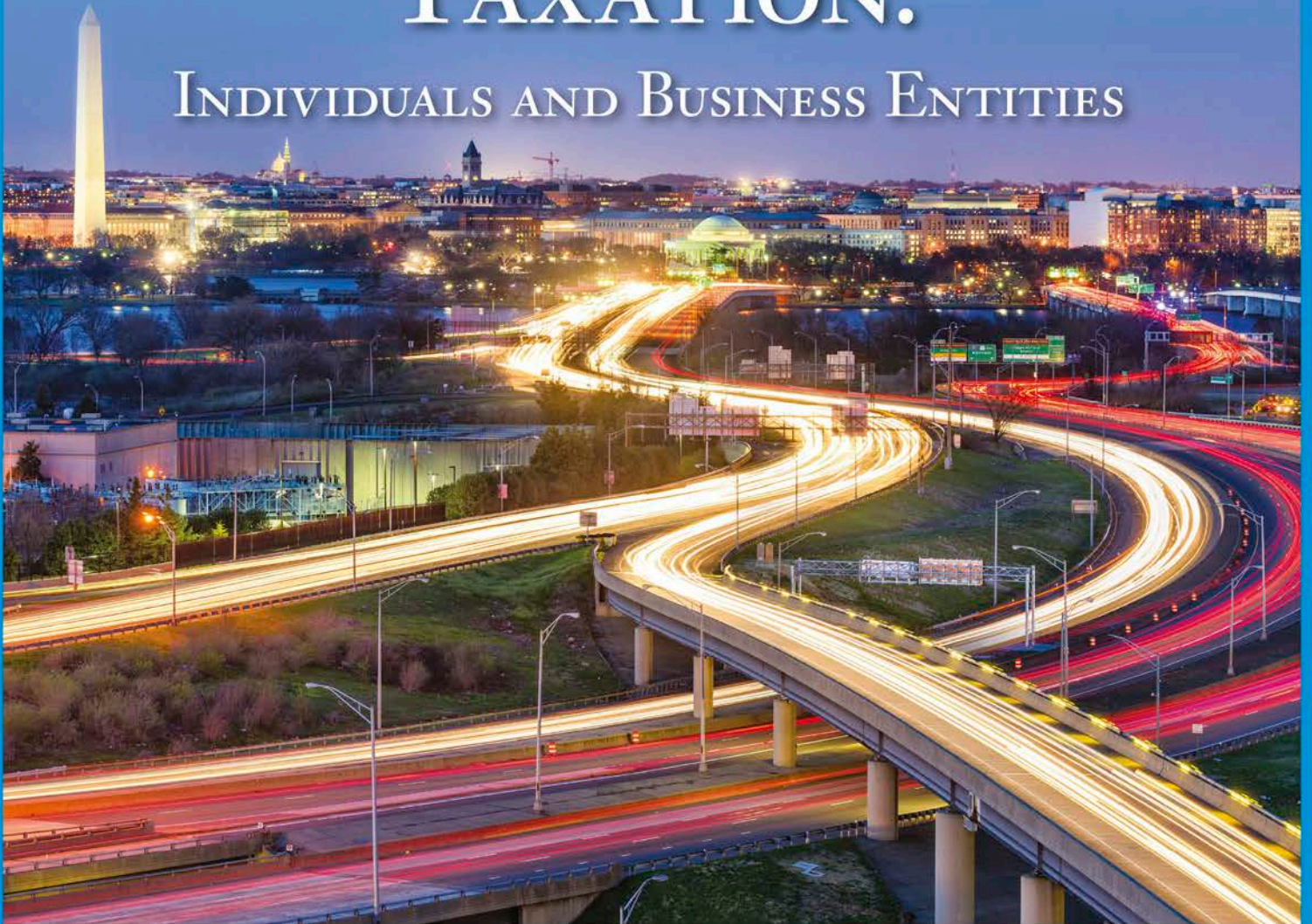




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2022

2020 Tax Rate Schedules

Single—Schedule X				Head of household—Schedule Z			
If taxable income is: Over—	<i>But not over—</i>	The tax is:	<i>of the amount over—</i>	If taxable income is: Over—	<i>But not over—</i>	The tax is:	<i>of the amount over—</i>
\$ 0	\$ 9,875	.....10%	\$ 0	\$ 0	\$ 14,100	.....10%	\$ 0
9,875	40,125	\$ 987.50 + 12%	9,875	14,100	53,700	\$ 1,410.00 + 12%	14,100
40,125	85,525	4,617.50 + 22%	40,125	53,700	85,500	6,162.00 + 22%	53,700
85,525	163,300	14,605.50 + 24%	85,525	85,500	163,300	13,158.00 + 24%	85,500
163,300	207,350	33,271.50 + 32%	163,300	163,300	207,350	31,830.00 + 32%	163,300
207,350	518,400	47,367.50 + 35%	207,350	207,350	518,400	45,926.00 + 35%	207,350
518,400	.....	156,235.00 + 37%	518,400	518,400	.....	154,793.50 + 37%	518,400
Married filing jointly or Qualifying widow(er)—Schedule Y-1				Married filing separately—Schedule Y-2			
If taxable income is: Over—	<i>But not over—</i>	The tax is:	<i>of the amount over—</i>	If taxable income is: Over—	<i>But not over—</i>	The tax is:	<i>of the amount over—</i>
\$ 0	\$ 19,750	.....10%	\$ 0	\$ 0	\$ 9,875	.....10%	\$ 0
19,750	80,250	\$ 1,975.00 + 12%	19,750	9,875	40,125	\$ 987.50 + 12%	9,875
80,250	171,050	9,235.00 + 22%	80,250	40,125	85,525	4,617.50 + 22%	40,125
171,050	326,600	29,211.00 + 24%	171,050	85,525	163,300	14,605.50 + 24%	85,525
326,600	414,700	66,543.00 + 32%	326,600	163,300	207,350	33,271.50 + 32%	163,300
414,700	622,050	94,735.00 + 35%	414,700	207,350	311,025	47,367.50 + 35%	207,350
622,050	.....	167,307.50 + 37%	622,050	311,025	.....	83,653.75 + 37%	311,025

2021 Tax Rate Schedules

Single—Schedule X				Head of household—Schedule Z			
If taxable income is: Over—	<i>But not over—</i>	The tax is:	<i>of the amount over—</i>	If taxable income is: Over—	<i>But not over—</i>	The tax is:	<i>of the amount over—</i>
\$ 0	\$ 9,950	.....10%	\$ 0	\$ 0	\$ 14,200	.....10%	\$ 0
9,950	40,525	\$ 995.00 + 12%	9,950	14,200	54,200	\$ 1,420.00 + 12%	14,200
40,525	86,375	4,664.00 + 22%	40,525	54,200	86,350	6,220.00 + 22%	54,200
86,375	164,925	14,751.00 + 24%	86,375	86,350	164,900	13,293.00 + 24%	86,350
164,925	209,425	33,603.00 + 32%	164,925	164,900	209,400	32,145.00 + 32%	164,900
209,425	523,600	47,843.00 + 35%	209,425	209,400	523,600	46,385.00 + 35%	209,400
523,600	.....	157,804.25 + 37%	523,600	523,600	.....	156,355.00 + 37%	523,600
Married filing jointly or Qualifying widow(er)—Schedule Y-1				Married filing separately—Schedule Y-2			
If taxable income is: Over—	<i>But not over—</i>	The tax is:	<i>of the amount over—</i>	If taxable income is: Over—	<i>But not over—</i>	The tax is:	<i>of the amount over—</i>
\$ 0	\$ 19,900	.....10%	\$ 0	\$ 0	\$ 9,950	.....10%	\$ 0
19,900	81,050	\$ 1,990.00 + 12%	19,900	9,950	40,525	\$ 995.00 + 12%	9,950
81,050	172,750	9,328.00 + 22%	81,050	40,525	86,375	4,664.00 + 22%	40,525
172,750	329,850	29,502.00 + 24%	172,750	86,375	164,925	14,751.00 + 24%	86,375
329,850	418,850	67,206.00 + 32%	329,850	164,925	209,425	33,603.00 + 32%	164,925
418,850	628,300	95,686.00 + 35%	418,850	209,425	314,150	47,843.00 + 35%	209,425
628,300	.....	168,993.50 + 37%	628,300	314,150	.....	84,496.75 + 37%	314,150

Tax Formula for Individuals

Income (broadly defined).....	\$xx,xxx
Less: Exclusions.....	<u>(x,xxx)</u>
Gross income.....	\$xx,xxx
Less: Deductions <i>for</i> adjusted gross income.....	<u>(x,xxx)</u>
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**.....	<u>(x,xxx)</u>
Taxable income.....	<u>\$xx,xxx</u>
Tax on taxable income.....	\$ x,xxx
Less: Tax credits (including Federal income tax withheld and prepaid).....	<u>(xxx)</u>
Tax due (or refund).....	<u>\$ xxx</u>

*Exemption deductions are not allowed from 2018 through 2025.

**Only applies from 2018 through 2025.

Note: For 2021, individuals using the standard deduction may also subtract *from* adjusted gross income, cash charitable contributions of up to \$300 (\$600 if married, filing jointly).

Basic Standard Deduction Amounts

Filing Status	2020	2021
Single	\$12,400	\$12,550
Married, filing jointly	24,800	25,100
Surviving spouse	24,800	25,100
Head of household	18,650	18,800
Married, filing separately	12,400	12,550

Amount of Each Additional Standard Deduction

Filing Status	2020	2021
Single	\$1,650	\$1,700
Married, filing jointly	1,300	1,350
Surviving spouse	1,300	1,350
Head of household	1,650	1,700
Married, filing separately	1,300	1,350

Personal and Dependency Exemption

2020	2021
\$4,300	\$4,300

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).

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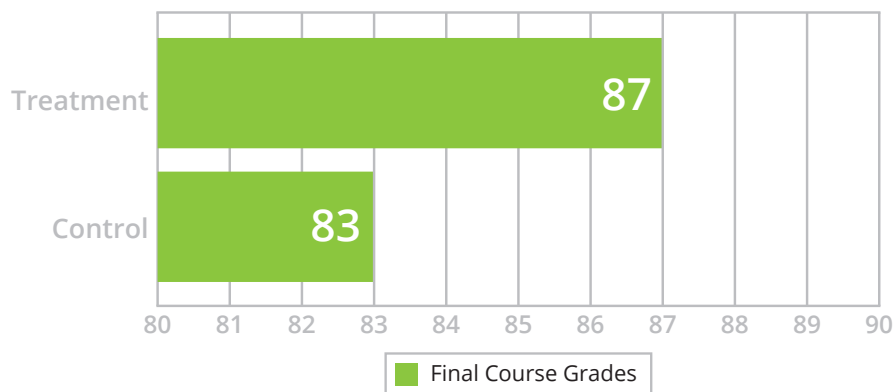
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Brad Duncan

University of Utah



"[I liked]...the read-a-loud option with the ebook... This helped when first starting a chapter and then when studying for tests."

Jennifer Loughren

Student,
Northeast Iowa
Community College

AMT Formula for Individuals

Taxable income (increased by any standard deduction taken)

Plus or minus: Adjustments

Plus: Preferences

Equals: Alternative minimum taxable income (AMTI)

Minus: Exemption

Equals: Alternative minimum tax (AMT) base

Multiplied by: 26% or 28% rates

Equals: Tentative minimum tax before foreign tax credit

Minus: AMT foreign tax credit

Equals: Tentative minimum tax (TMT)

Minus: Regular tax liability (less any foreign tax credit)

Equals: AMT (if TMT > regular tax liability)

2020 AMT Exemption and Phaseout for Individuals

Filing Status	Exemption	Phaseout	
		Begins at	Ends at
Married, filing jointly	\$113,400	\$1,036,800	\$1,490,400
Single or Head of household	72,900	518,400	810,000
Married, filing separately	56,700	518,400	745,200

2021 AMT Exemption and Phaseout for Individuals

Filing Status	Exemption	Phaseout	
		Begins at	Ends at
Married, filing jointly	\$114,600	\$1,047,200	\$1,505,600
Single or Head of household	73,600	523,600	818,000
Married, filing separately	57,300	523,600	752,800

Income Tax Rates—Estates and Trusts

Tax Year 2021

Taxable Income		The Tax Is:	
Over—	But not Over—		Of the Amount Over—
\$ 0	\$ 2,650	10%	\$ 0
2,650	9,550	\$ 265.00 + 24%	2,650
9,550	13,050	1,921.00 + 35%	9,550
13,050	.....	3,146.00 + 37%	13,050

Income Tax Rates—C Corporations, 2018 and after

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

Tax Formula for Corporate Taxpayers

Income (from whatever source).....	\$ xxx,xxx
Less: Exclusions from gross income.....	— xx,xxx
Gross Income	\$ xxx,xxx
Less: Deductions.....	— xx,xxx
Taxable Income	\$ xxx,xxx
Applicable tax rates.....	× xx%
Gross Tax	\$ xx,xxx
Less: Tax credits and prepayments.....	— x,xxx
Tax Due (or refund).....	<u>\$ xx,xxx</u>

SOUTH-WESTERN FEDERAL TAXATION

ESSENTIALS OF TAXATION: INDIVIDUALS AND BUSINESS ENTITIES

2022

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South-Western Federal Taxation: Essentials of Taxation: Individuals and Business Entities, 2022 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.

Essentials of Taxation: Individuals and Business Entities, 2022 Edition provides a dynamic learning experience inside and outside of the classroom. Built with the most important and relevant resources and tools, our complete learning system provides multiple options for students to achieve success.

Essentials of Taxation: Individuals and Business Entities, 2022 Edition provides accessible, comprehensive, and authoritative coverage of the relevant tax code and regulations as they pertain to the individual or business taxpayer, as well as coverage of all major developments in Federal income taxation.

In revising the 2022 Edition, we focused on:

- **Accessibility. Clarity. Substance.** The authors and editors made these their focus as they revised the 2022 edition. Coverage has been streamlined to make it more accessible

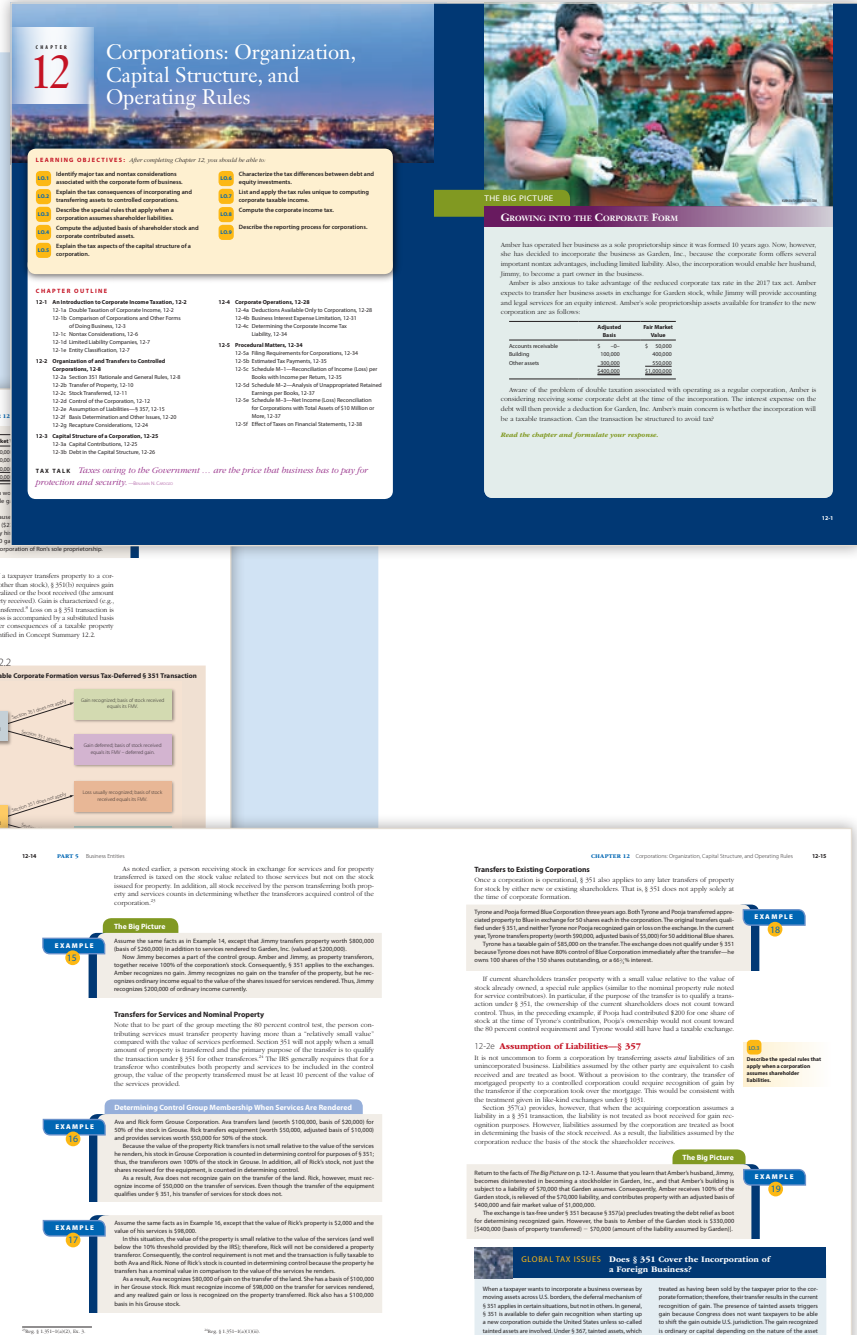
to students, and difficult concepts have been clarified, all without losing the substance that makes up the *South-Western Federal Taxation* series.

- **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 addition to exposing students to tax policy and law, our materials include opportunities for students to develop communication skills, to use tax preparation and research software, to apply net present value concepts to the tax planning process, to enhance their spreadsheet and data analytics capabilities, and to familiarize themselves with the format and content of the CPA exam.
- **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 law concepts and applying them to real-world scenarios. The 2022 edition uses color to bring the text to life, capture student attention, and present the tax law 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.



COMPUTATIONAL EXERCISES: Students need to learn to apply the rules and concepts covered in each chapter to truly understand them. These exercises, many of which mirror text examples, allow students to practice and apply what they are learning.

- ❑ Found in the end-of-chapter sections of the textbook
- ❑ CengageNOWv2 provides algorithmic versions of these problems

Computational Exercises

- LO.4** Enerico contributes \$100,000 cash in exchange for a 40% interest in the calendar year ABC LLC. This year ABC generates \$80,000 of ordinary taxable income and has no separately stated items. Enerico withdraws \$10,000 cash from the partnership at the end of the tax year.
 - Compute Enerico's gross income from ABC's ordinary income for the tax year.
 - Compute Enerico's gross income from the LLC's cash distribution.
- LO.2** Henrietta transfers cash of \$75,000 and equipment with a fair market value of \$25,000 (basis to her as a sole proprietor, \$10,000) in exchange for a 40% profit and loss interest worth \$100,000 in the XYZ Partnership.
 - Compute Henrietta's realized and recognized gains from the asset transfers.
 - Compute Henrietta's basis in her interest in XYZ.
 - What is XYZ's basis in the equipment that it now holds?

RESEARCH AND DATA ANALYTICS PROBLEMS:

- ❑ Research Problems provide students with vital practice in an increasingly demanded skill area. Some of these end-of-chapter items ask students to analyze tax data, helping them to understand the application of this information in various scenarios. These essential features 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

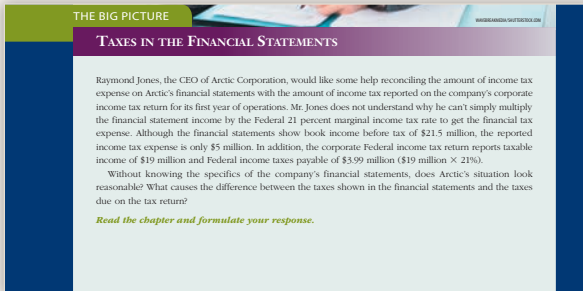
Becker CPA Review Questions

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- On January 1, year 5, Olinto Corp., an accrual basis, calendar year C corporation, had \$35,000 in accumulated earnings and profits. For year 5, Olinto had current earnings and profits of \$15,000 and made two \$40,000 cash distributions to its shareholders, one in April and one in September of year 5. What amount of the year 5 distributions is classified as dividend income to Olinto's shareholders?
 - \$15,000
 - \$35,000
 - \$50,000
 - \$80,000
- Fox Corp. owned 2,000 shares of Duffy Corp. stock that it bought in year 0 for \$9 per share. In year 8, when the fair market value of the Duffy stock was \$20 per share, Fox distributed this stock to a noncorporate shareholder. Fox's recognized gain on this distribution was:
 - \$40,000
 - \$22,000
 - \$18,000
 - \$0

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

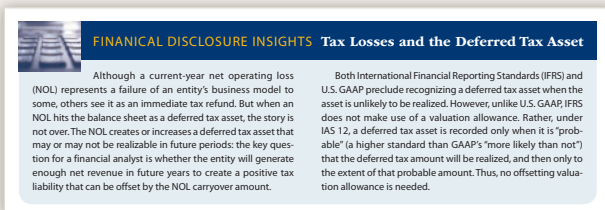
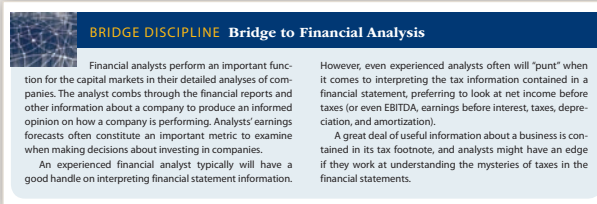


THE BIG PICTURE: Tax Solutions for the Real World. Taxation comes alive at the start of each chapter as The Big Picture examples provide a glimpse into the lives, families, careers, and tax situations of typical individual or business filers. Students will follow a family, individual, or other taxpayer throughout the chapter, to discover how the concepts they are learning apply 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 re-emphasize the concepts and topics from the chapter and allow students to confirm their understanding of the material.

BRIDGE DISCIPLINE BOXES AND END-OF-CHAPTER QUESTIONS:

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



FINANCIAL DISCLOSURE INSIGHTS:

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

DIGGING DEEPER: Designed to help students go further in their knowledge of certain topics, **Digging Deeper** links within the text provide more in-depth coverage than the text provides. Digging Deeper materials can be found on the book's website at **www.cengage.com**. Some of the end-of-chapter exercises are labeled "Digging Deeper" to indicate students should use those materials to answer the question.

In-depth coverage can be found on this book's companion website: cengage.com

1 DIGGING DEEPER

TAX PLANNING FRAMEWORK: To demonstrate the relevance of tax planning for business and individual taxpayers, *Essentials of Taxation: Individuals and Business Entities* presents a **tax planning framework** like one used by tax practitioners. Introduced in Chapter 1, this framework extends to a series of **Tax Planning Strategies** incorporated throughout the remainder of the text. The inclusion of the tax planning framework, and the planning strategies in each chapter, makes it easier than ever to understand the effects that careful tax planning can have in today's world.

EXHIBIT 1.3 General Framework for Income Tax Planning

Tax Formula	Tax Planning Strategy	Tax Planning Examples
Income and exclusions	<ul style="list-style-type: none"> ➤ Avoid income recognition. ➤ Postpone recognition of income to achieve tax deferral. 	<ul style="list-style-type: none"> Compensate employees with nontaxable fringe benefits (see Example 19). Postpone sale of assets (see Example 20).
– Deductions	<ul style="list-style-type: none"> ➤ Maximize deductible amounts. ➤ Accelerate recognition of deductions to achieve tax deferral. 	<ul style="list-style-type: none"> Invest in stock of another corporation (see Example 21). Elect to deduct charitable contribution in year of pledge rather than in year of payment (see Example 22).

TAX PLANNING STRATEGIES Selling Stock or Assets
FRAMEWORK FOCUS: TAX RATE

Strategy: Avoid Double Taxation.

Structuring the transfer of a business as a stock sale may produce detrimental tax results for the purchaser. As Example 18 illustrates, the basis of the corporation's assets is not affected by a stock sale. If the fair market value of the stock exceeds the corporation's adjusted basis for its assets, the purchaser is denied the opportunity to step up the basis of the assets to reflect the amount in effect paid for them through the stock acquisition—there is nothing analogous to a § 754 election available for C corporations.

An asset sale resolves the purchaser's problem of not being able to step up the basis of the assets to their fair market value. The basis for each asset is its purchase price. Then the purchaser may transfer the property to a corporation in a § 351 transaction. However, an asset sale may not be attractive to the seller.

If an asset sale is used, the seller of the business can be either the corporation or its shareholders. If the seller is the corporation, the corporation sells the business (the assets),

pays any debts not transferred, and makes a liquidating distribution to the shareholders. If the sellers are the shareholders, the corporation pays any debts that will not be transferred and makes a liquidating distribution to the shareholders; then the shareholders sell the business.

Regardless of the approach used for an asset sale, double taxation occurs. The corporation is either taxed on the actual sale of the assets or taxed as if it had sold the assets when it makes the liquidating distribution to the shareholders. The shareholders are taxed when they receive cash or assets distributed in kind by the corporation.

From the perspective of the seller, the ideal form of the transaction is a stock sale. Conversely, from the purchaser's perspective, the ideal form is an asset purchase. Thus, a conflict exists between the buyer's and the seller's objectives regarding the form of the transaction. Therefore, the bargaining ability of the seller and the purchaser to structure the sale as a stock sale or an asset sale, respectively, is critical.

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

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

GLOBAL TAX ISSUES Filing a Joint Return

John Garth is a U.S. citizen and resident, but he spends much of his time in London, where his employer sends him on frequent assignments. John is married to Victoria, a citizen and resident of the United Kingdom.

Can John and Victoria file a joint return for U.S. Federal income tax purposes? Although § 6013(a)(1) specifically precludes the filing of a joint return if one spouse is a nonresident alien, another Code provision permits an exception. Under § 6013(g), the parties can elect to treat the nonqualifying spouse as a "resident" of the United States. This election would allow John and Victoria to file jointly.

But should John and Victoria make this election? If Victoria has considerable income of her own (from non-U.S. sources), the election could be ill-advised. As a nonresident alien, Victoria's non-U.S. source income *would not* be subject to the U.S. income tax. If she is treated as a U.S. resident, however, her non-U.S. source income *will be subject to U.S. tax*. Under the U.S. worldwide approach to taxation, all income (regardless of where earned) of anyone who is a *resident or citizen of the United States* is subject to tax.

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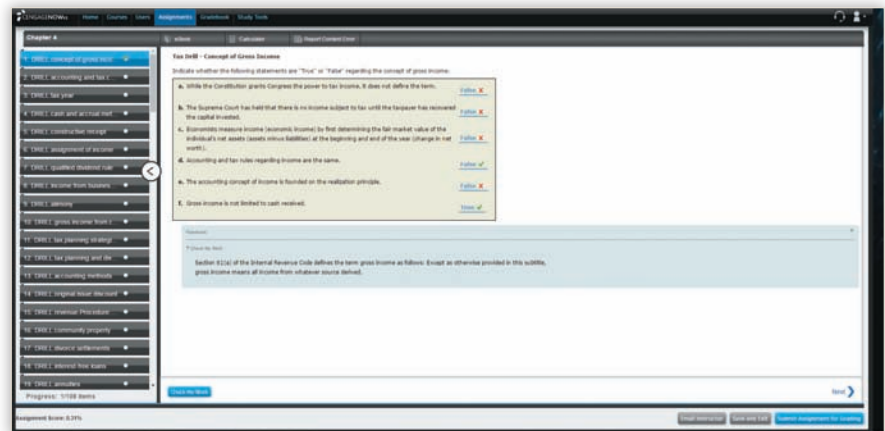


- ❑ **MOTIVATION:** engage students and better prepare them for class
- ❑ **APPLICATION:** help students learn problem-solving behavior and skills to guide them to complete taxation problems on their own
- ❑ **MASTERY:** help students make the leap from memorizing concepts to actual critical thinking

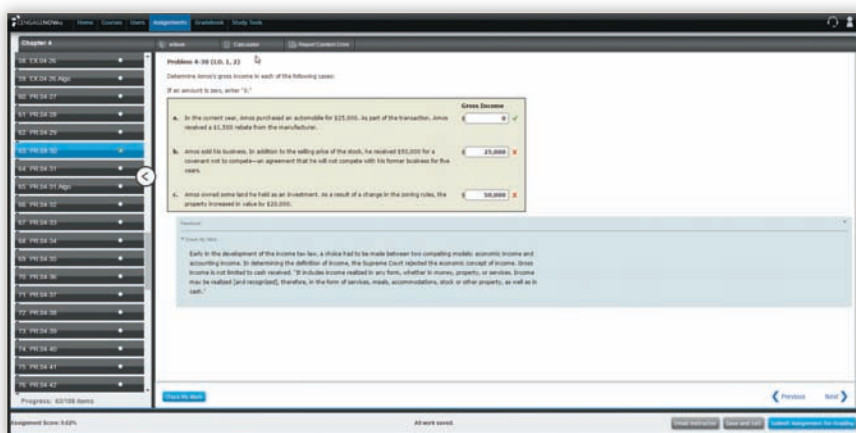
Motivation —

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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.

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

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- ❑ **Tax Form Problems** give students the option to complete the Cumulative Intuit ProConnect Tax problems and other homework items found in the end-of-chapter manually or in a digital environment.
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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 to our authors and team members. Other changes come from our careful analysis of the evolving tax environment. **We make sure that every tax law change relevant to the introductory taxation course was considered, summarized, and fully integrated into the revision of text and supplementary materials.**

The *South-Western Federal Taxation* authors have made every effort to keep all materials up to date and accurate. All chapters contain the following general changes for the 2022 edition.

- Updated materials to reflect changes made by Congress through legislative action (including the tax provisions contained in the CARES Act, the Consolidated Appropriations Act of 2021, and the American Rescue Plan Act of 2021).
- 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 www.cengage.com/login)
- An appendix that covers depreciation and the Accelerated Cost Recovery System (ACRS). (Instructor Companion Website at www.cengage.com/login)

Chapter 1

- Expanded discussion of tax rates to cover statutory, marginal, average, and effective tax rates and added a new example. Some of this information was previously in Chapter 9.
- Removed the Digging Deeper feature related to who pays taxes.
- Added an explanation of another income tax planning framework.

- Expanded the discussion on judicial concepts to also include the substance over form doctrine.
- Added a new problem on tax rate computations (correlates with expanded discussion of tax rates in text).

Chapter 2

- Updated discussion on changes to the CPA exam.
- Expanded Digging Deeper notes to include the relevance of Chief Counsel Advice Memoranda.
- Updated end-of-chapter materials as needed.

Chapter 3

- Updated Global Tax Issues feature related to IAS 12 and the current state of the convergence between U.S. GAAP and IFRS.
- Updated Financial Disclosure Insights feature for corporations paying no income tax in 2018.
- Added new example illustrating the intra-period allocation of tax expense.
- Added new discussion and three examples of the impact of subsequent events on the accounting for uncertain tax positions.
- Revised former Concept Summary 3.2 (summarizing the provision process); it is now Concept Summary 3.3.
- Deleted former Example 26 illustrating the refund of previously paid AMT as the 2020 CARES Act accelerated all remaining refunds to 2019.
- Added two discussion problems requiring students to:
 - Identify reasons current tax expense as reported in the financial statements may not correspond to the current-year tax returns.
 - Explain the impact of a tax dispute settlement on book income.
- Added a problem requiring students to determine the impact of a tax dispute settlement on book income and provide the related journal entry.
- Modified former Problems 34–39 so they now include an example of a deferred tax benefit as well as an expense.
- Eliminated former Problem 43 as other problems already require a tax rate reconciliation.
- Eliminated former Research Problem 4 requiring the identification of deferred tax assets and liabilities in a company's financial statements as a similar task is included in other research problems.

Chapter 4

- Made minor updates tied to 2020 law changes.
- End-of-chapter problem added on imputed interest on a below-market loan.

Chapter 5

- Changed order in which disallowance possibilities are discussed to emphasize their relation to each other and other items discussed in the text.
- Added Digging Deeper 3 to illustrate the determination directly from financial statement information of a deduction for an expense failing to meet the all events and economic performance tests.
- Added Digging Deeper 9 to discuss the basics of the repair regulations.
- Updated text for inflation-adjusted items.
- Added new Example 24 to illustrate the treatment of research and experimental expenditures incurred after 2021.
- Added a brief discussion of the purpose of the limitation on the deductibility of business interest.
- Revised and updated end-of-chapter materials as needed (including changes needed to reflect revised inflation-adjusted items).
- Added a new Problem 13 requiring the determination directly from financial statement information of a deduction for an expense failing to meet the all events and economic performance tests.
- Revised Problem 27 related to the treatment of research and experimental expenditures beginning in 2022.

Chapter 6

- Updated text and end-of-chapter materials as needed.

Chapter 7

- Updated text for inflation-adjusted items.
- Revised and updated end-of-chapter materials as needed (including changes needed to reflect revised inflation-adjusted items).

Chapter 8

- Updated text for inflation-adjusted items.
- Updated Tax Fact entitled “Capital Gains for the Wealthy?” for the distribution of capital gains and qualified dividends across income levels.
- Added a Digging Deeper feature covering recapture on sales of property between related parties.
- Revised and updated end-of-chapter materials as needed (including changes needed to reflect revised inflation-adjusted items).
- Deleted former Problem 41 related to recapture on installment sales.

Chapter 9

- Moved explanation of statutory, marginal, and average tax rates to Chapter 1.
- Updated Tax Fact entitled “What Mode of Tax Filing Is Right for You?” for e-filing statistics.
- Updated materials for annual inflation adjustments.
- Added note about temporary allowance of the deduction of cash contributions for non-itemizers in Concept Summary 9.1.

Chapter 10

- Updated credit coverage for changes made by the American Rescue Plan Act of 2021 (P.L. 117–2).
- Updated education tax credits discussion.
- Updated end-of-chapter problems as needed.

Chapter 11

- Updated text for recent pandemic-related tax law changes.
- Updated and improved discussion of education expenses and related tax benefit.
- Updated end-of-chapter problems as needed.

Chapter 12

- Switched Learning Objectives 3 and 4 to reflect changes in the text.
- Switched text Sections 12-2e and 12-2f to enhance readability and student comprehension.
- Reversed the order of discussion of assigning basis in § 351 transactions and the effect of liabilities transferred to a corporation on stock and asset bases.

Chapter 13

- Updated text to reflect that for 2021 and 2022 there is no E & P adjustment for business meals provided by a restaurant as they are 100% deductible.

Chapter 14

- Updated Tax Fact entitled “Partnership Power” to reflect 2018 statistics of income information for partnerships.
- Updated Tax Fact entitled “What Do Partnerships Do?” to reflect 2018 statistics of income information for partnerships.
- Updated QBI phaseout thresholds for inflation adjustments.
- Updated excess business loss rules for inflation adjustments.
- Updated self-employment taxable income limitations for 2021.
- Updated tax return problem requirements to recommend use of ProConnect Tax software.

Chapter 15

- Updated Tax Fact entitled “The Business of S Corporations.”
- Updated QBI phaseout information.
- Reduced loan basis coverage.
- Updated excess business losses limits to 2021 amounts.

Chapter 16

- Updated text and end-of-chapter materials as needed.

Chapter 17

- Moved discussion of the low-income housing credit from the Digging Deeper supplement to text Section 17-2d.
- Deleted separate section for corporate AMT.
- Updated material for inflation adjustments.
- Added three new Becker questions.

Chapter 18

- Updated data in Tax Fact entitled “Revenue Relevance of Corporate versus Individual Taxpayers,” in Tax Fact entitled “The Relative Popularity of Flow-Through Entities,” and in Exhibit 18.1.
- Added publicly traded partnerships to comparison of the treatment of organization forms for tax and nontax purposes.
- Updated income limits on which self-employment taxes are imposed.
- Deleted former Problems 10 and 31.

TAX LAW OUTLOOK

From your SWFT Series Editors

Legislation related to the COVID-19 pandemic was a vehicle for several tax changes in 2020. Several more were incorporated into the American Rescue Plan Act of 2021 (P.L. 117–2; March 11, 2021). Looking forward, a new administration and a change in the balance of power in Congress is likely to lead to several proposed tax law changes related to changing economic and social goals. For example, the Biden administration and 117th Congress have begun to discuss changes to the Tax Cuts and Jobs Act of 2017 (TCJA), including its international provisions. Other proposals, including tax rate increases on both corporations and individuals, are expected to offset the cost of the Biden administration’s Build Back Better plan (with legislation likely to be discussed and possibly enacted before the end of the 117th Congress).

Taxpayers and their advisers will need to evaluate how these changes affect their financial planning strategies and adjust their plans appropriately. Students and researchers as well should have plenty of opportunities to discuss and analyze the practical and policy implications of these proposals. The SWFT editors will be monitoring these activities and provide updates to adopters as needed.

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- The Depreciation and the Accelerated Cost Recovery System (ACRS) appendix

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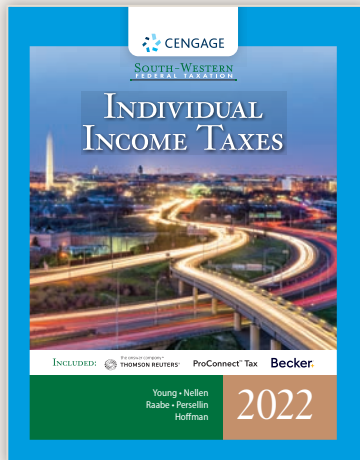
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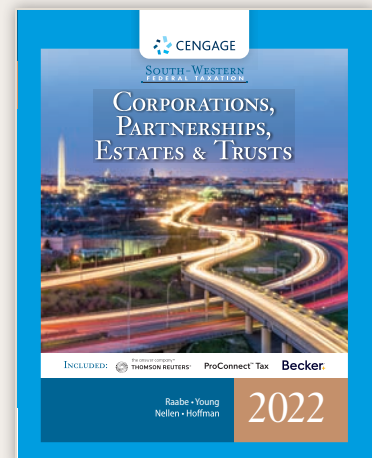
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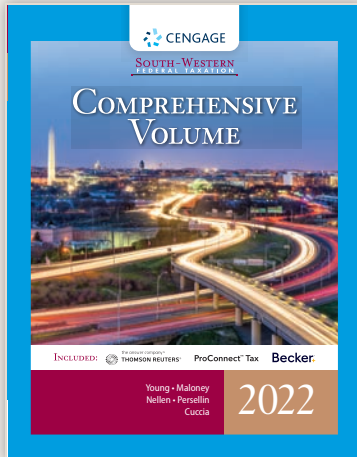
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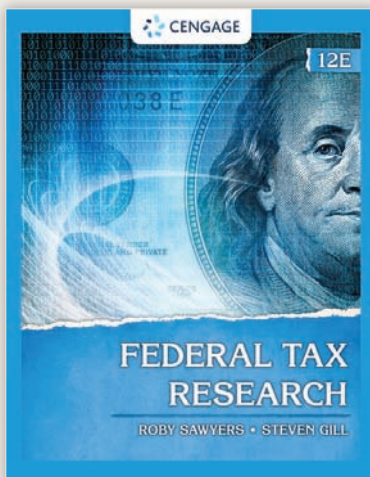
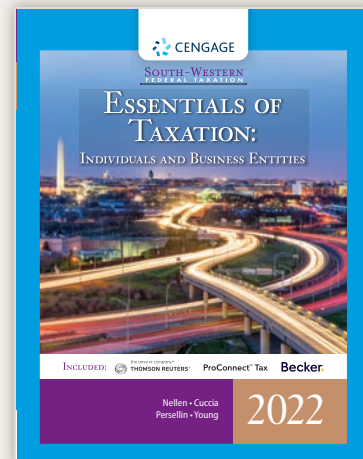
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