

INTRODUCTION TO INCOME TAX
Fall 2010
Office hours: 2:15-3:30pm, Mon. & Wed.
Secretary: Sheila Gerber, Room 252,
sdgerber@indiana.edu

PROFESSOR LEANDRA LEDERMAN
llederma@indiana.edu
Room 336, 855-6149
<http://www.law.indiana.edu/people/lederman>

SYLLABUS

CASEBOOK: Burke & Friel, TAXATION OF INDIVIDUAL INCOME, 9th ed. (bound or looseleaf).

CODE & REGS.: SELECTED FEDERAL TAXATION STATUTES AND REGULATIONS (CCH 2010-2011).

ADDITIONAL REQUIRED MATERIALS: Supplementary reading for this class will be posted in the Resources area of the Oncourse site for this class. This Syllabus is also available there.

OPTIONAL MATERIALS:

- M. Chirelstein, FEDERAL INCOME TAXATION is excellent and complements the casebook in that it discusses conceptual links between topics covered separately in the casebook. I highly recommend this book. If you decide to use it, be sure to obtain the latest edition.
- For guidance with respect to the Internal Revenue Code, see I. Richard Gershon, A STUDENT'S GUIDE TO THE INTERNAL REVENUE CODE.

CLASS CANCELLATION: This class will not meet on Monday, Oct. 11. We will discuss in class when is the best time for a make-up class, but it will most likely be a review session after the last regularly scheduled class.

ANSWERS TO FAQ:

- Code and regulations sections assigned in the casebook that are not reproduced in the CCH Code & Regs are not assigned unless I distribute them to the class (typically via the Oncourse site).
- I don't mind if you occasionally arrive late or leave early. If you miss the attendance sheet, please see me after class. If you were just a few minutes late, you can sign in for the whole class; otherwise, you can sign in for the portion of the class you attended.

Many other frequently asked questions are answered in the next 4 pages of the syllabus. Please read that material before the first class.

Introduction to the Federal Income Tax Course

Introduction to Income Tax focuses on the income taxation of individuals. It emphasizes the Internal Revenue Code (the “Code”),¹ concepts applicable throughout tax law, and underlying tax theory and policy. Throughout the course, we will refer to court cases, Treasury regulations, Revenue Rulings, and legislative history, to assist us in interpreting the Code. Class will generally focus on determining what the applicable Code sections, Treasury regulations and cases provide, and on applying those authorities to resolve assigned problems.

Casebook/Assignments

The Burke & Friel casebook is excellent but its chapters are organized in an unusual way. Each chapter begins with a problem. You will find that you cannot work the problem without first having completed the assigned reading. Following the problem in each chapter is the assignment for the chapter. This will almost always include sections of the Code and Regulations. These Code and Regulations sections listed there *are assigned* unless the syllabus specifies otherwise; only changes or additions to the list in the chapter will appear on the syllabus. However, a few Code and Regulations sections assigned in the text do not appear in the CCH Code & Regulations Selected Sections book. As stated above, you are not required to read those particular sections unless I make them available to the class.

Following the assigned reading, each chapter lists vocabulary to be learned from the chapter. Next is a list of objectives of the chapter. Following the objectives is the chapter Overview, which serves to introduce you to the material in the chapter. The Overview is meant to assist in providing a framework for pulling together the primary sources you are assigned. It should not be cited as authority. You may find that it helps to read the Overview before or in conjunction with the assigned sections of the Code and Regulations. After the Overview are additional materials, such as cases and Revenue Rulings. I suggest reading these materials *after* reading the Code and regulations because they generally serve to interpret the Code and Regulations.

Assigned Materials/Oncourse Site: In addition to the reading in the casebook and Code/Regs, I will post additional materials on line at the Oncourse site for this class. Most of the materials posted on the Oncourse site are handouts that I think will help you work through complicated material. Materials posted on the Oncourse site (in the “Resources” area) are listed on the syllabus *in italics*. This syllabus will be posted there, along with the chart attached to it (“road map of a tax return”) that we will use in connection with Chapter 1 of the casebook. I will also use the Oncourse site to post announcements. The site also offers a discussion board (“Forums”) that I encourage you to use to continue class discussion. Periodically, I will post questions and additional problems for the class to work through. You are responsible for checking the Oncourse site at least twice a week for announcements.

¹ Title 26 of the U.S. Code.

Learning the Material: Much of federal income tax is interrelated. The casebook does a nice job of isolating topics for separate consideration, which should help make the material more accessible. However, as a result, the casebook does not focus as much on integrating the material, which is necessary to master it. As we progress through the material over the course of the semester, try to make connections between topics covered in different chapters of the casebook. I will try to facilitate that, as well.

Class Preparation and Participation

Preparing for Class: To be fully prepared for class, you will need to have read the assigned Code sections, Treasury regulations, cases, rulings, and the Overview of the Chapter and then have written out complete answers to the assigned problems. The goal of preparing for class is to work through the primary source material by applying it to the hypothetical situations in the problems. If you have completed the assignment, including reading the assigned regulations and writing out answers to the problems, you are prepared for class, even if you are uncertain about the material and are not sure you have resolved the problems correctly. If you do not have time to completely prepare for class, I recommend the following priority order for the materials: the assigned Code sections, the assigned regulation sections, the assigned cases and rulings, the Overview, and the problems.

When analyzing the problems, focus on: (1) the relevant legal principle(s); (2) application of the principle(s) to the particular facts; and (3) the conclusion. You will need to be prepared to explain your analysis of the problem—the analysis is more important than your answer to it. In addition, the assigned cases are important in interpreting the Code and resolving the problems. We will discuss many of the cases in class. Most students find that they need to spend approximately 3-4 hours in order to be adequately prepared for the discussion in each class session.

Class participation: Class participation is very important. My expectation is that the class will provide the basis for most of the discussion of the assigned problems, cases, and rulings, and will cite applicable Code sections and regulations. After the introductory material covered in the first couple of classes, I will generally begin each topic with a brief overview, but, after that, I expect students to do most of the talking. I therefore strongly encourage everyone to volunteer. I will generally seek volunteers first but will call on people if there are no volunteers or only the same few people volunteering.

Student Questions

I am happy to take questions on any of the assigned material. If a question asked in class will take us beyond the assigned material or will require substantial time reviewing material previously discussed, I generally will reserve answering the question at any length for outside of class time. If you ask a question that I reserve for further discussion outside of class, please do not take it personally and feel free to follow up with me outside of class in person or by e-mail.

If, in preparing for class, you find material confusing, I suggest that you wait until we have covered the material in class to ask questions about it because many questions are cleared up by the class discussion. If you have questions after the class discussion, I suggest first looking back at the applicable statutes and regulations, and then to contact me with any remaining questions you have.

Hypos and Use of the Oncourse Forums: Students often raise interesting hypotheticals in class that involve variations on the assigned problems. I encourage students with hypotheticals to post them in the “Forums” area of the Oncourse site for other students to respond to. When hypotheticals are raised in class, I may ask the student who raised the hypothetical what he or she thinks is the answer. If time permits, I may ask for others to add to the analysis of the hypothetical, but often I will simply post the hypothetical on the Oncourse site after class so that class discussion of the hypothetical can take place there. I will respond periodically to student posts on the Oncourse site.

Tax advice: I am sorry but I cannot provide tax advice to students. Of course, I am happy to help with questions relating to the course, but I cannot address students’ personal tax situations or those of their family, employer, etc.

Attendance and Unprepared Policies

Attendance policy: Class attendance is very important. Students who miss a lot of Income Tax classes generally do not perform well on the exam. However, I understand that sometimes missing a class is unavoidable. Therefore, your grade in the class will not be lowered on account of absences so long as you do not accrue absences (or the equivalent, as discussed below) for 25 percent or more of the class sessions. Any student absent 25 percent or more of the class sessions will have his or her grade lowered a notch (e.g., B would be lowered to B-). Any student absent 33 1/3 percent or more of the class sessions will have his or her grade lowered an additional notch (e.g., B would be lowered to C+). Any student absent 40 percent or more of the class sessions may be barred from sitting for the exam. **It is your responsibility to keep track of your total number of absences.** If you are uncertain of your totals, please contact my secretary, Sheila Gerber, at sdgerber@indiana.edu.

You generally do not need to seek my permission for an absence or justify it before or after it occurs. However, if a situation arises in which you will be missing a lot of classes either consecutively or periodically, please do contact me so that we can discuss the situation.

Unprepared policy: If you are unprepared for class (you have not done all of the assigned reading and written out answers to the problems), send me an e-mail no later than 20 minutes prior to class stating that you are unprepared. If you do not have access to e-mail, you can give me an “unprepared” note with your name and the date on it in class, before class starts. I do not accept verbal “passes” in class. If I call on you and you are unprepared but did not send me an unprepared e-mail or give me an unprepared note with your name and the date on it prior to the beginning of class, that will be treated as **1.5 absences** for purposes of the absence policy (discussed above). I highly encourage class attendance even when you are unprepared.

Therefore, timely unprepared e-mails/notes each count as half of an absence for purposes of the absence policy. **I will accept a maximum of 10 unprepared notes from a single student during the semester**, absent prior arrangement in extenuating circumstances.

Grading Policy

Grade components: Your grade in the course will be based on your grade on the final examination, with possible adjustment. It may be adjusted downward under the absence/unprepared policy, as discussed above. I also reserve the right to raise by one notch (e.g., from B+ to A-) the grade of any student who, in my judgment, demonstrates consistent, excellent class participation.

Exam: The examination will be entirely **multiple choice** and will be modified open book. You may bring in (1) the Code and Regulations book, which may contain your own notations in it; (2) any outline you prepared or helped to prepare; (3) your class notes; (4) any additional materials assigned or distributed to the class (typically via the Oncourse site); and (5) a calculator.² You may *not* bring in the casebook or other secondary sources.

Assignments

_____ All chapter assignments are in the Burke & Friel casebook. All Code and regulations sections and all problems within the assigned chapter or casebook pages are also assigned, unless otherwise noted. For some chapters, additional Code sections or regulations are assigned as well; those are the ones listed under “Assigned Materials.” As stated above, all materials in *italics* are available in the “Resources” area of the Oncourse site. They generally appear there in the order of our coverage of the various topics in the course. The assignments are subject to change with notice.

The assignments below are grouped by topic; after the first class, they do not necessarily correspond to class sessions. In general, we will spend approximately 1-1½ hours on the material assigned in each casebook chapter that we cover, though a few shorter chapter assignments will take less time and some chapters (such as Ch. 4) will require closer to 2 hours. I will generally post on the Oncourse site after each class where we left off and approximately where I expect we will get in the following class session; **if you miss a class, check the site for that information.** In general, it is a good idea to be slightly ahead in the reading. However, if you read the material well in advance of class, be sure to review it so as to be prepared for the class discussion.

² Contrary to the myth, basic federal income tax generally does not require anything more than basic addition, subtraction, multiplication and division. Calculators are optional but many students find them helpful.

Assignment
Number

Assigned Materials

Subject Matter

INTRODUCTION

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|-----|--|-------------------------------------|
| (1) | Casebook Preface (pp.v-vi); Casebook pp.4-8 (stop before Part V); Appendix 1 of Casebook (pp.1079-1084, Researching the Tax Law); ³ IRC § 1(a) and note above § 1; look over the Table of Code and Regulations Sections beginning at page xix of the CCH Code & Regs; look over the structure and content of Rev. Proc. 2009-50 (included in front portion of CCH book, starting at page ix, or obtain on Lexis by typing the citation above at “Get a Document”); <i>Chart (road map of a tax return</i> , attached to Syllabus); look over President and Mrs. Obama’s 2009 fed. income tax return (print out and bring to class the first 6 pages from http://taxbase4.tax.org/thp/presreturns.nsf/Returns/CBBA4F0CDB3C35198525742F005A334A/\$file/B_Obama_2009.pdf). | Introduction to income tax |
| (2) | Ch. 1 (no need to reread pp.4-8); IRC §§ 61, 62(a), 63(a). Analyze the problem at the beginning of Chapter 1 before checking your answer in the text. Then calculate and write out the answer using the 2010 inflation-adjusted amounts and rates from Rev. Proc. 2009-50 (beginning at page ix of the CCH Code and Regs); we will refer to that Revenue Procedure when we go over the problem in class. | Overview of federal income taxation |

GROSS INCOME

- | | | |
|-----|--|---|
| (3) | Ch. 2. Omit Code sections assigned to skim; omit Treas. Reg. § 1.61-1; read only the 1 st sentence of Treas. Reg. § 1.61-8(a). Omit problem 1(e), (f). In problem 1(b), how would it affect your answer if the \$5,000 were instead a new car worth \$50,000? | Concept of gross income |
| (4) | Ch. 3. Read IRC § 1341(a) carefully; skip § 1341(b). Omit problems 2 and 4. In problem 1(a), how would it affect your answer if the commission amount were \$6,000 and the repayment were \$4,000? (Hint: Consider IRC § 1341(a).) | Loans; Effect of an obligation to repay |

³ This appendix provides a good overview of the various authorities relevant to federal tax problems. We will discuss most of these authorities in class.

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| (5) | Ch. 4; <i>Computing Taxable Gain/Basis</i> . Chapter 4 is a short but critical chapter. I recommend reading the Overview more than once and allocating a lot of time for the problems. | Basis; Computing realized and recognized gains from dealings in property |
| (6) | Ch 6. Skim assigned provisions of Treas. Reg. §§ 1.121-3, -4. In problem 1(a), how would your answer change if the Seattle home were not a residence but instead were unimproved land that was never used as part of a residence (and in which Brian and Jennifer had a \$400,000 basis)? | Sale of a principal residence |
| (7) | Ch. 5; <i>More on Basis</i> . Skip IRC § 274(b)(1); 1015(d); Treas. Reg. § 1.1014-2(a)(5). Skip problem 1. | Gifts, bequests, part gift/part sale |
| (8) | Ch. 7. Skip IRC §§ 74(c)(2)-(4); 274(j)(2); Treas. Reg. §§ 1.74-1; 1.102-1(b)-(e); Prop. Treas. Reg. § 1.74-2. Omit problem 2. Add the following problem before Problem 1: Susan won a contest sponsored by her employer and received a painting worth \$3,000. Her employer had paid \$2,500 for the painting some years earlier. How much gross income does Susan have and what is her basis in the painting? | Scholarships & prizes |
| (9) | Ch. 8. In Part A, omit problem 1. Skip IRC §§ 79(b)-(e), 101(g), (j), 7702. Add <i>Treas. Reg. § 1.72-9 additional table</i> . Note which tables the regulations currently require using. In Part B, omit IRC §§ 72(e)(3)-(4); 7520(b)-(e). In Part C, add IRC § 408A(d)(4). Skip IRC §§ 408(b), (o)(3)-(4), 72(t)(10). | Life insurance, annuities & IRAs |
| (10) | Ch. 9. Skip IRC §§ 108(b)(2), (c), (d)(9); 1017(a), (b)(1), (3); Treas. Reg. § 1.108-2; 1.1017-1. Omit problem 5. In problem 7, how much cancellation of indebtedness income does Lloyd have in each of the two scenarios? | Discharge of indebtedness |
| (11) | Ch. 11. Omit problem 4(c), (d). In problem 5, what is the inflation-adjusted dollar limit for 2009 for a transit pass and for qualified parking? | Fringe benefits |
| (12) | Ch. 10. Omit problem 3. | Compensation for personal injury, sickness, and property damage |

DEDUCTIONS

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| (13) | <i>Introduction to deductions problem</i> ; read IRC § 62(a)(1)-(4), (7), (20), skim the rest of § 62(a). Read IRC §§ 67(a), (b); § 68(a)-(d); skim § 68(f). | Introduction to deductions |
| (14) | Ch. 12. Just skim §§ 162(m), 199(a)-(c), skip § 199(d). Omit Treas. Reg. § 1.162-27, -29. Omit problems 2 and 4. In problem 3, assume that Sam purchased a new suit to wear to his interviews. Are the costs of the suit itself and of dry cleaning the suit between interviews deductible? | Business and investment expenses |
| (15) | Ch. 13. Skip IRC § 174(a); Treas. Reg. §§ 1.263(a)-4(d)(2); 1.263(a)-5; 1.461-1(a)(2)(ii)-(iii). Omit problems 1(h), (i), and (2). In problem 1(e), how would it affect your answer if the oven were instead purchased for Janet's home, exclusively for the personal use of her and her family? | (Nondeductible) capital expenditures |
| (16) | Ch. 14; <i>Calculating Depreciation</i> . Omit IRC §§ 167(e); 168(e)(4)-(7), (i)(12). Just skim the assigned subsections of IRC § 179. Omit Problem 2(d), 3(a). | Depreciation |
| (17) | Ch. 16. Skip Treas. Reg. § 1.62-2(f). Omit problems 3 and 5. In Question 2, what would the tax consequences be if Elaine were instead a self-employed attorney attending a conference who brought her husband with her for the trip and stayed for 2 vacation days after the conference ended, incurring additional transportation costs of \$600, additional meal costs of \$300 (\$200 of which were allocable to her husband), and additional lodging costs of \$500 (for the 2 additional nights)? | Travel expenses |
| <p>Note that p.370 of the Overview contains some discussion of the IRS's historical approach to commuting expenses. Be sure to apply the current Revenue Ruling on the subject, Rev. Rul. 99-7, which is included in the materials.</p> | | |
| (18) | Ch. 17. Omit IRC § 274(h); Treas. Reg. § 1.274-5T(b)(5), (6). Omit problem 3. | Entertainment & business meals |
| (19) | Ch. 18. Omit IRC §§ 274(h). Omit problems 2 and 4. | Education expenses |
| (20) | Ch. 22, pp.500-505. Also read IRC §§ 163(a), (d), (h); 461(g). Do only Problems 1(a), (b); 2(a), (b). | The Interest Deduction |
| (21) | Ch. 23. Do problem 1(a)-(c), (e)-(f) only. Omit IRC §§ 164(d)(2); 266; and the regulations sections assigned in the book. | The Deduction for Taxes |
| (22) | Ch. 15. Omit IRC § 6511(d)(1); Treas. Reg. §§ 1.165-2(a); 1.167(a)-8. Omit problems 3, 4(c), 5-7. | Losses & bad debts |

- (23) Ch. 27, pp.585-602 (top). Omit Parts C & D of the chapter. Limitations on
 In Part A, omit IRC § 267(a)(3), (b)(4)-(13). Omit probs. 1(e), (f) & Deductions: IRC §§ 265,
 (3). 267
 In Part B, omit problem 2 & Rev. Proc. 72-18. In problem 1, if the
 full \$2,000 is not deductible, what amount, if any, is deductible?

MISCELLANEOUS

- (24) Ch. 39, pp.901-915. Just skim IRC §§ 1031(a)(3); 1245(b)(4). Like Kind Exchanges
 Omit I.R.C. § 121(d)(10); Treas. Reg. §§ 1.1031(a)-2; 1.1031(b)-2;
 all 1.1031(k) regs. Do only Problem 1(a), all of (c), (e). Assume in
 Problem 1(e) that Kevin’s basis in the farmland he is exchanging is
 still \$250,000.
- (25) Ch. 31, but skim pp.734 (bottom)-741 (bottom). Omit *Bynum*, Capital Gains & Losses
Davis, and *Kenan*. Read only IRC §§ 1(h); 62(a)(3); 64; 65;
 1001(a)-(c); 1221(a); 1222; Treas. Reg. § 1.1221-1(a)-(d). (Read
 IRC §§ 1(h)(1), (3), 1221(a), and 1222 particularly carefully). Only
 do problems A1(a), (c), (d), (g), (h); B1, 5, 6. In problem B1(b),
 assume that the painting was instead shares of stock in X
 corporation. Carry that assumption to problems B5 and 6.
 With respect to preferential capital gains rates (IRC § 1(h)), we will
 focus primarily on the 15% rate of IRC § 1(h)(1)(C). In what
 situation would the 5%/0% rate of IRC § 1(h)(1)(B) apply?
- (26) Ch. 20. Review IRC §§ 162(a); 212(1)-(2). Omit IRC § “Hobby” losses
 280A(f)(3); Treas. Reg. § 1.183-1(d), (e). Read Treas. Reg. §
 1.183-2 particularly carefully.
- (27) Ch. 38, pp.872-881 (Overview only). Nonrecourse Debt
- (28) Ch. 34. Omit *Salvatore* and *May*; Code sections assigned to Assignment of Income
 “skim”; and “plans” 3(c)-(d) and 4 in the problem.

REVIEW: FINAL CLASS SESSION
 (possibly a make-up class)

- Last class session *Review problems*; Bring questions you have on the semester’s material. Review

See chart on next page

DETERMINATION OF INDIVIDUAL INCOME TAX LIABILITY

(Road Map of an Individual Federal Income Tax Return)

GROSS INCOME (GI): IRC § 61 (similar to the 16th amendment) provides it is “all income from whatever source derived.” IRC § 61 lists 15 types of income that are specifically included, but the list is not exhaustive.

- Provisions including items of income are generally construed broadly.

minus

DEDUCTIONS authorized elsewhere and enumerated in IRC § 62 (“above-the-line” deductions), *e.g.* certain trade or business deductions & IRA deduction.

- Deductions generally are matters of legislative grace, and are construed narrowly.

equals

ADJUSTED GROSS INCOME (AGI): IRC § 62(a) (defined as GI less certain specified deductions)

minus

PERSONAL AND DEPENDENCY EXEMPTIONS (PDE): IRC §§ 151-152

and minus either

STANDARD DEDUCTION (IRC § 63(c), (f)) **or**

ITEMIZED DEDUCTIONS (IRC § 63(d), but subject to phaseout in IRC § 68; under IRC § 67(a), miscellaneous itemized deductions are deductible only to the extent that, in the aggregate, they exceed 2% of AGI (the “2% floor”); the election to itemize is in IRC § 63(e))

equals

TAXABLE INCOME (TI): IRC § 63(a), (b) (defined as AGI less personal/dependency exemptions and standard deduction or itemized deductions)

multiplied by

TAX RATES

- apply regular tax rates (IRC §§ 1 and 3)
- use special computational provisions when applicable (IRC § 1(g), (h))
- add alternative minimum tax when applicable (IRC § 55)

equals

TAX BEFORE CREDITS (“tentative tax liability”)

minus

CREDITS (IRC §§ 21-53)

equals

TAX DUE OR REFUND OWED TO TAXPAYER