Welcome to the study of personal income tax! I hope you find the course interesting, practical, and (sometimes) fun. Although Albert Einstein once said “The hardest thing in the world to understand is the income tax,” together we will figure it out.

**Tax Fundamentals and Changes**

Congress frequently makes changes in the tax law and the courts continually interpret it, but the *fundamentals* of federal taxation you will study in this course have a long shelf life. Legislation is currently pending in Congress. If any relevant changes are enacted during the course, I will distribute revised handouts reflecting any changes.

**Class Preparation**

Read the casebook, supplement and handout pages, and the Code and Regulations sections assigned on the syllabus. The supplement is available on the class website. Prepare answers to the assigned problems for class discussion. Page numbers on the syllabus without a reference (e.g., read 12-14) refer to the casebook; “supplement” refers to the supplement; “h/o” (handout) refers to handout pages. Sections of the Internal Revenue Code (“Code”) and Regulations (“Regs.”) are in the 2007 Selected Federal Taxation and Regulations (SSR). The Regulations begin on page 903 in the SSR and are numbered with the same number as the corresponding Code section, preceded by a “1.”. For example, Code § 61 is on page 56 and Regs. § 1.61 begin on page 908.

**Grade**

The grade is based primarily on an open-book, open-notes exam and may be adjusted up to 10% for participation and attendance. I will call on students in the order of a “hotseat” list that will be distributed the first week.

**Study Aid**

The casebook authors wrote “Understanding Federal Income Taxation” (2nd Edition) that follows the casebook. Some students have found it helpful; it is available in the bookstore.

**You have questions? I have answers!**

Keeping it up with the material is important because much of it is cumulative. I encourage you to ask questions as often as they occur to you; my email box is open 24/7. My office is in room 827 and my extension is 65131.
ASSIGNMENTS

Chapter 1  INTRODUCTION TO FEDERAL INCOME TAXATION
Read the Preface, casebook 4 to the top of 9, and the text for page 5 on supplement p. 1. Skim 1061-1064. The remaining pages of Chapter 1 explain the computation problem on casebook page 1 that will be assigned for review at the end of the semester. We will discuss h/o 1-6 in the first class.

Chapter 2  GROSS INCOME AND LIMITATIONS
Read Code § 61 and Regs. §§ 1.61-1(a), 1.61-2(a) and (d)(1), and 1.61-14(a). Read 24-28 and from the second full paragraph on 32 to 45. Do casebook problems 1 and 2 with the following modification to part 1(f): Marcella agreed to do the legal work for Bill provided he built her a greenhouse worth approximately $2,500. Bill spent $400 for materials.

Do the following additional problem:
Wally found a wallet with $250 of cash on a tavern floor and gave it to the police. Under state law, if lost property is not claimed within 60 days, the finder may keep it. Sixty days later, Wally obtained the wallet with the cash. What are the tax consequences to Wally?

Chapter 3  THE EFFECT OF AN OBLIGATION TO REPAY
Read 55-58 and do problems 1-2 on 53.

Chapter 4  GAINS DERIVED FROM DEALINGS IN PROPERTY
Read §§ 1001(a), (b), 1011(a), and Chapter 4. Omit the first two full paragraphs on 82 and the first full paragraph on 83. Read the paragraph that begins at the bottom of 82 and the second full paragraph on 83. The rule of the Philadelphia Park case is stated at the top of page 83 and in the first two paragraphs on 84. The rule determines the basis of property acquired in an exchange. Read h/o 7-8 and do the problems on h/o 9; the answer to problem 1 is on h/o 10.

Do the casebook problems, but omit problem 4(d). For problem 2, keep track of the adjusted basis of the property and how much cash she has invested in the property. The amount she paid to reduce the principal of the mortgage loan increases her cash invested in the property. The money she withdrew to buy the piano reduces the cash invested in the property. After she sells the property, her cash profit should equal her gain for tax purposes. The solution to this problem is on h/o 11; we will discuss it in class.
Chapter 5 GIFTS, BEQUESTS AND INHERITANCES

I will briefly discuss the gift and estate tax using h/o 12.

Read §§ 102, 1014(a)(1), (b)(1), 1014(e), and the first sentence of § 1015(a). In the 6th line of § 1015(a) (in the third line on SSR p. 602), write the word “only” after the clause “for the purpose of determining loss.” The basis rule of § 1015 is as follows:

(1) The basis for determining gain is the donor’s basis in all situations.

(2) The basis for determining loss depends on the FMV of the property on the date of the gift.

   (a) If the FMV exceeds the donor’s basis at the time of the gift, the basis for determining loss is the donor’s basis.

   (b) If the donor’s basis exceeds the FMV at the time of the gift, the basis for determining loss is the FMV.

(3) If there is no gain using (1) and no loss using (2), the result is no gain or loss.

Read 90-105, but omit from the last paragraph on 92 through 93 and the last paragraph on 97. Do the problems on h/o 14-15. Do the casebook problems (omit problem 7) with the following modifications:

Problem 4: Consider § 102(c) and read Regs. § 1.102-1(f)(2).
Problem 5: What result if Rob sold the lot for $23,000?
Problem 6: Read part-gift, part-sale on p. 97 and Regs. §§ 1.1001-1(e), 1.1015-4(a). How much gain would Rob realize if he later sold the lot for $30,000? For $15,000?
Problem 9: Read the last full paragraph on 96 and § 1014(e)(1).

Chapter 6 SALE OF A PRINCIPAL RESIDENCE

Read § 121(a)-(d)(3) and (f), Chapter 6, and supplement p. 3. In example 5 on 118, change “Trish’s name” 5 lines up from the bottom to “Sean’s name.” In the last full paragraph on p. 120, 3 lines from the bottom, change the citation to Reg. § 1.121-1(b)(2); skim that regulation. Some examples in the casebook are long. You can skim them if you can do the problems. Omit the following paragraphs:

last full paragraph on 115 and example 4;
last full paragraph on 117 that continues on 118;
second full paragraph on 120;
last paragraph on 120 that continues on 121.

Do the problems on h/o 16 and the casebook problems. Do problem 2 on page 2 of the supplement instead of casebook problem 2. We will discuss the handout problems first.
Chapter 7  SCHOLARSHIPS AND PRIZES
Read §§ 74(a), (b) and (c)(1); 102(c); 117(a), (b), (c)(1) and (d)(1)-(2). Read 127-132, but just skim the text relating to “employee achievement awards” discussed at the bottom of 127 and the top of 128. (Do not study how to compute the amount deductible for these awards.) Handout 17 explains some exclusions discussed at the bottom of 129. Do the problems on h/o 18 and the casebook problems, but omit casebook problem 2. Read the last paragraph of Bingler on 136 for problem 5.

Chapter 8  LIFE INSURANCE AND ANNUITIES
A.  Life Insurance
Read 141-142 and from the last line on 143-145. Read §§ 101(a), (c) and (d)(1); skim § 101(g)(1) and (2)(A). Read h/o 19, do the problems at the bottom of the page, and casebook problems 1, 3, and 4.
B.  Annuities
Read 148-151 and Code §§ 72(a) and (b) through § 72(b)(3)(A). Note the tax advantages of annuities on 150. An easy way to calculate the annuity exclusion ratio explained on 148 is to divide the investment in the contract by the number of years the annuitant will receive payments. Using the facts in the example on 148, when you divide the $10,000 investment in the contract by 25 years, the result is $400 excluded each year.
Do the problems on 146 and refer to Regs. § 1.72-9, Table V (not Table I) for problems 2-4 and Table VI for problem 5. We will study IRAs in Part C of the chapter later in the course.

Chapter 9  DISCHARGE OF INDEBTEDNESS
Read the first paragraph on 160; the first paragraph on 165, including the Preslar quote; paragraph 3 on 166, and Section B on 167. Read h/o 20-21, do the problems on h/o 22, and casebook problems 1 and 4.

Chapter 10  COMPENSATION FOR PERSONAL INJURY AND SICKNESS
Read Code §§ 104(a)(1)-(3) and the last two sentences of 104(a) that appear immediately before § 104(b), 105(a) and (b) and 106(a). Read 178 to the top of 181; bottom of 182 through the 6th line of the second full paragraph on 186; from the middle of 188-190. Read h/o 23-27, and do the casebook problems.
Chapter 11 FRINGE BENEFITS AND MISCELLANEOUS EXCLUSIONS

A. Meals and Lodging
Read Code § 119(a) and (b)(1); 207-210, and the cases on 218-224. Do casebook problems 1 and 2.

B. Fringe Benefits and § 132
Read Code § 132, casebook 224-228, 210-218. Do casebook problems 3 to 5 with the following additional information:

The gross profit percentage in problem 4(c) is 30%.

Refer to § 132(h)(2) for problem 4(d). What if Tim’s mother was getting the discount instead of Rick in 4(d)? See § 132(h)(3).

In problem 5, assume the employer paid $250 per month for each parking space and $125 per month for each bus pass. The 2006 inflation-adjusted amounts are $105 for § 132(f)(2)(A) and $205 for § 132(f)(2)(B). (The 2007 amounts are $110 for a bus pass and $215 for parking.)

Read the first two paragraphs on 207 and determine how the law student should treat each of the fringe benefits for tax purposes.

C. Miscellaneous Exclusions

Tax-Exempt Interest: read 229 and skim 230.

Adoption Expenses: Skim 231; you will not be responsible for the adoption deduction or exclusion on the exam. The 2007 inflation-adjusted deduction and exclusion amounts are $11,390 and are phased out between AGI of $170,820 and $210,820.


Flexible Spending Arrangements and Health Savings Plans: read h/o 28-29.

Chapter 34 ASSIGNMENT OF INCOME

Read 788-789; bottom of 792 through the first paragraph on 793 and Lucas v. Earl on 794. Read the problem on 785 and consider the likely success of plans 1, 2(a) and 3(a).
Chapter 37  TAX CONSEQUENCES OF DIVORCE

Alimony
Study §§ 71, 215; omit § 71(f)(1)-(4). Read 833-840, up to Part G, supplement p. 4 and h/o 30-31. Do casebook problems 1-3 (omit problems 2(d)), and the problems on h/o 32; the solutions are on h/o 33.

Child Support
Read 836, Code § 71(c), Regs. § 1.71-1T(c), Q&A 17 and 18, but ignore references to situation 2 in A-18. Read h/o 34 and do problem 1 on h/o 35; the solution is on h/o 36. Do casebook problem 4. For part 4(c), see Regs. § 1.71-1T Q&A 6.

Property Transfers Between Spouses and Legal Expenses
Study § 1041(a)-(c) and read 840 to 854, but omit the second full paragraph on 842 that continues on 843. Congress enacted § 1041 to overrule United States v. Davis on 844, but the Davis holding is still applicable in non-marital situations and should be read carefully. Do problem 2 on h/o 35.

Do casebook problems 5 (d), (e), and 6 with the following additional information:

Problem 5(d)

(1) Subtract Frank’s depreciation deductions from the cost of the truck to arrive at the truck’s adjusted basis. Refer to Regs.§ 1.1041-1T(a), Q&A-2.

(2) Who should be taxed on the rent Maureen collected? First consider the assignment of income doctrine discussed in the last chapter. Then read RR 2002-22 on 848. When reading this ruling, ignore the references to stock options and substitute truck rental income for references to deferred compensation.

Problem 5(e): The transfer occurred four years after the divorce. Determine if the transfer is “incident to the divorce” under § 1041(c)? See Regs. § 1.1041-1T(b), Q&A-6 and 7.

Problem 6: Read Legal Expenses on 844 and Code § 212(1) and (3).

INTRODUCTION TO THE TAX COMPUTATION
All computations in the course will use 2006 tax rates and phaseout amounts.

Read h/o 37-42 and the following casebook pages: the middle of 11 through the first full paragraph on 13; Taxable Income on 16 to the middle of 18 (just skim the § 68 overall limit paragraph beginning at the bottom of page 16). The 2006 inflation-adjusted amounts are on supplement page 1. Handouts 1 and 1A contain all of the inflation-adjusted numbers for 2006.

When you do problems in the course, determine if a deduction is deductible as an adjustment, a “regular” itemized deduction or a 2% miscellaneous itemized deduction (2% MID). From time to time I will refer to the worksheet on h/o 40, so bring some to class each day.
Chapter 12  **BUSINESS AND PROFIT SEEKING EXPENSES**

Read §§ 162(a)(1)-(3) and (f), (omit the paragraph after (3)). *Skim* §§ 162 (c), (e)(1), (g), (m)(1) and 162(m)(4)(B). Read §§ 212 and 262. Read the chapter and supplement page 5. After Reasonable Salaries on 245-246, read h/o 43-44. Do the chapter problems.

Code § 195 on 251 has been amended, as stated on h/o 45 and the top of supplement page 6. The amended section is in your Selected Statutes. Read the paragraph on 251, but ignore the sixty-month period. Do the problems on h/o 45.

Chapter 13  **CAPITAL EXPENDITURES**

Read section A on 270, supplement p. 6, the first sentence of § 263(a)(1), and Regs. § 1.162-4. I will discuss chapter problem 1(a)-(i).