

SOUTH-WESTERN
FEDERAL TAXATION



Raabe
Maloney
Young
Nellen

ESSENTIALS OF TAXATION

Individuals and Business Entities



2017

Included:



TAX
SOFTWARE

THOMSON REUTERS

CHECKPOINT
Student Edition

This is an electronic version of the print textbook. Due to electronic rights restrictions, some third party content may be suppressed. Editorial review has deemed that any suppressed content does not materially affect the overall learning experience. The publisher reserves the right to remove content from this title at any time if subsequent rights restrictions require it. For valuable information on pricing, previous editions, changes to current editions, and alternate formats, please visit www.cengage.com/highered to search by ISBN, author, title, or keyword for materials in your areas of interest.

Important notice: Media content referenced within the product description or the product text may not be available in the eBook version.



SOUTH-WESTERN
FEDERAL TAXATION

2017 EDITION
ESSENTIALS OF
TAXATION: INDIVIDUALS
AND BUSINESS ENTITIES

General Editors

William A. Raabe

Ph.D., CPA
Milton, Wisconsin

David M. Maloney

Ph.D., CPA
University of Virginia

James C. Young

Ph.D., CPA
Northern Illinois University

Annette Nellen

J.D., CPA, CGMA
San Jose State University



Australia • Brazil • Mexico • Singapore • United Kingdom • United States

**South-Western Federal Taxation:
Essentials of Taxation: Individuals and
Business Entities, 2017 Edition**

**William A. Raabe, David M. Maloney,
James C. Young, Annette Nellen**

Vice President, General Manager, Science,
Math, and Quantitative Business: Balraj Kalsi

Product Director: Mike Schenk

Sr. Content Developer: Kendra Brown

Product Assistant: Trisha Makley

Associate Marketing Manager: Charisse Darin

Content Project Manager: Nadia Saloom

Manufacturing Planner: Doug Wilke

Marketing Communications Manager: Sarah
Greber

Production Service: Cengage Publisher Services

Sr. Art Director: Linda May

Cover and Internal Designer: Red Hangar Design

Intellectual Property:

Analyst: Brittani Morgan

Project Manager: Nick Barrows

Cover Image: Getty Images/John Lund

Design Images:

Concept Summary, Global Tax Issues,

Tax in the News, Bridge Discipline:

iStockphoto.com/Andrey

Ethics & Equity: iStockphoto.com/Ldf

Comprehensive Tax Return Problems: peepo/

iStockphoto

Internet Activity: iStockphoto.com/Alex

Slobodkin

Financial Disclosure Insights: Vyaseleva

Elena/Shutterstock.com

Tax Plan Strategies: Sergey Nivens/

Shutterstock.com

Tax Fact: carrot eater/Shutterstock.com

Framework 1040: Concept Photo/

Shutterstock.com

Digging Deeper: tuulijumala/Shutterstock.com

© 2017, 2016 Cengage Learning

ALL RIGHTS RESERVED. No part of this work covered by the copyright herein may be reproduced or distributed in any form or by any means, except as permitted by the U.S. copyright law, without the prior written permission of the copyright owner.

For product information and technology assistance, contact us at
Cengage Learning Customer & Sales Support, 1-800-354-9706

For permission to use material from this text or product,
submit all requests online at **www.cengage.com/permissions**

Further permissions questions can be emailed to

permissionrequest@cengage.com

Unless otherwise noted, all items © Cengage Learning.

All tax forms within the text are: Source: Internal Revenue Service.

Student Edition ISBN: 978-1-305-87483-1

Student Edition with H&R Block and RIA Checkpoint ISBN: 978-1-305-87482-4

ISSN: 1544-3590

2017 Annual Edition

Cengage Learning

20 Channel Center Street

Boston, MA 02210

USA

Cengage Learning is a leading provider of customized learning solutions with employees residing in nearly 40 different countries and sales in more than 125 countries around the world. Find your local representative at

www.cengage.com.

Cengage Learning products are represented in Canada by Nelson Education, Ltd.

To learn more about Cengage Learning Solutions, visit **www.cengage.com**

Purchase any of our products at your local college store or at our preferred online store **www.cengagebrain.com**

Printed in the United States of America

Print Number: 01 Print Year: 2016

Authors for the South-Western Federal Taxation Series

Greg Carnes

Ph.D., CPA
University of
North Alabama

Andrew Cuccia

Ph.D., CPA
The University of
Oklahoma

Steven L. Gill

Ph.D., CPA
San Diego State
University

Kristina Zvinakis

Ph.D.
The University of
Texas at Austin



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.

Essentials of Taxation: Individuals and Business Entities, 2017 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.

Essentials of Taxation: Individuals and Business Entities, 2017 Edition provides accessible, comprehensive, and authoritative coverage of the relevant tax code and regulations as they pertain to the individual or business taxpayer, as well as coverage of all major developments in Federal Taxation.

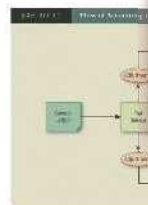
In revising the 2017 Edition, we focused on:

- **Accessibility. Clarity. Substance.** The text authors and editors made this their mantra as they revised the 2017 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.
- **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 2017 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.



328 PART 1: FINANCIAL ACCOUNTING

TAXATION: Effective Tax Rates Explained

Effective tax rates are calculated as follows:

Item	Beginning of Year	End of Year	Effect of Year Change
Operating Income	1,000,000	1,000,000	0%
Interest Expense	(100,000)	(100,000)	0%
Income Tax Expense	(100,000)	(100,000)	0%
Net Income	800,000	800,000	0%

329 PART 1: FINANCIAL ACCOUNTING

Special Issues

Financial Accounting Tax Uncertainties

Financial Accounting Tax Uncertainties are defined as:

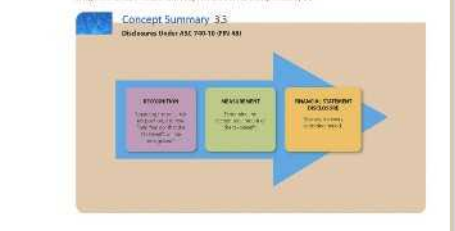
Item	Beginning of Year	End of Year	Effect of Year Change
Operating Income	1,000,000	1,000,000	0%
Interest Expense	(100,000)	(100,000)	0%
Income Tax Expense	(100,000)	(100,000)	0%
Net Income	800,000	800,000	0%

330 PART 1: FINANCIAL ACCOUNTING

Tax Planning: Not Always a Rational Ideal

Practical tax planning is not always a rational ideal. The following are some factors that can affect the rationality of tax planning:

- **Uncertainty:** Tax laws are constantly changing, and the future is uncertain.
- **Complexity:** Tax laws are complex and difficult to understand.
- **Cost:** Tax planning can be expensive, especially if it involves hiring a tax professional.
- **Time:** Tax planning can be time-consuming, especially if it involves a large amount of data.



- 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.

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

1. **LO.3** Luciana, a nonshareholder, purchases a condominium from her employer for \$85,000. The fair market value of the condominium is \$120,000. What is Luciana's basis in the condominium and the amount of any income as a result of this purchase?
2. **LO.3** Sebastian purchases two pieces of equipment for \$100,000. Appraisals of the equipment indicate that the fair market value of the first piece of equipment is \$72,000 and that of the second piece of equipment is \$108,000. What is Sebastian's basis in these two assets?
3. **LO.2, 4** Lisa sells business property with an adjusted basis of \$130,000 to her son, Alfred, for its fair market value of \$100,000.
 - a. What is Lisa's realized and recognized gain or loss?
 - b. What is Alfred's recognized gain or loss if he subsequently sells the property for \$138,000? For \$80,000?
4. **LO.4** Arianna's personal residence has an adjusted basis of \$230,000 and a fair market value of \$210,000. Arianna converts the personal residence to rental property. What is Arianna's gain basis? What is her loss basis?

ROGER CPA EXAM REVIEW QUESTIONS: While the SWFT series has always provided the most in-depth coverage of tax concepts, Roger CPA Exam Review Questions are included to further prepare students for success on the CPA Exam.

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



Roger CPA Review Questions



1. Kellye purchased her home in 2011 for \$140,000. After living in it for five years, she sold it in 2016 for \$170,000, its market value. What is the tax treatment of the sale of Kellye's home?
 - a. A \$30,000 gain is recognized, but not reported.
 - b. A \$30,000 gain is recognized and reported.
 - c. A \$30,000 gain is carried forward.
 - d. The transaction is not reported.
2. Ike, a single taxpayer, is reassigned for his job and must move to a new state. While searching for a place to live, he encounters a person who is selling her home in order to move to Ike's current city. The two agree to trade their properties to each other without any further consideration. Ike's house has a fair market value of \$200,000 and basis of \$130,000. He has lived in the house for one year. The house he is acquiring in the trade has a fair market value of \$300,000. What gain will Ike recognize for Federal tax purposes?

a. \$50,000	c. \$0
b. \$100,000	d. \$300,000

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

THE BIG PICTURE

CHOOSING A BUSINESS FORM AND OTHER INVESTMENTS

Bill and George are going to start a new business and have come to you for advice on the most appropriate organizational form for the business. They have narrowed the choice to a C corporation, an S corporation, or an LLC but would like you to advise them as to the primary advantages and disadvantages of the different forms. They have an adequate amount in savings to finance the business initially. Limited liability is a significant concern as is limiting the amount of taxes paid. Bill and George anticipate that the company will lose money in the first two years of operation. After that, however, they expect to earn \$200,000 in before-tax profit and distribute any after-tax profit to the owners. Bill and George are both single, and both are subject to a 28 percent marginal tax rate.

George also is considering investing \$10,000 in a limited partnership. As a way of leveraging the risks and rewards associated with his investments, Bill earlier had acquired a 30 percent interest in a boutique retail coffee franchise outlet. Bill now is considering selling this investment, which has experienced rapid appreciation. Because he is considering cashing out the gain, he needs to know the adjusted basis of his ownership interest.

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 individual or business filers. Students will follow the family, individual, or other taxpayer throughout the chapter showing students how the concept they are learning plays out in the real world.

Finally, to solidify student comprehension, each chapter concludes with a **Refocus on the Big Picture** summary and tax planning scenario. These scenarios apply the concepts and topics from the chapter in a reasonable and professional way.

BRIDGE DISCIPLINE BOXES AND END-OF-CHAPTER QUESTIONS:

Bridge Discipline boxes throughout the text present material and concepts from other disciplines such as economics, financial accounting, and finance. They help to bridge the gap between taxation issues and issues raised in other business courses. **Bridge Discipline questions**, in the end-of-chapter material, help test these concepts and give students the chance to apply concepts they've learned in the Bridge Discipline boxes.

BRIDGE DISCIPLINE Bridge to Investments

Most investors look to the stocks of utilities, real estate investment trusts, and tobacco companies as the source of steady dividend payments. Alternatively, an investor could put together an effective portfolio using only stocks and mutual funds that regularly produce higher dividend yields.

Dividends can be important to the investor because:

- They may be attractive in a tax-sheltered account, like a § 401(k) plan, such that the tax inefficiency ("double taxation") of the dividends is not recognized immediately by the investor.
- Generally, a dividend-paying company is a profitable company, and corporate profits often are hard to come by.
- Earning and reinvesting dividends is an easy way to put into place an investment policy of dollar-cost averaging, a technique that forces the investor to buy more shares when prices are low and fewer shares when prices are high. Dollar-cost averaging often implements a contrarian investment strategy.

FINANCIAL DISCLOSURE INSIGHTS Tax Losses and the Deferred Tax Asset

Although a current-year net operating loss (NOL) represents a failure of an entity's business model to some, others see it as an immediate tax refund. But when an NOL hits the balance sheet as a deferred tax asset, the story is not over. The NOL creates or increases a deferred tax asset that may or may not be used in future financial accounting reporting periods. The key question for a financial analyst is whether the entity will generate enough net revenue in future years to create a positive tax liability that can be offset by the NOL carryover amount.

IFRS rules do not allow for a valuation allowance. Under IAS 12, a deferred tax asset is recorded only when it is "probable" (a higher standard than GAAP's "more likely than not") that the deferred tax amount will be realized, and then only to the extent of that probable amount. Thus, no offsetting valuation allowance is needed.

FINANCIAL DISCLOSURE INSIGHTS:

Tax professionals need to understand how taxes affect the income statement and balance sheet. **Financial Disclosure Insights**, appearing throughout the text, use current data about existing taxpayers to highlight book-tax reporting differences, effective tax rates, and trends in reporting conventions.

DIGGING DEEPER: Designed to help students go further in their knowledge of certain topics, **Digging Deeper** links within the text provide more in-depth coverage that can be found on the book's website at www.cengagebrain.com.

DIGGING DEEPER 1 In-depth coverage can be found on this book's companion website: www.cengagebrain.com

TAX PLANNING FRAMEWORK:

To demonstrate the relevance of tax planning for business and individual taxpayers, *Essentials of Taxation: Individuals and Business Entities* presents a unique **tax planning framework**.

Introduced in Chapter 1, this framework extends to a series of **Tax Planning Strategies** incorporated throughout the remainder of the text. The inclusion of the tax planning framework, and the planning strategies in each chapter, makes it easier than ever to understand the impact careful tax planning has in today's world.

EXHIBIT 1.3 General Framework for Income Tax Planning		
Tax Formula	Tax Planning Strategy	Tax Planning Examples
Income and exclusions	➤ Avoid income recognition. ➤ Postpone recognition of income to achieve tax deferral.	Compensate employees with nontaxable fringe benefits (see Example 19). Postpone sale of assets (see Example 20).

TAX PLANNING STRATEGIES Property Acquired from a Decedent
FRAMEWORK FOCUS: INCOME

Strategy: Avoid Income Recognition.

FRAMEWORK FOCUS: DEDUCTIONS

Strategy: Maximize Deductible Amounts.

If a taxpayer retains appreciated property until death, the property's basis will be "stepped up" to its fair market value at that time. Thus, no income tax will be paid on the property's appreciation by either the former owner (the decedent) or the new owner (the heir).

Alternatively, depreciated property should be sold prior to death. Otherwise, the property's basis in the heir's hands will be its declined fair market value, and neither the decedent nor the heir will be able to deduct the loss that occurred while the property was owned by the decedent.

TAX PLANNING STRATEGIES: The tax planning framework extends to subsequent chapters as **Tax Planning Strategies boxes** that are tied to the topical coverage of the chapters. Planning Strategies often contain examples to further illustrate the concept for students. Because some tax planning strategies do not fit neatly into the framework, the text also provides tax planning strategies called **Thinking Outside the Framework**.

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.

GLOBAL TAX ISSUES Choice of Organizational Form When Operating Overseas

When the management of a corporation decides to expand its business by establishing a presence in a foreign market, the new business venture may take one of several organizational forms. As each form comes with its respective advantages and disadvantages, making the best choice can be difficult.

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

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

One fundamental tax difference between these two approaches is that the gains and losses of a domestic subsidiary may be consolidated with the operations of the U.S. parent, while the operations of a foreign subsidiary cannot. Thus, the use of a domestic subsidiary to conduct foreign operations yields generally the same final result as the use of a branch. With both approaches, the financial statements of the U.S. parent reflect the results of its worldwide operations.

TAX IN THE NEWS Who Pays Corporate AMT?

One of the issues often raised in debates over tax legislation is whether the corporate AMT should be repealed. Among the topics discussed are the revenue generated, the related compliance costs, and the number of corporations subject to the AMT.

According to the IRS, nearly 6 million corporate tax returns were filed for tax year 2012. Of these returns, under 12,000 included any AMT liability, totaling over \$5 billion.

Proponents of the corporate AMT argue that these statistics show that the AMT is being paid by corporations targeted by the law (i.e., large corporations). Opponents argue that the same statistics show that the compliance costs borne by the mass of corporations do not justify the continuation of this tax system.

The exemption from the AMT for small corporations may be providing the needed solution. Large corporations must make minimal Federal income tax payments when the AMT applies. Most C corporations no longer need to compute the tax.

TAX IN THE NEWS: Drawn from today's business and popular press, **Tax in the News** features enliven class discussions by presenting current issues that illustrate the chapter material and applying them to real life.

In addition, editors offer weekly updates for instructors designed for use in the classroom with links, assignments, and activities included. See the **SWFT** blog at <https://taxintherealworld.wordpress.com>.

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.

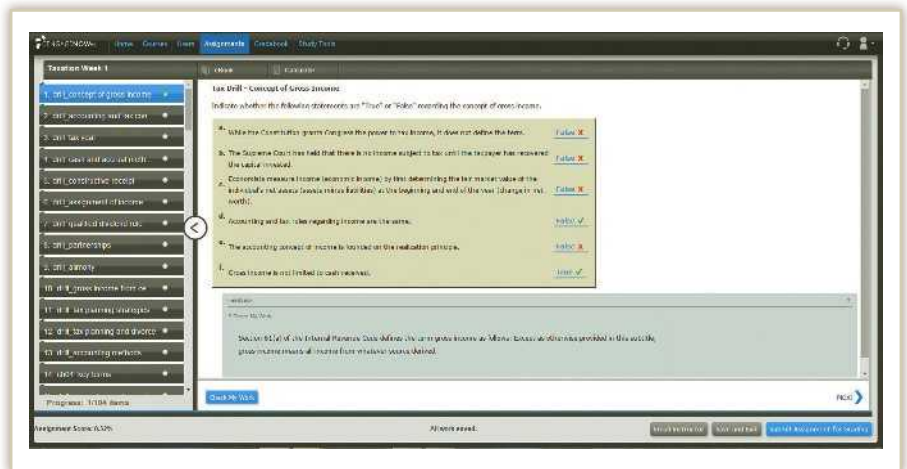


- **MOTIVATION:** engage students and better prepare them for class
- **APPLICATION:** help students learn problem-solving behavior and skills in order to complete taxation problems on their own
- **MASTERY:** help students make the leap from memorizing concepts to actual critical thinking

Motivation —

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

- **“Tax Drills” test students on key concepts and applications.** With three to five questions per learning objective, these “quick-hit” questions help students prepare for class lectures or review prior to an exam.



Application —



Students need to learn problem-solving behavior and skills in order to complete taxation problems on their own. However, as students try to work through homework problems, sometimes they become stuck and need guidance. To help reinforce concepts and keep students on the right track, CengageNOWv2 for SWFT offers the following:

- **End-of-chapter homework from the text** is expanded and enhanced to follow the workflow a professional would use to solve various client scenarios. These enhancements better engage students and encourage them to think like a tax professional.

- **Algorithmic versions** of end-of-chapter homework are available for computational exercises and at least 15 problems per chapter.
- **“Check My Work” Feedback.** Homework questions include immediate feedback so students can learn as they go. Levels of feedback include an option for “check my work” prior to submission of an assignment.
- **Post-Submission Feedback.** After submitting an assignment, students receive even more extensive feedback explaining why their answers were incorrect. Instructors can decide how much feedback their students receive and when, including the full solution.
- **Built-in Test Bank** for online assessment.

Mastery —

- **NEW! Tax Form Problems** are **NEW** to CengageNOWv2. Students can now complete the Cumulative H&R Block Problems found in the end-of-chapter manually 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.

CengageNOWv2 Instant Access Code ISBN:
978-1-305-87496-1

Contact your Cengage Learning Consultant about different bundle options.

Instructions Form W-2 Form 1099 Form 1040 Schedule A Schedule B Schedule E 2015 Tax Rate Schedules

1040 U.S. Individual Income Tax Return 2015

Your first name and initial: DANIEL R
Last name: BUTLER
If a joint return, spouse's first name and initial: FREDIA C
Last name: BUTLER
Home address (number and street): 625 OAK STREET
City, town or post office, state, and ZIP code: CORBIN KY 40701

1. Wages, tips, other compensation: \$ 85,000
2. Social security wages: \$ 85,000
3. Medicare wages and tips: \$ 85,000
4. Social security tips: \$ 0

Form 1040 U.S. Individual Income Tax Return 2015

Complete the Butler's federal tax return for 2015. Use Form 1040 below. Make realistic assumptions about any missing data.

Filing status: **Married**

Exemptions: **6a** Yourself, if someone can claim you as a dependent, do not check box 6a. **6b** Spouse. **6c** Dependents.

(1) First name	Last name	(2) Dependent's social security number	(3) Dependent's relationship to you	(4) If child under age 17 qualifying for child tax credit (see instructions)	No. of children on 6c who: • Lived with you

EXTENSIVELY REVISED. DEFINITELY UP TO DATE.

Each year the *South-Western Federal Taxation* series is updated with thousands of changes to each text. Some of these changes result from the feedback we receive from instructors and students in the form of reviews, focus groups, web surveys, and personal e-mail correspondence to our authors and team members. Other changes come from our careful analysis of the evolving tax environment. **We make sure that every tax law change relevant to the introductory taxation course was considered, summarized, and fully integrated into the revision of text and supplementary materials.**

The *South-Western Federal Taxation* authors have made every effort to keep all materials up to date and accurate. All chapters contain the following general changes for the 2017 Edition.

- Updated materials to reflect changes made by the Protecting Americans from Tax Hikes (PATH) Act of 2015 and other Public Laws of 2015.
- 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 *Tax in the News* items with coverage of recent events.
- Updated Chapter Outlines to provide an overview of the material and to make it easier to locate specific topics.
- Revised *Financial Disclosure Insights* and *Global Tax Issues* as to current developments.

In addition, the following materials are available online.

- An appendix that helps instructors broaden and customize coverage of important tax provisions of the Affordable Care Act. (Instructor Companion Website at **www.cengage.com/login**)
- The Depreciation and the Accelerated Cost Recovery System (ACRS) appendix. (Instructor Companion Website at **www.cengage.com/login**)
- The Taxation in the Real World weekly blog posts for instructors. (**<https://taxintherealworld.wordpress.com>**)

Chapter 1

- Updated materials to reflect inflation indexation including the unified transfer tax credit and exemption amount, annual gift tax exclusion amount, and FICA base amount.
- Revised and updated statistics about Federal income tax paid by income classes, Federal budget receipts and collections, national excise taxes on gasoline and cigarettes consumption, and Tax Freedom Day.
- Added a Concept Summary on the major types of taxes imposed in the United States and the political jurisdictions that impose these taxes.

Chapter 2

- Updated references and citations throughout the chapter.
- Updated materials on administrative tax law sources and commercial tax services.

Chapter 3

- Updated the discussion of Schedule UTP and current filing statistics for Schedule UTP.
- Revised the computational templates for annual changes in deferred tax assets and liabilities.
- Added citations to certain GAAP rules in accounting for income taxes.
- Added example for ASC 740–10 (FIN 48).

Chapter 4

- Updated references and citations throughout the chapter.
- Reordered topics under specific items of gross income.
- Added cancellation of debt exercises.
- Modified exercises, where appropriate, to have students look up present values in appendix rather than be given the present and future value amounts.

Chapter 5

- Revised and clarified text and examples throughout the chapter. Modified materials as needed to reflect inflation indexation changes.
- Moved the domestic production activity deduction materials into a separate chapter section.
- Revised *Tax in the News* feature on executive compensation.
- Revised the materials on related-party transactions and charitable contributions.
- Added a Concept Summary on MACRS (class lives, methods, and conventions), enhanced the exhibit on cost recovery periods for personalty, and revised and updated text and examples throughout the chapter.
- Streamlined material on MACRS special rules.
- Updated materials to reflect tax extender legislation involving additional first-year depreciation and § 179 expense election.

Chapter 6

- Updated references and citations throughout the chapter.
- Changed § 469 references from passive to passive activity.
- Updated *Tax in the News* feature about virtual currency.

Chapter 7

- Added a Concept Summary (and related examples) on the wash sale rules.
- Clarified the discussion of the tax implications of easements.
- Revised and clarified text and examples throughout the chapter.

Chapter 8

- Updated qualified small business stock materials to reflect changes made by the PATH Act of 2015.
- Revised and clarified text and examples throughout the chapter.

Chapter 9

- Reorganized materials on filing status and related filing requirements.
- Revised and expanded the Concept Summary related to dependency exemption tests.
- Updated for 2016 inflation adjustments and legislative changes.

Chapter 10

- Updated for 2016 inflation adjustments and legislative changes.
- Added new *Tax in the News* features on complying with documentation requirements and the future of itemized deductions.
- Updated scholarship example to illustrate tax effect of cost of attendance scholarship that many student-athletes receive today.
- Updated for inflation and transitional changes to Affordable Care Act provisions.

Chapter 11

- Updated chapter materials for 2016 inflation adjustments and legislative changes.
- Added a Concept Summary on employee vs. independent contractor.
- Revised and clarified examples throughout the chapter.
- Updated the summary dealing with the many tax provisions involving education.
- Updated various retirement contribution amounts for inflation.

Chapter 12

- Added a Concept Summary comparing the tax attributes of various forms of business entities.
- Updated the *Tax in the News* feature that describes ways in which local and state jurisdictions compete to attract new businesses and employers in exchange for tax breaks.
- Added a Concept Summary on Schedule M-1 (Form 1120).
- Updated text to reflect new filing due dates for corporations.
- Updated text and examples throughout the chapter.

Chapter 13

- Enhanced and expanded the chapter examples on determining corporate E & P and allocating E & P to distributions.
- Updated *Tax Fact* feature “Who Pays Dividends?”
- Revised and clarified text and examples throughout the chapter.

Chapter 14

- Updated text to reflect new filing due dates for partnerships.
- Made minor revisions, updates, and clarifications throughout the chapter.

Chapter 15

- Updated S corporation filing statistics (including industry type).
- Enhanced and updated material concerning recognition period for built-in gains tax.
- Revised and clarified text and examples throughout the chapter.

Chapter 16

- Updated *Tax Fact* on tax rates in selected countries.
- Modified format of Exhibit 16.3 on computing state income tax liability.

Chapter 17

- Revised and clarified text and examples throughout the chapter, including changes made by the PATH Act of 2015.
- Updated chapter materials for inflation adjustments and for various computational formulas and amounts.
- Added *Tax in the News* feature on revenues raised by the corporate AMT.
- Revised and clarified text and examples throughout the chapter.

Chapter 18

- Updated data and statistics on number of business entities, their major industries, and profitability.
- Added return due dates, updated for 2015 law changes.
- Standardized uses of the terms *conduit perspective* and *entity perspective* and reorganized materials on these topics.
- Reorganized materials addressing entity effects of single and double taxation.
- Expanded materials concerning special allocations.

TAX LAW OUTLOOK

From your SWFT Series Editors:

Concerns about income inequity and job creation will keep income tax issues at the forefront of tax-related discussions throughout 2016 and 2017. Candidates and office holders will focus tax proposals on middle-class tax relief and tax increases for the wealthy. Federal tax treatments of income from overseas sources also may be reviewed. While a comprehensive “tax reform” bill is not likely, there will be serious consideration of various proposals, especially involving college tuition relief and the taxation of capital gains.

Congress may consider Federal corporate tax law changes during 2016–2017, including a decrease in the top tax rate and a move toward a territorial system in taxing income from overseas sources. Tax deferrals for unrepatriated global profits also may receive congressional and regulatory attention. Corporate tax reform remains difficult to craft, though, as so many businesses operate using pass-through structures. State and local governments also have budget problems, and they are looking for new revenue sources, including an adoption of the unitary concept and a broadening of the income and sales/use tax bases.

SUPPLEMENTS SUPPORT STUDENTS AND INSTRUCTORS

Built around the areas students and instructors have identified as the most important, our integrated supplements package offers more flexibility than ever before to suit the way instructors teach and students learn.

Online and Digital Resources for Students



CengageNOWv2 is a powerful course management and online homework tool that provides robust instructor control and customization to optimize the student learning experience and meet desired outcomes.

CengageNOWv2 Instant Access Code ISBN:
978-1-305-87496-1

Contact your Cengage Learning Consultant about different bundle options.

THOMSON REUTERS

CHECKPOINT

Checkpoint® Student Edition from Thomson Reuters

is the leading online tax research database used by professionals. There are three simple ways Checkpoint® helps introduce students to tax research:

- Intuitive web-based design makes it fast and simple to find what you need.
- Checkpoint® provides a comprehensive collection of primary tax law, cases, and rulings along with analytical insight you simply can't find anywhere else.
- Checkpoint® has built-in productivity tools such as calculators to make research more efficient—a resource more tax pros use than any other.

Six months' access to Checkpoint® Student Edition (after activation) is packaged automatically with every NEW copy of the textbook.*



More than software: Put the experience of H&R Block® tax professionals on your side.

- A step-by-step interview guides you through a customized process.
- Accurate calculations and 100% satisfaction—guaranteed.

*Checkpoint® Student Edition is not available with the Professional Editions of South-Western Federal Taxation texts. For all other editions, all NEW printed copies of the textbook are automatically packaged with access to Checkpoint® Student Edition and H&R Block® tax software. If students purchase the eBook, they will not automatically receive access to Checkpoint® Student Edition and H&R Block® software. They must purchase the tax media pack offering both of these products. The ISBN is 978-1-305-87432-9 and can be purchased at www.cengagebrain.com.

- Worry-free Audit Support™ and tax advice from an H&R Block® tax professional.

Online access to H&R Block® Premium & Business software is offered with each NEW copy of the textbook—at no additional cost to students.*

CENGAGEbrain.com Students can use **CengageBrain.com** to select this textbook and access Cengage Learning content, empowering them to choose the most suitable format and giving them a better chance of success in the course. Buy printed materials, eBooks, and digital resources directly through Cengage Learning and save at **CengageBrain.com**.

Online Student Resources

Students can go to www.cengagebrain.com for free resources to help them study as well as the opportunity to purchase additional study aids. These valuable free study resources will help students earn a better grade:

- Flashcards use chapter terms and definitions to aid students in learning tax terminology for each chapter.
- Online glossary for each chapter provides terms and definitions from the text in alphabetical order for easy reference.
- Learning objectives can be downloaded for each chapter to help keep students on track.
- Tax tables used in the textbook are downloadable for reference.

Printed Resources for Students

Looseleaf Edition (978-1-305-87484-8)

This version provides all the pages of the text in an unbound, three-hole punched format for portability and ease of use. Online access to H&R Block® Premium & Business software is included with every NEW textbook as well as Checkpoint® Student Edition from Thomson Reuters.*

Comprehensive Supplements Support Instructors' Needs



CengageNOWv2 is a powerful course management and online homework tool that provides robust instructor control and customization to optimize the student learning experience and meet desired outcomes. In addition to the features and benefits mentioned earlier for students, CengageNOWv2 includes these features for instructors:

- **Learning Outcomes Reporting** and the ability to analyze student work from the gradebook. Each exercise and problem is tagged by topic, learning objective, level of difficulty, estimated completion time, and business program standards to allow greater guidance in developing assessments and evaluating student progress.
- **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 (978-1-305-87490-9)

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 lettered answers (only) to the end-of-chapter Roger CPA Review Questions. **Available in print and on Instructor Companion Website at www.cengage.com/login.**

PowerPoint® Lectures with Notes

The Instructor PowerPoint® Lectures contain more than 30 slides per chapter, including outlines and instructor guides, concept definitions, alternate figures, and key points. **Available on Instructor Companion Website at www.cengage.com/login.**

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),

as well as the AACSB's and AICPA's core competencies—for easier instructor planning and test item selection. The 2017 Test Bank is available in Cengage's test generator software, Cognero.

Cengage Learning Testing Powered by Cognero is a flexible, online system that allows you to:

- author, edit, and manage Test Bank content from multiple Cengage Learning solutions
- create multiple test versions in an instant
- deliver tests from your LMS, your classroom, or wherever you want
- create tests from school, home, the coffee shop—anywhere with Internet access. (No special installs or downloads needed.)

Test Bank files in Word format as well as versions to import into your LMS are available on the Instructor Companion Website. **Cognero Test Banks available via single sign-on (SSO) account at www.cengage.com/login.**

Other Instructor Resources

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 Roger 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 (formerly Appendix G in *SWFT Individual Income Taxes*)

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 2017 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 Smith's *Internal Revenue Code and Regulations*, Raabe/Whittenburg/Sanders/Sawyers' *Federal Tax Research*, or your state's tax laws and regulations.

ACKNOWLEDGMENTS

We want to thank all the adopters and non-adopters who participated in numerous online surveys as well as the following individuals who provided content reviews and feedback in the development of the *South-Western Federal Taxation* 2017 titles.

William A. Raabe / David M. Maloney / James C. Young / Annette Nellen

Lindsay G. Acker, *University of Wisconsin-Madison*

Deborah S. Adkins, *Nperspective, LLC*

Mark P. Altieri, *Kent State University*

Amy An, *University of Iowa*

Susan E. Anderson, *Elon University*

Henry M. Anding, *Woodbury University*

Jennifer A. Bagwell, *Ohio University*

George Barbi, *Lanier Technical College*

Terry W. Bechtel, *Texas A&M University – Texarkana*

Chris Becker, *LeMoyne College*

John G. Bell

Tamara Berges, *UCLA*

Ellen Best, *University of North Georgia*

Tim Biggart, *Berry College*

Rachel Birkey, *Illinois State University*

Patrick M. Borja, *Citrus College / California State University, Los Angeles*

Dianne H. Boseman, *Nash Community College*

Cathalene Bowler, *University of Northern Iowa*

Madeline Brogan, *Lone Star College – Montgomery*

Darryl L. Brown, *Illinois Wesleyan University*

Timothy G. Bryan, *University of Southern Indiana*

Robert S. Burdette, *Salt Lake Community College*

Ryan L. Burger, *Concordia University Nebraska*

Lisa Busto, *William Rainey Harper College*

Julia M. Camp, *Providence College*

Al Case, *Southern Oregon University*

Machiavelli W. Chao, *Merage School of Business University of California, Irvine*

Eric Chen, *University of Saint Joseph*

Christine Cheng, *Louisiana State University*

James Milton Christianson, *Southwestern University and Austin Community College*

Wayne Clark, *Southwest Baptist University*
Ann Burstein Cohen, *University at Buffalo, The State University of New York*

Ciril Cohen, *Fairleigh Dickinson University*

Dixon H. Cooper, *University of Arkansas*

Rick L. Crosser, *Metropolitan State University of Denver*

John P. Crowley, *Castleton University*

Susan E. M. Davis, *South University*

Dwight E. Denman, *Newman University*

James M. DeSimpelare, *Ross School of Business at the University of Michigan*

John Dexter, *Northwood University*

James Doering, *University of Wisconsin – Green Bay*

Michael P. Donohoe, *University of Illinois at Urbana Champaign*

Deborah A. Doonan, *Johnson & Wales University*

Monique O. Durant, *Central Connecticut State University*

Wayne L. Edmunds, *Virginia Commonwealth University*

Dr. Rafi Efrat, *California State University, Northridge*

Charles R. Enis, *The Pennsylvania State University*

Frank J. Faber, *St. Joseph's College*

A. Anthony Falgiani, *University of South Carolina, Beaufort*

Jason Fiske, *Thomas Jefferson School of Law*

John Forsythe, *Eagle Gate College*

Alexander L. Frazin, *University of Redlands*

Carl J. Gabrini, *College of Coastal Georgia*

Kenneth W. Gaines, *East-West University, Chicago, Illinois*

Carolyn Galantine, *Pepperdine University*

Sheri Geddes, *Hope College*

Alexander Gelardi, *University of St. Thomas*

Daniel J. Gibbons, *Waubensee Community College*

Martie Gillen, *University of Florida*

Charles Gnizak, *Fort Hays State University*

Prof. J. David Golub, *Northeastern University*

George G. Goodrich, *John Carroll University*

Dr. Marina Grau, *Houston Community College – Houston, TX*

Vicki Greshik, *University of Jamestown College*

Jeffrey S. Haig, *Santa Monica College*

Marcy S. Hampton, *University of Central Florida*

June Hanson, *Upper Iowa University*

Donald Henschel, *Benedictine University*

Susanne Holloway, *Salisbury University*

Susan A. Honig, *Herbert H. Lehman College*

Jeffery Hoopes, *The Ohio State University*

Christopher R. Hoyt, *University of Missouri (Kansas City) School of Law*

Marsha M. Huber, *Youngstown State University*

Carol Hughes, *Asheville-Buncombe Technical Community College*

Dr. Helen Hurwitz, *Saint Louis University*

Richard R. Hutaff, *Wingate University*

Zite Hutton, *Western Washington University*

Brad Van Kalsbeek, *University of Sioux Falls*

John E. Karayan, *Woodbury University*

Carl Keller, *Missouri State University*

Cynthia Khanlarian, *Concord University*

Bob Kilpatrick, *Northern Arizona University*

Gordon Klein, *Lecturer, UCLA Anderson School*

Taylor Klett, *Sam Houston State University*

Aaron P. Knape, *Peru State College*

Cedric Knott, *Colorado State University – Global Campus*

Ausher M. B. Kofsky, *Western New England University*

Emil Koren, *Saint Leo University*

Jack Lachman, *Brooklyn College – CUNY*

Richard S. Leaman, *University of Denver*

Adena LeJeune, *Louisiana College*

Gene Levitt, *Mayville State University*

Teresa Lightner, *University of North Texas*

Sara Linton, *Roosevelt University*

Roger Lirely, *The University of Texas at Tyler*

Jane Livingstone, *Western Carolina University*

Heather Lynch, *Northeast Iowa Community College*

Michael J. MacDonald, *University of Wisconsin-Whitewater*

Mabel Machin, *Florida Institute of Technology*

Maria Alaina Mackin, *ECPI University*

Anne M. Magro, *George Mason University*

Richard B. Malamud, *California State University, Dominguez Hills*

Harold J. Manasa, *Winthrop University*

Barry R. Marks, *University of Houston – Clear Lake*

Dewey Martin, *Husson University*

Anthony Masino, *East Tennessee State University*

Norman Massel, *Louisiana State University*

Bruce W. McClain, *Cleveland State University*

Allison M. McLeod, *University of North Texas*

Meredith A. Menden, *Southern New Hampshire University*

- John G. Miller, *Skyline College*
 Tracie L. Miller-Nobles, *Austin Community College*
 Jonathan G. Mitchell, *Stark State College*
 Richard Mole, *Hiram College*
 Lisa Nash, *CPA, MA, Vincennes University*
 Mary E. Netzler, *Eastern Florida State College*
 Joseph Malino Nicassio, *Westmoreland County Community College*
 Mark R. Nixon, *Bentley University*
 Garth Novack, *Pantheon Heavy Industries & Foundry*
 Claude R. Oakley, *DeVry University, Georgia*
 Al Oddo, *Niagara University*
 Sandra Owen, *Indiana University – Bloomington*
 Vivian J. Paige, *Old Dominion University*
 Carolyn Payne, *University of La Verne*
 Ronald Pearson, *Bay College*
 Thomas Pearson, *University of Hawaii at Manoa*
 Nichole L. Pendleton, *Friends University*
 Chuck Pier, *Angelo State University*
 Lincoln M. Pinto, *DeVry University*
 Sonja Pippin, *University of Nevada – Reno*
 Steve Platau, *The University of Tampa*
 Walfyette Powell, *Strayer University*
 Dennis Price, *Samford University*
 Darlene Pulliam, *West Texas A&M University*
 John S. Repsis, *University of Texas at Arlington*
 John D. Rice, *Trinity University*
 Jennifer Hardwick Robinson, *Trident Technical College*
 Shani N. Robinson, *Sam Houston State University*
 Donald Roth, *Dordt College*
 Richard L. Russell, *Jackson State University*
 Robert L. Salyer, *Northern Kentucky University*
 Rhoda Sautner, *University of Mary*
 Dr. Bunney L. Schmidt, *Keiser University*
 Eric D. Schwartz, *LaRoche College*
 Tony L. Scott, *Norwalk Community College*
 Randy Serrett, *University of Houston – Downtown*
 Wayne Shaw, *Southern Methodist University*
 Paul A. Shoemaker, *University of Nebraska – Lincoln*
 Kimberly Sipes, *Kentucky State University*
 Georgi Smatrakalev, *Florida Atlantic University*
 Randy Smit, *Dordt College*
 Leslie S. Sobol, *California State University Northridge*
 Marc Spiegel, *University of California, Irvine*
 Teresa Stephenson, *University of Wyoming*
 Beth Stetson, *Oklahoma City University*
 Debra Stone, *Eastern New Mexico University*
 Frances A. Stott, *Bowling Green State University*
 Todd S. Stowe, *Southwest Florida College*
 Martin Stub, *DeVry University*
 James Sundberg, *Eastern Michigan University*
 Kent Swift, *University of Montana*
 Robert L. Taylor, *Lees-McRae College*
 Francis C. Thomas, *Richard Stockton College of New Jersey*
 Randall R. Thomas, *Upper Iowa University*
 Ronald R. Tidd, *Central Washington University*
 MaryBeth Tobin, *Bridgewater State University*
 James P. Trebby, *Marquette University*
 James M. Turner, *Georgia Institute of Technology*
 Anthony W. Varnon, *Southeast Missouri State University*
 Adria Palacios Vasquez, *Texas A&M University – Kingsville*
 Terri Walsh, *Seminole State College of Florida*
 Marie Wang
 Natasha R. Ware, *Southeastern University*
 Mark Washburn, *Sam Houston State University*
 Bill Weispfenning, *University of Jamestown (ND)*
 Andrew L. Whitehair
 Kent Williams, *Indiana Wesleyan University*
 Candace Witherspoon, *Valdosta State University*
 Sheila Woods, *DeVry University, Houston, TX*
 Xinmei Xie, *Woodbury University*
 Thomas Young, *Lone Star College – Tomball*

SPECIAL THANKS

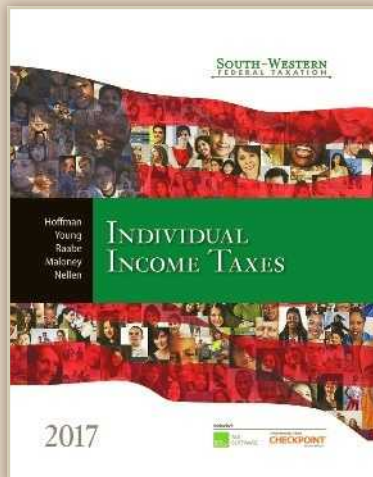
We are grateful to the faculty members who have diligently worked through the problems and test questions to ensure the accuracy of the **South-Western Federal Taxation** homework, solutions manuals, test banks, and comprehensive tax form problems. Their comments and corrections helped us focus on clarity as well as accuracy and tax law currency.

- Sandra A. Augustine, *Hilbert College*
 Bradrick M. Cripe, *Northern Illinois University*
 Debra M. Johnson, *Montana State University, Billings*
 Stephanie Lewis, *The Ohio State University*
 Kate Mantzke, *Northern Illinois University*
 Ray Rodriguez, *Murray State University*
 George R. Starbuck, *McMurry University*
 Donald R. Trippeer, *State University of New York College at Oneonta*
 Raymond Wacker, *Southern Illinois University, Carbondale*
 Michael Weissenfluh, *Tillamook Bay Community College*
 Marvin J. Williams, *University of Houston, Downtown*

We are also grateful for the editorial assistance of **Bonnie Hoffman**, CPA, on many of the chapters. We also wish to thank Thomson Reuters for its permission to use Checkpoint® with the text.

The South-Western Federal Taxation Series

To find out more about these books, go to www.cengagebrain.com.



INDIVIDUAL INCOME TAXES, 2017 EDITION

(**HOFFMAN, YOUNG, RAABE, MALONEY, NELLEN, Editors**)

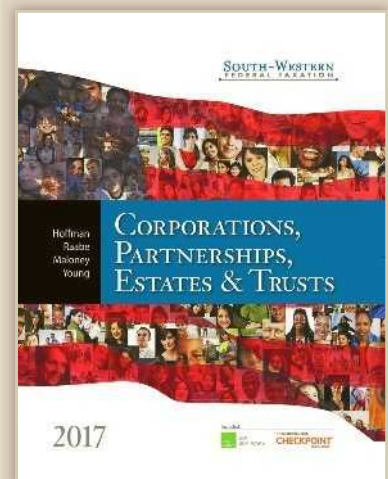
provides accessible, comprehensive, and authoritative coverage of the relevant tax code and regulations as they pertain to the individual taxpayer, as well as coverage of all major developments in Federal taxation.

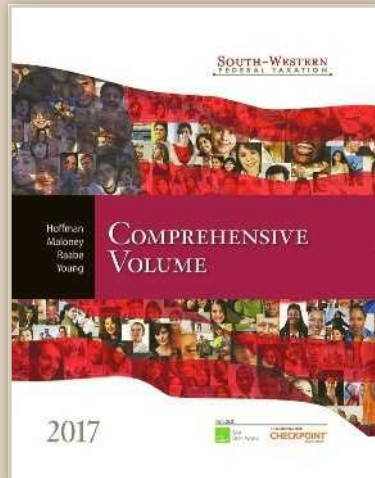
(ISBN 978-1-305-87398-8)

CORPORATIONS, PARTNERSHIPS, ESTATES & TRUSTS, 2017 EDITION

(**HOFFMAN, RAABE, MALONEY, YOUNG, Editors**) covers tax concepts as they affect corporations, partnerships, estates, and trusts. The authors provide accessible, comprehensive, and authoritative coverage of relevant tax code and regulations, as well as all major developments in Federal income taxation. This market-leading text is intended for students who have had a previous course in tax.

(ISBN 978-1-305-87433-6)





COMPREHENSIVE VOLUME, 2017 EDITION

(HOFFMAN, MALONEY, RAABE, YOUNG, Editors)

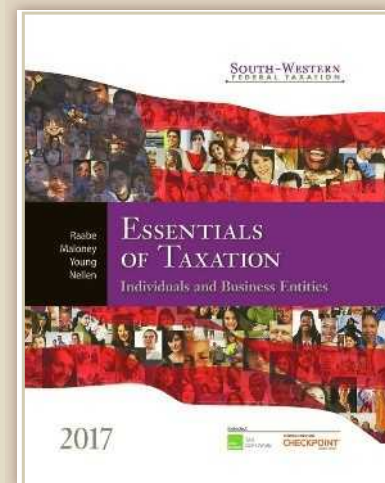
Combining the number one individual tax text with the number one corporations text, *Comprehensive Volume, 2017 Edition* is a true winner. An edited version of the first two *South-Western Federal Taxation* textbooks, this book is ideal for undergraduate or graduate levels. This text works for either a one-semester course in which an instructor wants to integrate coverage of individual and corporate taxation or for a two-semester sequence in which the use of only one book is desired.

(ISBN 978-1-305-87416-9)

ESSENTIALS OF TAXATION: INDIVIDUALS AND BUSINESS ENTITIES, 2017 EDITION

(RAABE, MALONEY, YOUNG, NELLEN, Editors) emphasizes tax planning and the multidisciplinary aspects of taxation. Formerly titled *Taxation of Business Entities*, this text is designed with the AICPA Model Tax Curriculum in mind, presenting the introductory Federal taxation course from a business entity perspective. Its **Tax Planning Framework** helps users fit tax planning strategies into an innovative pedagogical framework. The text is an ideal fit for programs that offer only one course in taxation where users need to be exposed to individual taxation, as well as corporate and other business entity taxation. This text assumes no prior course in taxation has been taken.

(ISBN 978-1-305-87482-4)

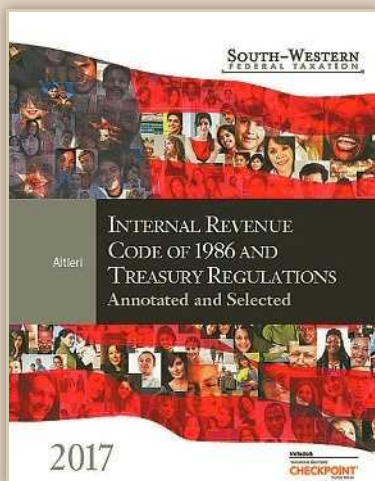


INTERNAL REVENUE CODE OF 1986 AND TREASURY REGULATIONS

Annotated and Selected, 2017 Edition

(MARK ALTIERI) An ideal alternative to the traditional, bulky, and expensive multivolume set of code and regulations, this single-volume reference provides a useful selection of code and regulations sections and clear annotations in the form of editorial summaries that explain, analyze, and cross-reference topics to help students fully understand the intricacies of the tax code. The text is a perfect supplement for any *South-Western Federal Taxation* text as well as an excellent primary text for a Federal taxation course that stresses a code and regulations approach.

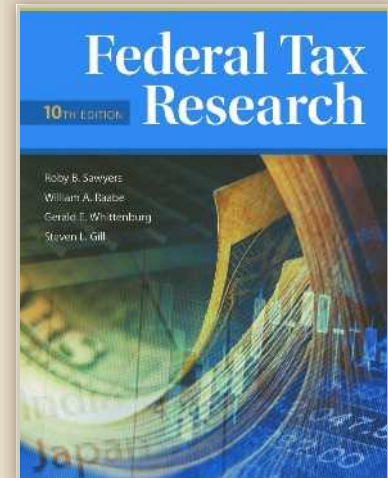
2017 Edition coming in July 2016 (ISBN 978-1-305-94320-9)



FEDERAL TAX RESEARCH, 10E

(SAWYERS, RAABE, WHITTENBURG, AND GILL) *Federal Tax Research*, Tenth Edition, offers hands-on tax research analysis and fully covers computer-oriented tax research tools. The tenth edition offers a new chapter on Financial Accounting Research that, when combined with their study of tax research, will equip students with the valuable research skills they need to be marketable to future employers. Also included in this edition is coverage on international tax research, an expanded review of tax ethics, and many new real-life cases to help foster a true understanding of Federal tax law.

(ISBN 978-1-285-43939-6)



ABOUT THE EDITORS



William A. Raabe, Ph.D., CPA, was the Wisconsin Distinguished Professor of Taxation. He taught at Ohio State, Arizona State, the Capital University (OH) Law School, and the Universities of Wisconsin – Milwaukee and Whitewater. A graduate of Carroll University (Wisconsin) and

the University of Illinois, Dr. Raabe's teaching and research interests include international and multistate taxation, technology in tax education, personal financial planning, and the economic impact of sports teams and fine arts groups. Dr. Raabe also writes the PricewaterhouseCoopers Tax Case Studies. He has written extensively about book-tax differences in financial reporting. Dr. Raabe has been a visiting tax faculty member for a number of public accounting firms, bar associations, and CPA societies. He has received numerous teaching awards, including the Accounting Educator of the Year award from the Wisconsin Institute of CPAs. He has been the faculty adviser for student teams in the Deloitte Tax Case Competition (national finalists at three different schools) and the PricewaterhouseCoopers Extreme Tax policy competition (national finalist). For more information about Dr. Raabe, visit BillRaabeTax.com and BillRaabeTax on YouTube and Twitter.



David M. Maloney, Ph.D., CPA, is the Carman G. Blough Professor of Accounting Emeritus at the University of Virginia's McIntire School of Commerce. He completed his undergraduate work at the University of Richmond and his graduate work at the University

of Illinois at Urbana-Champaign. Upon joining the Virginia faculty in January 1984, Dr. Maloney taught Federal taxation in the graduate and undergraduate programs and was a recipient of major research grants from the Ernst & Young and KPMG Foundations. Dr. Maloney has published work in numerous professional journals, including *Journal of Taxation*, *The Tax Adviser*, *Tax Notes*, *Corporate Taxation*, *Accounting Horizons*, *Journal of Taxation of Investments*, and *Journal of Accountancy*.



James C. Young is the Crowe Horwath Professor of Accountancy at Northern Illinois University. A graduate of Ferris State University (B.S.) and Michigan State University (M.B.A. and Ph.D.), Jim's research focuses on taxpayer responses to the income tax using archival data. His dissertation

received the PricewaterhouseCoopers/American Taxation Association Dissertation Award and his subsequent research has received funding from a number of organizations, including the Ernst & Young Foundation Tax Research Grant Program. His work has been published in a variety of academic and professional journals, including the *National Tax Journal*, *The Journal of the American Taxation Association*, and *Tax Notes*. Jim is a Northern Illinois University Distinguished Professor, received the Illinois CPA Society Outstanding Accounting Educator Award in 2012, and has received university teaching awards from Northern Illinois University, George Mason University, and Michigan State University.



Annette Nellen, CPA, CGMA, Esquire, directs San José State University's graduate tax program (MST) and teaches courses in tax research, tax fundamentals, accounting methods, property transactions, state taxation, employment tax, ethics, and tax policy. Professor

Nellen is a graduate of CSU Northridge, Pepperdine (MBA), and Loyola Law School. Prior to joining SJSU in 1990, she was with a Big 4 firm and the IRS. At SJSU, Professor Nellen is a recipient of the Outstanding Professor and Distinguished Service Awards. Professor Nellen is an active member of the tax sections of the AICPA and American Bar Association. In 2013, she received the AICPA Arthur J. Dixon Memorial Award, the highest award given by the accounting profession in the area of taxation. Professor Nellen is the author of *BloombergBNA Tax Portfolio*, *Amortization of Intangibles*, and the *BloombergBNA Internet Law Resource Center*, *Overview of Internet Taxation Issues*. She has published numerous articles in the *AICPA Tax Insider*, *Tax Adviser*, *State Tax Notes*, and *The Journal of Accountancy*. She has testified before the House Ways & Means and Senate Finance Committees and other committees on Federal and state tax reform. Professor Nellen maintains the 21st Century Taxation website and blog (www.21stcenturytaxation.com) as well as websites on tax reform and state tax issues (www.sjsu.edu/people/annette.nellen/).



Brief Contents

PART 1: THE WORLD OF TAXATION

CHAPTER 1	INTRODUCTION TO TAXATION	1-1
CHAPTER 2	WORKING WITH THE TAX LAW	2-1
CHAPTER 3	TAXES ON THE FINANCIAL STATEMENTS	3-1

PART 2: STRUCTURE OF THE FEDERAL INCOME TAX

CHAPTER 4	GROSS INCOME	4-1
CHAPTER 5	BUSINESS DEDUCTIONS	5-1
CHAPTER 6	LOSSES AND LOSS LIMITATIONS	6-1

PART 3: PROPERTY TRANSACTIONS

CHAPTER 7	PROPERTY TRANSACTIONS: BASIS, GAIN AND LOSS, AND NONTAXABLE EXCHANGES	7-1
CHAPTER 8	PROPERTY TRANSACTIONS: CAPITAL GAINS AND LOSSES, SECTION 1231, AND RECAPTURE PROVISIONS	8-1

PART 4: TAXATION OF INDIVIDUALS

CHAPTER 9	INDIVIDUALS AS THE TAXPAYER	9-1
CHAPTER 10	INDIVIDUALS: INCOME, DEDUCTIONS, AND CREDITS	10-1
CHAPTER 11	INDIVIDUALS AS EMPLOYEES AND PROPRIETORS	11-1

PART 5: BUSINESS ENTITIES

CHAPTER 12	CORPORATIONS: ORGANIZATION, CAPITAL STRUCTURE, AND OPERATING RULES	12-1
CHAPTER 13	CORPORATIONS: EARNINGS & PROFITS AND DISTRIBUTIONS	13-1
CHAPTER 14	PARTNERSHIPS AND LIMITED LIABILITY ENTITIES	14-1
CHAPTER 15	S CORPORATIONS	15-1

PART 6: SPECIAL BUSINESS TOPICS

CHAPTER 16	MULTIJURISDICTIONAL TAXATION	16-1
CHAPTER 17	BUSINESS TAX CREDITS AND CORPORATE ALTERNATIVE MINIMUM TAX	17-1
CHAPTER 18	COMPARATIVE FORMS OF DOING BUSINESS	18-1



Contents

Part 1: The World of Taxation

CHAPTER 1

INTRODUCTION TO TAXATION 1-1

The Big Picture: *A Typical Tax Year for a Modern Family* 1-1

THE STRUCTURE OF TAX SYSTEMS 1-2

Tax Rates 1-2

Tax Fact: *Carrying the Tax Burden* 1-3

Tax Bases 1-3

Incidence of Taxation 1-3

TYPES OF TAXES 1-4

Taxes on the Production and Sale of Goods 1-4

Global Tax Issues: *Why Is Gasoline Expensive? It Depends on Where You Live* 1-5

Employment Taxes 1-6

Taxes at Death 1-8

Gift Tax 1-9

Property Taxes 1-9

Tax Fact: *A Profile of Tax Collections* 1-11

Taxes on Privileges and Rights 1-11

Tax in the News: *The Backdoor Tax Increase* 1-11

Income Taxes 1-12

Tax Fact: *What Is the U.S. Tax Burden?* 1-14

Bridge Discipline: *Bridge to Political Science and Sociology* 1-15

Concept Summary: *Overview of Taxes in the United States* 1-15

Financial Disclosure Insights: *What Do You Mean by "Income" Anyway?* 1-16

INCOME TAXATION OF BUSINESS ENTITIES 1-16

Proprietorships 1-16

C Corporations 1-16

Partnerships 1-17

S Corporations 1-17

Limited Liability Companies and Limited Liability Partnerships 1-17

Dealings between Individuals and Entities 1-17

Financial Disclosure Insights: *Book-Tax Differences* 1-18

TAX PLANNING FUNDAMENTALS 1-18

Overview of Tax Planning and Ethics 1-18

A General Framework for Income Tax Planning 1-19

Tax Minimization Strategies Related to Income 1-20

Tax Minimization Strategies Related to Deductions 1-21

Tax Fact: *The Rewards of Tax Planning* 1-22

Tax Minimization Strategies Related to Tax Rates 1-22

Tax Fact: *The U.S. Federal Income Tax* 1-24

Tax Minimization Strategies Related to Credits 1-25

Thinking Outside the Framework 1-25

Bridge Discipline: *Bridge to Political Science, Economics, Health Care* 1-26

UNDERSTANDING THE FEDERAL TAX LAW 1-27

Revenue Needs 1-27

Economic Considerations 1-27

Global Tax Issues: *Outsourcing of Tax Return Preparation* 1-28

Social Considerations 1-28

Equity Considerations 1-29

Political Considerations 1-30

Influence of the Internal Revenue Service 1-31

Tax Fact: *The Costs of Complexity* 1-32

Influence of the Courts 1-32

SUMMARY 1-32

Refocus on the Big Picture: *A Typical Tax Year for a Modern Family* 1-33

CHAPTER 2

WORKING WITH THE TAX LAW 2-1

The Big Picture: *Researching Tax Questions* 2-1

TAX LAW SOURCES 2-2

Statutory Sources of the Tax Law 2-2

Tax Fact: *Scope of the U.S. Tax System* 2-3

Tax in the News: *Origin of the April 15 Tax Day* 2-6

Administrative Sources of the Tax Law 2-7

Judicial Sources of the Tax Law 2-10

Concept Summary: *Federal Judicial System: Trial Courts* 2-12

Bridge Discipline: *Bridge to Public Policy* 2-17

WORKING WITH THE TAX LAW—TAX RESEARCH 2-18

Identifying the Problem 2-19

Refining the Problem 2-19

Locating the Appropriate Tax Law Sources 2-19

Bridge Discipline: *Bridge to Business Law* 2-20

Assessing Tax Law Sources 2-21

Arriving at the Solution or at Alternative Solutions 2-24

Communicating Tax Research 2-25

Following Up	2-25
Conducting Online Tax Research	2-25

TAX RESEARCH ON THE CPA EXAMINATION	2-28
Financial Disclosure Insights: <i>Where Does GAAP Come From?</i>	2-29
Bridge Discipline: <i>Bridge to Regulation and Oversight</i>	2-30
Refocus on the Big Picture: <i>Researching Tax Questions</i>	2-30

CHAPTER 3	
TAXES ON THE FINANCIAL STATEMENTS	3-1
The Big Picture: <i>Taxes on the Financial Statements</i>	3-1

BOOK-TAX DIFFERENCES	3-2
Different Reporting Entities	3-2
Tax in the News: <i>The Watchdog Is Watching</i>	3-4
Different Taxes	3-4
Different Methods	3-4
Financial Disclosure Insights: <i>Supersized Goodwill</i>	3-6
Tax Return Disclosures	3-6
Concept Summary: <i>Income Reporting: Book versus Tax</i>	3-7

INCOME TAXES IN THE FINANCIAL STATEMENTS	3-8
GAAP Principles	3-8
Financial Disclosure Insights: <i>The Book-Tax Income Gap</i>	3-9
Global Tax Issues: <i>Accounting for Income Taxes in International Standards</i>	3-10
Valuation Allowance	3-13
Tax Planning Strategies: <i>Releasing Valuation Allowances</i>	3-15
Tax Disclosures in the Financial Statements	3-15
Financial Disclosure Insights: <i>Tax Losses and the Deferred Tax Asset</i>	3-15
Financial Disclosure Insights: <i>Valuation Allowances for NOLs</i>	3-16
Tax Fact: <i>Effective Tax Rates for Selected Fortune 100 Companies</i>	3-17
Concept Summary: <i>Steps in Determining the Book Tax Expense</i>	3-18
Tax Fact: <i>Effective Tax Rates Examined</i>	3-20
Special Issues	3-20
Tax Planning Strategies: <i>Tax Savings Are Not Always Created Equal</i>	3-21
Concept Summary: <i>Disclosures Under ASC 740-10 (FIN 48)</i>	3-21
Financial Disclosure Insights: <i>Corporate Tax Rate Cuts: Be Careful What You Wish For</i>	3-24
Tax Planning Strategies: <i>Reducing Effective Tax Rates with ASC 740-30 (APB 23) Can Backfire</i>	3-25
Tax in the News: <i>The APB 23 Deferral</i>	3-26
Summary	3-26
BENCHMARKING	3-27
Dynamic Benchmarking	3-27
Bridge Discipline: <i>Bridge to Financial Analysis</i>	3-28
Refining the Analysis	3-28
Sustaining the Tax Rate	3-29
Uses of Benchmarking Analysis	3-30
Concept Summary: <i>Benchmarking Analysis</i>	3-30
Refocus on the Big Picture: <i>Taxes on the Financial Statements</i>	3-30

Part 2: Structure of the Federal Income Tax

CHAPTER 4	
GROSS INCOME	4-1
The Big Picture: <i>Just What Is Included in Gross Income?</i>	4-1
THE TAX FORMULA	4-2
Components of the Tax Formula	4-2
Global Tax Issues: <i>From "All Sources" Is a Broad Definition</i>	4-3
GROSS INCOME—WHAT IS IT?	4-3
Concepts of Income	4-3
Financial Disclosure Insights: <i>What Does "Income" Mean to You?</i>	4-4
Comparing Accounting and Tax Concepts of Income	4-5
Form of Receipt	4-6
Concept Summary: <i>Gross Income Concepts</i>	4-6
YEAR OF INCLUSION	4-6
Taxable Year	4-6
Tax in the News: <i>Academy Awards Participants Have a Tax Problem</i>	4-7
Accounting Methods	4-7
Tax Planning Strategies: <i>Cash Receipts Method</i>	4-8
Bridge Discipline: <i>Bridge to Economics and Finance</i>	4-9
Special Rules for Cash Basis Taxpayers	4-10
Tax in the News: <i>Congress Rescues Lottery Winners from Constructive Receipt Problems</i>	4-11
Special Rules for Accrual Basis Taxpayers	4-12
Tax Planning Strategies: <i>Prepaid Income</i>	4-13
Concept Summary: <i>Income Tax Accounting</i>	4-13
INCOME SOURCES	4-14
Personal Services	4-14
Income from Property	4-14
Tax Fact: <i>How Much and What Type of Income?</i>	4-15
Global Tax Issues: <i>Which Foreign Dividends Get the Discounted Rate?</i>	4-16
Tax Fact: <i>Business Income and Loss</i>	4-17
Income Received by an Agent	4-17
Tax Planning Strategies: <i>Techniques for Reducing Investment Income</i>	4-17
SPECIFIC ITEMS OF GROSS INCOME	4-18
Gains and Losses from Property Transactions	4-19
Interest on Certain State and Local Government Obligations	4-21
Bridge Discipline: <i>Bridge to Public Economics</i>	4-21
Life Insurance Proceeds	4-22
Tax Planning Strategies: <i>Life Insurance</i>	4-23
Income from Discharge of Indebtedness	4-24
Tax Benefit Rule	4-26
Imputed Interest on Below-Market Loans	4-27
Financial Disclosure Insights: <i>Loans to Executives Prohibited</i>	4-29
Improvements on Leased Property	4-30
Concept Summary: <i>Income Recognition Rules</i>	4-30
Refocus on the Big Picture: <i>Just What Is Included in Gross Income?</i>	4-31

CHAPTER 5			
BUSINESS DEDUCTIONS	5-1		
The Big Picture: <i>Calculating Deductible Expenses</i>	5-1		
OVERVIEW OF BUSINESS DEDUCTIONS	5-2		
Ordinary and Necessary Requirement	5-2		
Reasonableness Requirement	5-3		
Tax Planning Strategies: <i>Unreasonable Compensation</i>	5-4		
THE TIMING OF EXPENSE RECOGNITION	5-4		
Cash Method Requirements	5-5		
Tax Planning Strategies: <i>Time Value of Tax Deductions</i>	5-5		
Accrual Method Requirements	5-5		
Expenses Accrued to Related Parties	5-6		
DISALLOWANCE POSSIBILITIES	5-7		
Public Policy Limitations	5-7		
Global Tax Issues: <i>Overseas Gun Sales Result in Large Fines</i>	5-8		
Political Contributions and Lobbying Activities	5-8		
Excessive Executive Compensation	5-9		
Tax in the News: <i>Do Deduction Limits Affect Executive Compensation?</i>	5-10		
Investigation of a Business	5-10		
Transactions between Related Parties	5-11		
Expenses and Interest Related to Tax-Exempt Income	5-12		
Other Disallowance Possibilities	5-13		
RESEARCH AND EXPERIMENTAL EXPENDITURES	5-13		
Expense Method	5-14		
Deferral and Amortization Method	5-14		
DOMESTIC PRODUCTION ACTIVITIES DEDUCTION	5-14		
Calculation of the Domestic Production Activities Deduction	5-15		
Qualified Production Activities Income	5-15		
Eligible Taxpayers	5-16		
CHARITABLE CONTRIBUTIONS	5-17		
Property Contributions	5-17		
Limitations Imposed on Charitable Contribution Deductions	5-19		
OTHER BUSINESS EXPENSES	5-19		
Interest Expense	5-20		
Taxes	5-20		
COST RECOVERY ALLOWANCES	5-21		
Overview	5-21		
Cost Recovery: In General	5-21		
Tax Fact: <i>Cost Recovery by Any Other Name</i>	5-22		
Bridge Discipline: <i>Bridge to Finance</i>	5-23		
Modified Accelerated Cost Recovery System (MACRS)	5-24		
Concept Summary: <i>MACRS: Class Lives, Methods, and Conventions</i>	5-24		
MACRS for Personal Property	5-24		
MACRS for Real Estate	5-27		
Straight-Line Election	5-28		
Additional First-Year Depreciation	5-28		
Financial Disclosure Insights: <i>Tax and Book Depreciation</i>	5-29		
Election to Expense Assets (§ 179)	5-29		
Tax in the News: <i>Cost Segregation</i>	5-29		
Bridge Discipline: <i>Bridge to Economics and the Business Cycle</i>	5-30		
Business and Personal Use of Automobiles and Other Listed Property	5-31		
Concept Summary: <i>Listed Property Cost Recovery</i>	5-34		
Bridge Discipline: <i>Bridge to Finance and Economics</i>	5-34		
Alternative Depreciation System (ADS)	5-35		
AMORTIZATION	5-35		
Tax Planning Strategies: <i>Structuring the Sale of a Business</i>	5-36		
DEPLETION	5-36		
Intangible Drilling and Development Costs (IDCs)	5-36		
Depletion Methods	5-37		
Tax Planning Strategies: <i>Switching Depletion Methods</i>	5-38		
COST RECOVERY TABLES	5-38		
Refocus on the Big Picture: <i>Calculating Deductible Expenses</i>	5-42		
CHAPTER 6			
LOSSES AND LOSS LIMITATIONS	6-1		
The Big Picture: <i>Receiving Tax Benefits from Losses</i>	6-1		
BAD DEBTS	6-2		
Specific Charge-Off Method	6-2		
Tax Fact: <i>Just How Good Is Your Credit?</i>	6-3		
Concept Summary: <i>The Tax Treatment of Bad Debts Using the Specific Charge-Off Method</i>	6-3		
Business versus Nonbusiness Bad Debts	6-4		
Loans between Related Parties	6-4		
WORTHLESS SECURITIES AND SMALL BUSINESS STOCK LOSSES	6-5		
Worthless Securities	6-5		
Small Business Stock (§ 1244 Stock) Losses	6-5		
Tax Planning Strategies: <i>Maximizing the Benefits of Small Business (§ 1244 Stock) Losses</i>	6-6		
CASUALTY AND THEFT LOSSES	6-6		
Definition of Casualty	6-6		
Deduction of Casualty Losses	6-7		
Tax Planning Strategies: <i>Documentation of Related-Taxpayer Loans, Casualty Losses, and Theft Losses</i>	6-8		
Definition of Theft	6-8		
Tax in the News: <i>The Tax Consequences of Lost Bitcoins</i>	6-9		
Loss Measurement	6-9		
Casualty and Theft Losses of Individuals	6-10		
Concept Summary: <i>Casualty Gains and Losses</i>	6-11		
NET OPERATING LOSSES	6-11		
Introduction	6-11		
Carryback and Carryover Periods	6-12		
THE TAX SHELTER PROBLEM	6-13		
Bridge Discipline: <i>Bridge to Finance</i>	6-14		
AT-RISK LIMITATIONS	6-14		
Concept Summary: <i>Calculation of At-Risk Amount</i>	6-16		

PASSIVE ACTIVITY LOSS LIMITS	6-16	GENERAL CONCEPT OF A NONTAXABLE EXCHANGE	7-19
Classification and Impact of Passive Activity Income and Loss	6-16	LIKE-KIND EXCHANGES—§ 1031	7-19
Tax in the News: “Passive” under the Tax Law May Not Be “Passive” in the Real World	6-17	Tax Planning Strategies: Like-Kind Exchanges	7-20
Tax in the News: If You Can’t Trust Your Tax Preparer, Who Can You Trust?	6-20	Like-Kind Property	7-20
Taxpayers Subject to the Passive Activity Loss Rules	6-20	Exchange Requirement	7-21
Rules for Determining Passive Activities	6-21	Boot	7-22
Material Participation	6-22	Basis and Holding Period of Property Received	7-23
Concept Summary: Tests to Determine Material Participation	6-23	Bridge Discipline: Bridge to Economics	7-25
Tax in the News: The Passive Activity Loss Rules Are a Trap for the Novice Landlord	6-24	INVOLUNTARY CONVERSIONS—§ 1033	7-25
Rental Activities	6-24	Involuntary Conversion Defined	7-25
Concept Summary: Passive Activity Loss Rules: Key Issues and Answers	6-25	Replacement Property	7-26
Interaction of At-Risk and Passive Activity Loss Limits	6-26	Concept Summary: Involuntary Conversions: Replacement Property Tests	7-27
Concept Summary: Treatment of Losses Subject to the At-Risk and Passive Activity Loss Limitations	6-27	Time Limitation on Replacement	7-27
Special Rules for Real Estate	6-27	Nonrecognition of Gain	7-28
Tax in the News: Full-Time Employees May Face Difficulty Showing Real Estate Professional Status	6-28	Tax Planning Strategies: Recognizing Involuntary Conversion Gains	7-29
Disposition of Passive Activities	6-30	OTHER NONRECOGNITION PROVISIONS	7-29
Tax Planning Strategies: Utilizing Passive Activity Losses	6-31	Transfer of Assets to Business Entity—§§ 351 and 721	7-29
Refocus on the Big Picture: Receiving Tax Benefits from Losses	6-32	Exchange of Stock for Property—§ 1032	7-29
		Certain Exchanges of Insurance Policies—§ 1035	7-29
		Exchange of Stock for Stock of the Same Corporation—§ 1036	7-30
		Rollovers into Specialized Small Business Investment Companies—§ 1044	7-30
		Sale of a Principal Residence—§ 121	7-30
		Transfers of Property between Spouses or Incident to Divorce—§ 1041	7-30
		Refocus on the Big Picture: Calculating Basis and Recognized Gain for Property Transactions	7-31

Part 3: Property Transactions

CHAPTER 7 PROPERTY TRANSACTIONS: BASIS, GAIN AND LOSS, AND NONTAXABLE EXCHANGES 7-1

The Big Picture: Calculating Basis and Recognized Gain for Property Transactions 7-1

DETERMINATION OF GAIN OR LOSS	7-2
Realized Gain or Loss	7-2
Bridge Discipline: Bridge to Financial Accounting	7-5
Tax in the News: Tax Implications of Virtual Currency (Bitcoin)	7-6
Recognized Gain or Loss	7-6
Concept Summary: Realized and Recognized Gain or Loss	7-7
Nonrecognition of Gain or Loss	7-7

BASIS CONSIDERATIONS	7-8
Determination of Cost Basis	7-8
Gift Basis	7-10
Tax Planning Strategies: Gift Planning	7-12
Property Acquired from a Decedent	7-13
Tax Planning Strategies: Property Acquired from a Decedent	7-14
Disallowed Losses	7-14
Concept Summary: Wash Sale Rules	7-15
Tax Planning Strategies: Avoiding Wash Sales	7-16
Conversion of Property from Personal Use to Business or Income-Producing Use	7-16
Tax in the News: Triple the Misery!	7-17
Summary of Basis Adjustments	7-17
Concept Summary: Adjustments to Basis	7-18

CHAPTER 8 PROPERTY TRANSACTIONS: CAPITAL GAINS AND LOSSES, SECTION 1231, AND RECAPTURE PROVISIONS 8-1

The Big Picture: Capital Gains and Losses, § 1231 Gains and Losses, and Recapture 8-1

GENERAL SCHEME OF TAXATION	8-2
CAPITAL ASSETS	8-2
Definition of a Capital Asset	8-3
Statutory Expansions	8-5
SALE OR EXCHANGE	8-6
Worthless Securities and § 1244 Stock	8-6
Tax in the News: Bankruptcy and Worthless Stock	8-7
Retirement of Corporate Obligations	8-7
Options	8-7
Concept Summary: Options: Consequences to the Grantor and Grantee	8-9
Patents	8-9
Franchises, Trademarks, and Trade Names	8-10
Concept Summary: Franchises: Consequences to the Franchisor and Franchisee	8-12
Lease Cancellation Payments	8-12

HOLDING PERIOD	8-13
Special Holding Period Rules	8-13
Short Sales	8-14
Tax Planning Strategies: <i>Timing Capital Gains</i>	8-15
TAX TREATMENT OF CAPITAL GAINS AND LOSSES OF NONCORPORATE TAXPAYERS	8-16
Capital Gains	8-16
Tax Planning Strategies: <i>Gifts of Appreciated Securities</i>	8-16
Global Tax Issues: <i>Capital Gain Treatment in the United States and Other Countries</i>	8-17
Concept Summary: <i>Capital Gains of Noncorporate Taxpayers</i>	8-18
Capital Losses	8-18
Capital Gain and Loss Netting Process	8-18
Tax Planning Strategies: <i>Matching Gains with Losses</i>	8-20
Small Business Stock	8-21
TAX TREATMENT OF CAPITAL GAINS AND LOSSES OF CORPORATE TAXPAYERS	8-22
SECTION 1231 ASSETS	8-22
Tax Fact: <i>Capital Gains for the Wealthy?</i>	8-23
Relationship to Capital Assets	8-23
Property Included	8-24
Property Excluded	8-24
Tax in the News: <i>Loss from Cattle Rustling</i>	8-25
Casualty or Theft and Nonpersonal-Use Capital Assets	8-25
General Procedure for § 1231 Computation	8-25
Concept Summary: <i>Section 1231 Netting Procedure</i>	8-26
SECTION 1245 RECAPTURE	8-29
Bridge Discipline: <i>Bridge to Financial Accounting</i>	8-30
Section 1245 Property	8-30
Observations on § 1245	8-31
Tax Planning Strategies: <i>Depreciation Recapture and § 179</i>	8-31
SECTION 1250 RECAPTURE	8-31
Tax in the News: <i>Building or Tangible Personal Property?</i>	8-32
Concept Summary: <i>Comparison of § 1245 and § 1250 Depreciation Recapture</i>	8-32
Unrecaptured § 1250 Gain (Real Estate 25% Gain)	8-32
Additional Recapture for Corporations	8-33
Tax Planning Strategies: <i>Selling Depreciable Real Estate</i>	8-34
EXCEPTIONS TO §§ 1245 AND 1250	8-34
Gifts	8-34
Death	8-35
Charitable Transfers	8-35
Certain Nontaxable Transactions	8-35
Like-Kind Exchanges and Involuntary Conversions	8-35
REPORTING PROCEDURES	8-36
Tax Planning Strategies: <i>Timing of Recapture</i>	8-36
Refocus on the Big Picture: <i>Capital Gains and Losses, § 1231 Gains and Losses, and Recapture</i>	8-37

Part 4: Taxation of Individuals

CHAPTER 9	9-1
INDIVIDUALS AS THE TAXPAYER	9-1
The Big Picture: <i>A Divided Household</i>	9-1
THE INDIVIDUAL TAX FORMULA	9-2
Concept Summary: <i>Individual Income Tax Formula</i>	9-2
Components of the Tax Formula	9-2
STANDARD DEDUCTION	9-6
Basic and Additional Standard Deduction	9-6
Special Limitations on the Standard Deduction for Dependents	9-8
PERSONAL EXEMPTIONS	9-8
DEPENDENCY EXEMPTIONS	9-9
Qualifying Child	9-9
Concept Summary: <i>Tiebreaker Rules for Claiming Qualifying Child</i>	9-10
Qualifying Relative	9-11
Tax Planning Strategies: <i>Multiple Support Agreements and the Medical Expense Deduction</i>	9-14
Other Rules for Dependency Exemptions	9-14
Tax Planning Strategies: <i>Problems with a Joint Return</i>	9-15
Comparison of Categories for Dependency Exemptions	9-15
Phaseout of Exemptions	9-15
Concept Summary: <i>Tests for Dependency Exemption</i>	9-16
FILING STATUS AND FILING REQUIREMENTS	9-16
Tax in the News: <i>How to Subtly Pluck the Chicken</i>	9-17
Filing Status	9-17
Bridge Discipline: <i>Bridge to Equity or Fairness</i>	9-19
Global Tax Issues: <i>Filing a Joint Return</i>	9-20
Filing Requirements	9-20
TAX DETERMINATION	9-21
Tax Table Method	9-21
Tax Rate Schedule Method	9-21
Tax Planning Strategies: <i>Shifting Income and Deductions across Time</i>	9-22
Computation of Net Taxes Payable or Refund Due	9-22
Tax in the News: <i>Same-Sex Couples May Face a Tax Filing Nightmare</i>	9-23
Additional Taxes for Certain Individuals	9-24
Kiddie Tax—Unearned Income of Children Taxed at Parents' Rate	9-25
Tax Planning Strategies: <i>Income of Certain Children</i>	9-26
TAX RETURN FILING PROCEDURES	9-26
Selecting the Proper Form	9-26
Tax Fact: <i>What Form of Tax Compliance Is Right for You?</i>	9-26
The E-File Approach	9-27
When and Where to File	9-27
Modes of Payment	9-27
Refocus on the Big Picture: <i>A Divided Household</i>	9-27

CHAPTER 10 INDIVIDUALS: INCOME, DEDUCTIONS, AND CREDITS 10-1

The Big Picture: *The Tax Implications of Life!* 10-1

OVERVIEW OF INCOME PROVISIONS APPLICABLE TO INDIVIDUALS 10-2

SPECIFIC INCLUSIONS APPLICABLE TO INDIVIDUALS 10-2

Bridge Discipline: *Bridge to Economics and Finance* 10-3

Alimony and Separate Maintenance Payments 10-3

Tax in the News: *Social Security Benefits as a Source of Federal Revenue* 10-5

Prizes and Awards 10-5

Unemployment Compensation 10-5

Social Security Benefits 10-5

SPECIFIC EXCLUSIONS APPLICABLE TO INDIVIDUALS 10-6

Gifts and Inheritances 10-6

Tax in the News: *Complying with Documentation Requirements Is Critical, Even for IRS Agents* 10-7

Scholarships 10-7

Damages 10-8

Concept Summary: *Taxation of Damages* 10-9

Workers' Compensation 10-10

Accident and Health Insurance Benefits 10-10

Educational Savings Bonds 10-10

ITEMIZED DEDUCTIONS 10-11

Medical Expenses 10-12

Tax in the News: *The Debate Continues over the Future of Itemized Deductions* 10-14

Taxes 10-15

Tax Planning Strategies: *Timing the Payment of Deductible Taxes* 10-17

Interest 10-17

Concept Summary: *Deductibility of Personal, Student Loan, Investment, and Mortgage Interest* 10-21

Charitable Contributions 10-21

Global Tax Issues: *Choose the Charity Wisely* 10-23

Concept Summary: *Determining the Deduction for Contributions of Property by Individuals* 10-24

Miscellaneous Itemized Deductions Subject to 2 Percent Floor 10-25

Other Miscellaneous Deductions 10-26

Overall Limitation on Certain Itemized Deductions 10-26

Tax Planning Strategies: *Effective Utilization of Itemized Deductions* 10-27

INDIVIDUAL TAX CREDITS 10-28

Adoption Expenses Credit 10-28

Child Tax Credit 10-28

Credit for Child and Dependent Care Expenses 10-29

Education Tax Credits 10-31

Earned Income Credit 10-32

AFFORDABLE CARE ACT PROVISIONS 10-33

Individual Shared Responsibility Payment 10-33

Premium Tax Credit 10-33

Refocus on the Big Picture: *The Tax Implications of Life!* 10-34

CHAPTER 11 INDIVIDUALS AS EMPLOYEES AND PROPRIETORS 11-1

The Big Picture: *Self-Employed versus Employee—What's the Difference?* 11-1

EMPLOYEE VERSUS SELF-EMPLOYED 11-2

Factors Considered in Classification 11-2

Bridge Discipline: *Bridge to Equity or Fairness and Business Law* 11-3

Tax Planning Strategies: *Self-Employed Individuals* 11-4

EXCLUSIONS AVAILABLE TO EMPLOYEES 11-4

Employer-Sponsored Accident and Health Plans 11-5

Medical Reimbursement Plans 11-5

Bridge Discipline: *Bridge to Economic and Societal Needs* 11-6

Long-Term Care Insurance Benefits 11-6

Meals and Lodging Furnished for the Convenience of the Employer 11-7

Group Term Life Insurance 11-8

Qualified Tuition Reduction Plans 11-9

Other Employee Fringe Benefits 11-9

Tax in the News: *Frequent-Flyer Miles Will Not Be Taxed* 11-10

Cafeteria Plans 11-10

Flexible Spending Plans 11-11

Concept Summary: *Employee Fringe Benefits* 11-11

General Classes of Excluded Benefits 11-12

Concept Summary: *General Classes of Fringe Benefits* 11-16

Foreign Earned Income 11-16

EMPLOYEE EXPENSES 11-17

Transportation Expenses 11-17

Travel Expenses 11-18

Tax Planning Strategies: *Transportation and Travel Expenses* 11-21

Moving Expenses 11-21

Concept Summary: *Meeting and Not Meeting the Distance Test* 11-22

Global Tax Issues: *Expatriates and the Moving Expense Deduction* 11-23

Tax Planning Strategies: *Moving Expenses* 11-24

Education Expenses 11-24

Tax Planning Strategies: *Education Expenses* 11-25

Targeted Tuition Deduction 11-26

Entertainment Expenses 11-27

Tax Planning Strategies: *Entertainment Expenses* 11-28

Other Employee Expenses 11-30

Classification of Employee Expenses 11-32

Tax Planning Strategies: *Unreimbursed Employee Business Expenses* 11-33

Contributions to Individual Retirement Accounts 11-33

Concept Summary: *Traditional IRAs and Roth IRAs Compared* 11-36

INDIVIDUALS AS PROPRIETORS 11-36

Income of a Proprietorship 11-37

Deductions Related to a Proprietorship 11-37

Retirement Plans for Self-Employed Individuals 11-38

Tax Planning Strategies: *Important Dates Related to IRAs and Keogh Plans* 11-39

Tax Planning Strategies: Factors Affecting Retirement Plan Choices	11-40
Accounting Periods and Methods	11-40
Estimated Tax Payments	11-40
HOBBY LOSSES	11-41
General Rules	11-42
Presumptive Rule of § 183	11-42
Determination of the Deductible Amount	11-43
Refocus on the Big Picture: Self-Employed versus Employee—What's the Difference?	11-44

Part 5: Business Entities

CHAPTER 12	
CORPORATIONS: ORGANIZATION, CAPITAL STRUCTURE, AND OPERATING RULES	12-1
The Big Picture: Growing into the Corporate Form	12-1
AN INTRODUCTION TO CORPORATE TAX	12-2
Double Taxation of Corporate Income	12-2
Global Tax Issues: Choice of Organizational Form When Operating Overseas	12-3
Comparison of Corporations and Other Forms of Doing Business	12-3
Tax Fact: Corporations' Reporting Responsibilities	12-4
Bridge Discipline: Bridge to Finance	12-5
Concept Summary: Tax Treatment of Business Forms Compared	12-6
Nontax Considerations	12-7
Limited Liability Companies	12-7
Entity Classification	12-7
ORGANIZATION OF AND TRANSFERS TO CONTROLLED CORPORATIONS	12-8
General Rules	12-8
Transfer of Property	12-9
Concept Summary: Shareholder Consequences: Taxable Corporate Formation versus Tax-Deferred § 351 Transaction	12-10
Stock	12-11
Control of the Corporation	12-11
Tax Planning Strategies: Utilizing § 351	12-13
Assumption of Liabilities—§ 357	12-15
Global Tax Issues: Does § 351 Cover the Incorporation of a Foreign Business?	12-16
Concept Summary: Tax Consequences of Liability Assumption	12-18
Tax Planning Strategies: Avoiding § 351	12-19
Basis Determination and Other Issues	12-19
Concept Summary: Tax Consequences to the Shareholders and Corporation: With and Without the Application of § 351 (Based on the Facts of Example 29)	12-21
Recapture Considerations	12-24
Tax Planning Strategies: Other Considerations When Incorporating a Business	12-24
CAPITAL STRUCTURE OF A CORPORATION	12-25
Capital Contributions	12-25
Tax in the News: States Battle Each Other to Lure New Businesses (and Jobs)	12-26

Debt in the Capital Structure	12-26
Tax in the News: A Careful Evaluation May Be Required to Distinguish Debt from Equity	12-28
CORPORATE OPERATIONS	12-29
Deductions Available Only to Corporations	12-29
Tax Planning Strategies: Organizational Expenditures	12-32
Determining the Corporate Income Tax Liability	12-33
Tax Liability of Related Corporations	12-33
Controlled Groups	12-34
PROCEDURAL MATTERS	12-36
Filing Requirements for Corporations	12-36
Estimated Tax Payments	12-36
Schedule M-1—Reconciliation of Income (Loss) per Books with Income per Return	12-36
Concept Summary: Conceptual Diagram of Schedule M-1 (Form 1120)	12-37
Schedule M-2—Analysis of Unappropriated Retained Earnings per Books	12-38
Bridge Discipline: Bridge to Financial Accounting	12-39
Schedule M-3—Net Income (Loss) Reconciliation for Corporations with Total Assets of \$10 Million or More	12-39
Effect of Taxes on Financial Statements	12-40
Refocus on the Big Picture: Growing into the Corporate Form	12-40
CHAPTER 13	
CORPORATIONS: EARNINGS & PROFITS AND DISTRIBUTIONS	13-1
The Big Picture: Taxing Corporate Distributions	13-1
CORPORATE DISTRIBUTIONS—OVERVIEW	13-2
EARNINGS AND PROFITS (E & P)	13-2
Tax Fact: Who Pays Dividends?	13-3
Computation of E & P	13-3
Summary of E & P Adjustments	13-6
Concept Summary: Computing E & P	13-7
Allocating E & P to Distributions	13-7
Bridge Discipline: Bridge to Finance	13-10
Tax Planning Strategies: Corporate Distributions	13-10
Concept Summary: Allocating E & P to Distributions	13-11
Bridge Discipline: Bridge to Investments	13-12
NONCASH DIVIDENDS	13-12
Noncash Dividends—Effect on the Shareholder	13-12
Noncash Dividends—Effect on the Corporation	13-13
Bridge Discipline: Bridge to Finance	13-14
CONSTRUCTIVE DIVIDENDS	13-15
Types of Constructive Dividends	13-15
Global Tax Issues: A Worldwide View of Dividends	13-16
Tax in the News: Hard Work Pays Off!	13-17
Tax Treatment of Constructive Dividends	13-17
Tax Planning Strategies: Constructive Dividends	13-18
STOCK DIVIDENDS	13-20

STOCK REDEMPTIONS	13-21	Partners as Employees	14-30
Bridge Discipline: <i>Bridge to Finance</i>	13-21	Tax Planning Strategies: <i>Transactions between Partners and Partnerships</i>	14-31
Global Tax Issues: <i>Non-U.S. Shareholders Prefer Capital Gain Treatment in Stock Redemptions</i>	13-22	Concept Summary: <i>Partner-Partnership Transactions</i>	14-31
Tax Planning Strategies: <i>Stock Redemptions</i>	13-23		
CORPORATE LIQUIDATIONS	13-23	LIMITED LIABILITY COMPANIES	14-32
The Liquidation Process	13-23	Taxation of LLCs	14-32
Liquidating and Nonliquidating Distributions Compared	13-23	Advantages of an LLC	14-32
Tax Planning Strategies: <i>Corporate Liquidations</i>	13-24	Disadvantages of an LLC	14-33
		Concept Summary: <i>Advantages and Disadvantages of the Partnership Form</i>	14-33
RESTRICTIONS ON CORPORATE ACCUMULATIONS	13-24	SUMMARY	14-34
Refocus on the Big Picture: <i>Taxing Corporate Distributions</i>	13-25	Refocus on the Big Picture: <i>The Tax Consequences of Partnership Formation and Operations</i>	14-34
CHAPTER 14		CHAPTER 15	
PARTNERSHIPS AND LIMITED LIABILITY ENTITIES	14-1	S CORPORATIONS	15-1
The Big Picture: <i>The Tax Consequences of Partnership Formation and Operations</i>	14-1	The Big Picture: <i>Converting a C Corporation to an S Corporation</i>	15-1
OVERVIEW OF PARTNERSHIP TAXATION	14-2	AN OVERVIEW OF S CORPORATIONS	15-2
Forms of Doing Business—Federal Tax Consequences	14-2	QUALIFYING FOR S CORPORATION STATUS	15-3
Tax Fact: <i>Partnership Power</i>	14-3	Definition of a Small Business Corporation	15-3
Definition of a Partnership	14-3	Bridge Discipline: <i>Bridge to Business Law</i>	15-3
Bridge Discipline: <i>Bridge to Finance</i>	14-4	Tax Planning Strategies: <i>When to Elect S Corporation Status</i>	15-4
Partnership Taxation and Reporting	14-4	Tax Fact: <i>The Business of S Corporations</i>	15-5
Partner's Ownership Interest in a Partnership	14-6	Tax Planning Strategies: <i>Beating the 100-Shareholder Limit</i>	15-6
Bridge Discipline: <i>Bridge to Business Law</i>	14-7	Making the Election	15-6
		Shareholder Consent	15-7
FORMATION OF A PARTNERSHIP: TAX EFFECTS	14-8	Tax Planning Strategies: <i>Making a Proper Election</i>	15-7
Gain or Loss on Contributions to the Partnership	14-8	Loss of the Election	15-7
Concept Summary: <i>Partnership/LLC Taxation</i>	14-9	Tax Planning Strategies: <i>Preserving the S Election</i>	15-9
Exceptions to Nonrecognition	14-9		
Tax Issues Related to Contributed Property	14-11	OPERATIONAL RULES	15-10
Inside and Outside Bases	14-12	Computation of Taxable Income	15-10
Tax Accounting Elections	14-12	Allocation of Income and Loss	15-11
Concept Summary: <i>Partnership Formation and Basis Computation</i>	14-13	Tax Fact: <i>A "Small" Business Corporation</i>	15-12
Initial Costs of a Partnership	14-13	Tax Planning Strategies: <i>Salary Structure</i>	15-13
		Tax Treatment of Distributions to Shareholders	15-13
OPERATIONS OF THE PARTNERSHIP	14-15	Tax in the News: <i>Some Guidelines for S Corporation Shareholder-Employee Compensation</i>	15-14
Schedules K and K-1	14-15	Tax Planning Strategies: <i>The Accumulated Adjustments Account</i>	15-17
Global Tax Issues: <i>Withholding Procedures Apply to Foreign Partners</i>	14-18	Concept Summary: <i>Distributions from an S Corporation</i>	15-17
Concept Summary: <i>Tax Reporting of Partnership Activities</i>	14-19	Tax Treatment of Noncash Distributions by the Corporation	15-18
Partnership Allocations	14-19	Concept Summary: <i>Consequences of Noncash Distributions</i>	15-19
Basis of a Partnership Interest	14-20	Shareholder's Basis in S Stock	15-19
Bridge Discipline: <i>Bridge to Financial Accounting</i>	14-21	Tax Planning Strategies: <i>Working with Suspended Losses</i>	15-21
Tax Fact: <i>What Do Partnerships Do?</i>	14-22	Treatment of Losses	15-21
Partner's Basis, Gain, and Loss	14-23	Tax Planning Strategies: <i>Loss Considerations</i>	15-22
Loss Limitations	14-25	Concept Summary: <i>Treatment of S Corporation Losses</i>	15-23
Tax Planning Strategies: <i>Make Your Own Tax Shelter</i>	14-26	Other Operational Rules	15-23
Concept Summary: <i>Partner's Basis in Partnership Interest</i>	14-28	Bridge Discipline: <i>Bridge to Public Finance</i>	15-24
TRANSACTIONS BETWEEN PARTNER AND PARTNERSHIP	14-28	ENTITY-LEVEL TAXES	15-25
Guaranteed Payments	14-28	Tax on Pre-Election Built-In Gain	15-25
Other Transactions between a Partner and a Partnership	14-29	Tax Planning Strategies: <i>Managing the Built-In Gains Tax</i>	15-26
		Tax Fact: <i>No Double Taxation?</i>	15-27

Passive Investment Income Penalty Tax	15-27
Tax in the News: <i>The Self-Employment Income Advantage</i>	15-28
Tax Planning Strategies: <i>Avoid PII Pitfalls</i>	15-28
Tax Fact: <i>The S Corporation Economy</i>	15-29
SUMMARY	15-29
Refocus on the Big Picture: <i>Converting a C Corporation to an S Corporation</i>	15-29

Part 6: Special Business Topics

CHAPTER 16	
MULTIJURISDICTIONAL TAXATION	16-1
The Big Picture: <i>Going International</i>	16-1
THE MULTIJURISDICTIONAL TAXPAYER	16-2
U.S. TAXATION OF MULTINATIONAL TRANSACTIONS	16-2
Bridge Discipline: <i>Bridge to International Law</i>	16-3
Sources of Law	16-5
Tax Issues	16-5
Tax Fact: <i>U.S. Income Tax Treaties in Force</i>	16-6
Financial Disclosure Insights: <i>Effective Tax Strategies Using Overseas Operations</i>	16-7
Tax Fact: <i>Where Do We Stand?</i>	16-8
Global Tax Issues: <i>Deferral and Repatriation</i>	16-9
Tax in the News: <i>The IRS Watches from Abroad</i>	16-9
Tax Planning Strategies: <i>Sourcing Income from Sales of Inventory</i>	16-10
Tax Fact: <i>Corporate Use of the Foreign Tax Credit</i>	16-11
Tax Planning Strategies: <i>Utilizing the Foreign Tax Credit</i>	16-12
Financial Disclosure Insights: <i>Overseas Operations and Book-Tax Differences</i>	16-14
Tax Planning Strategies: <i>Avoiding Constructive Dividends</i>	16-17
Tax in the News: <i>Taxes Take a Smaller Bite Out of Apple</i>	16-18
Tax Fact: <i>The Inbound Sector</i>	16-19
Financial Disclosure Insights: <i>Tax Rates in Non-U.S. Jurisdictions</i>	16-20
Concept Summary: <i>U.S. Income Tax Treatment of a Non-U.S. Person's Income</i>	16-20
CROSSING STATE LINES: STATE AND LOCAL INCOME TAXATION IN THE UNITED STATES	16-20
Tax Fact: <i>State Tax Revenue Sources</i>	16-21
Sources of Law	16-21
Tax in the News: <i>So Where Did You Work Today?</i>	16-22
Tax Issues	16-22
Tax Planning Strategies: <i>Nexus: To Have or Have Not</i>	16-24
Financial Disclosure Insights: <i>State/Local Taxes and the Tax Expense</i>	16-27
Concept Summary: <i>Corporate Multistate Income Taxation</i>	16-27
Tax Planning Strategies: <i>Where Should My Income Go?</i>	16-28
COMMON CHALLENGES	16-28
Authority to Tax	16-28
Bridge Discipline: <i>Bridge to Cost Accounting and Executive Compensation</i>	16-29

Division of Income	16-29
Transfer Pricing	16-29
Bridge Discipline: <i>Bridge to Economic Development and Political Science</i>	16-30
Tax Havens	16-30
Interjurisdictional Agreements	16-31
Refocus on the Big Picture: <i>Going International</i>	16-31

CHAPTER 17 BUSINESS TAX CREDITS AND CORPORATE ALTERNATIVE MINIMUM TAX

The Big Picture: <i>Dealing with Tax Credits and the AMT</i>	17-1
BUSINESS-RELATED TAX CREDIT PROVISIONS	17-2
General Business Credit	17-2
Tax Fact: <i>Where Have All the Credits Gone?</i>	17-3
Tax in the News: <i>Many Taxpayers Become "Nonpayers" Because of Tax Credits</i>	17-4
Bridge Discipline: <i>Bridge to Finance</i>	17-5
Tax Credit for Rehabilitation Expenditures	17-5
Work Opportunity Tax Credit	17-6
Research Activities Credit	17-8
Energy Credits	17-10
Disabled Access Credit	17-10
Credit for Small Employer Pension Plan Startup Costs	17-10
Credit for Employer-Provided Child Care	17-11
Global Tax Issues: <i>Sourcing Income in Cyberspace—Getting It Right When Calculating the Foreign Tax Credit</i>	17-12
Foreign Tax Credit	17-12
Small Employer Health Insurance Credit	17-13
Concept Summary: <i>Tax Credits</i>	17-13
CORPORATE ALTERNATIVE MINIMUM TAX	17-14
The AMT Formula	17-15
AMT Adjustments	17-16
Tax Preferences	17-21
Tax Planning Strategies: <i>Avoiding Preferences and Adjustments</i>	17-22
Adjusted Current Earnings (ACE)	17-23
Concept Summary: <i>Determining the ACE Adjustment</i>	17-24
Concept Summary: <i>How Various Transactions Affect ACE and E & P</i>	17-25
Alternative Tax Net Operating Loss Deduction	17-25
Computation of Alternative Minimum Taxable Income	17-26
Tax Planning Strategies: <i>Optimum Use of the AMT and Regular Corporate Income Tax Rate Difference</i>	17-27
AMT Rate and Exemption	17-27
Tax Planning Strategies: <i>Controlling the Timing of Preferences and Adjustments</i>	17-28
Minimum Tax Credit	17-28
Other Aspects of the AMT	17-28
Tax Planning Strategies: <i>The S Corporation Option</i>	17-28
Tax in the News: <i>The Corporate AMT</i>	17-29
INDIVIDUAL ALTERNATIVE MINIMUM TAX	17-29
Refocus on the Big Picture: <i>Dealing with Tax Credits and the AMT</i>	17-30

CHAPTER 18
COMPARATIVE FORMS OF DOING BUSINESS **18-1**

The Big Picture: *Choosing a Business Form and Other Investments* 18-1

FORMS OF DOING BUSINESS **18-2**

Tax in the News: *Should You Check That Box?* 18-2

NONTAX FACTORS AFFECTING THE CHOICE OF BUSINESS FORM **18-3**

Limited Liability 18-3

Tax Fact: *Revenue Relevance of Corporate versus Individual Taxpayers* 18-4

Other Factors 18-4

Capital Formation 18-4

Tax in the News: *Professional Service Firms and Organizational Form* 18-5

THE CONDUIT AND ENTITY PERSPECTIVES OF LEGAL BUSINESS FORMS **18-5**

Global Tax Issues: *Do Corporations Pay Taxes?* 18-6

Effect on the Taxation of Business Operations 18-6

Tax in the News: *Who Pays Corporate AMT?* 18-6

Tax Planning Strategies: *Planning for the AMT* 18-7

Effect on the Ability to Specially Allocate Income among Owners 18-7

Tax Fact: *Profitability of Partnerships* 18-8

Effects on the Tax Treatment of Capital Contributions 18-8

Bridge Discipline: *Bridge to Business Law and Financial Accounting* 18-9

Effect on the Basis of an Ownership Interest 18-9

Effect on the Application of the At-Risk and Passive Activity Loss Rules 18-9

Effect on the Tax Treatment of Distributions 18-11

State Taxation 18-11

MINIMIZING DOUBLE TAXATION **18-12**

Making Deductible Distributions 18-12

Tax in the News: *Changing the Tax Treatment of Debt* 18-13

Deferring Distributions 18-14

Return-of-Capital Distributions 18-14

S Corporation Status 18-14

Tax Fact: *Income Tax Returns Filed by Business Entities* 18-15

Bridge Discipline: *Bridge to Economics* 18-15

DISPOSITION OF A BUSINESS OR AN OWNERSHIP INTEREST **18-16**

Sole Proprietorships 18-16

Partnerships and Limited Liability Companies 18-17

C Corporations 18-18

S Corporations 18-18

Tax Planning Strategies: *Selling Stock or Assets* 18-19

Concept Summary: *Tax Treatment of Disposition of a Business* 18-19

CONVERSION TO OTHER ENTITY TYPES **18-21**

Sole Proprietorship 18-21

C Corporation 18-21

Partnership 18-22

OVERALL COMPARISON OF BUSINESS FORMS **18-22**

Concept Summary: *Tax Attributes of Different Forms of Doing Business (Assume That Partners and Shareholders Are All Individuals)* 18-22

Refocus on the Big Picture: *Choosing a Business Form and Other Investments* 18-26

APPENDIXES

TAX RATE SCHEDULES AND TABLES **A-1**

TAX FORMS **B-1**

GLOSSARY **C-1**

TABLE OF CODE SECTIONS CITED **D-1**

TABLE OF REGULATIONS CITED **D-8**

TABLE OF REVENUE PROCEDURES AND REVENUE RULINGS CITED **D-11**

TABLE OF CASES CITED **E-1**

PRESENT VALUE AND FUTURE VALUE TABLES **F-1**

TAX FORMULAS **G-1**

INDEX **I-1**

Online Appendixes

DEPRECIATION AND THE ACCELERATED COST RECOVERY SYSTEM (ACRS)

AFFORDABLE CARE ACT PROVISIONS



PART

1

THE WORLD OF TAXATION

CHAPTER 1

Introduction to Taxation

CHAPTER 2

Working with the Tax Law

CHAPTER 3

Taxes on the Financial Statements

Part 1 provides an introduction to taxation in the United States. Various taxes imposed by Federal, state, and local governments are discussed. A unique tax planning framework is presented that is applied throughout the book in developing tax planning strategies for both business entities and individual taxpayers. The tax research process, including the relevance of the legislative, administrative, and judicial sources of the tax law, is also discussed. Part 1 concludes with a chapter on accounting for income taxes, as a bridge to materials discussed in other accounting courses and an introduction to the financial disclosure effects of the tax law.