

FULLY UPDATED FOR THE TAX CUTS AND JOBS ACT

2019 EDITION

McGraw-Hill's

TAXATION *of* INDIVIDUALS AND
BUSINESS ENTITIES

SILKER • AYERS • BARRICK • OUTSLAY • ROBINSON • WEAVER • WORSHAM



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Taxation of Individuals and Business Entities

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McGRAW-HILL'S TAXATION OF INDIVIDUALS AND BUSINESS ENTITIES, 2019 EDITION, TENTH EDITION

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This book is printed on acid-free paper.

1 2 3 4 5 6 7 8 9 LWI 21 20 19 18

ISBN 978-1-259-91839-1

MHID 1-259-91839-4

ISSN 1946-7745

Executive Portfolio Manager: *Kathleen Klehr*

Product Developers: *Danielle Andries, Erin Quinones*

Marketing Manager: *Zach Rudin*

Content Project Managers: *Lori Koettters, Jill Eccher, Brian Nacik*

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Content Licensing Specialist: *Lorraine Buczek*

Cover Image: © *Spotmatik/Alamy*

Compositor: *Aptara®, Inc.*

Printer: *LSC Communications*

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Dedications

We dedicate this book to:

My family, whose love and support helped make this book possible, and to Professor Dave Stewart for his great example and friendship over the last three decades.

Brian Spilker

My wife, Marilyn, daughters Margaret Lindley and Georgia, son Benjamin, and parents Bill and Linda.

Ben Ayers

My wife, Jill, and my children Annika, Corinne, Lina, Mitch, and Connor.

John Barrick

My family, Jane, Mark, Sarah, Chloe, Lily, Jeff, and Nicole, and to Professor James E. Wheeler, my mentor and friend.

Ed Outslay

JES, Tommy, and Laura.

John Robinson

My family: Dan, Travis, Alix, and Alan.

Connie Weaver

My wife, Anne, sons Matthew and Daniel, and daughters Whitney and Hayley.

Ron Worsham

About the Authors

Brian Spilker (PhD, University of Texas at Austin, 1993) is the Robert Call/Deloitte Professor in the School of Accountancy at Brigham Young University. He teaches taxation at Brigham Young University. He received both BS (Summa Cum Laude) and MAcc (tax emphasis) degrees from Brigham Young University before working as a tax consultant for Arthur Young & Co. (now Ernst & Young). After his professional work experience, Brian earned his PhD at the University of Texas at Austin. In 1996, he was selected as one of two nationwide recipients of the Price Waterhouse Fellowship in Tax Award. In 1998, he was a winner of the American Taxation Association and Arthur Andersen Teaching Innovation Award for his work in the classroom; he has also been awarded for his use of technology in the classroom at Brigham Young University. Brian researches issues relating to tax information search and professional tax judgment. His research has been published in journals such as *The Accounting Review*, *Organizational Behavior and Human Decision Processes*, *Journal of the American Taxation Association*, *Behavioral Research in Accounting*, *Journal of Accounting Education*, *Journal of Corporate Taxation*, and *Journal of Accountancy*.



Courtesy Brian Spilker

Ben Ayers (PhD, University of Texas at Austin, 1996) holds the Earl Davis Chair in Taxation and is the dean of the Terry College of Business at the University of Georgia. He received a PhD from the University of Texas at Austin and an MTA and BS from the University of Alabama. Prior to entering the PhD program at the University of Texas, Ben was a tax manager at KPMG in Tampa, Florida, and a contract manager with Complete Health, Inc., in Birmingham, Alabama. He is the recipient of 11 teaching awards at the school, college, and university levels, including the Richard B. Russell Undergraduate Teaching Award, the highest teaching honor for University of Georgia junior faculty members. His research interests include the effects of taxation on firm structure, mergers and acquisitions, and capital markets and the effects of accounting information on security returns. He has published articles in journals such as *The Accounting Review*, *Journal of Finance*, *Journal of Accounting and Economics*, *Contemporary Accounting Research*, *Review of Accounting Studies*, *Journal of Law and Economics*, *Journal of the American Taxation Association*, and *National Tax Journal*. Ben was the 1997 recipient of the American Accounting Association's Competitive Manuscript Award, the 2003 and 2008 recipient of the American Taxation Association's Outstanding Manuscript Award, and the 2016 recipient of the American Taxation Association's Ray M. Sommerfeld Outstanding Tax Educator Award.



Courtesy Ben Ayers



Courtesy John Barrick

John Barrick (PhD, University of Nebraska at Lincoln, 1998) is currently an associate professor in the Marriott School at Brigham Young University. He served as an accountant at the United States Congress Joint Committee on Taxation during the 110th and 111th Congresses. He teaches taxation in the graduate and undergraduate programs at Brigham Young University. He received both BS and MAcc (tax emphasis) degrees from Brigham Young University before working as a tax consultant for Price Waterhouse (now PricewaterhouseCoopers). After his professional work experience, John earned his PhD at the University of Nebraska at Lincoln. He was the 1998 recipient of the American Accounting Association, Accounting, Behavior, and Organization Section's Outstanding Dissertation Award. John researches issues relating to tax corporate political activity. His research has been published in journals such as *Organizational Behavior and Human Decision Processes*, *Contemporary Accounting Research*, and *Journal of the American Taxation Association*.



Courtesy Ed Outslay

Ed Outslay (PhD, University of Michigan, 1981) is a professor of accounting and the Deloitte/Michael Licata Endowed Professor of Taxation in the Department of Accounting and Information Systems at Michigan State University, where he has taught since 1981. He received a BA from Furman University in 1974 and an MBA and PhD from the University of Michigan in 1977 and 1981. Ed currently teaches graduate classes in corporate taxation, multiunit enterprises, accounting for income taxes, and international taxation. In February 2003, Ed testified before the Senate Finance Committee on the Joint Committee on Taxation's Report on Enron Corporation. MSU has honored Ed with the Presidential Award for Outstanding Community Service, Distinguished Faculty Award, John D. Withrow Teacher-Scholar Award, Roland H. Salmonson Outstanding Teaching Award, Senior Class Council Distinguished Faculty Award, MSU Teacher-Scholar Award, and MSU's 1st Annual Curricular Service-Learning and Civic Engagement Award in 2008. Ed received the Ray M. Sommerfeld Outstanding Tax Educator Award in 2004 and the Lifetime Service Award in 2013 from the American Taxation Association. He has also received the ATA Outstanding Manuscript Award twice, the ATA/Deloitte Teaching Innovations Award, and the 2004 Distinguished Achievement in Accounting Education Award from the Michigan Association of CPAs. In 2017, Ed received the American Accounting Association / J. Michael and Mary Ann Cook Prize given in "foremost recognition of an individual who consistently demonstrates the attributes of a superior teacher in the discipline of accounting." Ed has been recognized for his community service by the Greater Lansing Chapter of the Association of Government Accountants, the City of East Lansing (Crystal Award), and the East Lansing Education Foundation. He received a National Assistant Coach of the Year Award in 2003 from AFLAC and was named an Assistant High School Baseball Coach of the Year in 2002 by the Michigan High School Baseball Coaches Association.

John Robinson (PhD, University of Michigan, 1981) is the Patricia '77 and Grant E. Sims '77 Eminent Scholar Chair in Business. Prior to joining the faculty at Texas A&M, John was the C. Aubrey Smith Professor of Accounting at the University of Texas at Austin, Texas, and he taught at the University of Kansas where he was the Arthur Young Faculty Scholar. In 2009–2010 John served as the Academic Fellow in the Division of Corporation Finance at the Securities and Exchange Commission. He has been the recipient of the Henry A. Bubb Award for outstanding teaching, the Texas Blazer's Faculty Excellence Award, and the MPA Council Outstanding Professor Award. John also received the 2012 Outstanding Service Award from the American Taxation Association (ATA) and in 2017 was named the Ernst & Young and ATA Ray Sommerfeld Outstanding Educator. John served as the 2014–2015 president (elect) of the ATA and is the ATA's president for 2015–2016. John conducts research in a broad variety of topics involving financial accounting, mergers and acquisitions, and the influence of taxes on financial structures and performance. His scholarly articles have appeared in *The Accounting Review*, *The Journal of Accounting and Economics*, *Journal of Finance*, *National Tax Journal*, *Journal of Law and Economics*, *Journal of the American Taxation Association*, *The Journal of the American Bar Association*, and *The Journal of Taxation*. John's research was honored with the 2003 and 2008 ATA Outstanding Manuscript Awards. In addition, John was the editor of *The Journal of the American Taxation Association* from 2002–2005. Professor Robinson received his J.D. (*Cum Laude*) from the University of Michigan in 1979, and he earned a PhD in accounting from the University of Michigan in 1981. John teaches courses on individual and corporate taxation and advanced accounting.



Courtesy John Robinson

Connie Weaver (PhD, Arizona State University, 1997) is the KPMG Professor of Accounting at Texas A&M University. She received a PhD from Arizona State University, an MPA from the University of Texas at Arlington, and a BS (chemical engineering) from the University of Texas at Austin. Prior to entering the PhD Program, Connie was a tax manager at Ernst & Young in Dallas, Texas, where she became licensed to practice as a CPA. She teaches taxation in the Professional Program in Accounting and the Executive MBA program at Texas A&M University. She has also taught undergraduate and graduate students at the University of Wisconsin–Madison and the University of Texas at Austin. She is the recipient of several teaching awards, including the 2006 American Taxation Association/Deloitte Teaching Innovations award, the David and Denise Baggett Teaching award, and the college and university level Association of Former Students Distinguished Achievement award in teaching. Connie's current research interests include the effects of tax and financial incentives on corporate decisions and reporting. She has published articles in journals such as *The Accounting Review*, *Contemporary Accounting Research*, *Journal of the American Taxation Association*, *National Tax Journal*, *Accounting Horizons*, *Journal of Corporate Finance*, and *Tax Notes*. Connie is the senior editor of *The Journal of the American Taxation Association* and she serves on the editorial board of *Contemporary Accounting Research*.



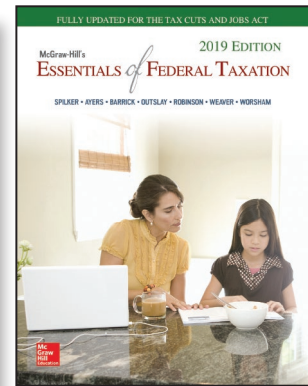
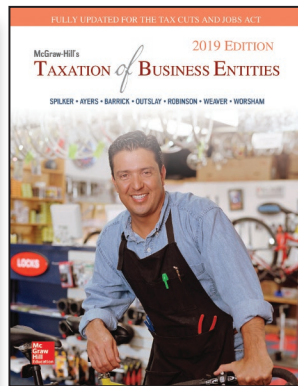
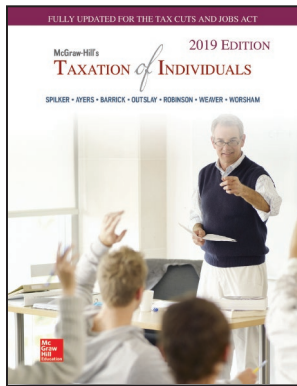
Courtesy Connie Weaver

Ron Worsham (PhD, University of Florida, 1994) is an associate professor in the School of Accountancy at Brigham Young University. He teaches taxation in the graduate, undergraduate, MBA, and Executive MBA programs at Brigham Young University. He has also taught as a visiting professor at the University of Chicago. He received both BS and MAcc (tax emphasis) degrees from Brigham Young University before working as a tax consultant for Arthur Young & Co. (now Ernst & Young) in Dallas, Texas. While in Texas, he became licensed to practice as a CPA. After his professional work experience, Ron earned his PhD at the University of Florida. He has been honored for outstanding innovation in the classroom at Brigham Young University. Ron has published academic research in the areas of taxpayer compliance and professional tax judgment. He has also published legal research in a variety of areas. His work has been published in journals such as *Journal of the American Taxation Association*, *The Journal of International Taxation*, *The Tax Executive*, *Tax Notes*, *The Journal of Accountancy*, and *Practical Tax Strategies*.



Courtesy Ron Worsham

TEACHING THE CODE IN CONTEXT



The bold innovative approach used by McGraw-Hill's Taxation series is quickly becoming the most popular choice of course materials among instructors and students. It's apparent why the clear, organized, and engaging delivery of content, paired with the most current and robust tax code updates, has been adopted by more than 600 schools across the country.

McGraw-Hill's Taxation is designed to provide a unique, innovative, and engaging learning experience for students studying taxation. The breadth of the topical coverage, **the storyline approach to presenting the material**, the emphasis on the tax and nontax consequences of multiple parties involved in transactions, and the integration of financial and tax accounting topics make this book ideal for the modern tax curriculum.

"Do you want the best tax text? This is the one to use. It has a storyline in each chapter that can relate to real life issues."

Leslie A. Mostow
– University of Maryland, College Park

"This text provides broad coverage of important topics and does so in a manner that is easy for students to understand. The material is very accessible for students."

Kyle Post
– Tarleton State University

Since the first manuscript was written in 2005, 449 professors have contributed 499 book reviews, in addition to 29 focus groups and symposia. Throughout this preface, their comments on the book's organization, pedagogy, and unique features are a testament to the **market-driven nature of Taxation's development**.

"I think this is the best book available for introductory and intermediate courses in taxation."

Shane Stinson
– University of Alabama

A MODERN APPROACH FOR TODAY'S STUDENT

Spilker's taxation series was built around the following five core precepts:

- 1 Storyline Approach:** Each chapter begins with a storyline that introduces a set of characters or a business entity facing specific tax-related situations. Each chapter's examples are related to the storyline, providing students with opportunities to **learn the code in context**.
- 2 Integrated Examples:** In addition to providing examples in-context, we provide “**What if**” scenarios within many examples to **illustrate how variations in the facts might or might not change the answers**.
- 3 Conversational Writing Style:** The authors took special care to write *McGraw-Hill's Taxation* in a way that fosters a friendly dialogue between the content and each individual student. The tone of the presentation is intentionally conversational—creating the impression of *speaking with the student*, as opposed to *lecturing to* the student.
- 4 Superior Organization of Related Topics:** *McGraw-Hill's Taxation* provides two alternative topic sequences. In the *McGraw-Hill's Taxation of Individuals and Business Entities* volume, the individual topics generally follow the tax form sequence, with an individual overview chapter and then chapters on income, deductions, investment-related issues, and the tax liability computation. The topics then transition into business-related topics that apply to individuals. This volume then provides a group of specialty chapters dealing with topics of particular interest to individuals (including students), including separate chapters on home ownership, compensation, and retirement savings and deferred compensation. This volume concludes with a chapter covering the taxation of business entities. Alternatively, in the *Essentials of Federal Taxation* volume, the topics follow a more traditional sequence, with topics streamlined (no specialty chapters) and presented in more of a life-cycle approach.
- 5 Real-World Focus:** Students learn best when they see how concepts are applied in the real world. For that reason, real-world examples and articles are included in “**Taxes in the Real World**” boxes throughout the book. These vignettes demonstrate current issues in taxation and show the relevance of tax issues in all areas of business.

The in-text examples of how to complete tax returns (is a strength of this text). These help students improve their overall understanding of the material as it moves from something abstract to something tangible the student can produce.”

Christine Cheng—Louisiana State University

A STORYLINE APPROACH THAT RESONATES WITH STUDENTS



Storyline Summary

Taxpayers: Courtney Wilson, age 40, and Courtney's mother Dorothy "Gram" Weiss, age 70

Family description: Courtney is divorced with a son, Deron, age 10, and a daughter, Ellen, age 20. Gram is currently residing with Courtney.

Location: Kansas City, Missouri

Employment status: Courtney works as an architect for EWD. Gram is retired.

Filing status: Courtney is head of household. Gram is single.

Current situation: Courtney and Gram have computed their taxable income. Now they are trying to determine their tax liability, tax refund, or additional taxes due and whether they owe any payment-related penalties.

She's planning on filing her tax return and paying her taxes on time.

Gram's tax situation is much more straightforward. She needs to determine the regular income tax on her taxable income. Her income is so low she knows she need not worry about the alternative minimum tax, and she believes she doesn't owe any self-employment tax. Gram didn't prepay any taxes this year, so she is concerned that she might be required to pay an underpayment penalty. She also expects to file her tax return and pay her taxes by the looming due date.

Courtney has already determined her taxable income. Now she's working on computing her tax liability. She knows she owes a significant amount of regular income tax on her employment and business activities. However, she's not sure how to compute the tax on the qualified dividends she received from General Electric and is worried that she may be subject to the alternative minimum tax this year. Finally, Courtney knows she owes some self-employment taxes on her business income. Courtney would like to determine whether she is eligible to claim any tax credits, such as the child tax credit for her two children and education credits, because she paid for a portion of her daughter Ellen's tuition at the University of Missouri-Kansas City this year. Courtney is hoping that she has paid enough in taxes during the year to avoid underpayment penalties.

Each chapter begins with a storyline that introduces a set of characters facing specific tax-related situations. This revolutionary approach to teaching tax emphasizes real people facing real tax dilemmas. Students learn to apply practical tax information to specific business and personal situations. As their situations evolve, the characters are brought further to life.

“Excellent text! Very readable, easy for students to read and understand. Storyline approach and integrated examples make it easy for students to relate to taxpayers and their tax situations.”

Sandra Owen
– Indianan State University, Bloomington

Examples

Examples are the cornerstone of any textbook covering taxation. For this reason, *McGraw-Hill's Taxation* authors took special care to create clear and helpful examples that relate to the storyline of the chapter. Students learn to refer to the facts presented in the storyline and apply them to other scenarios—in this way, they build a greater base of knowledge through application. Many examples also include “What if?” scenarios that add more complexity to the example or explore related tax concepts.

“The text is easy to read and provides many easy-to-follow examples throughout the chapter.”

Gloria Jean Stuart
– Georgia Southern University

Example 2-1

Bill and Mercedes file their 2014 federal tax return on September 6, 2015, after receiving an automatic extension to file their return by October 15, 2015. In 2018, the IRS selects their 2014 tax return for audit. When does the statute of limitations end for Bill and Mercedes's 2014 tax return?

Answer: Assuming the six-year and “unlimited” statute of limitation rules do not apply, the statute of limitations ends on September 6, 2018 (three years after the later of the actual filing date and the original due date).

What if: When would the statute of limitations end for Bill and Mercedes for their 2014 tax return if the couple filed the return on March 22, 2015 (before the original due date of April 15, 2015)?

Answer: In this scenario the statute of limitations would end on April 15, 2018, because the later of the actual filing date and the original due date is April 15, 2015.

THE PEDAGOGY YOUR STUDENTS NEED TO PUT THE CODE IN CONTEXT

Taxes in the Real World

Taxes in the Real World are short boxes used throughout the book to demonstrate the real-world use of tax concepts. Current articles on tax issues, the real-world application of chapter-specific tax rules, and short vignettes on popular news about tax are some of the issues covered in Taxes in the Real World boxes.

“The Spilker text makes tax easy for students to understand. **It integrates great real-world examples so students can see how topics will be applied in practice.** The integration of the tax form and exhibits of the tax forms in the text are outstanding.”

– Kristen Bigbee, Texas Tech University

TAXES IN THE REAL WORLD Tax Policy: Republicans versus Democrats

Oliver Wendell Holmes said “taxes are the price we pay to live in a civilized society.” Both Democrats and Republicans desire the same things: a civilized society and a healthy economy. However, neither party can agree on what defines a civilized society or which path best leads to a healthy economy. The U.S. national debt is \$20 trillion dollars and growing, yet the only thing we might agree on is that something has gone wrong. Regardless of which party or candidate you support, each party’s agenda will affect your income and taxes in various ways.

To explore the divide, let’s examine excerpts from each party’s National Platform from our most recent presidential election (2016).

Republicans

“We are the party of a growing economy that gives everyone a chance in life, an opportunity to learn, work, and realize the prosperity freedom makes possible.”

“Government cannot create prosperity, though government can limit or destroy it. Prosperity is the product of self-discipline, enterprise, saving and investment by individuals, but it is not an end in itself. Prosperity provides the means by which citizens and their families can maintain their independence from government, raise their children by their own values, practice their faith, and build communities of cooperation and mutual respect.”

“Republicans consider the establishment of a pro-growth tax code a moral imperative. More than any other public policy, the way government raises revenue—how much, at what rates, under what circumstances, from whom, and for whom—

of taxes, Democrats will claw back tax breaks for companies that ship jobs overseas, eliminate tax breaks for big oil and gas companies, and crack down on inversions and other methods companies use to dodge their tax responsibilities. . . We will then use the revenue raised from fixing the corporate tax code to reinvest in rebuilding America and ensuring economic growth that will lead to millions of good-paying jobs.”

“We will ensure those at the top contribute to our country’s future by establishing a multi-millionaire surtax to ensure millionaires and billionaires pay their fair share. In addition, we will shut down the “private tax system” for those at the top, immediately close egregious loopholes like those enjoyed by hedge fund managers, restore fair taxation on multimillion dollar estates, and ensure millionaires can no longer pay a lower rate than their secretaries. At a time of near-record corporate profits, slow wage growth, and rising costs, we need to offer tax relief to middle-class families—not those at the top.”

“We will offer tax relief to hard working, middle-class families for the cost squeeze they have faced for years from rising health care, childcare, education, and other expenses.” <https://www.democrats.org/party-platform#preamble>

Conclusion

Each party fundamentally believes the government should create/maintain cities and states that form a civilized society, and that government should foster a healthy economy. However, they choose very different paths to reach their objectives.

The Key Facts

The Key Facts provide quick synopses of the critical pieces of information presented throughout each chapter.

The **tax base** defines what is actually taxed and is usually expressed in monetary terms, whereas the **tax rate** determines the level of taxes imposed on the tax base and is usually expressed as a percentage. For example, a sales tax rate of 6 percent on a purchase of \$30 yields a tax of \$1.80 ($\$1.80 = \$30 \times .06$).

Federal, state, and local jurisdictions use a large variety of tax bases to collect tax. Some common tax bases (and related taxes) include taxable income (federal and state income taxes), purchases (sales tax), real estate values (real estate tax), and personal property values (personal property tax).

Different portions of a tax base may be taxed at different rates. A single tax applied to an entire base constitutes a flat tax. In the case of graduated taxes, the base is divided

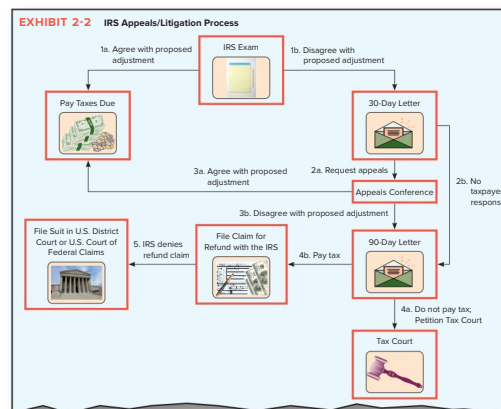
THE KEY FACTS

How to Calculate a Tax

- Tax = Tax base X Tax rate
- The tax base defines what is actually taxed and is usually expressed in monetary terms.
- The tax rate determines the level of taxes imposed

Exhibits

Today’s students are visual learners, and *McGraw-Hill’s Taxation* understands this student need by making use of clear and engaging charts, diagrams, and tabular demonstrations of key material.



“It is easily accessible to students as it is written in easy-to-understand language, and contains sufficient examples to illustrate complicated tax concepts and calculations.”

Machiavelli Chao
– University of California, Irvine: The Paul Merage School of Business

PRACTICE MAKES PERFECT WITH A

Summary

LO 2-1 Identify the filing requirements for income tax returns and the statute of limitations for assessment.

- All corporations must file a tax return annually regardless of their taxable income. Estates and trusts are required to file annual income tax returns if their gross income exceeds \$600. The filing requirements for individual taxpayers depend on the taxpayer's filing status, age, and gross income.
- Individual and C corporation tax returns (except for C corporations with a June 30 year-end) are due on the fifteenth day of the fourth month following year-end. For C corporations with a June 30 year-end, partnerships and S corporations, tax returns must be filed by the fifteenth day of the third month following the entity's fiscal year-end. Any taxpayer unable to file a tax return by the original due date can request an extension to file.
- For both amended tax returns filed by a taxpayer and proposed tax assessments by the IRS, the statute of limitations generally ends three years from the *later* of (1) the date the tax return was actually filed or (2) the tax return's original due date.

LO 2-2 Outline the IRS audit process, how returns are selected, the different types of audits, and what happens after the audit.

Summary

A unique feature of *McGraw-Hill's Taxation* is the end-of-chapter summary organized around learning objectives. Each objective has a brief, bullet-point summary that covers the major topics and concepts for that chapter, including references to critical exhibits and examples. All end-of-chapter material is tied to learning objectives.


Learning Objectives

Upon completing this chapter, you should be able to:

- LO 2-1** Identify the filing requirements for income tax returns and the statute of limitations for assessment.
- LO 2-2** Outline the IRS audit process, how returns are selected, the different types of audits, and what happens after the audit.
- LO 2-3** Evaluate the relative weights of the various tax law sources.
- LO 2-4** Describe the legislative process as it pertains to taxation.
- LO 2-5** Perform the basic steps in tax research.
- LO 2-6** Describe tax professional responsibilities in providing tax advice.
- LO 2-7** Identify taxpayer and tax professional penalties.

DISCUSSION QUESTIONS

Discussion Questions are available in **Connect**®.



- LO 2-1** 1. Name three factors that determine whether a taxpayer is required to file a tax return.
- LO 2-1** 2. Benita is concerned that she will not be able to complete her tax return by April 15. Can she request an extension to file her return? By what date must she do so? Assuming she requests an extension, what is the latest date that she could file her return this year without penalty?
- LO 2-1** 3. Agua Linda Inc. is a calendar-year corporation. What is the original due date for the corporate tax return? What happens if the original due date falls on a Saturday?
- LO 2-2** 4. Approximately what percentage of tax returns does the IRS audit? What are the implications of this number for the IRS's strategy in selecting returns for audit?

Discussion Questions

Discussion questions, now available in *Connect*, are provided for each of the major concepts in each chapter, providing students with an opportunity to review key parts of the chapter and answer evocative questions about what they have learned.

WIDE VARIETY OF ASSIGNMENT MATERIAL

Problems

Problems are designed to test the comprehension of more complex topics. Each problem at the end of the chapter is tied to one of that chapter's learning objectives, with multiple problems for critical topics.

PROBLEMS

Select problems are available in Connect®.

LO 2-1 43. Ahmed does not have enough cash on hand to pay his taxes. He was excited to hear that he can request an extension to file his tax return. Does this solve his problem? What are the ramifications if he doesn't pay his tax liability by April 15?

LO 2-1 44. Molto Stancha Corporation had zero earnings this fiscal year; in fact, it lost money. Must the corporation file a tax return?

Tax Forms Problems

Tax forms problems are a set of requirements included in the end-of-chapter material of the 2019 edition. These problems require students to complete a tax form (or part of a tax form), providing students with valuable experience and practice with filling out these forms. These requirements—and their relevant forms—are also included in *Connect*. Each tax form problem includes an icon to differentiate it from regular problems.

tax forms

LO 2-5 54. Shauna Coleman is single. She is employed as an architectural designer for Streamline Design (SD). Shauna wanted to determine her taxable income for this year. She correctly calculated her AGI. However, she wasn't sure how to compute the rest of her taxable income. She provided the following information with hopes that you could use it to determine her taxable income.

a) Shauna paid \$4,680 for medical expenses for care from a broken ankle. Also, Shauna's boyfriend, Blake, drove Shauna (in her car) a total of 115 miles to the doctor's office so she could receive care for her broken ankle.

b) Shauna paid a total of \$3,400 in health insurance premiums during the year (not through an exchange). SD did not reimburse any of this expense. Besides the

Research Problems

Research problems are special problems throughout the end-of-chapter assignment material. These require students to

do both basic and more complex research on topics outside of the scope of the book. Each research problem includes an icon to differentiate it from regular problems.

research

LO 2-5 72. Matt and Lori were divorced in 2016. Pursuant to the divorce decree Matt receives \$10,000 of alimony each month. Use an available tax service to determine if the alimony Matt receives is taxable. Would your answer change if Matt and Lori still live together?

LO 2-5 73. Shaun is a huge college football fan. In the past, he has always bought football tickets on the street from ticket scalpers. This year, he decided to join the university's ticket program, which requires a \$2,000 contribution to the university for the "right" to purchase tickets. Shaun will then pay \$400 per season ticket. Shaun

Planning Problems

Planning problems are another unique set of problems included in the end-of-chapter assignment material. These require students to test their tax planning skills after covering the chapter topics. Each planning problem includes an icon to differentiate it from regular problems.

planning

LO 2-2 57. The IRS recently completed an audit of Shea's tax return and assessed \$15,000 additional tax. Shea requested an appeals conference but was unable to settle the case at the conference. She is contemplating which trial court to choose to hear her case. Provide a recommendation based on the following alternative facts:

a) Shea resides in the 2nd Circuit, and the 2nd Circuit has recently ruled against the position Shea is litigating.

b) The Federal Circuit Court of Appeals has recently ruled in favor of Shea's position.

c) The issue being litigated involves a question of fact. Shea has a very appealing

Comprehensive and Tax Return Problems

Comprehensive and tax return problems address multiple concepts in a single problem. Comprehensive problems are ideal for cumulative topics; for this reason, they are located at the end of all chapters. In the end-of-book Appendix C, we include tax return problems that cover multiple chapters. **Additional tax return problems are also available in *Connect* and *Instructor Resource Center*.** These problems range from simple to complex and cover individual taxation, corporate taxation, partnership taxation, and S corporation taxation.

COMPREHENSIVE PROBLEMS

Select problems are available in Connect®.

tax forms

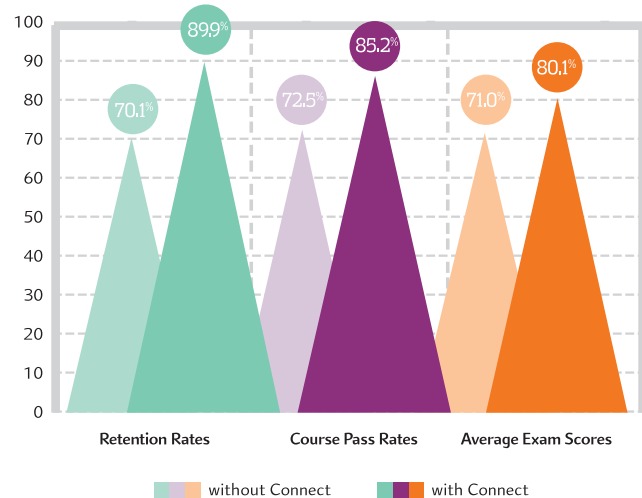
LO 2-2 54. Marc and Michelle are married and earned salaries this year of \$64,000 and \$12,000, respectively. In addition to their salaries, they received interest of \$350 from municipal bonds and \$500 from corporate bonds. Marc contributed \$2,500 to an individual retirement account, and Marc paid alimony to a prior spouse in the amount of \$1,500. Marc and Michelle have a 10-year-old son, Matthew, who lived with them throughout the entire year. Thus, Marc and Michelle are allowed to claim a \$2,000 child tax credit for Matthew. Marc and Michelle paid \$6,000 of expenditures that qualify as itemized deductions and they had a total of \$5,500 in federal income taxes withheld from their paychecks during the course of the year.

McGraw-Hill Connect® is a highly reliable, easy-to-use homework and learning management solution that utilizes learning science and award-winning adaptive tools to improve student results.

Homework and Adaptive Learning

- Connect's assignments help students contextualize what they've learned through application, so they can better understand the material and think critically.
- Connect will create a personalized study path customized to individual student needs through SmartBook®.
- SmartBook helps students study more efficiently by delivering an interactive reading experience through adaptive highlighting and review.

Connect's Impact on Retention Rates, Pass Rates, and Average Exam Scores



Using **Connect** improves retention rates by **19.8 percentage points**, passing rates by **12.7 percentage points**, and exam scores by **9.1 percentage points**.

73% of instructors who use **Connect** require it; instructor satisfaction **increases** by 28% when **Connect** is required.

Over **7 billion questions** have been answered, making McGraw-Hill Education products more intelligent, reliable, and precise.

Quality Content and Learning Resources

- Connect content is authored by the world's best subject matter experts, and is available to your class through a simple and intuitive interface.
- The Connect eBook makes it easy for students to access their reading material on smartphones and tablets. They can study on the go and don't need internet access to use the eBook as a reference, with full functionality.
- Multimedia content such as videos, simulations, and games drive student engagement and critical thinking skills.

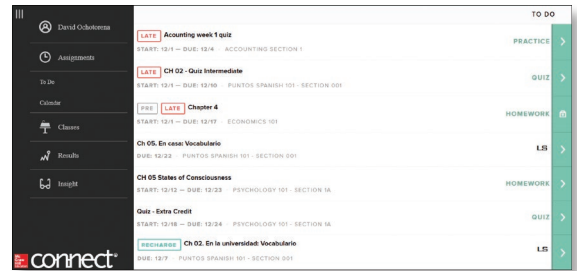


Robust Analytics and Reporting

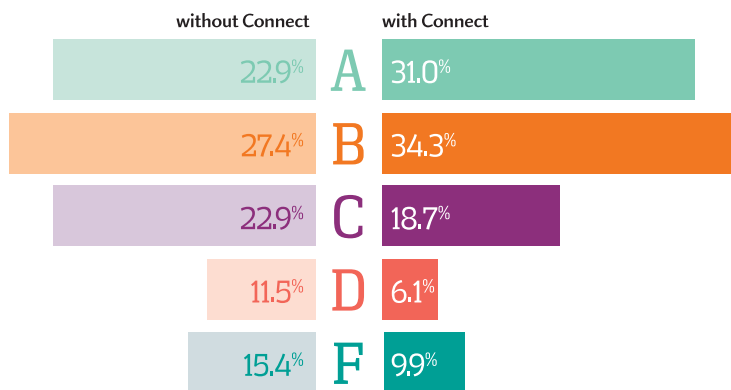
- Connect Insight® generates easy-to-read reports on individual students, the class as a whole, and on specific assignments.
- The Connect Insight dashboard delivers data on performance, study behavior, and effort. Instructors can quickly identify students who struggle and focus on material that the class has yet to master.
- Connect automatically grades assignments and quizzes, providing easy-to-read reports on individual and class performance.



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Impact on Final Course Grade Distribution



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As and **Bs** when they
use **Connect**.

Trusted Service and Support

- Connect integrates with your LMS to provide single sign-on and automatic syncing of grades. Integration with Blackboard®, D2L®, and Canvas also provides automatic syncing of the course calendar and assignment-level linking.
- Connect offers comprehensive service, support, and training throughout every phase of your implementation.
- If you're looking for some guidance on how to use Connect, or want to learn tips and tricks from super users, you can find tutorials as you work. Our Digital Faculty Consultants and Student Ambassadors offer insight into how to achieve the results you want with Connect.

DIGITAL LEARNING ASSETS TO IMPROVE STUDENT OUTCOMES

“The quality of the online materials in Connect and Learnsmart are market-leading and unmatched in the tax arena.”

Jason W. Stanfield
– Ball State University

Connect helps students learn more efficiently by providing feedback and practice material when they need it, where they need it. Connect grades homework automatically and gives immediate feedback on any questions students may have missed. The extensive assignable, gradable end-of-chapter content includes problems, comprehensive problems (available as auto-graded tax forms), and discussion questions. Also, select questions have been redesigned to test students’ knowledge more fully. They now include tables for students to work through rather than requiring that all calculations be done offline.

Through November, Tex has received gross income of \$120,000. For December, Tex is considering whether to accept one more work engagement for the year. Engagement 1 will generate \$7,000 of revenue at a cost of \$4,000, which is deductible for AGI. In contrast, engagement 2 will generate \$7,000 of revenue at a cost of \$3,000, which is deductible as an itemized deduction. Tex files as a single taxpayer. (use the [tax rate schedules](#).)

- a. Calculate Tex’s taxable income assuming he chooses engagement 1 and assuming he chooses engagement 2. Assume he has no itemized deductions other than those generated by engagement 2.

Description	Engagement 1	Engagement 2
(1) Gross income before new work engagement	\$ 120,000	\$ 120,000
(2) Income from engagement	7,000	7,000
(3) Additional for AGI deduction	(4,000)	
(4) Adjusted gross income	\$ 123,000	\$ 127,000
(5) Greater		
(6) Greater of itemized deductions or standard deduction		

Auto-Graded Tax Forms

The auto-graded **Tax Forms** in Connect provide a much-improved student experience when solving the tax-form based problems. The tax form simulation allows students to apply tax concepts by completing the actual tax forms online with automatic feedback and grading for both students and instructors.

1040 for a couple Married Filing Jointly.

1040 PG1 | 1040 PG2

Form 1040 Department of the Treasury—Internal Revenue Service (99) **2016** OMB No. 1545-0074 IRS Use Only - Do not write in this space.

U.S. Individual Income Tax Return

For the year Jan. 1–Dec. 31, 2016, or other tax year beginning 2016, ending , 20 See separate instructions.

Your first name and initial Last name Your social security number
 Marc 111-22-3333

If a joint return, spouse's first name and initial Last name Spouse's social security number
 Michelle 222-33-4444

Home address (number and street). If you have a P.O. box, see instructions. Apt. no. **▲ Make sure the SSN(s) above and on line 6c are correct.**
 19010 N.W. 135th Street

Foreign postal code Presidential Election Campaign
 Check here if you, or your spouse if filing jointly, want \$3 to go to this fund. Checking a box below will not change your tax or refund.
 You Spouse

Head of household (with qualifying person). If the qualifying person is a child but not your dependent, enter this child's name here. *
 Qualifying widow(er) with dependent child

Married filing separately. Enter spouses' SSN above and full name here. *

< Prev 1 of 1 Next >

Guided Examples

The **Guided Examples**, or “hint” videos, in Connect provide a narrated, animated, step-by-step walk-through of select problems similar to those assigned. These short presentations can be turned on or off by instructors and provide reinforcement when students need it most.

TaxACT®

TaxAct Professional Taxation can be packaged with tax software from McGraw-Hill's Professional Taxation can be packaged with tax software from TaxACT, one of the leading preparation software companies in the market today. The 2017 edition includes availability of both *Individuals* and *Business Entities* software, including the 1040 Forms and TaxACT Preparer's Business 3-Pack (with Forms 1065, 1120, and 1120S).

Please note, TaxACT is only compatible with PCs and not Macs. However, we offer easy-to-complete licensing agreement templates that are accessible within Connect and the Instructor Resources Center to enable school computer labs to download the software onto campus hardware for free.

Roger's CPA

ROGER | CPA Review

McGraw-Hill Education has partnered with Roger CPA Review, a global leader in CPA Exam preparation, to provide students a smooth transition from the accounting classroom to successful completion of the CPA Exam. While many aspiring accountants wait until they have completed their academic studies to begin preparing for the CPA Exam, research shows that those who become familiar with exam content earlier in the process have a stronger chance of successfully passing the CPA Exam.

Accordingly, students using these McGraw-Hill materials will have access to sample CPA Exam multiple-choice questions and Task-based Simulations from Roger CPA Review, with expert-written explanations and solutions. All questions are either directly from the AICPA or are modeled on AICPA questions that appear in the exam. Task-based Simulations are delivered via the Roger CPA Review platform, which mirrors the look, feel, and functionality of the actual exam.

McGraw-Hill Education and Roger CPA Review are dedicated to supporting every accounting student along their journey, ultimately helping them achieve career success in the accounting profession. For more information about the full Roger CPA Review program, exam requirements, and exam content, visit www.rogercpareview.com.

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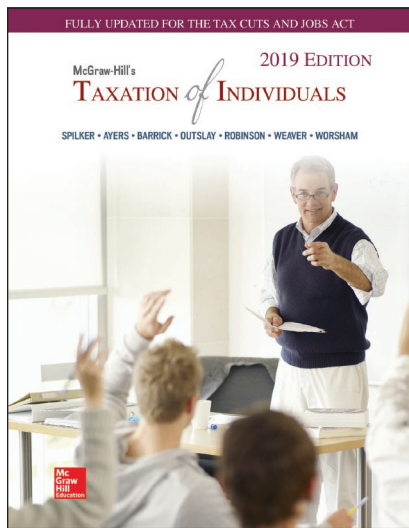
Alfio, who is single and has no dependents, was planning on spending the weekend repairing his car. On Friday, Alfio's employer called and offered him \$700 in overtime pay if he would agree to work over the weekend. Alfio could get his car repaired over the weekend at FixMyCar for \$500. If Alfio works over the weekend, he will have to pay the \$500 to have his car repaired but he will earn \$700. Assume Alfio pays tax at a flat 20 percent rate.

b. If the cost of repairs is deductible:

Description	Amount
Overtime Pay	\$700
Cost of Repairs	\$500
Taxable Income	\$200
Taxes on Pay	\$ 40
Net Income	\$160

So, he's \$160 better off by working and having his car repaired by FixMyCar.

Four Volumes to Fit



McGraw-Hill's Taxation of Individuals is organized to emphasize topics that are most important to undergraduates taking their first tax course. The first three chapters provide an introduction to taxation and then carefully guide students through tax research and tax planning. Part II discusses the fundamental elements of individual income tax, starting with the tax formula in Chapter 4 and then proceeding to more discussion on income, deductions, investments, and computing tax liabilities in Chapters 5–8. Part III then discusses tax issues associated with business-related activities. Specifically, this part addresses business income and deductions, accounting methods, and tax consequences associated with purchasing assets and property dispositions (sales, trades, or other dispositions). Part IV is unique among tax textbooks; this section combines related tax issues for compensation, retirement savings, and home ownership.

Part I: Introduction to Taxation

1. An Introduction to Tax
2. Tax Compliance, the IRS, and Tax Authorities
3. Tax Planning Strategies and Related Limitations

Part II: Basic Individual Taxation

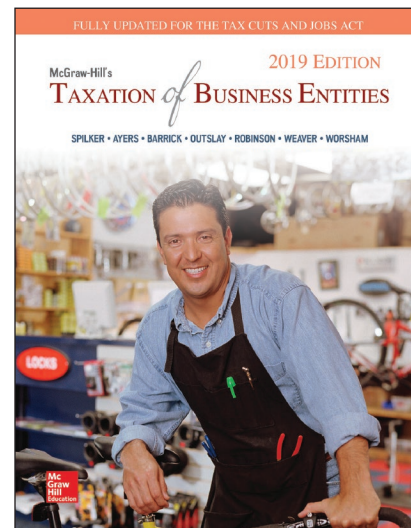
4. Individual Income Tax Overview, Dependents, and Filing Status
5. Gross Income and Exclusions
6. Individual Deductions
7. Investments
8. Individual Income Tax Computation and Tax Credits

Part III: Business-Related Transactions

9. Business Income, Deductions, and Accounting Methods
10. Property Acquisition and Cost Recovery
11. Property Dispositions

Part IV: Specialized Topics

12. Compensation
13. Retirement Savings and Deferred Compensation
14. Tax Consequences of Home Ownership



McGraw-Hill's Taxation of Business Entities begins with the process for determining gross income and deductions for businesses, and the tax consequences associated with purchasing assets and property dispositions (sales, trades, or other dispositions). Part II provides a comprehensive overview of entities and the formation, reorganization, and liquidation of corporations. Unique to this series is a complete chapter on accounting for income taxes, which provides a primer on the basics of calculating the income tax provision. Included in the narrative is a discussion of temporary and permanent differences and their impact on a company's book "effective tax rate." Part III provides a detailed discussion of partnerships and S corporations. The last part of the book covers state and local taxation, multinational taxation, and transfer taxes and wealth planning.

Part I: Business-Related Transactions

1. Business Income, Deductions, and Accounting Methods
2. Property Acquisition and Cost Recovery
3. Property Dispositions

Part II: Entity Overview and Taxation of C Corporations

4. Entities Overview
5. Corporate Operations
6. Accounting for Income Taxes
7. Corporate Taxation: Nonliquidating Distributions
8. Corporate Formation, Reorganization, and Liquidation

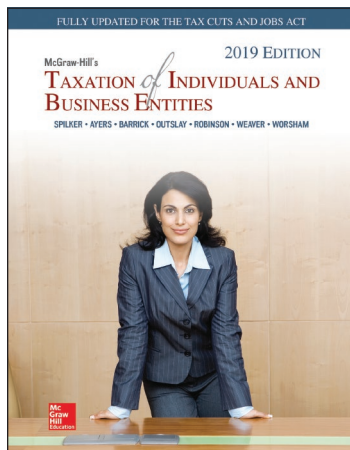
Part III: Taxation of Flow-Through Entities

9. Forming and Operating Partnerships
10. Dispositions of Partnership Interests and Partnership Distributions
11. S Corporations

Part IV: Multijurisdictional Taxation and Transfer Taxes

12. State and Local Taxes
13. The U.S. Taxation of Multinational Transactions
14. Transfer Taxes and Wealth Planning

Four Course Approaches



McGraw-Hill's Taxation of Individuals and Business Entities covers all chapters included in the two split volumes in one convenient volume. See Table of Contents.

Part I: Introduction to Taxation

1. An Introduction to Tax
2. Tax Compliance, the IRS, and Tax Authorities
3. Tax Planning Strategies and Related Limitations

Part II: Basic Individual Taxation

4. Individual Income Tax Overview, Dependents, and Filing Status
5. Gross Income and Exclusions
6. Individual Deductions
7. Investments
8. Individual Income Tax Computation and Tax Credits

Part III: Business-Related Transactions

9. Business Income, Deductions, and Accounting Methods
10. Property Acquisition and Cost Recovery
11. Property Dispositions

Part IV: Specialized Topics

12. Compensation
13. Retirement Savings and Deferred Compensation
14. Tax Consequences of Home Ownership

Part V: Entity Overview and Taxation of C Corporations

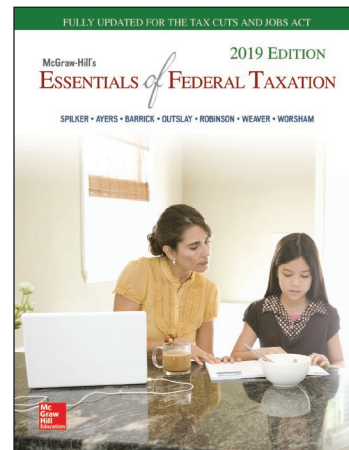
15. Entities Overview
16. Corporate Operations
17. Accounting for Income Taxes
18. Corporate Taxation: Nonliquidating Distributions
19. Corporate Formation, Reorganization, and Liquidation

Part VI: Taxation of Flow-Through Entities

20. Forming and Operating Partnerships
21. Dispositions of Partnership Interests and Partnership Distributions
22. S Corporations

Part VII: Multijurisdictional Taxation and Transfer Taxes

23. State and Local Taxes
24. The U.S. Taxation of Multinational Transactions
25. Transfer Taxes and Wealth Planning



McGraw-Hill's Essentials of Federal Taxation is designed for a one-semester course, covering the basics of taxation of individuals and business entities. To facilitate a one-semester course, *McGraw-Hill's Essentials of Federal Taxation* folds the key topics from the investments, compensation, retirement savings, and home ownership chapters in *Taxation of Individuals* into three individual taxation chapters that discuss gross income and exclusions, *for* AGI deductions, and *from* AGI deductions, respectively. The essentials volume also includes a two-chapter C corporation sequence that uses a life-cycle approach covering corporate formations and then corporate operations in the first chapter and nonliquidating and liquidating corporate distributions in the second chapter. This volume is perfect for those teaching a one-semester course and for those who struggle to get through the 25-chapter comprehensive volume.

Part I: Introduction to Taxation

1. An Introduction to Tax
2. Tax Compliance, the IRS, and Tax Authorities
3. Tax Planning Strategies and Related Limitations

Part II: Individual Taxation

4. Individual Income Tax Overview, Dependents, and Filing Status
5. Gross Income and Exclusions
6. Individual *For* AGI Deductions
7. Individual *From* AGI Deductions
8. Individual Income Tax Computation and Tax Credits

Part III: Business-Related Transactions

9. Business Income, Deductions, and Accounting Methods
10. Property Acquisition and Cost Recovery
11. Property Dispositions

Part IV: Entity Overview and Taxation of C Corporations

12. Entities Overview
13. Corporate Formations and Operations
14. Corporate Nonliquidating and Liquidating Distributions

Part V: Taxation of Flow-Through Entities

15. Forming and Operating Partnerships
16. Dispositions of Partnership Interests and Partnership Distributions
17. S Corporations

SUPPLEMENTS FOR INSTRUCTORS

Assurance of Learning Ready

Many educational institutions today are focused on the notion of *assurance of learning*, an important element of many accreditation standards. *McGraw-Hill's Taxation* is designed specifically to support your assurance of learning initiatives with a simple, yet powerful, solution.

Each chapter in the book begins with a list of numbered learning objectives, which appear throughout the chapter as well as in the end-of-chapter assignments. Every test bank question for *McGraw-Hill's Taxation* maps to a specific chapter learning objective in the textbook. Each test bank question also identifies topic area, level of difficulty, Bloom's Taxonomy level, and AICPA and AACSB skill area.

AACSB Statement

McGraw-Hill Education is a proud corporate member of AACSB International. Understanding the importance and value of AACSB accreditation, *McGraw-Hill's Taxation* recognizes the curricula guidelines detailed in the AACSB standards for business accreditation by connecting selected questions in the text and the test bank to the general knowledge and skill guidelines in the revised AACSB standards.

The statements contained in *McGraw-Hill's Taxation* are provided only as a guide for the users of this textbook. The AACSB leaves content coverage and assessment within the purview of individual schools, the mission of the school, and the faculty. While *McGraw-Hill's Taxation* and the teaching package make no claim of any specific AACSB qualification or evaluation, we have, within the text and test bank, labeled selected questions according to the eight general knowledge and skill areas.

TestGen

TestGen is a complete, state-of-the-art test generator and editing application software that allows instructors to quickly and easily select test items from McGraw Hill's TestGen testbank content and to organize, edit, and customize the questions and answers to rapidly generate paper tests. Questions can include stylized text, symbols, graphics, and equations that are inserted directly into questions using built-in mathematical templates. With both quick-and-simple test creation and flexible and robust editing tools, TestGen is a test generator system for today's educators.

A HEARTFELT THANKS TO THE MANY COLLEAGUES WHO SHAPED THIS BOOK

The version of the book you are reading would not be the same book without the valuable suggestions, keen insights, and constructive criticisms of the list of reviewers below. Each professor listed here contributed in substantive ways to the organization of chapters, coverage of topics, and use of pedagogy. We are grateful to them for taking the time to read chapters or attend reviewer conferences, focus groups, and symposia in support of the development for the book:

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James Yang, *Montclair State University*
Scott Yetmar, *Cleveland State University*
Charlie Yuan, *Elizabeth City State University*
Xiaoli Yuan, *Elizabeth City State University*
Mingjun Zhou, *DePaul University*

Acknowledgments

We would like to thank the many talented people who made valuable contributions to the creation of this tenth edition. William A. Padley of Madison Area Technical College, Deanna Sharpe of the University of Missouri–Columbia, and Troy Lewis of Brigham Young University checked the page proofs and solutions manual for accuracy; we greatly appreciate the hours they spent checking tax forms and double-checking our calculations throughout the book. Teressa Farough, Troy Lewis of Brigham Young University, Lara Kessler of Grand Valley State University and Eric McLimore accuracy-checked the test bank. Thank you to Troy Lewis, Monika Turek, and Jason Stanfield for your contributions to the Smart-book revision for this edition. Special thanks to Troy Lewis of Brigham Young University for his sharp eye and valuable feedback throughout the revision process. Thanks as well to Marilyn Isaacks from Agate Publishing for managing the supplement process. Finally, William A. Padley of Madison Area Technical College, Deanna Sharpe of the University of Missouri–Columbia, and Vivian Paige of Old Dominion University greatly contributed to the accuracy of McGraw-Hill’s *Connect* for the 2019 edition.

We also appreciate the expert attention given to this project by the staff at McGraw-Hill Education, especially Tim Vertovec, Managing Director; Kathleen Klehr, Executive Portfolio Manager; Danielle Andries, Senior Product Developer; Erin Quinones, Product Developer; Lori Koettters, Brian Nacik, and Jill Eccher, Content Project Managers; Matt Backhaus, Designer; Natalie King, Marketing Director; Zach Rudin, Marketing Manager; and Sue Culbertson, Senior Buyer.

Changes in *Taxation of Individuals and Business Entities*, 2019 Edition

For the 2019 edition of McGraw-Hill's *Taxation of Individuals and Business Entities*, many changes were made in response to feedback from reviewers and focus group participants:

- All **tax forms** have been **updated for the latest available tax form as of March 2018**. In addition, **chapter content** throughout the text has been **updated to reflect tax law changes through March 2018**.

Other notable changes in the 2019 edition include:

Chapter 1

- Updated tax rates for 2018 and Examples 1-3 through 1-7.
- Updated Social Security Wage base for 2018.
- Updated unified Tax Credit for 2018.
- Deleted Taxes in the Real World: Affordable Care Act amount for 2018 which was repealed.
- Updated Taxes in the Real World: National Debt for current debt limit.
- Updated Exhibit 1-4 for 2017 Federal revenues by source from Treasury.
- Updated Exhibit 1-5 for 2017 State revenues by source from U.S. Census.

Chapter 2

- Updated gross income thresholds by filing status for 2018 for new tax law changes.
- Updated discussion of filing requirements for married taxpayers for new tax law changes.
- Revised discussion of Preparer Tax Identification Numbers (PTIN).
- Revised end of chapter problems to reflect tax law changes.

Chapter 3

- Updated tax rates for 2018.
- Added Taxes in the Real World: Tax Reform and Tax Planning.
- Updated Exhibit 3-3 for new tax rates post TCJA.
- Modified Examples 3-7 and 3-8 to reflect changes in tax planning from TCJA.

Chapter 4

- Streamlined Learning Objective 4-1.
- Edited Learning Objective 4-2 to emphasize dependents instead of exemptions.
- Updated Exhibit 4-1 to reflect changes in the Individual Tax Formula

- Updated Exhibit 4-7 to reflect standard deduction amounts for 2018.
- Edited Exhibit 4-5 to remove moving expenses.
- Changed Example 4-2 to replace moving expenses with IRA contribution.
- Updated discussion of child tax credits to reflect new law.
- Updated examples to reflect changes in child tax credit under new tax law.
- Revised section on personal and dependency exemptions to emphasize who qualifies as a dependent of the taxpayer.
- Revised discussion of why determining filing status is important.
- Revised filing status discussion to emphasize claiming a dependent rather than claiming an exemption for a dependent.
- Edited flowcharts in appendices to emphasize claiming a dependent rather than claiming an exemption for a dependent.
- Added two new discussion questions to address questions relating to the new tax law.
- Deleted one problem dealing with dependency exemptions.
- Edited approximately 10 percent of the problems to reflect changes in the tax law allowing the deduction for qualified business income or dependency exemptions.
- Updated tax rates for 2018.
- Updated tax forms from 2016 to 2017 forms.

Chapter 5

- Revised discussion of claim of right doctrine for individuals required to repay compensation for tax law changes.
- Updated discussion of alimony for tax law changes.
- Updated discussion of employee awards for length of service or safety awards for tax law changes.
- Clarified discussion of the deductibility of gambling expenses for tax law changes.
- Updated discussion of discharge of indebtedness for tax law changes.
- Revised discussion of fringe benefits and moving expenses for tax law changes.
- Added a discussion of accountable plan reimbursements.

- Updated for 2018 amounts for Flexible Spending Account contributions.
- Revised discussion of Section 529 plans for tax law changes.
- Added Taxes in the Real World on the taxation of prizes.
- Updated for 2018 foreign income exclusion amounts.
- Updated for annual gift tax exclusion and unified tax credit for 2018.
- Revised discussion of athletic scholarships.
- Updated U.S. Series EE Bond interest income exclusion for 2018.
- Updated tax forms from 2016 to 2017 forms.
- Updated end of chapter problems for tax law changes

Chapter 6

- Revised discussion of deductibility of business versus investment related expenses under for tax law changes.
- Revised Exhibit 6-1: Individual Business and Investment Related Deductions for AGI, from AGI, and Not Deductible.
- Added discussion for new excess business loss limitation.
- Revised discussion of moving expenses for tax law changes.
- Revised discussion of alimony deduction for tax law changes.
- Revised discussion of deduction for interest on qualified education loan for tax law changes.
- Eliminate discussion of expired deduction for qualified education expenses.
- Updated AGI floor for medical expense itemized deduction for tax law change.
- Updated mileage rate for medical expense itemized deduction for 2018.
- Added discussion on new cap on itemized deductions for taxes.
- Revised discussion of mortgage interest deduction to reflect new cap on acquisition indebtedness and non-deductibility of interest on home-equity indebtedness.
- Revised discussion of investment interest expense deduction for tax law change that eliminates the deduction for investment expenses as itemized deductions.
- Revised discussion of charitable contributions for new 60 percent AGI limit for cash contributions to public charities and private operating foundations.
- Revised Exhibit 6-8: Summary of Charitable Contributions Limitation Rules.
- Revised discussion of casualty and theft losses on personal-use assets for tax law changes.
- Revised discussion of miscellaneous itemized deductions to reflect tax law changes that eliminated these

deductions subject to 2 percent AGI floor (employee business expenses, tax preparation fees, hobby expenses, investment expenses)

- Eliminated discussion of itemized deduction and personal exemption phase-outs repealed by tax law changes.
- Updated standard deduction amounts for tax law changes.
- Eliminated discussion of personal and dependency exemptions repealed by tax law changes.
- Added discussion for new deduction for qualified business income.
- Updated tax forms from 2016 to 2017 forms.
- Substantially revised end of chapter problems for tax law changes.

Chapter 7

- Added Taxes in the Real World: So You Want to Invest in Bitcoin.
- Updated tax rates in all examples and problems for 2018.
- Revised discussion about when qualified dividends are taxed at 0, 15, or 20 percent based on TCJA changes.
- Modified definition of capital assets to exclude self-created patents, inventions, models or designs, and secret formulas.
- Updated Exhibit 7-3.
- Revised discussion about how taxpayers determine whether capital gains are taxed at 0, 15, or 20 percent.
- Added new key terms: maximum zero rate amount and maximum 15-percent rate amount.
- Added new Exhibit 7-3 to illustrate maximum zero rate amount and maximum 15-percent rate amounts by filing status and income.
- Updated examples for changes in capital gains rate thresholds.
- Clarified footnote 26 to reflect the requirement to add back seven percent of excluded §1202 gain for AMT purposes.
- Substantially revised the method for calculating tax liability on net capital gains and related example 7-9.
- Revised discussion on investment expenses and investment interest expense.
- Updated note on cost basis required to be reported by brokers.
- Added new discussion question regarding sale of passive activity.
- Updated tax forms from 2016 to 2017 forms.

Chapter 8

- Updated tax rate schedules to reflect tax law changes.
- Updated discussion of marriage penalty or benefit for tax law changes.

- Revised discussion of kiddie tax for tax law changes.
- Revised discussion of the tax calculation for preferentially taxed capital gains and dividends for tax law changes.
- Updated AMT discussion for new tax law changes related to adjustments, exemption amounts, and phase-out of exemptions.
- Updated AMT tax rate schedule for 2018.
- Updated Social Security Tax wage base and Self-Employment Tax base for 2018.
- Revised discussion of Medicare and additional Medicare tax.
- Updated discussion of child tax credit for tax law changes.
- Updated Lifetime Learning Credit phase-out for 2018.
- Updated discussion of education credits for expiration of the deduction for qualified education expenses.
- Updated Earned Income Credit amounts for 2018.
- Updated tax forms from 2016 to 2017 forms.
- Revised end of chapter problems for tax law changes.

Chapter 9

- Introduction was updated and the learning objectives were consolidated.
- Revised descriptions of deductions to reflect changes in the Tax Cuts and Jobs Act.
- Revised descriptions of general limitations on business deductions to reflect changes in the Tax Cuts and Jobs Act.
- Added text description and example of new business interest limitation.
- Revised text discussion of limitations on business deductions for meals and entertainment.
- Revised examples to reflect changes in the Tax Cuts and Jobs Act.
- Revised examples and text discussion for updated 2018 mileage rates.
- Added new TIRW to describe application of substantiation rules and the Cohan rule.
- Deleted discussion and illustration of domestic manufacturing deduction eliminated in the Tax Cuts and Jobs Act.
- Revised text description, examples, and Exhibit 9-2 to reflect changes in casualty loss deductions in the Tax Cuts and Jobs Act.
- Revised footnotes and added example of 52-53 week year.
- Revised text descriptions of cash method, UNICAP, and inventory accounting to reflect changes in the Tax Cuts and Jobs Act.
- Revised accounting for advanced payments of revenue to reflect accounting method changes in the Tax Cuts and Jobs Act.

- Revised accounting method changes to reflect new provisions in the Tax Cuts and Jobs Act updated dates in examples.
- Revised Exhibit 9-6 for changes in solutions due to accounting method changes in the Tax Cuts and Jobs Act.
- Eliminated discussion questions on domestic manufacturing deduction and added new discussion questions about business interest limitation.
- Revised discussion questions to reflect accounting method changes in the Tax Cuts and Jobs Act.
- Eliminated problems on domestic manufacturing deduction and added new problems with business interest limitation.
- Revised problems to reflect accounting method changes in the Tax Cuts and Jobs Act.

Chapter 10

- Modified story line to better apply to changes in tax law.
- Updated all examples for new purchase price on Teton's assets.
- Updated Exhibit 10-2 for Weyerhaeuser's 2016 assets.
- Updated tax rates for 2018.
- Updated footnote 2 relating to depreciation allowed or allowable.
- Added new footnote to explain the opportunity to expense new roofs post TCJA.
- Added new preface to the depreciation section to explain impact of TCJA and under what conditions MACRS may be relevant.
- Moved the discussion about mid-quarter convention to new Appendix B.
- Added discussion to explain changes to qualified improvement property.
- Revised Example 10-7 (old 10-12) to include depreciation for two years on real property.
- Revised section on §179 amounts to reflect the larger 2018 amounts post-TCJA.
- Added footnote relating to definition of qualified real property for purposes of §179.
- Updated Examples 10-9 through 10-12 (old Examples 10-14 through 10-17) for 2018 §179 amounts.
- Substantially revised bonus depreciation section to include TCJA changes in percentages and qualified property.
- Added new Exhibit 10-8 to illustrate Bonus Depreciation Percentages.
- Added bonus depreciation Example 10-13.
- Revised listed property discussion to reflect removal of computer equipment as listed property.
- Updated discussion and Exhibit 10-9 (old 10-8) relating to automobile depreciation limits.

- Updated examples in listed property section to reflect TCJA changes.
- Added new discussion about the use of §179 for automobiles.
- Added new discussion and examples about the interaction of bonus depreciation and the automobile depreciation limitations. Includes new discussion of method for calculating depreciation on automobiles after year 1 when 100 percent bonus depreciation is taken.
- Added Taxes in the Real World: Cost Segregation.
- Updated Exhibit 10-10 (old 10-9) to reflect Teton's use of bonus depreciation in addition to §179 and MACRS for two years of asset acquisitions.
- Updated tax forms from 2016 to 2017 forms.
- Added new footnote 64 to describe treatment of R&D costs after 2021.
- Updated and revised end-of-chapter problems for §179 amounts and bonus depreciation rules post-TCJA.

Chapter 11

- Modified story line to better apply to changes in tax law
- Updated examples for new purchase price on Teton's assets.
- Updated Exhibit 11-4 for changes to capital gains threshold amounts.
- Added discussion about how changes to depreciation from TCJA might affect dispositions.
- Updated Exhibit 11-6 for changes to Teton's assets.
- Modified discussion on like-kind exchanges to reflect application to real property only.
- Modified Examples 11-15, 11-16, and 11-17 for like-kind exchanges.
- Updated discussion for involuntary conversion when contrasting qualified property to like-kind exchanges.
- Updated like-kind exchange EOC problems.
- Updated tax rates for 2018.
- Updated tax forms from 2016 to 2017 forms.

Chapter 12

- Updated qualified transportation fringe benefit amounts for 2018.
- Updated Section 163(m) limitation on executive compensation.
- Updated 70 percent of examples for change in corporate tax rates.
- Updated tax forms to 2017.
- Inserted new discussion of qualified equity grants.
- Updated Taxes in the Real World for 2017 proxy statement information.
- Updated nontaxable fringe benefit section for changes in qualified moving expenses.

- Updated 50 percent of end of chapter problems for tax law changes.

Chapter 13

- Streamlined wording in Learning Objectives 13-4 and 13-5.
- Changed marginal tax rates in storyline to reflect tax rate brackets effective for 2018.
- Updated footnote 1 to reflect the 2017 OASDI Trustees report.
- Updated inflation adjusted limits for defined benefit plans, defined contribution plans, and individually managed plans.
- Updated Exhibit 13-6 to reflect the most recent proxy statement for Coca-Cola Company.
- Revised discussion of employer issues for deferred compensation to indicate that employers can no longer use deferred compensation to circumvent the \$1,000,000 compensation deduction limitation under §162(m).
- Removed old discussion question 31 dealing with deferred compensation and the §162(m) limitation.
- Revised discussion in IRA section to use modified AGI rather than AGI when describing deduction and contribution limitations.
- Updated flowcharts in appendices to reflect modified AGI rather than AGI when describing IRA deduction and contribution limitations.
- Updated modified AGI phase-out thresholds for deductible contributions to traditional IRAs and contributions to Roth IRAs.
- Added discussion question comparing modified AGI and AGI.
- Edited marginal tax rates in problems to reflect tax rate schedule under new tax law.
- Modified Taxes in the Real World relating to Roth and traditional retirement savings vehicles to ask how new tax laws might affect this choice for taxpayers.
- Updated calculations for limits on self-employed retirement accounts to reflect updated 2018 social security wage base limitation.
- Updated Saver's credit information for 2018.
- Added an explanation requirement to Discussion Question 8.

Chapter 14

- Streamlined Learning Objectives 14-2, 14-5, and 14-6.
- Revised LO 14-3 to emphasize home mortgage interest deduction.
- Revised storyline summary information to reflect higher income for taxpayers and new marginal tax rate consistent with 2018 tax rate brackets.
- Streamlined introductory paragraph to the chapter.