

SOUTH-WESTERN
FEDERAL TAXATION

2023

Comprehensive
Volume

Young • Nellen
Maloney • Persellin
Cuccia • Lassar • Cripe

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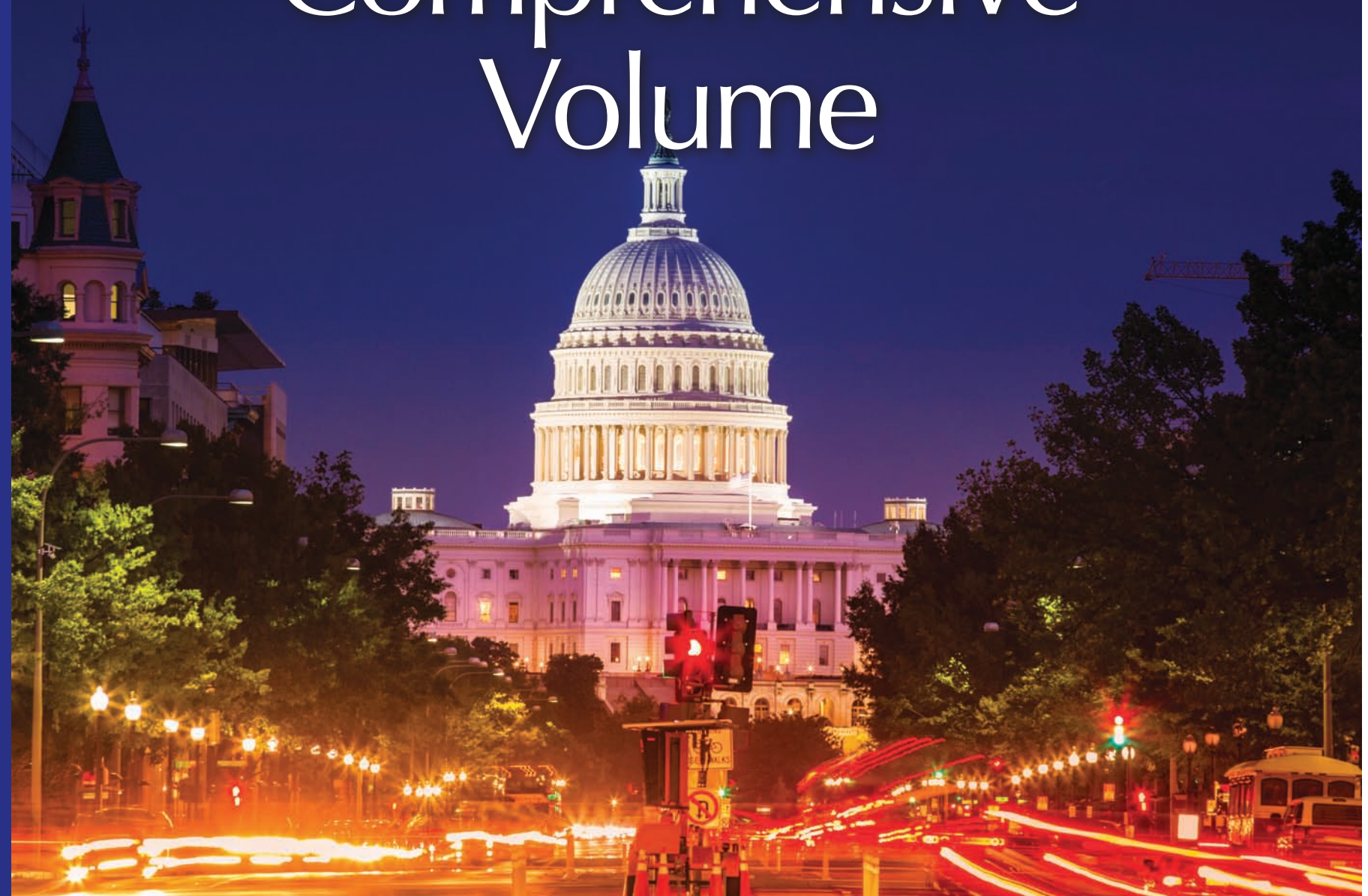
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FEDERAL TAXATION

Comprehensive Volume



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2023

2021 Tax Rate Schedules

Single—Schedule X				Head of household—Schedule Z			
If taxable income is:	<i>But not over—</i>	The tax is:	<i>of the amount over—</i>	If taxable income is:	<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:	<i>But not over—</i>	The tax is:	<i>of the amount over—</i>	If taxable income is:	<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

2022 Tax Rate Schedules

Single—Schedule X				Head of household—Schedule Z			
If taxable income is:	<i>But not over—</i>	The tax is:	<i>of the amount over—</i>	If taxable income is:	<i>But not over—</i>	The tax is:	<i>of the amount over—</i>
\$ 0	\$ 10,275	.....10%	\$ 0	\$ 0	\$ 14,650	.....10%	\$ 0
10,275	41,775	\$ 1,027.50 + 12%	10,275	14,650	55,900	\$ 1,465.00 + 12%	14,650
41,775	89,075	4,807.50 + 22%	41,775	55,900	89,050	6,415.00 + 22%	55,900
89,075	170,050	15,213.50 + 24%	89,075	89,050	170,050	13,708.00 + 24%	89,050
170,050	215,950	34,647.50 + 32%	170,050	170,050	215,950	33,148.00 + 32%	170,050
215,950	539,900	49,335.50 + 35%	215,950	215,950	539,900	47,836.00 + 35%	215,950
539,900	.....	162,718.00 + 37%	539,900	539,900	.....	161,218.50 + 37%	539,900
Married filing jointly or Qualifying widow(er)—Schedule Y-1				Married filing separately—Schedule Y-2			
If taxable income is:	<i>But not over—</i>	The tax is:	<i>of the amount over—</i>	If taxable income is:	<i>But not over—</i>	The tax is:	<i>of the amount over—</i>
\$ 0	\$ 20,550	.....10%	\$ 0	\$ 0	\$ 10,275	.....10%	\$ 0
20,550	83,550	\$ 2,055.00 + 12%	20,550	10,275	41,775	\$ 1,027.50 + 12%	10,275
83,550	178,150	9,615.00 + 22%	83,550	41,775	89,075	4,807.50 + 22%	41,775
178,150	340,100	30,427.00 + 24%	178,150	89,075	170,050	15,213.50 + 24%	89,075
340,100	431,900	69,295.00 + 32%	340,100	170,050	215,950	34,647.50 + 32%	170,050
431,900	647,850	98,671.00 + 35%	431,900	215,950	323,925	49,335.50 + 35%	215,950
647,850	.....	174,253.50 + 37%	647,850	323,925	.....	87,126.75 + 37%	323,925

Tax Formula for Individuals

Income (broadly defined).....	\$xx,xxx
Less: Exclusions.....	<u>(x,xxx)</u>
Gross income.....	\$xx,xxx
Less: Deductions for 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).....	(xxx)
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	2021	2022
Single	\$12,550	\$12,950
Married, filing jointly	25,100	25,900
Surviving spouse	25,100	25,900
Head of household	18,800	19,400
Married, filing separately	12,550	12,950

Amount of Each Additional Standard Deduction

Filing Status	2021	2022
Single	\$1,700	\$1,750
Married, filing jointly	1,350	1,400
Surviving spouse	1,350	1,400
Head of household	1,700	1,750
Married, filing separately	1,350	1,400

Personal and Dependency Exemption

2021	2022
\$4,300	\$4,400

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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South-Western Federal Taxation: Comprehensive Volume, 2023 Edition

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¹ Based on Intuit internal data of the number of paid users of ProConnect Tax for Tax Year 2019 compared to publicly available statements from competitors for the same time period.

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Preface

Committed to Educational Success

South-Western Federal Taxation (SWFT) is the most trusted and best-selling taxation series used by colleges and universities. 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.

Comprehensive Volume, 2023 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, *Comprehensive Volume, 2023 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 income taxation.

In revising the 2023 Edition, we focused on:

- **Accessibility. Clarity. Substance.** The authors and editors made this their focus as they revised the 2023 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. We include development of written and verbal communication skills, the use of tax preparation and tax research software, orientation toward success on the CPA Exam (including the upcoming CPA Evolution version of the exam), exposure to tax policy and tax law development, consideration of the time value of money in the tax planning process, and experience with advanced spreadsheet applications and data analytics.
- **CNOWv2 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 CNOWv2 to meet evolving student and instructor needs. CNOWv2 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.

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
- ❑ CNOWv2 provides algorithmic versions of these problems

Computational Exercises

17. **LO.1, 2** Sally owns real property for which the annual property taxes are \$9,000. She sells the property to Kate on March 9, 2022, for \$550,000. Kate pays the real property taxes for the entire year on October 1, 2022.
- How much of the property taxes can be deducted by Sally and how much by Kate?
 - What effect does the property tax apportionment have on Kate's adjusted basis in the property?
 - What effect does the apportionment have on Sally's amount realized from the sale?
 - How would the answers in parts (b) and (c) differ if Sally paid the taxes?
18. **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?

Research and Data Analytics Problems:

- ❑ Research Problems provide students with vital practice in an increasingly demanded skill area. These end-of-chapter items ask students to find and analyze tax documents, 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 CNOWv2
- ❑ Questions similar to what students would actually find on the CPA Exam

Becker CPA Review Questions

- Becker+**
- 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.
 - Alice gifted stock to her son, Bob, in year 5. Alice bought the stock in year 1 for \$8,300. The value of the stock on the date of gift was \$6,400. Bob sold the stock in year 7 for \$15,800. What is Bob's recognized gain or loss on the sale in year 7?
 - \$0
 - \$7,500 gain
 - \$9,400 gain
 - \$15,800 gain



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 and children. Its annual operating budget is \$12 million. More than two decades ago, Jennifer Abbott was a recipient of the services provided by Hopeful. Now Hopeful's administrator has been notified by the attorney for Jennifer's estate that her will transfers to Hopeful her shares in 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 existed for eight years and has produced substantially higher profits each year.

Hopeful's board is considering the following options regarding the bequest from Jennifer 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 purpose.

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 provide a glimpse into the lives, families, careers, and tax situations of typical taxpayers. 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.

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 the 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).....	\$ xxxxx
Less: Exclusions.....	(xxxx)
Gross income	\$xx,xxx
FORM 1040 (Schedule D)	
7 Capital gain or (loss). Attach Schedule D if required. If not required, check here ▶ <input type="checkbox"/>	
FORM 1040 (Schedule E)	
3 Business income or (loss). Attach Schedule C.....	
4 Other gains or (losses). Attach Form 4797.....	
5 Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E.....	
Less: Deductions for adjusted gross income	(xxxx)
Adjusted gross income.....	\$ xx,xxx
Less: The greater of total itemized deductions or the standard deduction	(xxxx)
FORM 1040 (Schedule A)	
12a Standard deduction or itemized deductions (from Schedule A).....	
Charitable contributions if you take the standard deduction*.....	(xxx)
Personal and dependency exemptions**.....	(xxxx)
Deduction for qualified business income***.....	(xxxx)
Taxable income.....	\$ xxxxx
Tax on taxable income (see Tax Tables or Tax Rate Schedules).....	\$ xxxxx
Less: Tax credits (including income taxes withheld and prepaid).....	(xxx)
Tax due (or refund).....	\$ xxx

*For 2021, married taxpayers may claim up to \$600 of cash charitable donations (\$300 if unmarried).
 **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 appear.

Financial Disclosure Insights:

Tax professionals need to understand how taxes affect the 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.



Financial Disclosure Insights

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

Tax and Book Depreciation

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. Ford's depreciation differences amounted to about one-third of its deferred tax liabilities. And for the trucking firm Ryder Systems, depreciation differences accounted for virtually all 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, they will be on the lookout for other rental properties to buy and visit open houses of homes they find on the market. 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: Ethics & Equity

features will spark critical thinking and invite classroom discussion, enticing students to evaluate their own value system. Suggested reactions 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 as pertinent topics are discussed.

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



Global Tax Issues Filing a Joint Return

John 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. global 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.

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 CNOWv2

CNOWv2 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 —

To help with student engagement and preparedness, CNOWv2 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, CNOWv2 for SWFT offers the following:

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Mastery —

- ❑ **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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Instructions Form 1040 **Schedule A** Schedule B Schedule 8812 2021 Tax Rate Schedules Tax Planning for 2022

Instructions
Note: This problem is for the 2021 tax year.
Alice J. and Bruce M. Byrd are married taxpayers who file a joint return. Alice's birthday is September 21, 1974, and Bruce's birthday is September 15, 1978. Alice is the office manager for Lovell Dental Clinic, 433 Broadway, Hauppauge, NY 11790 (Employer Identification Number: 11-1111). Bruce is the manager of a Super Burgers fast-food outlet, 473 Revere Avenue, Hauppauge, NY 11790 (Employer Identification Number: 11-1111). The following information is shown on their Wage and Tax Statement:

Line	Description
1	Wages, tips, other compensation
2	Federal income tax withheld
3	Social Security wages

Schedule A
Complete Alice and Bruce Byrd's Schedule A for 2021.

SCHEDULE A
(Form 1040)
Department of the Treasury
Internal Revenue Service (99)

Itemized Deductions
Go to www.irs.gov/Schedules for instructions and the latest information. Attach to Form 1040 or 1040-SR.
Caution: If you are claiming a net qualified disaster loss on Form 4684, see the instructions for line 16.

Name(s) shown on Form 1040 or 1040-SR
Bruce M. and Alice J. Byrd

Caution: Do not include expenses reimbursed or paid by others.

Medical 1. Medical and dental expenses (see instructions) 1

Instructions **Form 1040** Schedule A Schedule B Schedule 8812

Form 1040
Complete the Byrd's Form 1040 for 2021.

Form Department of the Treasury — Internal Revenue Service (99)
1040 U.S. Individual Income Tax Return 2021 OMB No. 1545-0074 IRS Use

Filing Status

Your first name and middle initial Last name Your social security num
Bruce M. Byrd 111-11-1113

If joint return, spouse's first name and middle initial Last name Spouse's social security nu
Alice J. Byrd 123-45-6784

Home address (number and street). If you have a P.O. box, see instructions. Apt. no. Presidential Election Camp
473 Revere Avenue Check here if you, or your spouse, are filing jointly, want \$3 to go to t

City, town, or post office. If you have a foreign address, also complete State ZIP code

Extensively Revised. Definitively 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 2023 edition:

- Updated materials to reflect changes made through legislative action, new administrative rulings, and court decisions.
- 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* for current developments.
- Added a “Planning” icon to end-of-chapter questions requiring tax planning considerations.

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)
- An appendix that has comprehensive tax return problems for the 2021 tax filing year (Appendix F). (Instructor Companion Website at www.cengage.com/login)

Chapter 1

- Expanded discussion on the relevance of taxation to accounting and finance professionals to include the role of a corporate tax director in global growth strategy (added to the planning function), ESG reporting (likely covered in other accounting and business courses and now part of AACSB accreditation standards), and tax advocacy.
- Added information on space travel tax proposals.
- Added information (and a related example) on Preparer Tax Identification Numbers (PTINs).
- Updated figures based on revised IRS data and inflation adjustments.
- Added Research Problem 5 on the data security question tied to the “Safeguards Rule” that is on Form W-12 to obtain or renew a PTIN (ties to the CPA Evolution Model Curriculum).

Chapter 2

- Based on adopter feedback, added 15 basic (simple) research problems involving the legislative sources, administrative sources, and judicial sources of tax law.
- Updated chapter materials (including various references and citations); modified exhibits and concept summaries for new sources (including IRS FAQs).
- Updated end-of-chapter materials as needed.

Chapter 3

- Updated chapter materials to reflect 2021 tax legislation and 2022 inflation adjustments.
- Updated chapter materials to reflect changes in Form 1040 and related schedules; updated various exhibits, including when Form 1040 Schedules 1 through 3 are used and when the 0%, 15%, and 20% break points occur for the alternative tax on net capital gains.
- Revised and clarified materials as needed; updated end-of-chapter materials to reflect 2021 tax legislation and 2022 inflation adjustments.

Chapter 4

- Updated Global Tax Issues feature entitled “From ‘All Sources’ Is a Broad Definition” for the number of recent expatriations.

- Added an Ethics & Equity feature discussing the discrepancy between alimony deducted on tax returns and that reported as income prior to the TCJA of 2017.
- Revised the discussion of the Applicable Financial Statement (AFS) income inclusion rule and related examples for exceptions included in the Regulations issued since last edition.
- Added a new exercise on the AFS income inclusion rule and available exceptions.

Chapter 5

- Reduced coverage of voluntary death benefit payments by employers (employers are more likely to have group term life insurance for employees).
- Added a brief explanation of the foreign housing exclusion or deduction.
- Added a discussion question involving critical thinking and the need to examine the facts to understand why an individual received funds. This determination is necessary in order to determine whether the funds are excludible from gross income.

Chapter 6

- Revised Concept Summary 6.4 (Classification of Expenses) by focusing on activity type (business; personal; investment/production of income).
- Updated and revised chapter materials to reflect changes in tax law and inflation adjustments.
- Deleted discussion question about legal fees incurred in connection with a divorce; created new discussion about the § 162(m) compensation limitation.
- Updated end-of-chapter materials as needed.

Chapter 7

- Updated chapter materials as needed (including end-of-chapter materials).
- Added new research problem, asking students to gather information on whether to repeal or permanently extend the excess business loss limitation provision [§ 461(l)].

Chapter 8

- Updated chapter materials as needed to reflect changes to § 179 limits (including SUVs), luxury automobile limits, and updated Form 4562 and Schedule C (Form 1040).
- Added a new Excel problem, asking students to build a spreadsheet to calculate MACRS cost recovery and end-of-year adjusted basis for MACRS 3-, 5-, and 7-year assets.
- Updated balance of end-of-chapter materials as needed.

Chapter 9

- Updated text and end-of-chapter materials for revised standard mileage amounts; updated materials on retirement plans.
- Revised and clarified other materials based on feedback from adopters.

Chapter 10

- Added information about Notice 2020-75 and SALT workarounds some states have enacted for pass-through entities and their owners.
- Revised and clarified text as needed; updated end-of-chapter materials as needed.

Chapter 11

- Updated chapter materials based on feedback from adopters and IRS updates; revised end-of-chapter materials as needed.
- Added a new discussion question on the average period of customer use rental exception.
- Added an additional reference to Research Problem 3 (Reg. § 1.163-15) allowing students to include this expanded tracing rule in their research.

Chapter 12

- Updated chapter materials for inflation adjustments.
- Updated for TCJA change to the research tax credit for tax years beginning after December 31, 2021.

Chapter 13

- Revised and updated chapter materials as needed.

Chapter 14

- Updated chapter materials as needed.

Chapter 15

- Modified The Big Picture example to include a “name, image, and likeness” (NIL) contract and ask whether the activity is a trade or business.
- Added a The Big Picture example related to what activities constitute a trade or business for purposes of § 199A.
- Updated example illustrating the completion of 2021 Form 8995-A and Schedule A (Form 8995-A).
- Revised and clarified materials based on feedback from adopters.
- Updated end-of-chapter materials as needed (including revisions for inflation adjustments to threshold limits and 2021 Form 8995).

Chapter 16

- Added an example of the 12-month rule of Reg. § 1.263(a)–1(f).
- Reduced coverage of the installment sale method.
- Reduced Exhibit 18.1 to focus on the most common contract and indirect costs.
- Added new tax planning items.

Chapter 17

- Revised and clarified chapter materials as needed (including inflation adjustments).
- Added discussion regarding 2022 change in computation of adjusted taxable income for purposes of the business interest expense limitation; depreciation (and some other items) no longer reduce ATI. Added an example illustrating the impact of this change.
- Added new Research Problem 6 requiring data analytics and the use of visual presentation (i.e., pie chart).
- Revised and updated remaining chapter text and end-of-chapter materials as needed.

Chapter 18

- Emphasized the tax planning aspects of two problems.
- Modified a “thin capitalization” problem to emphasize critical thinking and practice-related aspects of the problem.
- Further streamlined the writing in the chapter to reduce passive voice sentences.
- Revised and updated chapter materials as needed.

Chapter 19

- Revised and updated chapter materials based on adopter feedback; updated end-of-chapter materials as needed.
- Added new Research Problem 5 requiring the use of Thomson Reuters Checkpoint™.

Chapter 20

- Revised and clarified chapter materials as needed.
- Added new Financial Disclosure Insights feature entitled “Blank Check Companies.”

Chapter 21

- Added references to § 721(c) and new Schedules K–2 and K–3.
- Expanded discussion for new tax basis capital account reporting. The chapter provides more detailed comparisons between tax basis capital accounts, GAAP capital accounts, and § 704(b) book capital accounts, as well as ramifications of new reporting requirements.
- Added reference to the new § 1061 regulation project.

Chapter 22

- Updated Exhibit 22.1 statistics comparing business entities.
- Made minor revisions and clarifications, including many date changes.
- Added two new Research Problems, including one requiring the use of Thomson Reuters Checkpoint™.
- Added two new Becker CPA Review Questions.

Chapter 23

- Revised Learning Objective 4 and the title of text Section 23-4 to include the term “public charities.”
- Revised introduction to taxation of exempt entities, and how the entity’s net earnings can be used.
- Updated statistics about the exempt economy and Federal taxation of it, unrelated business income, and concerning private foundations and university endowments.
- Revised the introduction to the tax on lobbying by exempt entities.
- Replaced Research Problem 2.

Chapter 24

- Updated discussion of P.L. 86–272 for the August 2021 update to the MTC’s *Statement of Information Concerning Practices of Multistate Tax Commission and Signatory States Under Public Law 86–272*.

Chapter 25

- Expanded the discussion of text Section 25-5e [Global Intangible Low-Taxed Income (GILTI)], including Concept Summary 25.5 on computing GILTI, and Exhibit 25.8 on computing gross and net tested income, and added a number of new examples to illustrate the text materials.
- Updated and added statistics about the global economy, worldwide tax rates, treaty withholding rates, advance pricing agreements, FTC deferrals, and CFCs.
- Added new discussion question, computational exercise, and problem related to GILTI.
- Based on adopter feedback, revised remainder of text and end-of-chapter materials.

Chapter 26

- Updated statistics about the IRS and the tax collection/enforcement process.
- Updated statistics about the tax gap and the return on investment in the IRS, IRS user fees, and taxpayer attitudes toward tax cheating.

- Updated materials and statistics about the abatement of penalties for first-time offenders.
- Included the GLBA responsibilities of the tax preparer as to data security for taxpayer information and operating/storage systems.
- Added a new Excel requirement to one computational exercise and one problem.

Chapter 27

- Updated chapter materials to reflect inflation adjustments to §§ 2010, 2032A, 2503(b), and 6601(j).
- Replaced Research Problem 6 with a question about the Ultra-Millionaire Tax Act.
- Based on adopter feedback, revised other chapter text and end-of-chapter materials as needed.

Chapter 28

- Updated end-of-chapter materials as needed; revised other materials as needed.

Tax Law Outlook

From your SWFT Series Editors:

Legislation related to the COVID-19 pandemic was a vehicle for tax changes in 2021, including a wide variety of tax changes incorporated into the American Rescue Plan Act of 2021. The Biden administration and Congress continue to discuss a wide variety of tax law changes. Although the Build Back Better plan was not enacted, pieces of that proposal are likely to be debated (and possibly adopted) before the end of 2022. In addition, it is likely that Congress will return to its pattern of extending expired and expiring tax provisions sometime in 2022.

Annually, the Joint Committee on Taxation publishes a report of all expired and expiring provisions in the tax law. The report released in January 2022 lists 40 provisions that expired in 2021 ([jct.gov/publications/2022/jcx-1-22/](https://www.jct.gov/publications/2022/jcx-1-22/)). This list does not include the change to § 174 for R&D expenditures to be capitalized and amortized (rather than currently expensed) for tax years beginning after 2021. The Build Back Better Act passed by the House in November 2021 extended that date by four years. If that act does not become law, it is likely that Congress will find another way to extend the effective date of this change that originated with the Tax Cuts and Jobs Act of 2017.

Taxpayers and their advisers will need to evaluate how these changes affect their financial planning strategies and adjust their plans appropriately. The SWFT editors will be monitoring these activities and provide updates to adopters as needed.

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Solutions Manual

Written by the *South-Western Federal Taxation* editors and authors, the Solutions Manual features solutions arranged in accordance with the sequence of chapter material.

Solutions to all homework items are tagged with their Estimated Time to Complete, Level of Difficulty, and Learning Objective(s), as well as the AACSB's and AICPA's core competencies—giving instructors more control than ever in selecting homework to match the topics covered. The Solutions Manual also contains the solutions to Appendix F: Practice Set Assignments—Comprehensive Tax Return Problems and answers with explanations to the end-of-chapter Becker CPA Review Questions. **Available on Instructor Companion Website at www.cengage.com/login.**

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Written by the *South-Western Federal Taxation* editors and authors, the Test Bank contains approximately 2,200 items and solutions arranged in accordance with the sequence of chapter material.

Each test item is tagged with its Estimated Time to Complete, Level of Difficulty, and Learning Objective(s), as well as the AACSB's and AICPA's core competencies—for easier instructor planning and test item selection. The 2023 Test Bank is available in Cengage's test generator software, Cognero.

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- Edition-to-edition correlation grids by chapter
- An appendix that helps instructors broaden and customize coverage of important tax provisions of the Affordable Care Act
- Depreciation and the Accelerated Cost Recovery System (ACRS) appendix
- Comprehensive Tax Return Problems appendix

Custom Solutions

Cengage Learning Custom Solutions develops personalized solutions to meet your taxation education needs. Consider the following for your adoption of *South-Western Federal Taxation 2023 Edition*.

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- Add your own material to cover additional topics or information.
- Add relevance by including sections from Sawyers/Gill's *Federal Tax Research* or your state's tax laws and regulations.

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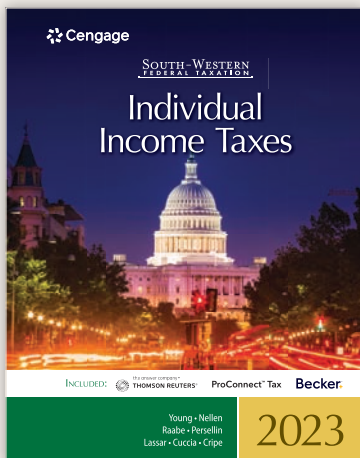
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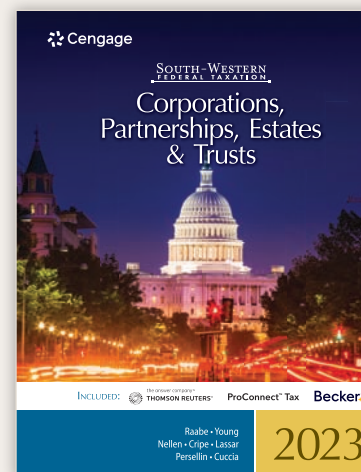
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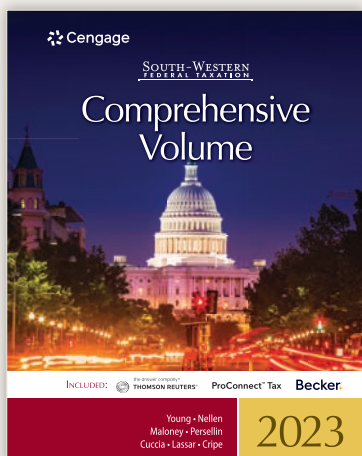
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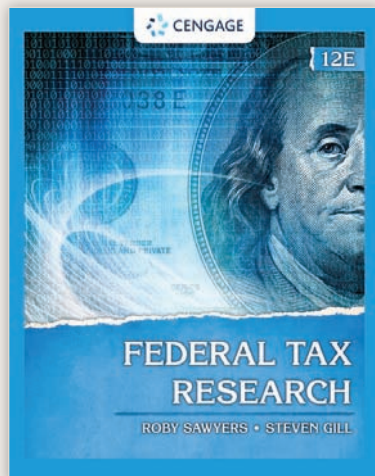
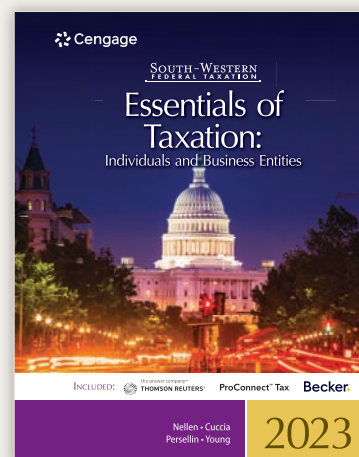
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