

Includes full coverage of the Tax Cuts and Jobs Act of 2017

SOUTH-WESTERN
FEDERAL TAXATION

Maloney
Raabe
Hoffman
Young

COMPREHENSIVE VOLUME

2019

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2017 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	\$ 9,325	.....10%	\$ 0	\$ 0	\$ 13,350	.....10%	\$ 0
9,325	37,950	\$ 932.50 + 15%	9,325	13,350	50,800	\$ 1,335.00 + 15%	13,350
37,950	91,900	5,226.25 + 25%	37,950	50,800	131,200	6,952.50 + 25%	50,800
91,900	191,650	18,713.75 + 28%	91,900	131,200	212,500	27,052.50 + 28%	131,200
191,650	416,700	46,643.75 + 33%	191,650	212,500	416,700	49,816.50 + 33%	212,500
416,700	418,400	120,910.25 + 35%	416,700	416,700	444,550	117,202.50 + 35%	416,700
418,400	.....	121,505.25 + 39.6%	418,400	444,550	.....	126,950.00 + 39.6%	444,550
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	\$ 18,650	.....10%	\$ 0	\$ 0	\$ 9,325	.....10%	\$ 0
18,650	75,900	\$ 1,865.00 + 15%	18,650	9,325	37,950	\$ 932.50 + 15%	9,325
75,900	153,100	10,452.50 + 25%	75,900	37,950	76,550	5,226.25 + 25%	37,950
153,100	233,350	29,752.50 + 28%	153,100	76,550	116,675	14,876.25 + 28%	76,550
233,350	416,700	52,222.50 + 33%	233,350	116,675	208,350	26,111.25 + 33%	116,675
416,700	470,700	112,728.00 + 35%	416,700	208,350	235,350	56,364.00 + 35%	208,350
470,700	.....	131,628.00 + 39.6%	470,700	235,350	.....	65,814.00 + 39.6%	235,350

2018 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	\$ 9,525	.....10%	\$ 0	\$ 0	\$ 13,600	.....10%	\$ 0
9,525	38,700	\$ 952.50 + 12%	9,525	13,600	51,800	\$ 1,360.00 + 12%	13,600
38,700	82,500	4,453.50 + 22%	38,700	51,800	82,500	5,944.00 + 22%	51,800
82,500	157,500	14,089.50 + 24%	82,500	82,500	157,500	12,698.00 + 24%	82,500
157,500	200,000	32,089.50 + 32%	157,500	157,500	200,000	30,698.00 + 32%	157,500
200,000	500,000	45,689.50 + 35%	200,000	200,000	500,000	44,298.00 + 35%	200,000
500,000	.....	150,689.50 + 37%	500,000	500,000	.....	149,298.00 + 37%	500,000
Married filing jointly or Qualifying widow(er)—Schedule Y-1				Married filing separately—Schedule Y-2			
If taxable income is:	<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	\$ 19,050	.....10%	\$ 0	\$ 0	\$ 9,525	.....10%	\$ 0
19,050	77,400	\$ 1,905.00 + 12%	19,050	9,525	38,700	\$ 952.50 + 12%	9,525
77,400	165,000	8,907.00 + 22%	77,400	38,700	82,500	4,453.50 + 22%	38,700
165,000	315,000	28,179.00 + 24%	165,000	82,500	157,500	14,089.50 + 24%	82,500
315,000	400,000	64,179.00 + 32%	315,000	157,500	200,000	32,089.50 + 32%	157,500
400,000	600,000	91,379.00 + 35%	400,000	200,000	300,000	45,689.50 + 35%	200,000
600,000	.....	161,379.00 + 37%	600,000	300,000	.....	80,689.50 + 37%	300,000

Tax Formula for Individuals

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

*Exemption deductions are not allowed from 2018 through 2025.

**Only applies from 2018 through 2025.

Basic Standard Deduction Amounts

Filing Status	2017	2018
Single	\$ 6,350	\$12,000
Married, filing jointly	12,700	24,000
Surviving spouse	12,700	24,000
Head of household	9,350	18,000
Married, filing separately	6,350	12,000

Amount of Each Additional Standard Deduction

Filing Status	2017	2018
Single	\$1,550	\$1,600
Married, filing jointly	1,250	1,300
Surviving spouse	1,250	1,300
Head of household	1,550	1,600
Married, filing separately	1,250	1,300

Personal and Dependency Exemption

2017	2018*
\$4,050	\$4,150






*Note: Exemption deductions have been suspended from 2018 through 2025.



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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% rate

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)

Income Tax Rates—Estates and Trusts

Tax Year 2018

Taxable Income		The Tax Is:	
Over—	But not Over—		Of the Amount Over—
\$ 0	\$ 2,550	10%	\$ 0
2,550	9,150	\$ 255.00 + 24%	2,550
9,150	12,500	1839.00 + 35%	9,150
12,500	.....	3,011.50 + 37%	12,500

Income Tax Rates—C Corporations, 2018 and after

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



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FEDERAL TAXATION

2019 EDITION
COMPREHENSIVE
VOLUME

General Editors

David M. Maloney
Ph.D., CPA

William A. Raabe
Ph.D., CPA

William H. Hoffman, Jr.
J.D., Ph.D., CPA

James C. Young
Ph.D., CPA

Contributing Authors

James H. Boyd
Ph.D., CPA
Arizona State University

Gregory Carnes
Ph.D., CPA
University of North Alabama

D. Larry Crumbley
Ph.D., CPA
Louisiana State University

Steven C. Dilley
J.D., Ph.D., CPA
Michigan State University

Steven L. Gill
Ph.D., CPA
San Diego State University

William H. Hoffman, Jr.
J.D., Ph.D., CPA
University of Houston

David M. Maloney
Ph.D., CPA
University of Virginia

Annette Nellen
J.D., CPA, CGMA
San Jose State University

Mark B. Persellin
Ph.D., CPA, CFP
St. Mary's University

William A. Raabe
Ph.D., CPA
Madison, Wisconsin

Debra L. Sanders
Ph.D., CPA
Washington State
University, Vancouver

W. Eugene Seago
J.D., Ph.D., CPA
Virginia Polytechnic
Institute and State
University

James C. Young
Ph.D., CPA
Northern Illinois University

Kristina Zvinakis
Ph.D.
The University of Texas
at Austin



**South-Western Federal Taxation:
Comprehensive, 2019 Edition**

**David M. Maloney, William A. Raabe,
William H. Hoffman, Jr., James C. Young**

Senior Vice President, Higher Ed Product, Content,
and Market Development: Erin Joyner

Product Director: Jason Fremder

Sr. Product Manager: John Barans

Sr. Content Manager: Nadia Saloom

Learning Designer: Jonathan Gross

Product Assistant: Aiyana Moore

Marketing Manager: Christopher P. Walz

Sr. Digital Delivery Lead: Tim Richison

Production Service: SPI Global

Senior Designer: Bethany Bourgeois

Text and Cover Designer: Red Hangar Design

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Getty Images

Intellectual Property:

Analyst: Reba Frederics

Project Manager: Carly Belcher

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Preface

COMMITTED TO EDUCATIONAL SUCCESS

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

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

The *SWFT Comprehensive Volume*, 2019 Edition provides a dynamic learning experience inside and outside of the classroom. Built with resources and tools that have been identified as the most important, our complete learning system provides options for students to achieve success.

In addition, the *SWFT Comprehensive Volume*, 2019 Edition provides accessible, comprehensive, and authoritative coverage of the relevant tax code and regulations as they pertain to the individual and business taxpayer, as well as coverage of all major developments in Federal Taxation. The 2019 Edition has been fully updated and revised to reflect changes included in the Tax Cuts and Jobs Act of 2017.

In revising the 2019 Edition, we focused on:

- **Accessibility. Clarity. Substance.** The text authors and editors made this their mantra as they revised the 2019 Edition. Coverage has been streamlined to make it more accessible to students, and difficult concepts have been clarified, all without losing the substance that makes up the *South-Western Federal Taxation series*.
- **Developing professional skills.** SWFT excels in bringing students to a professional level in their tax knowledge and skills, to prepare them for immediate success in their careers. In this regard, we include development of speaking and writing communications skills, the use of tax preparation and tax research software, orientation toward success on the CPA exam, consideration of the time value of money in the tax planning process, and facility with advanced applications of spreadsheet construction.
- **CengageNOWv2 as a complete learning system.** Cengage Learning understands that digital learning solutions are central to the classroom. Through sustained research, we continually refine our learning solutions in CengageNOWv2 to meet evolving student and instructor needs. CengageNOWv2 fulfills learning and course management needs by offering a personalized study plan, video lectures, auto-graded homework, auto-graded tests, and a full eBook with features and advantages that address common challenges.

Learning Tools and Features to Help Students Make the Connection

FULL-COLOR DESIGN: We understand that students struggle with learning difficult tax code concepts and applying them to real-world scenarios. The 2019 Edition uses color to bring the text to life, capture student attention, and present the tax code in a simple, yet 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.

CHAPTER 13 Property Transactions, Determination of Gain or Loss, Basis Considerations, and Nontaxable Exchanges

LEARNING OBJECTIVES (After completing Chapter 13, you should be able to:)

- 1. Explain the determination of gain or loss and basis considerations for the sale of property.
- 2. Explain the determination of gain or loss and basis considerations for the sale of a partnership interest.
- 3. Explain the determination of gain or loss and basis considerations for the sale of a life insurance policy.
- 4. Explain the determination of gain or loss and basis considerations for the sale of a qualified plan or IRA.
- 5. Explain the determination of gain or loss and basis considerations for the sale of a qualified pension plan.
- 6. Explain the determination of gain or loss and basis considerations for the sale of a qualified annuity.
- 7. Explain the determination of gain or loss and basis considerations for the sale of a qualified stock plan.
- 8. Explain the determination of gain or loss and basis considerations for the sale of a qualified profit-sharing plan.
- 9. Explain the determination of gain or loss and basis considerations for the sale of a qualified defined contribution plan.
- 10. Explain the determination of gain or loss and basis considerations for the sale of a qualified defined pension plan.
- 11. Explain the determination of gain or loss and basis considerations for the sale of a qualified defined contribution plan.
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- 17. Explain the determination of gain or loss and basis considerations for the sale of a qualified defined contribution plan.
- 18. Explain the determination of gain or loss and basis considerations for the sale of a qualified defined pension plan.
- 19. Explain the determination of gain or loss and basis considerations for the sale of a qualified defined contribution plan.
- 20. Explain the determination of gain or loss and basis considerations for the sale of a qualified defined pension plan.

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Concept Summary 13.1 Realized Gain or Loss

The diagram shows the relationship between Adjusted Basis, Fair Market Value, and Realized Gain or Loss. Adjusted Basis is compared to Fair Market Value. If Fair Market Value is greater than Adjusted Basis, there is a Realized Gain. If Adjusted Basis is greater than Fair Market Value, there is a Realized Loss. If they are equal, there is no Realized Gain or Loss.

EXAMPLE 13-1 Realized Gain or Loss

Relax sells an office building and the adjusted basis on December 31, 2018, is \$100,000. The fair market value of the building is \$150,000. The realized gain is \$50,000.

Item	Amount
Adjusted Basis	\$100,000
Fair Market Value	\$150,000
Realized Gain	\$50,000

- Examples are clearly labeled and directly follow concepts to assist with student application. An average of over 40 examples in each chapter use realistic situations to illustrate the complexities of the tax law and allow students to integrate chapter concepts with illustrations and examples.

COMPUTATIONAL EXERCISES: Students need lots of practice in areas such as computing tax return problems and adjusting rates. We have developed these exercises to give students practice in calculating the solutions they need to make business decisions.

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

27. **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%.
 - a. What is Melba's adjusted basis for the land at the acquisition date?
 - b. What is Melba's adjusted basis for the land one year later?
28. **LO.1** On July 1, 2018, Katrina purchased tax-exempt bonds (face value of \$75,000) for \$82,000. The bonds mature in five years, and the annual interest rate is 6%. The market rate of interest is 2%.
 - a. How much interest income and/or interest expense must Katrina report in 2018, assuming that straight-line amortization is appropriate?
 - b. What is Katrina's adjusted basis for the bonds on January 1, 2019?
29. **LO.3** Luciana, a nonshareholder, purchases a condominium from her employer for \$85,000. The fair market value of the condominium is \$120,000. What is Luciana's basis in the condominium and the amount of any income as a result of this purchase?
30. **LO.3** Sebastian purchases two pieces of equipment for \$100,000. Appraisals of the equipment indicate that the fair market value of the first piece of equipment is \$72,000 and that of the second piece of equipment is \$108,000. What is Sebastian's basis in these two assets?

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
- ❑ Similar questions to what students would actually find on the CPA Exam

Becker CPA Review Questions

1. 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?
 - a. Jasmin reports \$6,500 in gross income for the 2-for-1 stock split in year 4.
 - b. Jasmin's basis in the Pinkstey Corporation stock at the end of year 4 is \$65 per share.
 - c. Jasmin has no taxable income for the Pinkstey Corporation stock in year 4.
 - d. Jasmin owns 100 shares in Pinkstey Corporation stock at the end of year 4.



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

THE BIG PICTURE

THE FIRST JOB

After an extensive search, Morgan, a recent college graduate with a major in child development, has accepted a job with Enrichment Child Care Center (ECCC) in a neighboring state. ECCC is located in the western suburbs of a large metropolitan city, roughly 30 miles from the center of the city. Morgan will be moving into a two-bedroom apartment about two miles from ECCC. At ECCC, Morgan will work with preschool children Monday to Friday from 7 a.m. to 5 p.m. One of her reasons she accepted the position at ECCC is the flexibility it provides. Because she is eager to pay off her student loans and save to buy a house, she has decided to freelance in the late afternoon and evenings and on weekends—joining the “gig economy.”

She finds two ways to freelance: (1) transporting people, packages, and meals for a few companies where she finds work through an “app” (like driving for Uber) and (2) tutoring elementary school students in English and math. Her tutoring can take place online or in person (either in her apartment or at the child’s home). She has dedicated the second bedroom in her apartment for freelancing. She has a large table and several chairs in this bedroom that allow her to meet her tutoring students or connect with them via her laptop. She keeps all of her freelancing records in a file cabinet, which she keeps in a closet in the bedroom. She also purchases and keeps various supplies for her tutoring activities in the closet. Although there are some freelance driving options in the suburbs, most often Morgan heads for the city, where there are more passengers and higher fares.

What are some of the income tax problems presented by this situation?

Read the chapter and formulate your response.

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

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

FRAMEWORK 1040:

Fitting It All Together.

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

FRAMEWORK 1040 Tax Formula for Individuals

This chapter covers the boldfaced portions of the Tax Formula for Individuals that was introduced in Coverage Summary 3.1 (page 3.3). Below these portions are the sections of Form 1040 where the results are reported.

Income (grossly defined)	\$ 10,000
Less: Exclusions	(0,000)
Gross income	\$10,000
Less: Deductions for adjusted gross income	
12 Business income or loss; Attach Schedule C or C-EZ	(0,000)
13 Capital gain or (loss); Attach Schedule D if required. If not required, check here <input type="checkbox"/>	(0,000)
14 Other gains or (losses); Attach Form 4797	(0,000)
17 Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E	(0,000)
Adjusted gross income	\$10,000
Less: The greater of total itemized deductions or the standard deduction	(0,000)
40 Retained deductions (from Schedule A) or your standard deduction	(0,000)
Personal and dependency exemptions	(0,000)
Deduction for qualified business income**	(0,000)
Taxable income	\$10,000
Tax on taxable income (per Tax Tables or Tax Rate Scheduling)	\$ 1,000
Less: Tax credits (including income taxes withheld and prepaid tax due (or refund))	(0,000)
Tax due	\$ 1,000

**Regular deductions can vary after 2018 through 2025.
***Only applies from 2018 through 2025.

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

FINANCIAL DISCLOSURE

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



FINANCIAL DISCLOSURE INSIGHTS Tax and Book Depreciation

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

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

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

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



ETHICS & EQUITY Punching the Time Clock at Year-End

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

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

- On weekends, she and Ralph will visit the same units to further evaluate the operations.

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

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

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

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

14-14 TAX PLANNING

14-14a Importance of Capital Asset Status

Why is capital asset status important? Because of the alternative tax on net capital gain. Individuals who receive income in the form of long-term capital gains or qualified dividend income have an advantage over taxpayers who cannot receive income in these forms.

If a net capital loss results, the maximum deduction is \$3,000 per year. Consequently, capital gains and losses must be segregated from other types of gains and losses and must be reported separately on Schedule D of Form 1040.



GLOBAL TAX ISSUES Tracking Down Tax Dollars

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

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

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

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

Take your students from Motivation to Mastery with CengageNOWv2

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



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

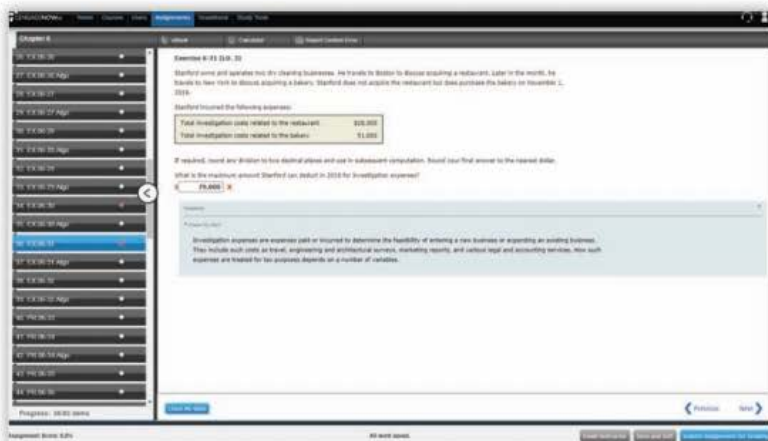
Motivation —

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

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



Application —



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

- **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.

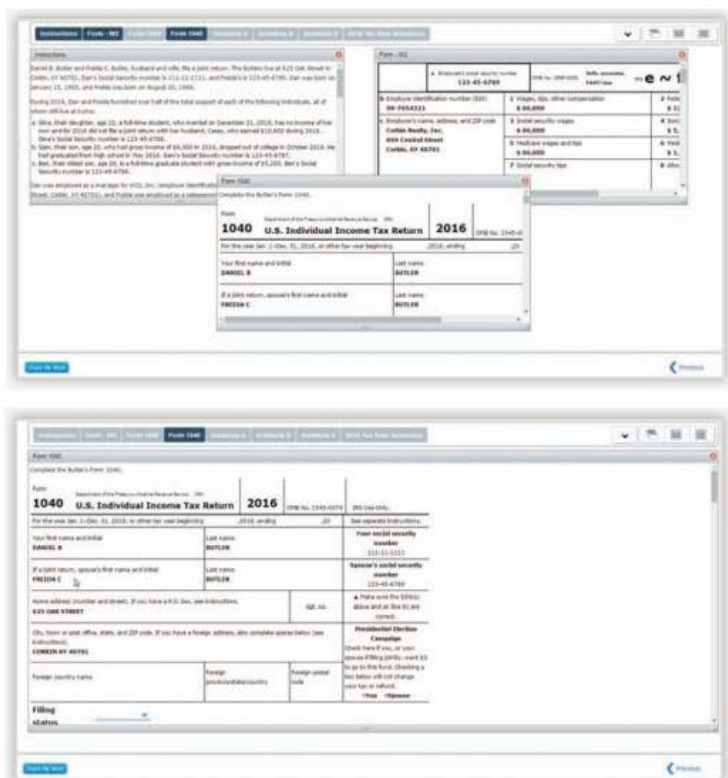
- ❑ **Algorithmic versions** of end-of-chapter homework are available for computational exercises and at least 15 problems per chapter.
- ❑ **“Check My Work” Feedback.** Homework questions include immediate feedback so students can learn as they go. Levels of feedback include an option for “check my work” prior to submission of an assignment.
- ❑ **Post-Submission Feedback.** After submitting an assignment, students receive even more extensive feedback explaining why their answers were incorrect. Instructors can decide how much feedback their students receive and when, including the full solution.
- ❑ **Built-in Test Bank** for online assessment.

Mastery —

- ❑ **Tax Form Problems** give students the option to complete the Cumulative Intuit ProConnect Problems and other homework items found in the end-of-chapter manually or in a digital environment.
- ❑ **“What-If” Questions** allow students to develop a deeper understanding of the material as they are challenged to use their prior knowledge of the tax situations and critically think through new attributes to determine how the outcome will change.
- ❑ **An Adaptive Study Plan** comes complete with an eBook, practice quizzes, crossword puzzle, glossary, and flashcards. It is designed to help give students additional support and prepare them for the exam.

CengageNOWv2 Instant Access Code
ISBN: 978-1-337-70434-2 (two-semester access)

Contact your Cengage Learning Consultant about different bundle options.



EXTENSIVELY REVISED. DEFINITELY UP TO DATE.

Each year the *South-Western Federal Taxation* series is updated with thousands of changes to each text. Some of these changes result from the feedback we receive from instructors and students in the form of reviews, focus groups, web surveys, and personal e-mail correspondence with our authors and team members. Other changes come from our careful analysis of the evolving tax environment. **We make sure that every tax law change relevant to the introductory taxation course was considered, summarized, and fully integrated into the revision of text and supplementary materials. This edition is fully updated and revised to reflect changes included in the Tax Cuts and Jobs Act (TCJA) of 2017 (Public Law 115–97; 12/22/17).**

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 2019 Edition.

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

In addition, the following materials are available online.

- An appendix that helps instructors broaden and customize coverage of important tax provisions of the Affordable Care Act. (Instructor Companion Website at www.cengage.com/login)
- The Depreciation and the Accelerated Cost Recovery System (ACRS) appendix. (Instructor Companion Website at www.cengage.com/login)
- An appendix that has comprehensive tax return problems for the 2017 tax filing year as well as 2018 problems updated to the Tax Cuts and Jobs Act of 2017 (once 2018 forms are available) (Appendix E). (Instructor Companion Website at www.cengage.com/login)

- The Taxation in the Real World weekly blog posts for instructors. (<https://community.cengage.com/t5/Taxation-in-the-Real-World-Blog/bg-p/taxationintherealworldblog>)

Chapter 1

- Updated Exhibit 1.1 (Federal Tax Revenues) and Exhibit 1.4 (IRS Audit Types and Rates) with current data.
- Revised text to reflect the TCJA of 2017 and revised various inflation-adjusted information in the chapter.
- Identified critical thinking questions and problems.
- Added a new Research Problem to analyze a soda tax or sweetened beverage tax proposal against the AICPA's *Principles of Good Tax Policy*.

Chapter 2

- Created new Big Picture example and updated related examples throughout the chapter.
- Revised text to reflect TCJA of 2017 changes as needed.
- Updated references and citations throughout the chapter.
- Updated discussion of taxation on the CPA exam.

Chapter 3

- Updated to reflect changes made by the TCJA of 2017, including tax rates, the child and dependent tax credits, and the new calculation of the kiddie tax (several examples added on this).
- Updated chapter materials to reflect inflation adjustments.
- Updated end-of-chapter materials to reflect TCJA of 2017 changes and inflation adjustments.

Chapter 4

- Expanded LO 5 to include present value considerations of tax planning.
- Updated for changes made by the TCJA of 2017, such as to alimony and tax rates.

- Added basics of FBAR reporting requirements.
- Clarified the requirements for alimony.
- Noted that former employees are eligible for the group term life insurance exclusion.
- Added an FBAR exercise.

Chapter 5

- Replaced the Ethics & Equity on employer meals with one on whether Congress made the right decision with the TCJA of 2017 to disallow certain benefit deductions to employers rather than maintaining the deduction and making the benefits taxable to employees.
- Updated for changes made by the TCJA of 2017.
- Updated chapter materials to reflect inflation adjustments.

Chapter 6

- Added new materials related to the TCJA of 2017, including accounting method changes for both accrual (deferral of prepayments) and cash method corporations (increasing the gross receipts limit), executive compensation issues (including performance-based compensation now covered by the \$1 million limit, changing the definitions of “covered employees” and “publicly held corporation”), expanding the disallowance for fines and penalties, disallowing deductions for local lobbying expenses, disallowing deductions for settlements of sexual harassment/abuse suits (if a nondisclosure agreement exists), and an overview of the deduction for qualified business income.
- Modified existing material to reflect changes dictated by the TCJA of 2017 (e.g., effect of the suspension of miscellaneous itemized deductions on hobby losses).
- Updated end-of-chapter materials for the TCJA of 2017.

Chapter 7

- Replaced material on the domestic production activities deduction (§ 199) with the excess business loss limitation rule [§ 461(l)] added by the TCJA of 2017.
- Updated casualty loss materials to reflect that personal casualty losses are only allowed if due to a Federally declared disaster. Updated materials on personal casualty gain and loss netting.

- Updated research and experimental expenditures for changes made by the TCJA of 2017.
- Updated net operating loss materials for changes by the TCJA of 2017.
- Revised and clarified chapter materials as needed, including updating materials for annual inflation adjustments.
- Updated end-of-chapter materials to reflect changes made by the TCJA of 2017.

Chapter 8

- Updated text materials to reflect TCJA of 2017 changes, including expanded immediate expensing, unlimited bonus depreciation, and changes to listed property rules.
- Added materials and examples related to using immediate expensing and bonus depreciation effectively.
- Updated end-of-chapter materials to reflect TCJA of 2017 changes.

Chapter 9

- Revised materials on moving, entertainment, and meals expenses to reflect TCJA of 2017 changes and consolidated these topics, along with some others, into a learning objective on business expenses.
- Updated balance of chapter materials (and end-of-chapter materials) for the TCJA of 2017.
- Updated end-of-chapter materials to reflect revised standard mileage amounts.
- Updated materials for 2018 inflation adjustments.

Chapter 10

- Added and/or updated materials for the TCJA of 2017, including the revised AGI floor for medical expenses in 2017 and 2018, revised limits on qualified residence interest, the cap on state and local taxes, revisions to charitable contributions (including the new 60%-of-AGI rule on cash contributions), and the suspension of the deduction for miscellaneous itemized deductions.
- Updated chapter materials for 2018 inflation adjustments.
- Added new planning ideas related to changes made by the TCJA of 2017.

Chapter 11

- Updated chapter materials to reflect the TCJA of 2017.
- Updated an Ethics and Equity item in the chapter.
- Added a spreadsheet requirement to two end-of-chapter problems.
- Added an additional tax form completion section to an end-of-chapter problem.
- Added a new Research Problem requiring the use of IRS data (via the IRS Tax Stats website).

Chapter 12

- Updated discussion of additional first-year depreciation.
- Revised material affected by TCJA, including exemption amounts and repeal of corporate AMT.
- Expanded solution and explanations for Excel problems.
- Updated Affordable Care Act materials.
- Revised materials affected by TCJA, including the child credits, earned income credit, and withholding/tax estimates.
- Updated amounts for 2018 FICA earnings and taxes.
- Added discussion of the alternative minimum tax, as it applies to noncorporate taxpayers.
- Added a new Research Problem asking students to use IRS data to analyze individual income tax credits by AGI class (a Microsoft Excel assignment).

Chapter 13

- Updated and revised for TCJA of 2017 changes, including restrictions to like-kind exchanges (real property only).
- Added communications component to several end-of-chapter problems.
- Identified end-of-chapter problems that include a critical thinking component.
- Updated tax form problems (the completion of a Form 8824 for a like-kind exchange).

Chapter 14

- Modified the materials related to the definition of capital assets based on TCJA of 2017 changes (related to patents).
- Updated end-of-chapter materials for the TCJA of 2017 and identified critical thinking items.

- Added communications requirements to several end-of-chapter problems.
- Modified the material on the calculation of the alternative tax on net capital gains and qualified dividend income to reflect changes made by the TCJA of 2017.
- Added two new Research Problems (one related to bonus depreciation and § 1250 and one related to information available from IRS Tax Stats).

Chapter 15

- NEW chapter covering both an introduction to entities and the new deduction for qualified business income (§ 199A).
- Added extensive coverage of the QBI deduction, including a Concept Summary and multiple examples to assist students in navigating this challenging provision.
- Developed significant end-of-chapter materials illustrating the § 199A rules (including Discussion Questions, Computational Exercises, Problems, and Research Problems).

Chapter 16

- Updated for the accounting method changes of the TCJA of 2017, including the addition of favorable methods for small taxpayers (average annual gross receipts in the prior three-year period of \$25 million or less) and the additional rules for accrual method taxpayers at §§ 451(b) and (c).
- Updated for current list of automatic changes (Rev.Proc. 2018–31).
- Updated for change in applicable Federal interest rates.
- Updated end-of-chapter problems to reflect TCJA of 2017 changes.

Chapter 17

- Updated entire chapter for TCJA of 2017, such as for the treatment of NOLs.
- Added new content on the business interest deduction limitation, excessive executive compensation, and restrictions on corporate accumulations.
- Deleted materials on domestic production activities deduction and the tax liabilities of related corporations.
- Revised end-of-chapter materials extensively to reflect TCJA of 2017 changes; added communications components to several problems; and added a Microsoft Excel component to problems.

Chapter 18

- Added another “forms problem” to the end-of-chapter material.
- Added a spreadsheet requirement for two end-of-chapter assignments.
- Added a new Research Problem requiring the use of IRS Tax Statistics and Microsoft Excel.

Chapter 19

- Updated for changes made by the TCJA of 2017 such as tax rates and repeal of the § 199 deduction.
- Revised and updated chapter materials as needed; streamlined and clarified chapter materials when necessary.
- Revised text examples to address TCJA of 2017 (e.g., effect of increase in estate tax exemption on § 303 problems and changes in individual and corporate income tax rates). Also revised end-of-chapter materials for these changes.
- Updated other end-of-chapter materials as needed.
- Identified critical thinking problems and added communications requirements to several problems.

Chapter 20

- Streamlined and clarified materials throughout the chapter.
- Revised text examples and Exhibit 20.1 to address TCJA of 2017 (e.g., effect of changes in individual and corporate income tax rates). Also revised end-of-chapter materials for these changes.
- Revised Financial Disclosure Insight item *When an Acquisition Fails*.
- Added numerous Microsoft Excel spreadsheet end-of-chapter problems.
- Added communications component to several end-of-chapter problems.
- Added new Research Problem 6 (with communications component).
- Identified critical thinking problems.

Chapter 21

- Reduced discussion in “Character of Gain or Loss on Disposition of Receivables, Inventory, and Built-In Loss Properties.”
- Reduced coverage of nonrecourse debt allocations among the partners.
- Adjusted discussion of liability allocations to reflect both the Regulations and the allocations

shown on Schedule K-1 (including qualified non-recourse financing).

- Revised materials affected by TCJA of 2017, including the application of the § 199A deduction, the DPAD, and the AMT.
- Simplified and clarified Concept Summary 21-4.
- Added several more items that can be solved by using Microsoft Excel.

Chapter 22

- Clarified AAA treatment of unrecognized losses for distributed property.
- Revised materials affected by TCJA of 2017, including tax rates, the application of the § 199A deduction, distribution policies, and the use of NOLs.
- Clarified the availability of limited liability by business entities at the state level.
- Revised discussion of the accumulated earnings tax concerning distribution policies.

Chapter 23

- Included materials on new excise taxes added by the TCJA of 2017 (private college/university endowments and exempt organization highly paid employees).
- Revised statistics about the tax-exempt sector of the economy.
- Updated material involving political activities of churches, added information about the number and size of private foundations, and updated statistics about taxes on private foundations and unrelated business income.
- Revised end-of-chapter materials and added two new Research Problems.

Chapter 24

- Updated statistics about state tax collections.
- Updated state/local tax expenses for Financial Disclosure Insights item.
- Added comments about economic development motivations for state/local tax waivers.
- Added material about an effort by some states to apply economic nexus for sales tax and that the U.S. Supreme Court will decide the *South Dakota v. Wayfair, Inc., et al* case in 2018.
- Revised some Research Problems to reflect the current economy.

Chapter 25

- Completely revised to reflect TCJA of 2017 changes, including the movement towards a territorial system, the one-time transition tax, the additional tax on intangible income, the anti-base erosion tax, and changes to the foreign tax credit.
- Added and revised Financial Disclosure Insights items.
- Revised end-of-chapter materials to reflect TCJA of 2017 changes.
- Updated statistics about the global economy and tax results, global corporate tax rates, tax treaty withholding rates, and various indexed amounts.
- Updated statistics about advanced pricing agreements, and added information about the number and location of CFCs.

Chapter 26

- Updated statistics about the size of the IRS and its audit rates.
- Updated fees for letter ruling requests, installment agreements, and compromises.
- Updated information about the informant and whistleblower programs.
- Updated various penalty amounts, including adding a footnote reference to the TCJA of 2017 change to § 6662(d) that reduces the 10% penalty threshold for determining if a substantial understatement exists to 5% if the taxpayer claims a § 199A deduction.

- Updated explanation of the § 6695(g) due diligence penalty to include application if the client claims head-of-household status (added by the TCJA of 2017).
- Updated operating rules concerning PTINs.
- Added another item to an existing exercise to require the use of Microsoft Excel.

Chapter 27

- Updated for changes made by the TCJA of 2017, including the increase in the unified credit and related exemption amount.
- Updated for changes to the annual gift exclusion amount.
- Added another item to an existing exercise to require the use of Microsoft Excel.

Chapter 28

- Updated for rate and AMT changes made by the TCJA of 2017.
- Updated statistics concerning the income and tax liabilities of fiduciary entities.
- Modified discussion of rules concerning the additional tax on NII.
- Clarified the grantor trust status of a reversionary trust.

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Efforts to adjust economic activity to the significant changes made by the Tax Cuts and Jobs Act of 2017 will dominate the tax world in 2018 and 2019. Individual taxpayers will need to consider many changes to the law, not the least of which are in the area of itemized deductions, and then evaluate how all of these changes affect their financial planning strategies. Small businesses and their owners will deliberate about the tax and legal form in which they should organize, taking into account the QBI deduction and other tax law changes, such as new restrictions on excess business losses and net operating losses. IRS guidance, Regulations, and tax forms and instructions will be used to apply and clarify language from the 2017 law changes, especially concerning international provisions and the QBI deduction. State and local issues will focus on the forms of interstate transactions and new definitions of nexus. Family tax planning will adjust to the higher exemption equivalent and the repeal of some state-level taxes applied at death. The SWFT editors will be monitoring these activities and provide updates to adopters as needed.

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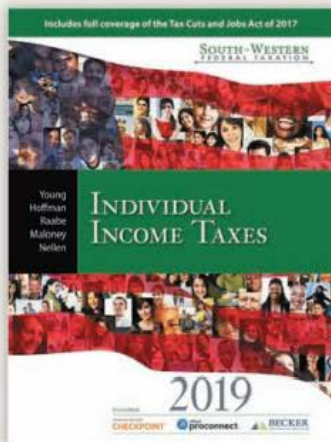
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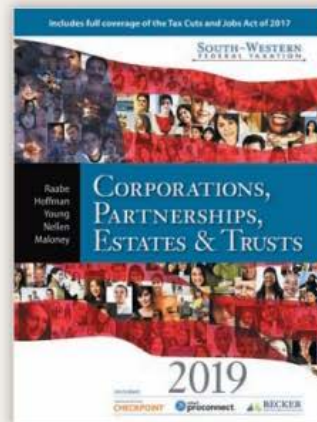
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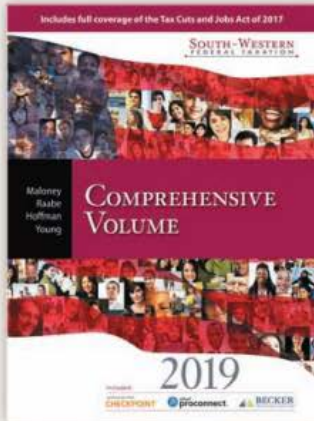
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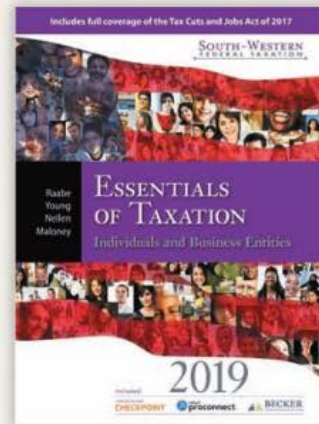
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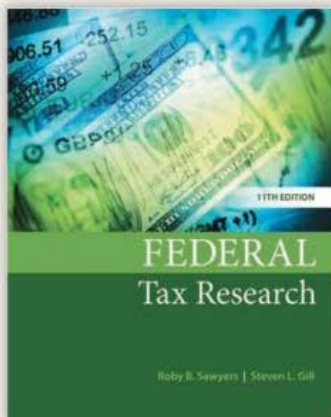
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ABOUT THE EDITORS



David M. Maloney, Ph.D., CPA, is the Carman G. Blough Professor of Accounting Emeritus at the University of Virginia's McIntire School of Commerce. He completed his undergraduate work at the University of Richmond and his graduate work at the University of Illinois at Urbana-Champaign. Upon

joining the Virginia faculty in January 1984, Dr. Maloney taught Federal taxation in the graduate and undergraduate programs and was a recipient of major research grants from the Ernst & Young and KPMG Foundations. Dr. Maloney has published work in numerous professional journals, including *Journal of Taxation*, *The Tax Adviser*, *Tax Notes*, *Corporate Taxation*, *Accounting Horizons*, *Journal of Taxation of Investments*, and *Journal of Accountancy*.



William H. Hoffman, Jr. earned both his undergraduate (B.A.) and law (J.D.) degrees from the University of Michigan before serving in the Korean War as an officer in the U.S. Army's Judge Advocate General Corps. Following his return from military service, he completed both an M.B.A. and a Ph.D. at The University of

Texas at Austin. Bill began his academic career at Louisiana State University, where he served as a professor of accounting and taxation, before moving to the University of Houston in 1967. Bill remained at Houston for the rest of his academic career, retiring in 1999. During his time at Houston, Bill served as a professor, mentor, and doctoral adviser to countless students and colleagues. Between 1977 and 1980, Bill established what is now the *South-Western Federal Taxation Series*. In addition, he published extensively in academic and professional journals. His articles appeared in *Journal of Taxation*, *The Tax Adviser*, *Taxes—The Tax Magazine*, *Journal of Accountancy*, *The Accounting Review*, and *Taxation for Accountants*.



William A. Raabe, Ph.D., CPA, was the Wisconsin Distinguished Professor of Taxation. He taught at Ohio State, Arizona State, the Capital University (OH) Law School, and the Universities of Wisconsin – Milwaukee and Whitewater. A graduate of Carroll University (Wisconsin) and the University of Illinois,

Dr. Raabe's teaching and research interests include international and multistate taxation, technology in tax education, personal financial planning, and the economic impact of sports teams and fine arts groups. Dr. Raabe also writes the PricewaterhouseCoopers Tax Case Studies, an extensive, well-respected set of advanced tax learning resources. Dr. Raabe has been a visiting tax faculty member for a number of public accounting firms, bar associations, and CPA societies. He has received numerous teaching awards, including the Accounting Educator of the Year award from the Wisconsin Institute of CPAs. He has been the faculty adviser for student teams in the Deloitte Tax Case Competition (national finalists at three different schools) and the PricewaterhouseCoopers Extreme Tax policy competition (national finalist).



James C. Young is the Crowe Professor of Accountancy at Northern Illinois University. A graduate of Ferris State University (B.S.) and Michigan State University (M.B.A. and Ph.D.), Jim's research focuses on taxpayer responses to the income tax using archival data. His dissertation received the PricewaterhouseCoopers/

American Taxation Association Dissertation Award, and his subsequent research has received funding from a number of organizations, including the Ernst & Young Foundation Tax Research Grant Program. His work has been published in a variety of academic and professional journals, including the *National Tax Journal*, *The Journal of the American Taxation Association*, and *Tax Notes*. Jim is a Northern Illinois University Distinguished Professor, received the Illinois CPA Society Outstanding Accounting Educator Award in 2012, and has received university teaching awards from Northern Illinois University, George Mason University, and Michigan State University.



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