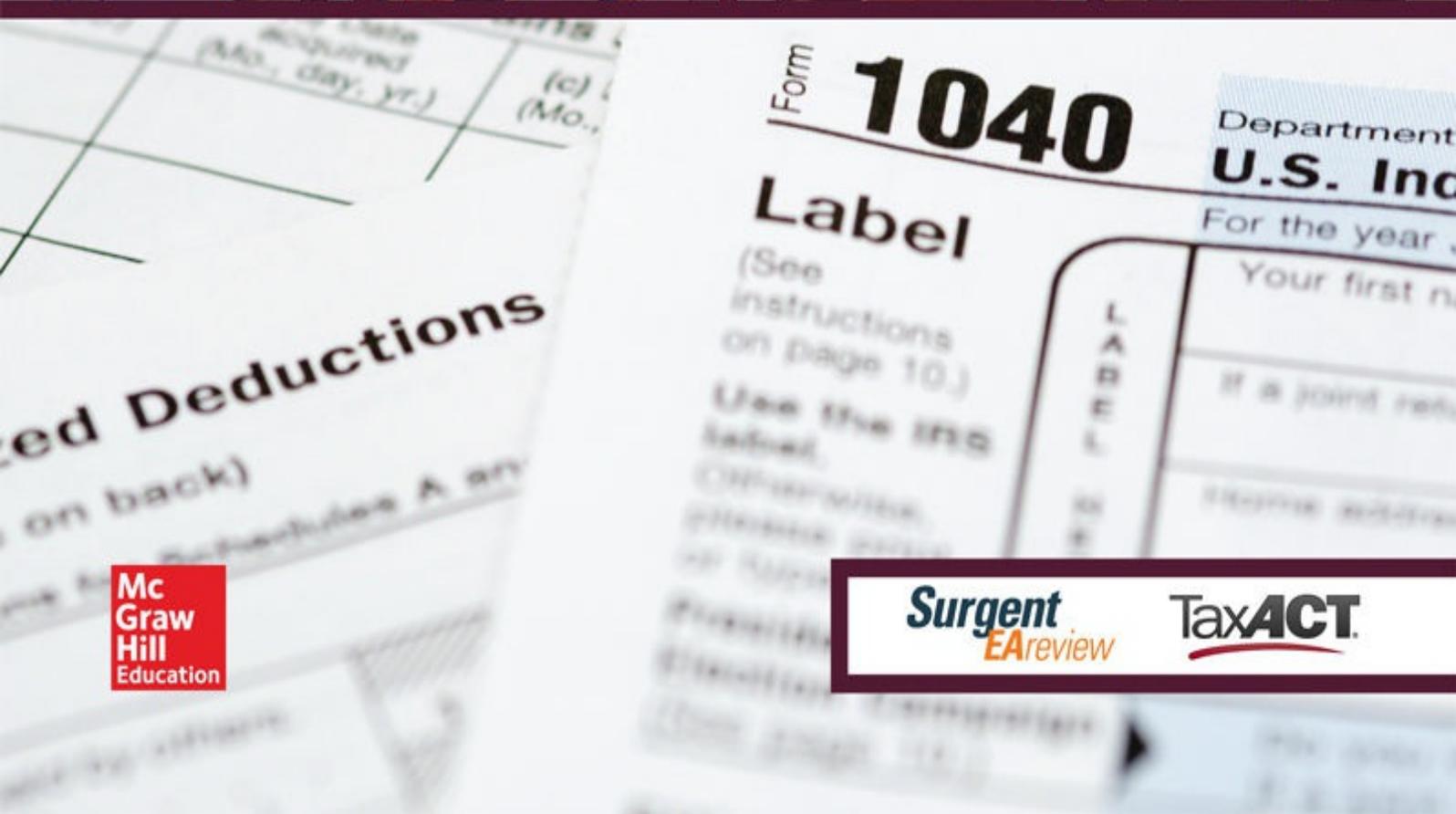


Cruz | Deschamps | Niswander | Prendergast | Schisler

Fundamentals of Taxation

2018 EDITION



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Education

Surgent
EA review

TaxACT.

Fundamentals of Taxation

2018

Fundamentals of Taxation

2018

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FUNDAMENTALS OF TAXATION 2018 EDITION, ELEVENTH EDITION

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I dedicate this work to my parents.

– *Ana Cruz*

To my lovely wife Shannon for all of her support and encouragement and to my students whose curiosity and enthusiasm greatly enrich this experience.

– *Michael Deschamps*

To my wife Debi, who keeps me grounded.

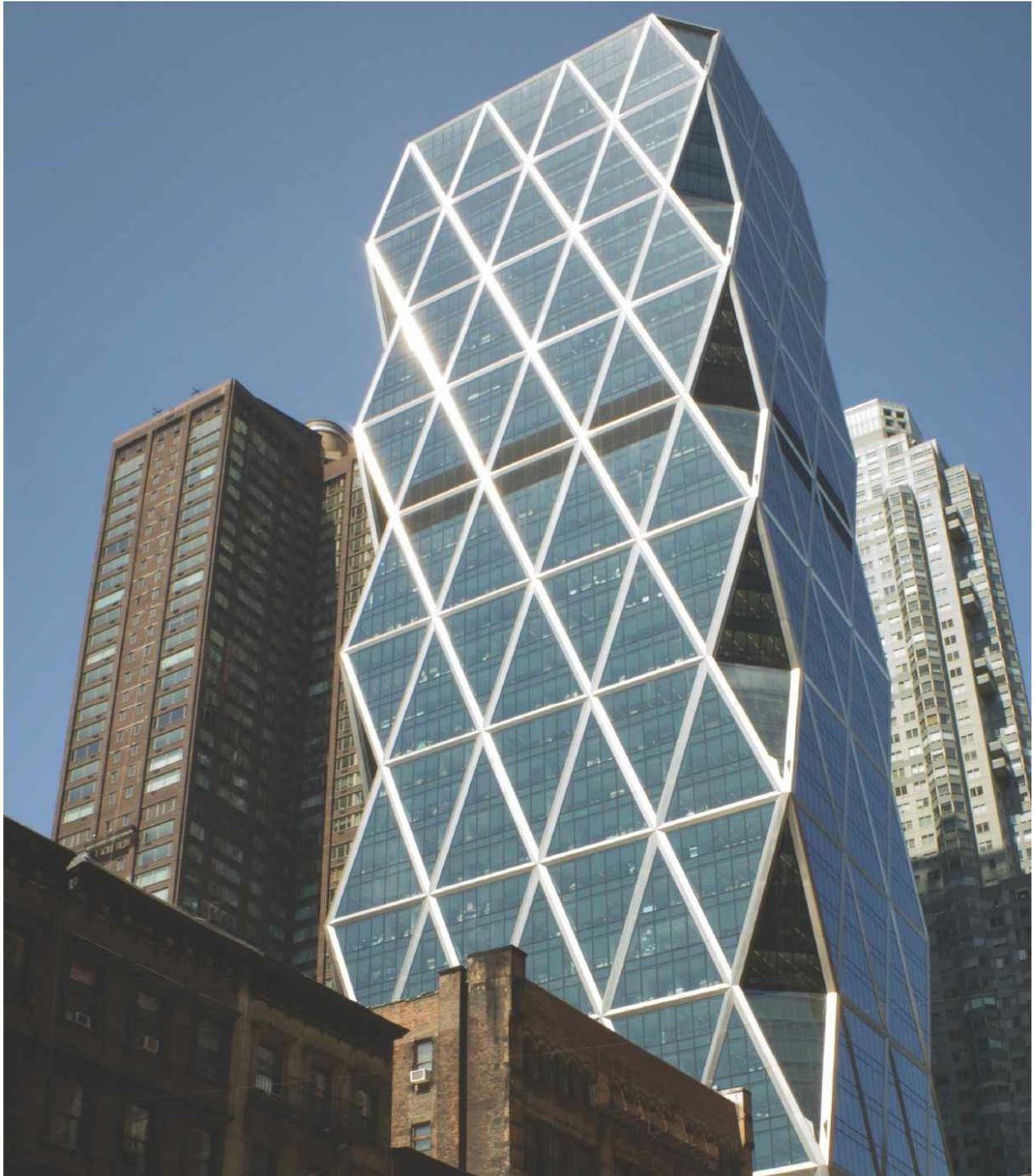
– *Rick Niswander*

To my family: You are the parts that make me whole. I dedicate this work to you.

– *Debra Prendergast*

I would like to dedicate this text to my wife Debra, and my daughters Jessica and Samantha.

– *Dan Schisler*





Updates to the 2018 Edition

For the 2018 edition of *Fundamentals of Taxation*, the Cruz author team has spent considerable time making careful revisions to the textbook and its supplements. **All chapters and tax forms have been updated for new tax law, making them current through September 2017.** Other updates beyond September can be found in *Connect*.

Additional chapter-by-chapter enhancements that have been made in the 2018 edition include the following:

Chapter 1

- Updated text for new tax rate schedules and tax tables as well as permitted deductions from income.
- Updated text for new social security limit.

Chapter 2

- Revised the exemption amounts for the dependency deduction and the standard deduction to reflect applicable inflation-adjustments.

Chapter 3

- Changed the maximum deduction and phase out ranges for employer-provided adoption assistance.
- Included updated inflation-adjusted phase out amounts for interest income exclusion for savings bonds.

Chapter 4

- Revised the limits for Health Savings Accounts (HSAs)
- The phase out limits for student loan interest were updated.
- Moving expense mileage rates were revised.
- Expanded coverage of the educator expense deduction.

Chapter 5

- Modified coverage of deductible medical expenses to reflect that the 10% AGI threshold now applies to all taxpayers.
- Medical-related mileage rates were revised.
- The maximum deductible premiums for medical insurance and long-term care were revised.
- Revised the phase-out amounts for the limitation of total itemized deductions for high income taxpayers.

Chapter 6

- The rules and limits for section 179 expense were revised and updated.
- Mileage rates for travel expense were revised.

Chapter 9

- Revised phase out amounts for limitation of education credits.
- Revised modified adjusted gross income thresholds for the retirement savings contribution credit.
- Revised credit amount and income phase out limitations for the adoption credit.
- Revised income and phase out limitations for the Earned Income Tax Credit.
- Adjusted poverty level amounts used to calculate the premium tax credit.

Chapter 10

- Modified and clarified text related to reporting payroll taxes and Form 941.
- Revised penalty amounts for incorrect or late filing of W-2s.

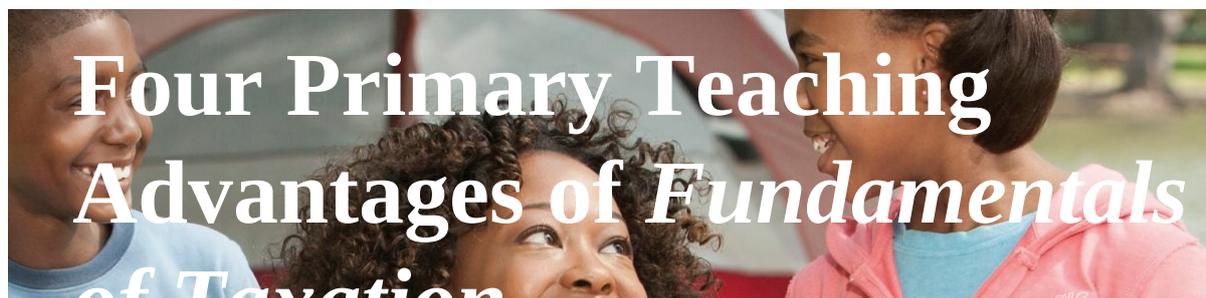
Chapter 11

- Revised contribution limits for defined contribution plans.
- Revised phase out thresholds for traditional IRA and Roth IRA plans.

Chapter 15

- Updated text for changes to filing due dates for corporations.





1

First, we organize the content of *Fundamentals of Taxation* to **closely follow IRS tax forms**. We introduce students to standard IRS forms early and reinforce their use throughout the text. **Actual tax forms are incorporated throughout** giving students the opportunity to understand the principles behind tax law while they learn how to work with clients to obtain the information they will need to complete tax forms.

2

Second, we **illustrate the proper reporting of tax issues**. We present a tax issue, discuss the legal requirements, illustrate the proper tax form placement, and show the completed form in the text. By effectively leading the student through each issue, we demonstrate how tax form preparation is the result of a careful process that balances legal knowledge with practical experience using tax forms.

3

Third, we **integrate an individual income tax software package** into the content and refer to its examples. We instruct students how to use the software to complete returns using sample “taxpayers” who appear from chapter to chapter. An important consideration in writing *Fundamentals of Taxation* was to allow instructor flexibility. You can choose to rely heavily on the software, you can incorporate the software only after you cover the law and the reporting, or you can deemphasize the software component. This flexible approach allows you to structure your taxation course the way you want to.

4

Fourth, we supplement the content with **citations of relevant tax authorities** such as the Internal Revenue Code, Treasury Regulations, Revenue Rulings, Revenue Procedures, and court cases. These citations are almost always provided in **footnotes**. Thus, you and your students can easily use, or not

use, the footnote material.

Ana Cruz



Dr. Ana Cruz is Chair of the Business Department at Miami Dade College, Wolfson Campus, where she utilizes her extensive experience in the areas of general business, management, accounting, and taxes. She has worked in the service, retailing, and manufacturing industries, as well as in the federal government sector, where she served as a field examiner for the Internal Revenue Service. Dr. Cruz, a certified public accountant, has published several articles in business journals, has participated in several SACS On-Site Committees, and has received the Southeast Banking Corporation Foundation Endowed Teaching Chair (1998) and the Wolfson Senior Foundation Endowed Teaching Chair (2002). She was also named the Professor of the Year for the State of Florida by the Council for Advancement and Support of Education and the Carnegie Foundation (2005).

of Taxation Help Students Better Understand Tax?



Forms-Based Approach

Examples of completed tax forms demonstrate how tax theory covered in the text translates to real returns.

Incorporation of real-world tax returns into the text for electronic as well as manual preparation forces students to learn hands-on skills.

Appendix B includes comprehensive problems for 1040 Schedules A, C, D, and E. These longer problems include both easy and difficult schedules to test students' comprehension of a range of topics covered across multiple chapters.

1040 Department of the Treasury - Internal Revenue Service (99) **U.S. Individual Income Tax Return** **2017**

For the year Jan. 1-Dec. 31, 2017, or other tax year beginning .2017, ending .28

Your first name and initial Last name Your social security number

If a joint return, spouse's first name and initial Last name Spouse's social security number

Home address (number and street), if you have a P.O. box, see instructions. Apt. no.

City, town or post office, state, and ZIP code, if you have a foreign address, also complete spaces below (see instructions).

Foreign country name Foreign province/state/country Foreign postal code

Filing Status

1 Single

2 Married filing jointly (even if only one had income)

3 Married filing separately. Enter spouse's SSN above and full name here. ▶

4 Head of household with qualifying person. (See instructions.) If the qualifying person is a (S) but not your dependent, enter this child's name here. ▶

5 Qualifying widow(er) (see instructions)

Exemptions

6a Yourself. If someone can claim you as a dependent, do not check box 6a.

6b Spouse.

6c **Dependents:**

(i) First name	Last name	(ii) Dependent's social security number	(iii) Dependent's relationship to you	(iv) If child under age 17, entering to claim tax credit (see instructions)
				<input type="checkbox"/>
				<input type="checkbox"/>
				<input type="checkbox"/>

If more than four dependents, see instructions and check here

Boxes checked on 6a and 6b: No. of children on 6b who: lived with you did not live with you due to divorce or separation (see instructions). Dependents on 6c not entered above. Add numbers on lines above ▶

Income

7 Wages, salaries, tips, etc. Attach Form(s) W-2. 7

8a Taxable interest. Attach Schedule B if required. 8a

8b Tax-exempt interest. Do not include on line 8a. 8b

9a Ordinary dividends. Attach Schedule B if required. 9a

9b Qualified dividends. 9b

10 Taxable refunds, credits, or offsets of state and local income taxes. 10

11 Alimony received. 11

12 Business income or (loss). Attach Schedule C or C-EZ. 12

13 Capital gain or (loss). Attach Schedule D if required. If not required, check here . 13

14 Other gains or (losses). Attach Form 4797. 14

15a IRA distributions. 15a

15b Taxable amount. 15b

16a Pensions and annuities. 16a

16b Taxable amount. 16b

17 Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E. 17

18 Farm income or (loss). Attach Schedule F. 18

19 Unemployment compensation. 19

20a Social security benefits. 20a

20b Taxable amount. 20b

21 Other income. List type and amount. 21

22 Combine the amounts in the far right column for lines 7 through 21. This is your total income ▶. 22

Adjusted Gross Income

23 Educator expenses. 23

24 Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 or 2106-EZ. 24

25 Health savings account deduction. Attach Form 8889. 25

26 Moving expenses. Attach Form 2903. 26

27 Deductible part of self-employment tax. Attach Schedule SE. 27

28 Self-employed SEP, SIMPLE, and qualified plans. 28

29 Self-employed health insurance deduction. 29

30 Penalty on early withdrawal of savings. 30

31a Alimony paid. b Recipient's SSN ▶. 31a

32 IRA deduction. 32

33 Student loan interest deduction. 33

34 Reserved for future use. 34

35 Domestic production activities deduction. Attach Form 8863. 35

36 Add lines 23 through 35. 36

37 Subtract line 36 from line 22. This is your adjusted gross income ▶. 37

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions. Cat. No. 113209 Form 1040 (2017)

“The forms-based approach to tax concepts in this text gives students the opportunity to apply concepts by completing actual tax forms both manually and through tax software—not only giving them a valuable skill but ultimately making them more employable in today’s workplace.”

—Angela Deaton Mott, Northeast Mississippi Community College



Connect Tax Form Simulations

1040 for a Single taxpayer with no dependents.

1040 PG 1 1040 PG 2 Schedule A

Page 1 of Form 1040. Use provided information and follow instructions on form.

Form 1040 - U.S. Individual Income Tax Return 2017 OMB No. 1545-0074 IRS Use Only - Do not write in this space.

Your first name and initial Jonathan	Last name Michaels	Your social security number (Enter as xxx-xx-xxxx) 412-34-5670
If a joint return, spouse's first name and initial	Last name	Spouse's social security number (Enter as xxx-xx-xxxx)
Home address (number and street). If you have a P.O. box, see instructions. 55865 Ridge Drive		Apt. no.
City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below. Santa Fe, NM 87501		▲ Make sure the SSN(s) above and on line 6c are correct.
Foreign country name	Foreign province	Foreign postal code
		<input type="checkbox"/> You <input type="checkbox"/> Spouse Check here if you, or your spouse if filing jointly, want \$3 to go to this fund. Checking a box below will not change your tax or refund.
Filing Status	1 Single <input checked="" type="radio"/> 2 Married filing jointly <input type="radio"/> 3 Married filing separately <input type="radio"/> 4 Head of household (with qualifying person). If the qualifying person is a child but not your dependent, enter this child's name here. <input type="text"/> 5 Qualifying widow(er) with dependent child <input type="radio"/>	
Exemptions	6a Yourself <input checked="" type="checkbox"/> b Spouse <input type="checkbox"/> c Dependents:	Boxes checked on 6a and 6b: <input type="text" value="1"/> No. of children on 6c who: • Lived with you <input type="text"/> • Did not live with you <input type="text"/> Dependents on 6c not entered above <input type="text"/> Add numbers on lines
(1) First name	Last name	(2) Dependent's social security number (Enter as xxx-xx-xxxx)
		(3) Dependent's relationship to you
		(4) <input checked="" type="checkbox"/> if child under age 17 qualifying for child tax credit
If more than four dependents, see instructions and check here <input type="checkbox"/>		

The **Auto-graded Tax Form Simulation**, assignable within *Connect*, provides a much-improved student experience when solving the tax-form based problems. The **Auto-graded Tax Form Simulation** allows students to apply tax concepts by completing the actual tax forms online with automatic feedback and grading for both students and professors.

Michael P. Deschamps



Michael P. Deschamps received a bachelor of science degree in accounting, graduating magna cum laude from the University of San Diego, where he served as the chapter president for Beta Alpha Psi, the accounting honor society. After working in public accounting and obtaining his CPA license, he returned to San Diego State University, where he earned a master's degree in taxation and a certificate in financial planning. In addition, he earned his Enrolled Agent Certificate in 2004. He is currently the lead accounting instructor at MiraCosta College in Oceanside, CA, where he has developed a highly regarded tax program certified by the State of California. He is an active member of Teachers of Accounting at Two Year Colleges (TACTYC) and has been a frequent presenter on tax topics at the organization's national conventions. He has also given presentations on tax issues to a variety of organizations.

HOW DOES FUNDAMENTALS OF Taxation Provide a Clear Path to Student Success?

Clear Objectives for Your Students

Learning income tax return preparation requires constant reinforcement and practice. The authors have set up *the text* to provide an easy-to-follow format starting with a list of learning objectives, which are then repeated throughout the text where the related material appears.

or without the footnotes. If you would like to become familiar with the IRC and other tax authority, the footnotes are a good place to start exploring.

Learning Objectives

When you have completed this chapter, you should understand the following learning objectives (LO):

- LO 1-1** Understand progressive, proportional, and regressive tax structures.
- LO 1-2** Understand the concepts of marginal and average tax rates as well as a simple income tax formula.
- LO 1-3** Understand the components of a Form 1040EZ income tax return.
- LO 1-4** Determine tax liability in instances when a Form 1040EZ return is appropriate.
- LO 1-5** Understand the types of tax authority and how they interrelate (Appendix A).
- LO 1-6** Understand the provisions of IRS Circular 230 for paid tax preparers (Appendix B).

Concept Checks are mini-quizzes that test students' understanding of each objective.

CONCEPT CHECK 2-2— LO 2-2



1. Even though you are in the process of getting a divorce, you can file as married filing jointly. True or false?
2. The social security number of the taxpayer's spouse must be shown on the taxpayer's tax return when filing as married filing separately. True or false?
3. A surviving spouse who qualified as married filing jointly when the spouse died can file as a qualifying widow(er) for the next two years as long as the surviving spouse pays for more than half the cost of keeping up a household and does not remarry. True or false?

A summary of the learning objectives appears at the end of each chapter, providing a quick reference chart for students as they prepare for exams.

- LO 12-3:** Apply the tax rules to report an installment sale.
- The taxpayer calculates a gross profit percentage based on the basis of the property sold divided by the selling price.
 - As the taxpayer receives cash in installments, the gain is recognized based on the gross profit percentage.
 - The interest income on any note receivable is a separate calculation.
- LO 12-4:** Explain how to exclude a gain on the sale of a personal residence.
- A taxpayer can exclude up to \$500,000 (\$250,000 if single) of gain on the sale of a personal residence.
 - The residence exclusion applies only to the taxpayer's principal residence.
 - The taxpayer must live there two of the last five years.
 - Reduced exclusions are available if a move is the result of employment transfers or health issues.

The same learning objectives are also referenced in the end-of-chapter material next to each discussion question, multiple-choice question, and problem. Additionally, **marginal EA tags** in the end-of-chapter material help instructors and students identify specific questions that will help prepare students for the Enrolled Agent Exam.

Problems  connect

All applicable problems are available with Connect®

EA **LO 4-1** 46. What are some of the limitations concerning deductibility of student loan interest? Be specific and comprehensive.

Debra Prendergast



Dr. Debra Prendergast has a doctor of philosophy degree in public policy from the University of Illinois at Chicago, a master's of business administration degree from Governors State University, and a bachelor of arts degree in business

administration with a concentration in accounting from Saint Xavier University in Chicago. She is a licensed and practicing certified public accountant in Illinois and a certified management accountant. She began her professional accounting career as a management advisory services consultant with Grant Thornton before taking a position as the controller for a corporation in Chicago. To spend more time with her family, she left her controller position in 1988 and began a 21-year career with Northwestern College. In 2010, Dr. Prendergast became the dean of Business, Mathematics, and Science at Prairie State College. She served as an officer on the board of Teachers of Accounting at Two Year Colleges (TACTYC) and on the Precertification Education Executive committee of the AICPA.

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Surgent Enrolled Agent Exam Review Course!



Surgent has partnered with McGraw Hill Education and is making the Enrolled Agent Exam Review Course available to you. The Enrolled Agent credential is awarded by the Internal Revenue Service to tax preparers who pass the three-part IRS Special Enrollment Examination. By earning the Enrolled Agent credential, tax preparers are awarded the same client representation rights as CPAs and attorneys. In addition, Enrolled Agents historically have a higher lifetime earning potential

than tax preparers who do not earn the Enrolled Agent credential.

As a student using Cruz, *Fundamentals of Taxation 2018* edition, you are eligible to receive six months of free access to Part One (Individual Taxation) of the Surgent Enrolled Agent Exam Review. To start your free access, please visit <https://www.Surgent.com/McGrawHill/EA> and complete the registration form. In addition, you are entitled to a discount on the remaining exam sections of our Enrolled Agent Exam Review course. Please see the website above for additional information or to enroll.

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Dan Schisler



Dr. Dan Schisler is a Professor and Research Fellow in the Accounting Department at East Carolina University. He holds a doctor of philosophy degree from Memphis State University, a master's degree in accounting—tax concentration from Auburn - University, and a bachelor of science degree in accounting from Southeastern Louisiana University. In addition to public accounting experience with Peat Marwick Main & Co, Dr.

Schisler has published numerous articles in national academic and practitioner journals such as *Journal of the American Taxation Association*, *Advances in Taxation*, and *Accounting Horizons*. He teaches tax and accounting at the graduate and undergraduate levels at East Carolina, where he has been recognized for teaching excellence by numerous teaching awards at the department, school, and university levels. Dr. Schisler holds CPA certificates in North Carolina and Louisiana.

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Fundamentals of Taxation features an integrated tax software package from TaxAct, one of the leading tax preparation software companies in the market today. Students are instructed in the practical applications of tax software with exercises that teach how software can be used to prepare all types of tax returns.

Sample “taxpayers” are used throughout the book, in varying situations, to give students full exposure to the many types of tax preparation challenges they will face. This exposure allows students to **make the connection** between the **tax law**, the **software inputs**, and the **tax output** on the appropriate tax forms.

Fundamentals of Taxation also provides the instructor with the flexibility needed in an individual income tax course. Each chapter can be used **with or without the tax software**, depending on the objectives of an individual instructor's course.

TaxAct features **in-depth form instructions** that supplement the *Fundamentals of Taxation*, making it easier than ever to integrate software into the classroom. Students are provided with the latest tax forms via the **Check for Updates from the Online tab in the program**, so that at the start of the semester, each student will be prepared to work with the most up-to-date information available. With over **120 tax forms, schedules, and worksheets**, TaxAct is sure to have the course materials you will need throughout the semester.

For instructions on how to install the software, please refer to Chapter 1, Appendix C of this text. You can also visit **www.TaxAct.com** today for more information.

“*I currently use TaxAct for my tax practice, and I like your choice.*”

—Natasha Librizzi, Milwaukee Area Technical College

How Does *Fundamentals of Taxation* Better Prepare My Students?

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From Shoebox to Software



The From Shoebox to Software examples in each chapter help students understand how they start with a mass of paper provided by a client and proceed to a completed tax return using tax software. The student can actually see the jump from the theoretical tax world to practical application.



“Most importantly, **students learn how to apply** what they learned by preparing tax returns at the end of the chapter, and the bonus is they learn how to use tax software. In 16 weeks, **students would have prepared over**

30 tax returns. This is what attracts students to enroll in the course. It not only meets their requirement for their course of study—they walk away with a life skill.

—Lolita M. Lockett, Florida Community College at Jacksonville

From Shoebox to Software Two Comprehensive Examples

We now introduce two new taxpayers.

YIMING CHOW

The first taxpayer is Yiming Chow, who is single and lives at 456 Maple Avenue, Somewhere, OH 43003. His SSN is 412-34-5670 and date of birth is 10/27/1985. During 2017 Mr. Chow received a W-2 from his employer, a 1099-INT from the local financial institution, and a 1099-DIV associated with a mutual fund investment. He also received a 1099-G from the state of Ohio for a \$57 tax refund pertaining to tax year 2016. Mr. Chow did not itemize his deductions in 2016. All these documents are shown in Exhibit 3-8.

Open the tax software. Go to the File pull-down menu and click on New Return. Go through the process to start a new return, and then click on the Forms icon to bring up the list of available forms. Open a Form 1040 to input the basic name, address, and social security number information for Mr. Chow. He is eligible to file Form 1040A, and we will use that form after you enter his personal information.

Now enter the information from the various tax forms into the tax software using the applicable forms in the Documents Received section. Note that you do not need to enter any information concerning the tax refund. Mr. Chow did not itemize deductions in 2016, so you do not need to report his tax refund as income.

Once you have entered the appropriate information, click on Form 1040A. Line 15 should be \$41,688. Line 27, taxable income, should be \$31,288. Mr. Chow's tax liability on line 28 is \$4,210. Because Mr. Chow has wage income and dividend income, you may find it instructive to calculate the tax liability by hand to see if you get the same answer. Because Mr. Chow had \$4,670 withheld from his wages, his refund is \$460, as shown on lines 47 and 48a. Mr. Chow had qualifying health care coverage at all times during the tax year.

Make sure you save Mr. Chow's return for use in later chapters.

MR. AND MRS. RAMIREZ

The second taxpayer is the married couple Jose and Maria Ramirez. They live at 1234 West Street, Mytown, GA 30294. They have three children, Arturo, Benito, and Carmen, born in 2004, 2006, and 2008, respectively. The children lived in the household during the entire year. The SSNs are listed along with the date of birth (in parentheses). The information is as follows:

Jose 412-34-5670 (2/10/1971), Maria 412-34-5671 (4/15/1976), Arturo 412-34-5672 (5/30/2004), Benito 412-34-5673 (8/7/2006), and Carmen 412-34-5674 (1/30/2008).

Mr. Ramirez received a W-2 from his employer, a 1099-INT from the financial institution, and a 1099-DIV from his stockbroker. He also received a 1099-G from the state of Georgia for a \$645 tax refund. The taxpayer itemized deductions last year, and you have determined that the entire refund is taxable. All of the Ramirezes' documents are shown in Exhibit 3-9.

Open the tax software. Go to the File pull-down menu and click on New Return. Go through the process to start a new return, and then click on the Forms icon to bring up the list of available forms. Open a blank Form 1040 to input the basic name, address, and social security number information for Mr. and Mrs. Ramirez. Use the Dependent worksheet in the worksheet section to enter information for the children.

The Ramirezes must file Form 1040 because of the state tax refund. For now we will assume that the couple will take the standard deduction.

Now enter the information from the various tax forms into the tax software using the applicable forms in the Documents Received section.

Because you do not have tax return information for tax year 2016, you need to provide information concerning the tax refund. Enter in the system that the full amount of the refund is taxable.

Once you have entered the appropriate information, the total income and the AGI of the taxpayer should be \$111,848. After subtracting a standard deduction of \$12,700 and personal exemptions of \$20,250 (\$4,050 per individual), taxable income should be \$78,898.

The tax on line 44 should be \$10,909. The tax software automatically calculated a \$3,000 child tax credit on line 52. We will discuss credits later in the text. The credit reduces the Ramirezes' tax liability to \$7,909. Because the taxpayer had withholding of \$9,418, the Ramirezes' return should show a refund of \$1,509 on lines 75 and 76a. Mr. and Mrs. Ramirez had qualifying health care coverage at all times during the tax year.

Make sure you save the Ramirezes' tax return for use in later chapters. These will be running demonstration problems throughout the text.

The simulation of real-world situations in each Shoebox example helps students become professional tax preparers. Their first day of work is far less stressful because it is not the first time they have seen a Form 1040 or a Schedule D. They are far more productive because they know where to start and how to complete the work.



TAX YOUR BRAIN



The Tax Your Brain feature is designed to work with the examples in the text to reinforce the understanding of key concepts. Students are given information in an example and then asked to apply what they have learned to a different situation.

TAX YOUR BRAIN	Assume that Janice's year 2018 wage income will be \$50,000 (she worked full-time) and she will have \$8,300 withheld from her wages. Also assume that she expects to sell a large number of paintings and that she estimates her total 2018 tax liability will be \$18,000. To avoid an underpayment penalty, does Janice need to pay estimated payments during 2018 and, if so, how much must she pay?
	ANSWER Janice does not need to make any estimated payments. Her required annual payment is \$6,995, which is the lower of (a) 90% of \$18,000 (the estimate of her 2018 tax liability) or (b) \$6,995 (her tax liability for 2017). Because her estimated tax withholdings are \$8,300, she is not obligated to make estimated payments. She will need to pay the remaining \$9,700 (\$18,000 – \$8,300) no later than April 15, 2019.

By asking students to think critically about theories and concepts while supplying the answer right after the question, the Tax Your Brain examples provide another opportunity for hands-on experience.

New Law

The New Law marginal boxes alert students and instructors to key changes in tax law for the current year's textbook.

**NEW LAW**

Personal and dependency exemptions is \$4,050, phasing out at different adjusted gross income amounts.

Frederick Niswander



Dr. Frederick (Rick) Niswander is Vice Chancellor for Administration and Finance at East Carolina University. He holds a doctor of philosophy degree from Texas A&M University and a bachelor of science in business administration degree from Idaho State University. He has taught introductory financial accounting, international accounting, intermediate accounting, and a graduate accounting course that encompasses taxation, financial, and governmental accounting. Prior to obtaining his doctorate and joining the ECU faculty in 1993, he was the chief financial officer of a privately held real estate company in Phoenix, Arizona, for eight years. Dr. Niswander first became a CPA in 1981 and has been a North Carolina CPA since 1994. He is a member of the North Carolina Association of CPAs, the

American Institute of Certified Public Accountants, and the American Accounting Association. He has held leadership roles in the American Institute of CPAs including chair of the Board of Examiners and as a member of the AIPCA Board of Directors.



Robust and Relevant End-of-Chapter Material

Fundamentals of Taxation offers a robust selection of end-of-chapter material.

EA **LO 3-3** 9. Sam owns all of the stock in a newly formed corporation. During 2017, the first year of operation, the corporation realized current earnings and profits of \$10,000. Sam received a \$12,000 distribution from the corporation. How much, if any, of the distribution is taxable to Sam? Why?

Discussion questions test the basic concepts of each chapter. Students supply short answers to a variety of questions covering each of the major concepts in the chapter.

Multiple-Choice Questions

All applicable multiple-choice questions are available with Connect®

- EA** 26. (Introduction) *For AGI, or above-the-line, deductions*
- a. Are determined by the taxpayer.
 - b. Are set by statute.
 - c. Increase tax liability.
 - d. Are reported in Schedule A.
- EA** 27. (Introduction) *For AGI, or above-the-line, deductions*
- a. Increase AGI.
 - b. Reduce tax credits.
 - c. Are available only for married filing jointly.
 - d. Can reduce overall tax liability.

Multiple-choice questions complement the discussion questions as an alternative way to quickly test a variety of learning objectives. They range from easy to more complex computational multiple choices.

26. Provide records requested by the IRS in all circumstances.

Tax Return Problems

All applicable tax return problems are available with Connect®

Use your tax software to complete the following problems. If you are manually preparing the tax returns, you will need a Form 1040EZ for each problem.

Tax Return Problem 1 Alex Montgomery is single and lives at 3344 Bayview Drive, Richmond Hill, GA 31324. His SSN is 412-34-5670. He recently graduated from the Savannah College of Art and Design and works as a video game developer. His Form W-2 contained the following information.

Wages (box 1) = \$61,011.30
Federal W/H (box 2) = \$ 8,528.10
Social security wages (box 3) = \$61,011.30
Social security W/H (box 4) = \$ 3,782.70

Now available in Connect, **Tax Return Problems** incorporate the TaxAct software and encourage students to apply a range of concepts they have learned throughout the chapter. All Tax Return Problems can also be done by hand. The authors indicate which forms are needed for each problem.

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