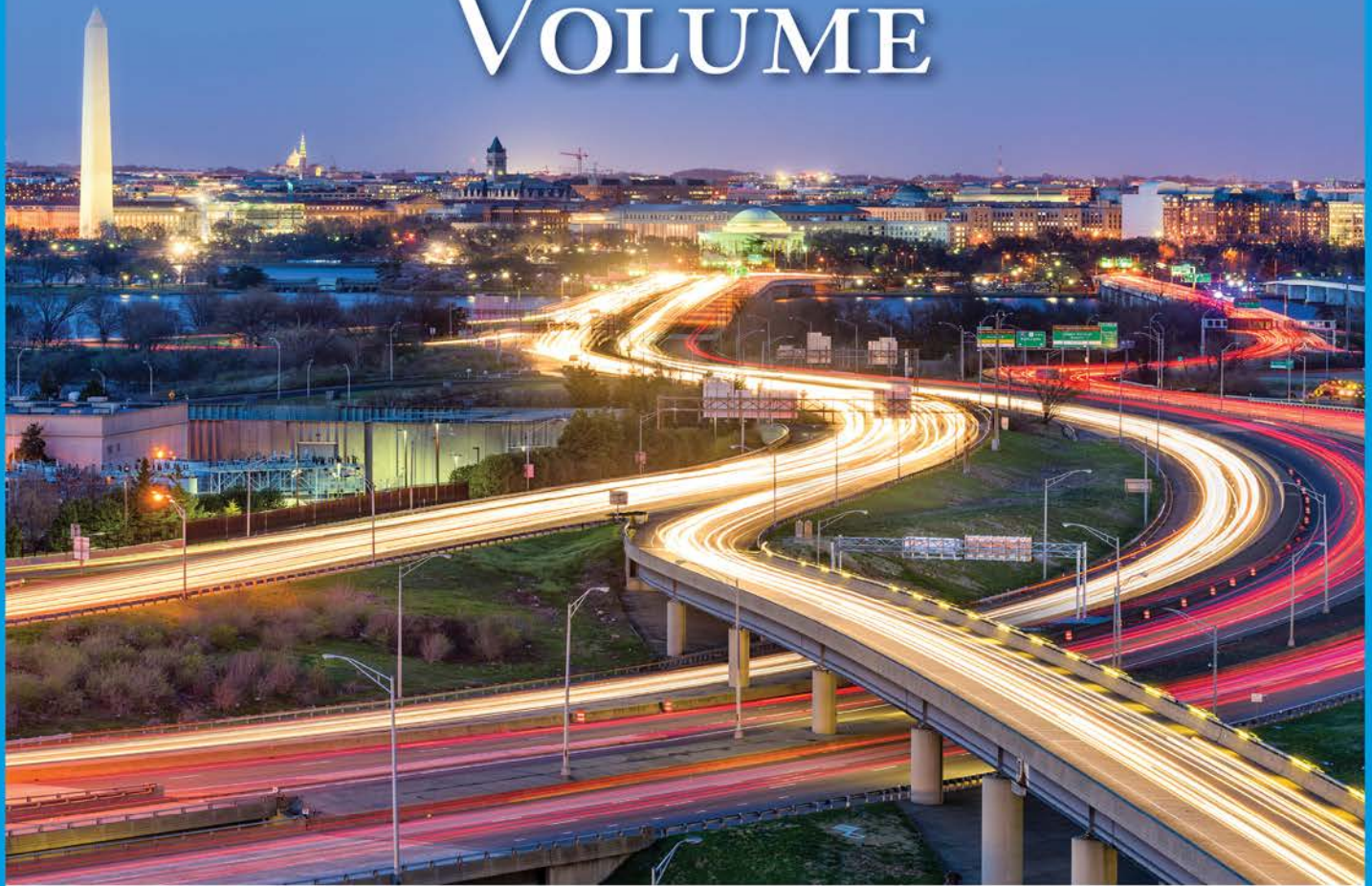




SOUTH-WESTERN
FEDERAL TAXATION

COMPREHENSIVE VOLUME



INCLUDED:



Maloney • Raabe
Young • Nellen
Hoffman

2020

2018 Tax Rate Schedules

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

2019 Tax Rate Schedules

Single—Schedule X				Head of household—Schedule Z			
If taxable income is: Over—	But not over—	The tax is:	of the amount over—	If taxable income is: Over—	But not over—	The tax is:	of the amount over—
\$ 0	\$ 9,700	.....10%	\$ 0	\$ 0	\$ 13,850	.....10%	\$ 0
9,700	39,475	\$ 970.00 + 12%	9,700	13,850	52,850	\$ 1,385.00 + 12%	13,850
39,475	84,200	4,543.00 + 22%	39,475	52,850	84,200	6,065.00 + 22%	52,850
84,200	160,725	14,382.50 + 24%	84,200	84,200	160,700	12,962.00 + 24%	84,200
160,725	204,100	32,748.50 + 32%	160,725	160,700	204,100	31,322.00 + 32%	160,700
204,100	510,300	46,628.50 + 35%	204,100	204,100	510,300	45,210.00 + 35%	204,100
510,300	.....	153,798.50 + 37%	510,300	510,300	.....	152,380.00 + 37%	510,300
Married filing jointly or Qualifying widow(er)—Schedule Y-1				Married filing separately—Schedule Y-2			
If taxable income is: Over—	But not over—	The tax is:	of the amount over—	If taxable income is: Over—	But not over—	The tax is:	of the amount over—
\$ 0	\$ 19,400	.....10%	\$ 0	\$ 0	\$ 9,700	.....10%	\$ 0
19,400	78,950	\$ 1,940.00 + 12%	19,400	9,700	39,475	\$ 970.00 + 12%	9,700
78,950	168,400	9,086.00 + 22%	78,950	39,475	84,200	4,543.00 + 22%	39,475
168,400	321,450	28,765.00 + 24%	168,400	84,200	160,725	14,382.50 + 24%	84,200
321,450	408,200	65,497.00 + 32%	321,450	160,725	204,100	32,748.50 + 32%	160,725
408,200	612,350	93,257.00 + 35%	408,200	204,100	306,175	46,628.50 + 35%	204,100
612,350	.....	164,709.50 + 37%	612,350	306,175	.....	82,354.75 + 37%	306,175

Tax Formula for Individuals

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

*Exemption deductions are not allowed from 2018 through 2025.

**Only applies from 2018 through 2025.

Basic Standard Deduction Amounts

Filing Status	2018	2019
Single	\$12,000	\$12,200
Married, filing jointly	24,000	24,400
Surviving spouse	24,000	24,400
Head of household	18,000	18,350
Married, filing separately	12,000	12,200

Amount of Each Additional Standard Deduction

Filing Status	2018	2019
Single	\$1,600	\$1,650
Married, filing jointly	1,300	1,300
Surviving spouse	1,300	1,300
Head of household	1,600	1,650
Married, filing separately	1,300	1,300

Personal and Dependency Exemption*

2018	2019
\$4,150	\$4,200

*Note: Exemption deductions have been suspended from 2018 through 2025. However, the personal and dependency exemption amount is used for other purposes (including determining whether a “qualifying relative” is a taxpayer’s dependent).

Income Tax Rates—Estates and Trusts

Tax Year 2019

Taxable Income		The Tax Is:	
Over—	But not Over—		Of the Amount Over—
\$ 0	\$ 2,600	10%	\$ 0
2,600	9,300	\$ 260.00 + 24%	2,600
9,300	12,750	1868.00 + 35%	9,300
12,750	.....	3,075.50 + 37%	12,750

Income Tax Rates—C Corporations, 2018 and after

For all income levels, the tax rate is 21%.

Unified Transfer Tax Rates

For Gifts Made and for Deaths after 2012

If the Amount with Respect to Which the Tentative Tax to Be Computed Is:	The Tentative Tax Is:
Not over \$10,000	18 percent of such amount.
Over \$10,000 but not over \$20,000	\$1,800, plus 20 percent of the excess of such amount over \$10,000.
Over \$20,000 but not over \$40,000	\$3,800, plus 22 percent of the excess of such amount over \$20,000.
Over \$40,000 but not over \$60,000	\$8,200, plus 24 percent of the excess of such amount over \$40,000.
Over \$60,000 but not over \$80,000	\$13,000, plus 26 percent of the excess of such amount over \$60,000.
Over \$80,000 but not over \$100,000	\$18,200, plus 28 percent of the excess of such amount over \$80,000.
Over \$100,000 but not over \$150,000	\$23,800, plus 30 percent of the excess of such amount over \$100,000.
Over \$150,000 but not over \$250,000	\$38,800, plus 32 percent of the excess of such amount over \$150,000.
Over \$250,000 but not over \$500,000	\$70,800, plus 34 percent of the excess of such amount over \$250,000.
Over \$500,000 but not over \$750,000	\$155,800, plus 37 percent of the excess of such amount over \$500,000.
Over \$750,000 but not over \$1,000,000	\$248,300, plus 39 percent of the excess of such amount over \$750,000.
Over \$1,000,000	\$345,800, plus 40 percent of the excess of such amount over \$1,000,000.

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¹ Based on Intuit internal data of the number of paid users of ProConnect Tax Online for Tax Year 2016 compared to publicly available statements from competitors for the same time period.

² If you sign-up for the free version of ProConnect Tax Online for students and educators, you will not have access to certain features, including functionality such as Electronic Filing Services and Intuit Link.

SOUTH-WESTERN FEDERAL TAXATION

COMPREHENSIVE VOLUME

2020

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**South-Western Federal Taxation:
Comprehensive, 2020 Edition**

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Preface

COMMITTED TO EDUCATIONAL SUCCESS

South-Western Federal Taxation (SWFT) is the most trusted and best-selling series in college taxation. We are focused exclusively on providing the most useful, comprehensive, and up-to-date tax texts, online study aids, tax preparation tools, and research tools to help instructors and students succeed in their tax courses and beyond.

SWFT is a comprehensive package of teaching and learning materials, significantly enhanced with each edition to meet instructor and student needs and to add overall value to learning taxation.

The *SWFT Comprehensive Volume, 2020 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.

In addition, the *SWFT Comprehensive Volume, 2020 Edition* provides accessible, comprehensive, and authoritative coverage of the relevant tax code and regulations as they pertain to the individual and business taxpayer, as well as coverage of all major developments in Federal Taxation.

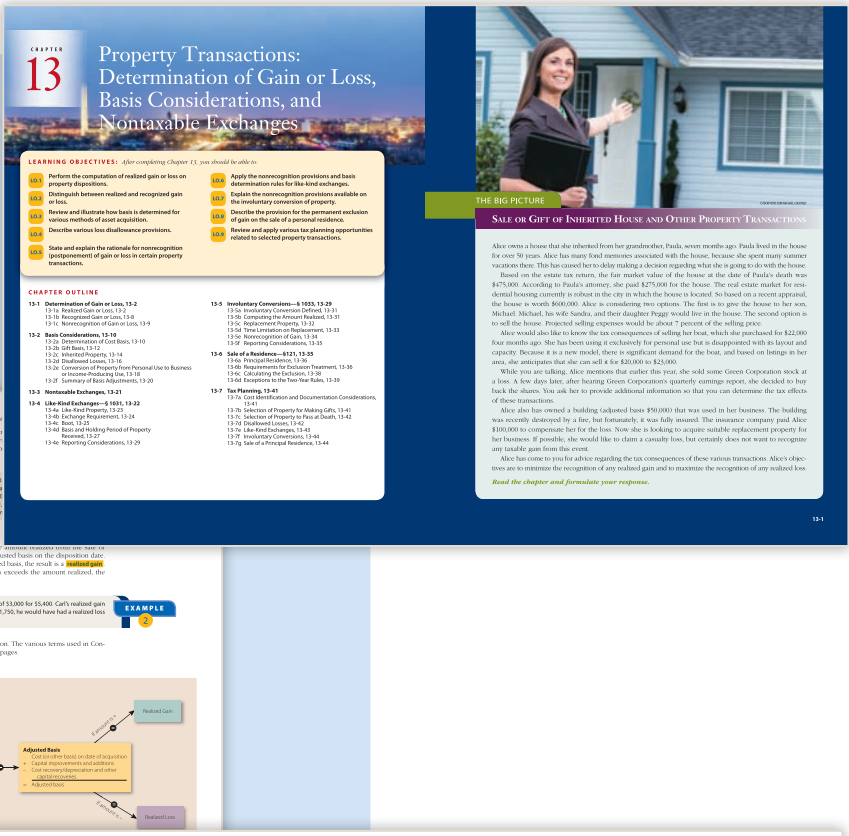
In revising the 2020 Edition, we focused on:

- **Accessibility. Clarity. Substance.** The text authors and editors made this their mantra as they revised the 2020 Edition. Coverage has been streamlined to make it more accessible to students, and difficult concepts have been clarified, all without losing the substance that makes up the *South-Western Federal Taxation series*.
- **Developing professional skills.** SWFT excels in bringing students to a professional level in their tax knowledge and skills, to prepare them for immediate success in their careers. In this regard, we include development of speaking and writing communications skills, the use of tax preparation and tax research software, orientation toward success on the CPA Exam, consideration of the time value of money in the tax planning process, and facility with advanced spreadsheet applications and data analytics.
- **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 2020 Edition uses color to bring the text to life, capture student attention, and present the tax code in an understandable and 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.



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

- LO.1** Melba purchases land from Adrian. Melba gives Adrian \$225,000 in cash and agrees to pay Adrian an additional \$400,000 one year later plus interest at 5%.
 - What is Melba's adjusted basis for the land at the acquisition date?
 - What is Melba's adjusted basis for the land one year later?
- LO.1** On July 1, 2019, Katrina purchased tax-exempt bonds (face value of \$75,000) for \$82,000. The bonds mature in five years, and the annual interest rate is 3%.
 - How much interest income and/or interest expense must Katrina report in 2019, assuming that straight-line amortization is appropriate?
 - What is Katrina's adjusted basis for the bonds on January 1, 2020?

DATA ANALYTICS

- ❑ Research problems provide students with vital practice in an increasingly demanded skill area. These end-of-chapter items task students with the analysis of important tax data, with a focus on helping them understand the application of this information in various scenarios. This essential feature will better prepare students for professional tax environments.

BECKER PROFESSIONAL EDUCATION REVIEW QUESTIONS: End-of-Chapter CPA Review Questions from Becker PREPARE STUDENTS FOR SUCCESS. Students review key concepts using proven questions from Becker Professional Education®—one of the industry's most effective tools to prepare for the CPA Exam.

- ❑ Located in select end-of-chapter sections
- ❑ Tagged by concept in CengageNOWv2
- ❑ Questions similar to what students would actually find on the CPA Exam

Becker CPA Review Questions



- Jasmin purchased 100 shares of Pinkstey Corporation (publicly traded company) on January 1 of year 1 for \$5,000. The FMV of the shares at the end of year 1 was \$6,000. On January 1 of year 4, Pinkstey Corporation declared a 2-for-1 stock split when the fair market value of the stock was \$65 per share. On January 1 of year 5, Jasmin sold all of her Pinkstey Corporation stock when the fair market value was \$40 per share. Which of the following statements is true?
 - Jasmin reports \$6,500 in gross income for the 2-for-1 stock split in year 4.
 - Jasmin's basis in the Pinkstey Corporation stock at the end of year 4 is \$65 per share.
 - Jasmin has no taxable income for the Pinkstey Corporation stock in year 4.
 - Jasmin owns 100 shares in Pinkstey Corporation stock at the end of year 4.



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

THE BIG PICTURE

EFFECT OF A FOR-PROFIT BUSINESS ON A TAX-EXEMPT ENTITY

Hopeful, Inc., is a tax-exempt organization under § 501(c)(3) that provides temporary lodging and psychological services for abused women. Its annual operating budget is \$12 million. More than two decades ago, Betty Jones was a recipient of the services provided by Hopeful. Now Hopeful's administrator has been notified by the attorney for Betty's estate that her will transfers to Hopeful her share of the outstanding stock of Taste Good Ice Cream, a chain of 40 gourmet ice cream shops located in Virginia, North Carolina, and South Carolina. The business has been in existence for eight years and has produced substantially higher profits each year.

Hopeful's board is considering the following options regarding the bequest from Betty and has hired you to provide an analysis of the tax consequences of each option.

- Sell the stock of Taste Good Ice Cream and add the net proceeds to Hopeful's endowment.
- Continue to conduct the Taste Good Ice Cream business as a *division* of Hopeful.
- Continue to conduct the business as a *wholly owned subsidiary* of Hopeful.

With the second and the third options, the existing Taste Good management team will remain in place. After-tax profits not needed to expand the ice cream shop chain will be transferred to Hopeful, to be used in carrying out its exempt mission.

Read the chapter and formulate your response.

THE BIG PICTURE: Tax Solutions for the Real World. Taxation comes alive at the start of each chapter as The Big Picture examples give a glimpse into the lives, families, careers, and tax situations of typical filers. Students will follow this one family, individual, or other taxpayer throughout the chapter showing students how the concepts they are learning play out in the real world.

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

FRAMEWORK 1040: Fitting It All Together.

This chapter-opening feature demonstrates how individual income tax topics fit together, using the Income Tax Formula for Individuals as the framework. The framework helps students organize their understanding of the chapters and topics to see how they relate to the basic tax formula and then identify where these items are reported on Form 1040. Framework 1040 helps students navigate topics by explaining how tax concepts are organized.

FRAMEWORK 1040 Tax Formula for Individuals

This chapter covers the boldfaced portions of the Tax Formula for Individuals that was introduced in Concept Summary 3.1 on p. 3-3. Below those portions are the sections of Form 1040 where the results are reported.

Income (broadly defined).....	\$ xx,xxx
Less: Exclusions.....	(0,000)
Gross income.....	\$ xx,xxx
FORM 1040 (Schedule 1)	
12 Business income or (loss). Attach Schedule C or C-EZ.....	(0,000)
13 Capital gain or (loss). Attach Schedule D if required. If not required, check here <input type="checkbox"/>	0,000
14 Other gains or (losses). Attach Form 4797.....	0,000
17 Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E.....	0,000
Less: Deductions for adjusted gross income.....	(0,000)
Adjusted gross income.....	\$ 0,000
Less: The greater of total itemized deductions or the standard deduction.....	(0,000)
FORM 1040 (or 1041)	
8 Standard deduction or itemized deductions (from Schedule A).....	(0,000)
Personal and dependency exemptions*.....	(0,000)
Deduction for qualified business income**.....	(0,000)
Taxable income.....	\$ 0,000
Tax on taxable income (see Tax Tables or Tax Rate Schedules).....	\$ 0,000
Less: Tax credits (including income taxes withheld and prepaid).....	(0,000)
Tax due (or refund).....	\$ 0,000

*Exemption deductions are not allowed from 2018 through 2025.
**Only applies from 2018 through 2025.

Use this chapter-opening Framework 1040, which shows the topics as they appear in the individual tax formula, to understand where on Form 1040 these chapter topics would appear.

FINANCIAL DISCLOSURE INSIGHTS:

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



FINANCIAL DISCLOSURE INSIGHTS Tax and Book Depreciation

A common book-tax difference relates to the depreciation amounts that are reported for GAAP and Federal income tax purposes. Typically, tax depreciation deductions are accelerated; that is, they are claimed in earlier reporting periods than is the case for financial accounting purposes.

Almost every tax law change since 1980 has included depreciation provisions that accelerate the related deductions relative to the expenses allowed under GAAP. Accelerated cost

recovery deductions represent a means by which the taxing jurisdiction infuses the business with cash flow created by the reduction in the year's tax liabilities.

For instance, recently, about one-quarter of General Electric's deferred tax liabilities related to depreciation differences. For Toyota's and Ford's depreciation differences, that amount was about one-third. And for the trucking firm Ryder Systems, depreciation differences accounted for all but 1 percent of the deferred tax liabilities.



ETHICS & EQUITY Punching the Time Clock at Year-End

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

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

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

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

ETHICS & EQUITY: Some tax issues do not have just one correct answer. **Ethics & Equity** features will spark critical thinking and invite classroom discussion, enticing students to evaluate their own value system. Suggested answers to Ethics & Equity scenarios appear in the Solutions Manual.

TAX PLANNING: Chapters include a separate section calling attention to how taxpayers can use the law to reach financial and other goals. Tax planning applications and suggestions also appear throughout each chapter.

27-5 TAX PLANNING

27-5a The Federal Gift Tax

For gifts that generate a tax, consideration must be given to the present value to the donor of the gift taxes paid. Because the donor loses the use of these funds, the expected interval between a gift (the imposition of the gift tax) and death (the imposition of the estate tax) may make the gift less attractive from an economic standpoint. On the plus side, however, are the estate tax savings that result from any gift tax paid. Because these funds are no longer in the gross estate of the donor (except for certain gifts within three years of death), the estate tax thereon is avoided.



GLOBAL TAX ISSUES Tracking Down Tax Dollars

Non-U.S. persons who earn income within the United States may need to file a Federal income tax return, but they may not have a Social Security number for filing purposes. If not, they can use a nine-digit Individual Tax Identification Number (ITIN) instead. The IRS issues ITINs upon the submission of an application and proof of identification (e.g., a driver's license). As the IRS does not require an applicant to show that he or she is in the United States legally, the ITINs are freely available to undocumented persons (i.e., illegal immigrants). The use of an ITIN also can enable the holder to carry out other financial transactions (e.g., establish a bank account, secure a credit card, and obtain a loan).

The position of the IRS is that the current ITIN procedure brings in revenue that otherwise would not be forthcoming. Some undocumented workers want to comply with the law and pay the income taxes they owe. This practice should not be discouraged, as the tax law applies with equal force to legal and illegal residents of the United States.

However, ITINs have been criticized for their use by illegal immigrants and undocumented workers. A recent report found that individuals who are not authorized to work in the United States were paid \$4.2 billion in refundable tax credits, such as the child tax credit, because they were able to file tax returns using an ITIN.

GLOBAL TAX ISSUES: The **Global Tax Issues** feature gives insight into the ways in which taxation is affected by international concerns and illustrates the effects of various events on tax liabilities across the globe.

Take your students from Motivation to Mastery with CengageNOWv2

CengageNOWv2 is a powerful course management tool and online homework resource that elevates student thinking by providing superior content designed with the entire student workflow in mind.

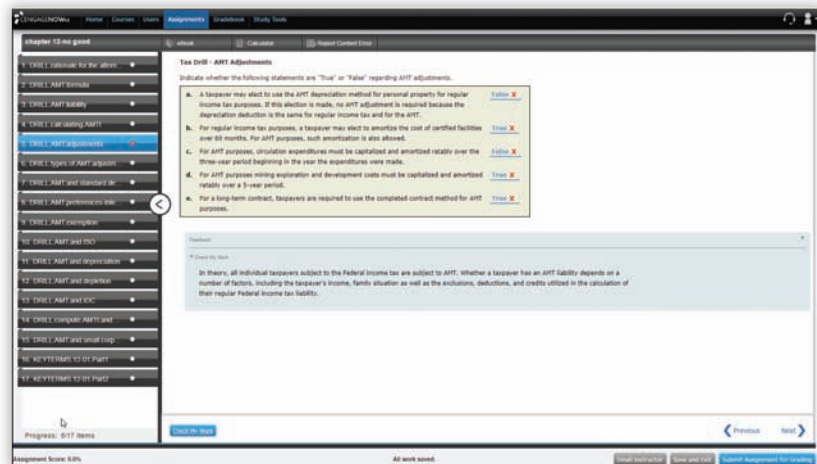


- MOTIVATION:** engage students and better prepare them for class
- APPLICATION:** help students learn problem-solving behavior and skills to guide them to complete taxation problems on their own
- MASTERY:** help students make the leap from memorizing concepts to actual critical thinking

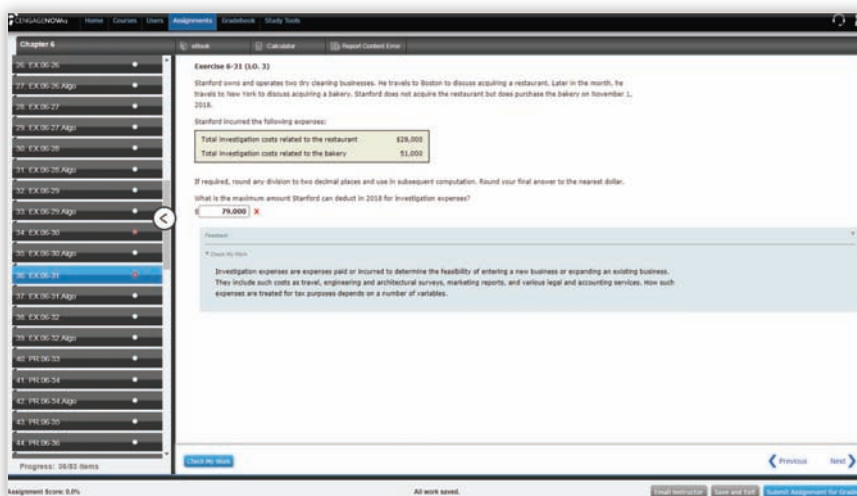
Motivation —

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

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



Application —



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

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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 with 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 2020 Edition.

- Updated materials to reflect changes made by Congress through legislative action.
- Streamlined chapter content (where applicable) to clarify material and make it easier for students to understand.
- Revised numerous materials as the result of changes caused by indexing of statutory amounts.
- Revised Problem Materials, Computational Exercises, and CPA Exam problems.
- Updated Chapter Outlines to provide an overview of the material and to make it easier to locate specific topics.
- Revised *Financial Disclosure Insights* and *Global Tax Issues* as to current developments.

In addition, the following materials are available online.

- An appendix that helps instructors broaden and customize coverage of important tax provisions of the Affordable Care Act. (Instructor Companion Website at cengage.com/login)
- The Depreciation and the Accelerated Cost Recovery System (ACRS) appendix. (Instructor Companion Website at cengage.com/login)
- An appendix that has comprehensive tax return problems for the 2018 tax filing year (Appendix E). (Instructor Companion Website at cengage.com/login)
- The *Taxation in the Real World* weekly blog posts for instructors. (tinyurl.com/swft-blog)

Chapter 1

- Added “data analysis” discussion to text Section 1-1c (The Relevance of Taxation to Accounting and Finance Professionals).
- Added brief discussion to text Section 1-2c about the need for lawmakers to periodically review tax systems.
- Added a Research Problem asking students to discover how tax practitioners use data analytics and visualization.

Chapter 2

- Updated references and citations throughout the chapter.
- Modified discussion of the Small Claims Division of the U.S. Tax Court.
- Updated discussion on changes to the CPA Exam.
- Updated end-of-chapter materials as needed.

Chapter 3

- Updated chapter materials to reflect revised Form 1040 and related schedules.
- Added a new exhibit summarizing when various new Form 1040 Schedules 1 through 6 are used.
- Added a new exhibit summarizing the 0, 15, and 20 percent breakpoints for the alternative tax on net capital gains.
- Updated chapter materials to reflect 2019 inflation adjustments.
- Revised and clarified materials as needed throughout the chapter.

Chapter 4

- Revised and clarified discussion throughout chapter.
- Revised and streamlined discussion of unearned income to more closely reflect new § 451(c) as added by the TCJA of 2017.

- Added new example concerning the recognition of interest income when a bond is transferred by gift.
- Moved discussion of the reporting of interest earned in foreign bank accounts from text section covering whom is taxable on specific sources of income (Section 4-3) to that covering specific items of income (Section 4-4).
- Significantly revised and simplified the discussion of the taxation of Social Security benefits.
- Removed the discussion of tax planning opportunities surrounding alimony agreements, given the treatment of alimony for new divorce agreements under the TCJA of 2017.

Chapter 5

- Streamlined and clarified text throughout the chapter (including examples).
- Updated various items for inflation adjustments.
- Added a new Data Analytics Research Problem requiring use of IRS statistical information.

Chapter 6

- Added Exhibit 6.2 summarizing the limitations that may reduce or eliminate the QBI deduction.
- Updated Exhibit 6.3 to reflect revised Form 1040 (and Schedule 1).
- Updated chapter materials for inflation adjusted items and increased medical expense deduction floor in 2019 (10%-of-AGI).

Chapter 7

- Revised and clarified chapter materials as needed.
- Updated materials for annual inflation adjustments.

Chapter 8

- Clarified discussion of MACRS personalty to indicate that some items of realty (e.g., qualified improvement property and agricultural buildings) are provided MACRS lives less than 39 years.
- Updated chapter materials to reflect inflation adjustments to § 179 (including SUVs) and luxury automobiles.

- Updated Form 4562 and Schedule C (Form 1040) to 2018 forms.
- Added a new Research Problem.

Chapter 9

- Updated chapter materials for revised standard mileage amounts.
- Maintained coverage of § 222 (waiting for Congressional action).
- Updated chapter materials for Notice 2018-76 on business meal deductions.
- Updated materials to reflect inflation adjustments.

Chapter 10

- Moved text Section 10-7b (Timing of Payments to Maximize Deductions) to new text Section 10-5.
- Clarified explanation of state and local taxes deductible *for* and *from* AGI.
- Added explanation of Prop.Reg. § 1.170A-1(h)(3) to address the “SALT workaround” available in some states. Under this rule, if a taxpayer receives a state or local tax credit of more than 15 percent from a donation to a state or local fund or specified charity, the Federal charitable contribution deduction must be reduced by the amount of the tax credit.
- Updated for inflation adjustments and for increased medical deduction floor (10%-of-AGI) in 2019.
- Added new Research Problem on Notice 89-35 on the special interest tracing rule that may help individuals with home equity debt obtain a better result than nondeductible personal interest expense after the TCJA of 2017 change to no longer treat home equity indebtedness as producing qualified residence interest.

Chapter 11

- Clarified several of the examples related to the Big Picture feature.
- Revised and clarified materials as needed throughout the chapter.
- Updated end-of-chapter materials to reflect inflation adjustments.
- Created a new Data Analytics problem.

Chapter 12

- Deleted text coverage of Tax Credit for Elderly or Disabled Taxpayers (text Section 12-4b) and Adoption Expenses Credit (text Section 12-4d) but retained general information about these credits in Concept Summary 12.1.
- Added a new Becker CPA Exam question.

Chapter 13

- Added two new like-kind exchange examples.
- Updated end-of-chapter tax forms problems [completion of a Form 8824, a Form 8949, and a Schedule D (Form 1040)].
- Added a Microsoft Excel problem requiring students to build a like-kind exchange computation spreadsheet.
- Added a new Data Analytics Research Problem focusing on how individuals generate their income (by AGI classes), using IRS data.

Chapter 14

- Updated text materials for 2019 inflation adjustments to Tax Rate Schedules and alternative tax rate brackets (for net capital gains).
- Updated Data Analytics Problem.

Chapter 15

- Revised and updated chapter materials based on § 199A Regulations released in January 2019, especially concerning QBI computations.
- Updated *Global Tax Issues* materials concerning global tax competitiveness rankings.
- Expanded discussion involving the identification of SSTBs.
- Added to and revised end-of-chapter materials based on § 199A Regulations.

Chapter 16

- Revised chapter introductory language.
- Shortened special rules for farming.
- Revised Financial Disclosure Insights item about deferred tax accounts on the GAAP balance sheet.
- Relocated and revised discussion of interest on deferred tax amounts.
- Revised some of the Research Problems.

Chapter 17

- Updated chapter materials as needed for new rulings and inflation adjustments.
- Restructured the chapter “Tax Planning” section and added three new topics regarding planning for the business interest expense limitation, executive compensation, and avoiding the accumulated earnings tax.
- Updated end-of-chapter materials as needed.

Chapter 18

- Combined investor loss and gain provisions into one section.
- Added an example of § 1202 Qualified Small Business Stock exclusion.
- Streamlined and enhanced chapter materials.
- Added an end-of-chapter problem on § 1202 Qualified Small Business Stock exclusion.

Chapter 19

- Revised and updated chapter materials as needed; clarified chapter materials.
- Added new text material in “Tax Planning—Stock Redemptions” regarding the advantages to corporation and shareholder of debt-financed redemptions.
- Revised and expanded a Research Problem to include Data Analytics.
- Updated and revised end-of-chapter materials as needed.

Chapter 20

- Updated and revised end-of-chapter materials as needed.
- Created one new Research Problem.

Chapter 21

- Updated Schedule K-1 to reflect partnership reporting requirements for the qualified business income deduction, per Form 1065, Schedule K-1.
- Updated Concept Summary 21.3 (Tax Reporting of Partnership Items) to reflect IRS guidance in Regulations and Form 1065 and Schedule K-1.
- Updated and clarified Concept Summary 21.5 (Major Advantages and Disadvantages of the Partnership Form).

- Modified introduction to text Section 21-1b, “Key Concepts in Taxation of Partnership Income.”
- Streamlined discussion of terms such as *inside basis*, *outside basis*, and *separately stated items*.
- Streamlined discussion of gain or loss recognition on formation of a partnership.
- Streamlined discussion of organization and startup costs.
- Clarified that the \$26 million “average annual gross receipts” test now applies only to the most immediately preceding three-tax-year period rather than all prior three-tax-year periods.
- Streamlined the discussion of “Other Items Reported on Schedule K.”
- Updated discussion of qualified business income to reflect Regulations.
- Clarified Concept Summary 21.4.
- Streamlined discussions of disguised sales, marketable securities, and disproportionate distributions.
- Grouped related problems into single problems for clarity.
- Replaced Research Problem 1 and modified Research Problem 5 to better focus on data analytics and communication.

Chapter 22

- Updated statistics about S corporations and partnerships/LLCs.
- Clarified materials concerning the QBI regime.
- Added § 1202 benefit to Concept Summary 22.4 that compares entity types.
- Added two new Microsoft Excel problems.
- Added two new Research Problems.
- Added new Research Problem asking students to look at initial coin offering (ICO) for entity financing.

Chapter 23

- Clarified the purpose of a tax exemption and of Federal taxes on exempt entities in the introductory comments.
- Updated statistics about the charitable sector of the U.S. economy.
- Reorganized the introduction to the discussion of taxes that fall on exempt entities.
- Revised discussion of the taxation of lobbying expenses by a public charity.

- Updated and added to statistics about private foundations and the UBIT.
- Added an additional Microsoft Excel problem.
- Identified two problems as Data Analytics items.

Chapter 24

- Updated statistics as to state and local government tax collections.
- Updated financial statement data for state/local taxes for selected corporations.
- Updated material relative to sales/use tax nexus, in light of the Supreme Court’s *Wayfair* decision.
- Identified two Research Problems as Data Analytics items.
- Created two additional Microsoft Excel problems.

Chapter 25

- Streamlined text Section 25-4 (Foreign Currency Gain/Loss).
- Updated statistics about worldwide tax rates and the global economy.
- Revised overview language and Exhibit 25.2.
- Clarified materials on transfer pricing.
- Added a comment about the FASB treatment of the BEAT tax rate in deriving the deferred tax amounts.
- Reduced discussion of foreign currency gain/loss; added a reference to Bitcoin (and related) currencies.
- Added comments about the application of § 199A and the GILTI computation for flow-through entities.
- Added a Microsoft Excel feature to one problem.
- Added a new Research Problem concerning the international tax implications of the 2017 tax reform provisions.

Chapter 26

- Updated statistics about IRS budget and personnel, and about tax audits, refunds, and penalties.
- Updated results concerning whistleblowers and informants.
- Updated results of the Taxpayer Attitude Survey.
- Updated user fees for various programs and IRS interest rates on underpayments and overpayments.

- Adjusted various penalty amounts for indexing.
- Added one new Microsoft Excel problem.
- Replaced one Research Problem with another requiring internet research.

Chapter 27

- Updated statistics about Federal estate and gift tax filings and payments.
- Clarified that the chapter uses a flat 40 percent tax rate only as a simplifying assumption; added reference to § 2001 Tax Rate Schedule as reproduced on the inside back cover of the book.
- Added text example illustrating the determination of generations for the GSTT.

- Added new Microsoft Excel problems.
- Added new Research Problems, two of which are Data Analytics exercises.

Chapter 28

- Added references to the NOL deduction limitation, and the deduction for QBI, where the entity operates a trade or business.
- Added item about the fiduciary entity claiming a QBI deduction.
- Added another Microsoft Excel item.
- Designated one Research Problem as a Data Analytics item.

TAX LAW OUTLOOK

From your SWFT Series Editors

Congress continues to discuss technical corrections to the Tax Cuts and Jobs Act of 2017 (TCJA) and “extenders” to various provisions that expired in 2017 and 2018. We anticipate additional guidance from the Treasury Department and IRS in many areas affected by the TCJA. Taxpayers and their advisors will be evaluating how all of these changes affect their financial planning strategies and will adjust their plans appropriately. The SWFT editors will be monitoring these activities and provide updates to adopters as needed, including via the SWFT blog *Taxation in the Real World* (tinyurl.com/swft-blog). Finally, as candidates prepare for the 2020 presidential election, many tax ideas will be suggested. They present opportunities for students and researchers to analyze how they work and how they measure up against principles of good tax policy.

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- An appendix that helps instructors broaden and customize coverage of important tax provisions of the Affordable Care Act
- The Depreciation and the Accelerated Cost Recovery System (ACRS) appendix
- Comprehensive Tax Return Problems appendix

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- Add relevance by including sections from Sawyers/Gill's *Federal Tax Research* or your state's tax laws and regulations.

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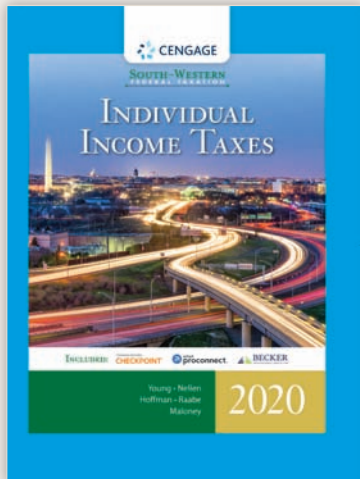
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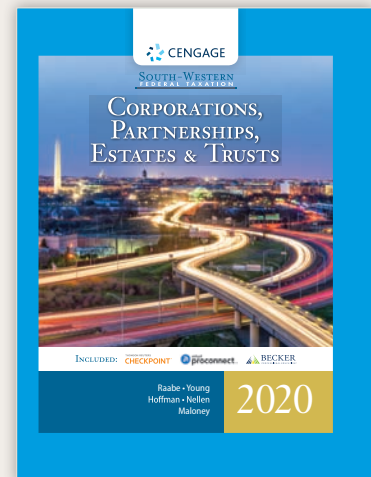
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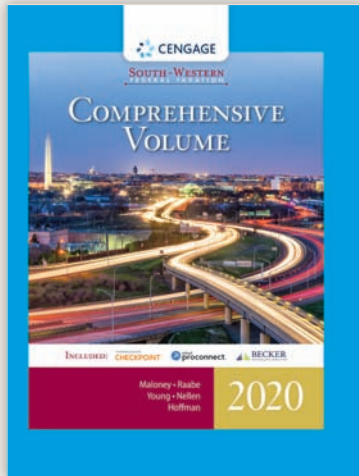
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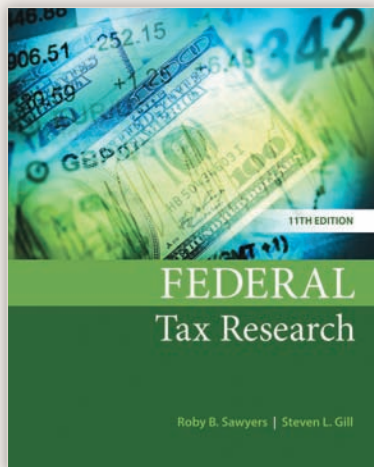
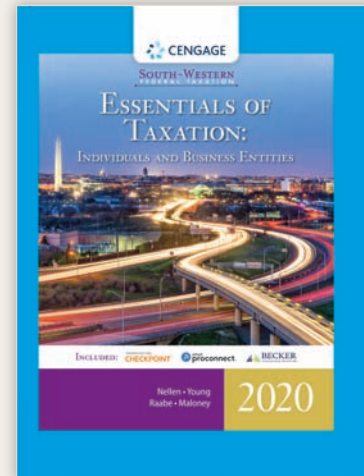
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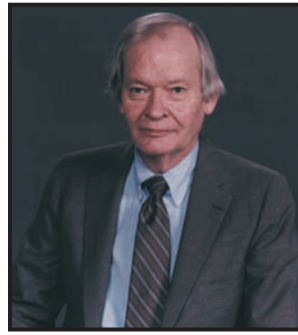
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PART

1

INTRODUCTION AND BASIC TAX MODEL

CHAPTER **1**

An Introduction to Taxation and Understanding the Federal Tax Law

CHAPTER **2**

Working with the Tax Law

CHAPTER **3**

Computing the Tax

Part 1 provides an introduction to taxation in the United States. Although this text focuses on income taxation, other types of taxes also are briefly discussed. The purposes of the Federal tax law are examined, and the legislative, administrative, and judicial sources of Federal tax law, including their application to the tax research process, are analyzed. Part 1 concludes by introducing the basic tax model for the individual taxpayer and providing an overview of property transactions.

An Introduction to Taxation and Understanding the Federal Tax Law

LEARNING OBJECTIVES: After completing Chapter 1, you should be able to:

- | | |
|---|--|
| <p>LO.1 Explain the importance of taxation.</p> <p>LO.2 Describe some of the history and trends of the Federal income tax.</p> <p>LO.3 Describe and apply principles and terminology relevant to the design of a tax system.</p> <p>LO.4 Identify the different taxes imposed in the United States at the Federal, state, and local levels.</p> | <p>LO.5 Explain the administration of the tax law, including the audit process utilized by the IRS.</p> <p>LO.6 Evaluate some of the ethical guidelines involved in tax practice.</p> <p>LO.7 Recognize the economic, social, equity, and political considerations that justify various aspects of the tax law.</p> <p>LO.8 Describe the role played by the IRS and the courts in the evolution of the Federal tax system.</p> |
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