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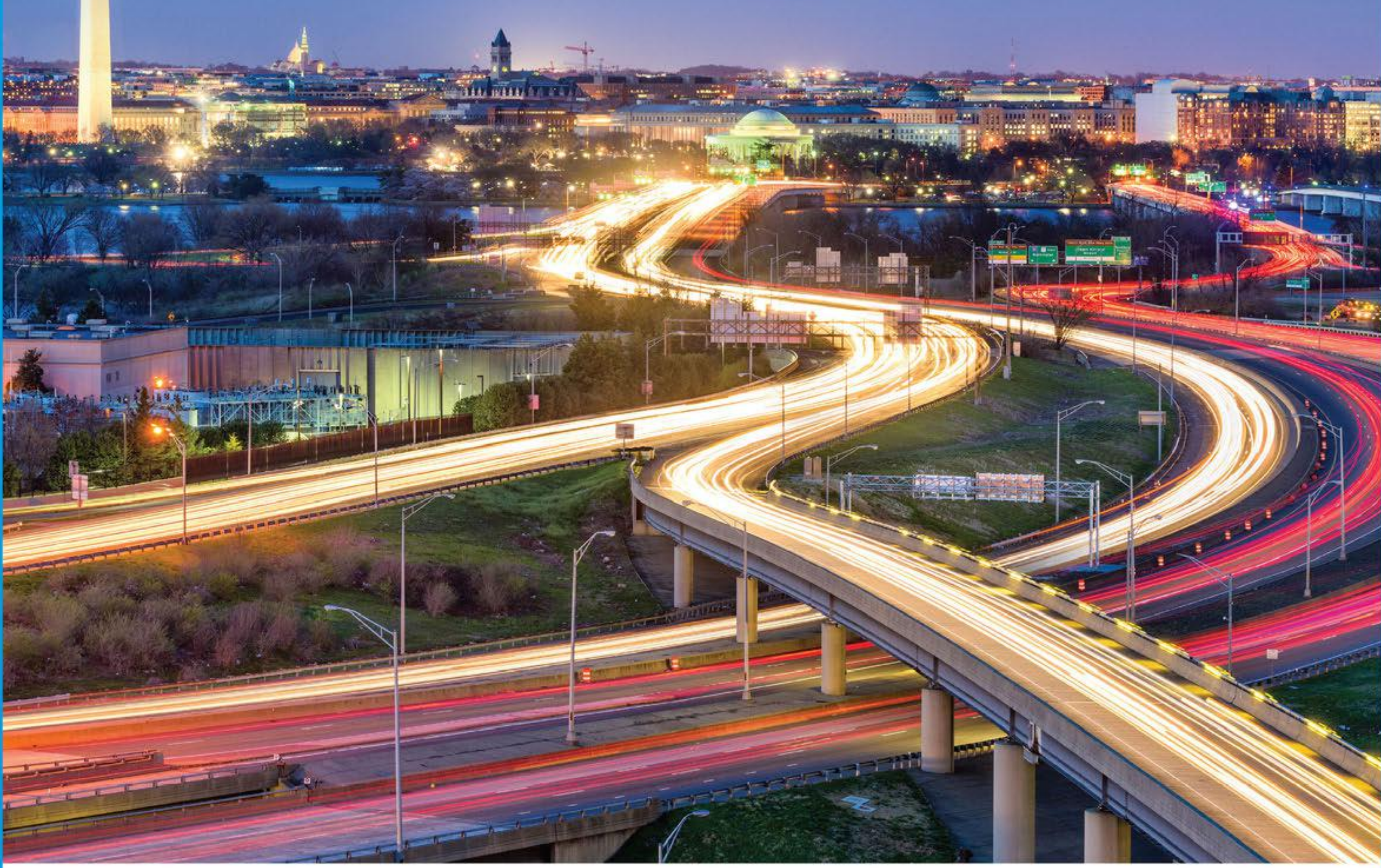
FEDERAL TAXATION

COMPREHENSIVE VOLUME



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2022

2020 Tax Rate Schedules

Single—Schedule X

If taxable income is: *Over—*	*But not over—*	**The tax is:**	*of the amount over—*
$ 0	$ 9,875	.........10%	**$ 0**
9,875	40,125	**$ 987.50 + 12%**	**9,875**
40,125	85,525	**4,617.50 + 22%**	**40,125**
85,525	163,300	**14,605.50 + 24%**	**85,525**
163,300	207,350	**33,271.50 + 32%**	**163,300**
207,350	518,400	**47,367.50 + 35%**	**207,350**
518,400	....	**156,235.00 + 37%**	**518,400**

Head of household—Schedule Z

If taxable income is: *Over—*	*But not over—*	**The tax is:**	*of the amount over—*
$ 0	$ 14,100	.........10%	**$ 0**
14,100	53,700	**$ 1,410.00 + 12%**	**14,100**
53,700	85,500	**6,162.00 + 22%**	**53,700**
85,500	163,300	**13,158.00 + 24%**	**85,500**
163,300	207,350	**31,830.00 + 32%**	**163,300**
207,350	518,400	**45,926.00 + 35%**	**207,350**
518,400	....	**154,793.50 + 37%**	**518,400**

Married filing jointly or Qualifying widow(er)—Schedule Y–1

If taxable income is: *Over—*	*But not over—*	**The tax is:**	*of the amount over—*
$ 0	$ 19,750	.........10%	**$ 0**
19,750	80,250	**$ 1,975.00 + 12%**	**19,750**
80,250	171,050	**9,235.00 + 22%**	**80,250**
171,050	326,600	**29,211.00 + 24%**	**171,050**
326,600	414,700	**66,543.00 + 32%**	**326,600**
414,700	622,050	**94,735 .00 + 35%**	**414,700**
622,050	....	**167,307.50 + 37%**	**622,050**

Married filing separately—Schedule Y–2

If taxable income is: *Over—*	*But not over—*	**The tax is:**	*of the amount over—*
$ 0	$ 9,875	.........10%	**$ 0**
9,875	40,125	**$ 987.50 + 12%**	**9,875**
40,125	85,525	**4,617.50 + 22%**	**40,125**
85,525	163,300	**14,605.50 + 24%**	**85,525**
163,300	207,350	**33,271.50 + 32%**	**163,300**
207,350	311,025	**47,367.50 + 35%**	**207,350**
311,025	....	**83,653.75 + 37%**	**311,025**

2021 Tax Rate Schedules

Single—Schedule X

If taxable income is: *Over—*	*But not over—*	**The tax is:**	*of the amount over—*
$ 0	$ 9,950	.........10%	**$ 0**
9,950	40,525	**$ 995.00 + 12%**	**9,950**
40,525	86,375	**4,664.00 + 22%**	**40,525**
86,375	164,925	**14,751.00 + 24%**	**86,375**
164,925	209,425	**33,603.00 + 32%**	**164,925**
209,425	523,600	**47,843.00 + 35%**	**209,425**
523,600	....	**157,804.25 + 37%**	**523,600**

Head of household—Schedule Z

If taxable income is: *Over—*	*But not over—*	**The tax is:**	*of the amount over—*
$ 0	$ 14,200	.........10%	**$ 0**
14,200	54,200	**$ 1,420.00 + 12%**	**14,200**
54,200	86,350	**6,220.00 + 22%**	**54,200**
86,350	164,900	**13,293.00 + 24%**	**86,350**
164,900	209,400	**32,145.00 + 32%**	**164,900**
209,400	523,600	**46,385.00 + 35%**	**209,400**
523,600	....	**156,355.00 + 37%**	**523,600**

Married filing jointly or Qualifying widow(er)—Schedule Y–1

If taxable income is: *Over—*	*But not over—*	**The tax is:**	*of the amount over—*
$ 0	$ 19,900	.........10%	**$ 0**
19,900	81,050	**$ 1,990.00 + 12%**	**19,900**
81,050	172,750	**9,328.00 + 22%**	**81,050**
172,750	329,850	**29,502.00 + 24%**	**172,750**
329,850	418,850	**67,206.00 + 32%**	**329,850**
418,850	628,300	**95,686.00 + 35%**	**418,850**
628,300	....	**168,993.50 + 37%**	**628,300**

Married filing separately—Schedule Y–2

If taxable income is: *Over—*	*But not over—*	**The tax is:**	*of the amount over—*
$ 0	$ 9,950	.........10%	**$ 0**
9,950	40,525	**$ 995.00 + 12%**	**9,950**
40,525	86,375	**4,664.00 + 22%**	**40,525**
86,375	164,925	**14,751.00 + 24%**	**86,375**
164,925	209,425	**33,603.00 + 32%**	**164,925**
209,425	314,150	**47,843.00 + 35%**	**209,425**
314,150	....	**84,496.75 + 37%**	**314,150**

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.

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

Basic Standard Deduction Amounts

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

Amount of Each Additional Standard Deduction

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

Personal and Dependency Exemption

2020	2021
$4,300	$4,300

Note: Exemption deductions have been suspended from 2018 through 2025. However, the personal and dependency exemption amount is used for other purposes (including determining whether a "qualifying relative" is a taxpayer's dependent).

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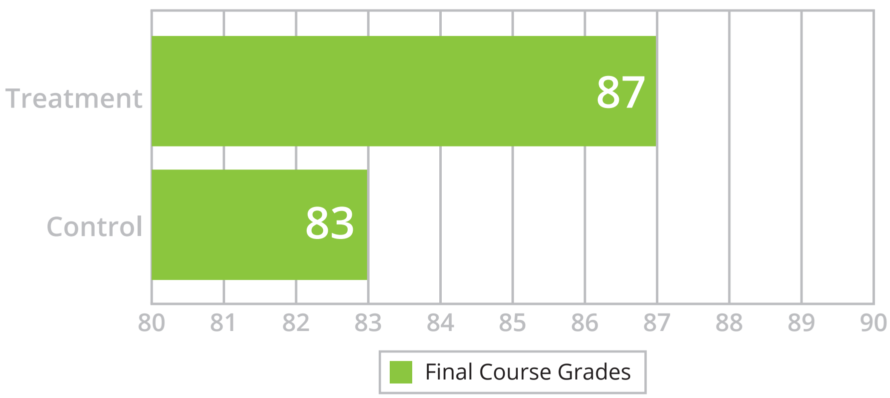

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Brad Duncan
University of Utah

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

Jennifer Loughren
Student,
Northeast Iowa Community College

AMT Formula for Individuals

Taxable income (increased by any standard deduction taken)
Plus or minus: Adjustments
Plus: Preferences
Equals: Alternative minimum taxable income (AMTI)
Minus: Exemption
Equals: Alternative minimum tax (AMT) base
Multiplied by: 26% or 28% rates
Equals: Tentative minimum tax before foreign tax credit
Minus: AMT foreign tax credit
Equals: Tentative minimum tax (TMT)
Minus: Regular tax liability (less any foreign tax credit)
Equals: AMT (if TMT > regular tax liability)

Income Tax Rates—Estates and Trusts

Tax Year 2021

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

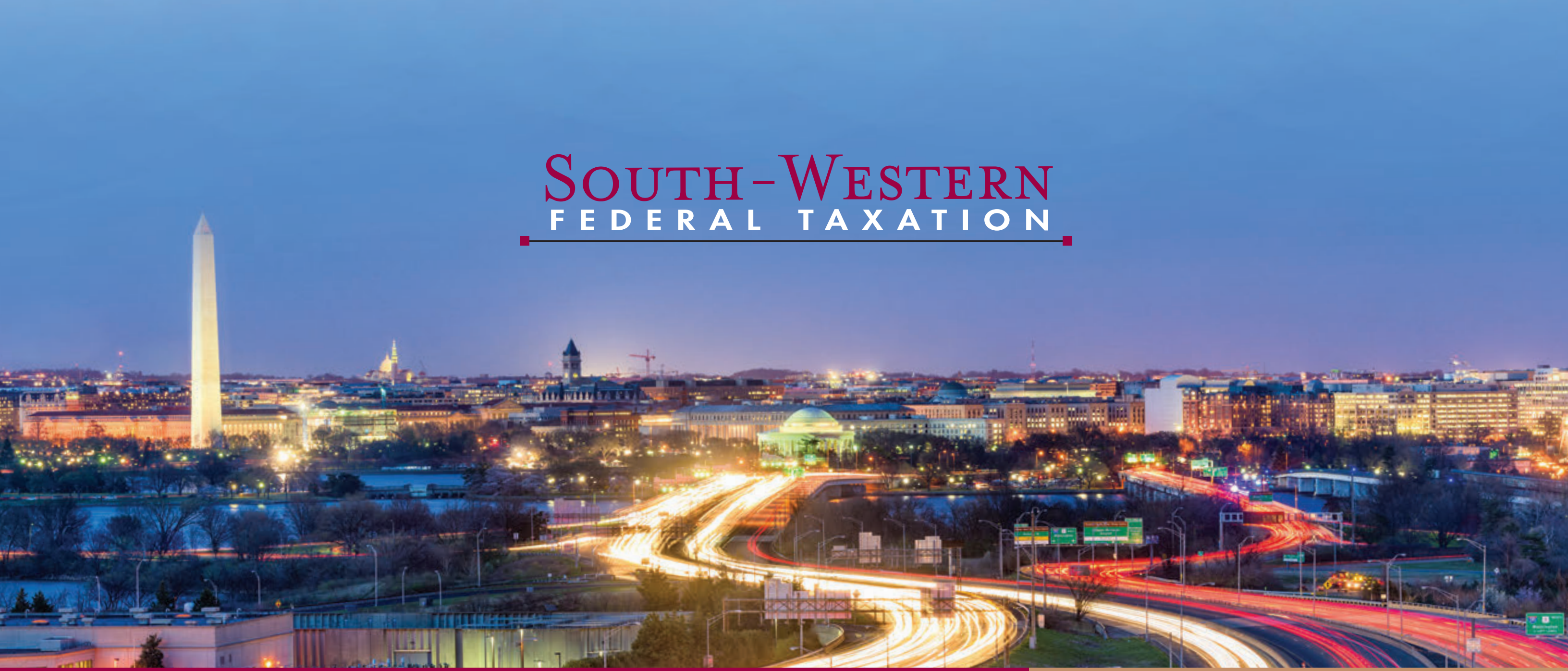
Income Tax Rates—C Corporations, 2018 and after

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

Unified Transfer Tax Rates

For Gifts Made and for Deaths after 2012

If the Amount with Respect to Which the Tentative Tax to Be Computed Is:	The Tentative Tax Is:
Not over $10,000	18 percent of such amount.
Over $10,000 but not over $20,000	$1,800, plus 20 percent of the excess of such amount over $10,000.
Over $20,000 but not over $40,000	$3,800, plus 22 percent of the excess of such amount over $20,000.
Over $40,000 but not over $60,000	$8,200, plus 24 percent of the excess of such amount over $40,000.
Over $60,000 but not over $80,000	$13,000, plus 26 percent of the excess of such amount over $60,000.
Over $80,000 but not over $100,000	$18,200, plus 28 percent of the excess of such amount over $80,000.
Over $100,000 but not over $150,000	$23,800, plus 30 percent of the excess of such amount over $100,000.
Over $150,000 but not over $250,000	$38,800, plus 32 percent of the excess of such amount over $150,000.
Over $250,000 but not over $500,000	$70,800, plus 34 percent of the excess of such amount over $250,000.
Over $500,000 but not over $750,000	$155,800, plus 37 percent of the excess of such amount over $500,000.
Over $750,000 but not over $1,000,000	$248,300, plus 39 percent of the excess of such amount over $750,000.
Over $1,000,000	$345,800, plus 40 percent of the excess of such amount over $1,000,000.



SOUTH-WESTERN
FEDERAL TAXATION

COMPREHENSIVE VOLUME 2022

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South-Western Federal Taxation: Comprehensive Volume, 2022 Edition

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Designer: Chris A. Doughman

Text Designer: Red Hangar Design

Cover Designer: Bethany Bourgeois

Cover Image: iStock.com/Sean Pavone

Design Images:
Concept Summary: iStock.com/enot poloskun
Global Tax Issues: enot-poloskun/E+/Getty Images
Ethics & Equity: iStock.com/LdF
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ISSN: 0741-5184
2022 Annual Edition

Student Edition with Intuit ProConnect Tax + RIA Checkpoint
ISBN: 978-0-357-51101-5
Loose Leaf Edition with Intuit ProConnect Tax + RIA Checkpoint
ISBN: 978-0-357-51103-9

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Printed in the United States of America
Print Number: 01 Print Year: 2021

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ISBN-13: 978-0-357-51111-4 • ISBN-10: 0-357-51111-5

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

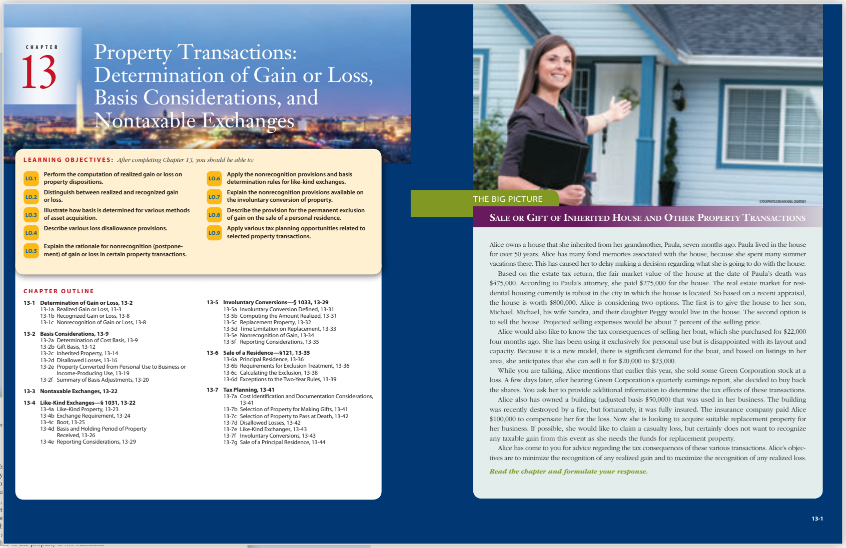
In addition, the *SWFT Comprehensive Volume,* 2022 Edition provides accessible, comprehensive, and authoritative coverage of the relevant tax code and regulations as they pertain to the individual and business taxpayer, as well as coverage of all major developments in Federal income taxation.

In revising the 2022 Edition, we focused on:

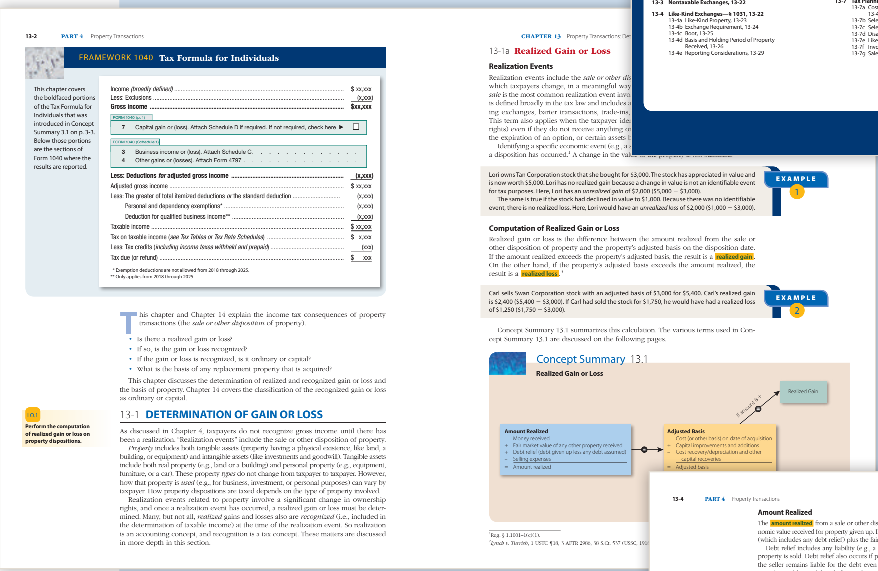
- ***Accessibility. Clarity. Substance.*** The authors and editors made this their focus as they revised the 2022 edition. Coverage has been streamlined to make it more accessible to students, and difficult concepts have been clarified, all without losing the substance that makes up the *South-Western Federal Taxation* series.
- ***Developing professional skills.*** SWFT excels in bringing students to a professional level in their tax knowledge and skills, to prepare them for immediate success in their careers. 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, 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.
- ***CengageNOWv2 as a complete learning system.*** Cengage Learning understands that digital learning solutions are central to the classroom. Through sustained research, we continually refine our learning solutions in CengageNOWv2 to meet evolving student and instructor needs. CengageNOWv2 fulfills learning and course management needs by offering a personalized study plan, video lectures, auto-graded homework, auto-graded tests, and a full eBook with features and advantages that address common challenges.

Learning Tools and Features to Help Students Make the Connection

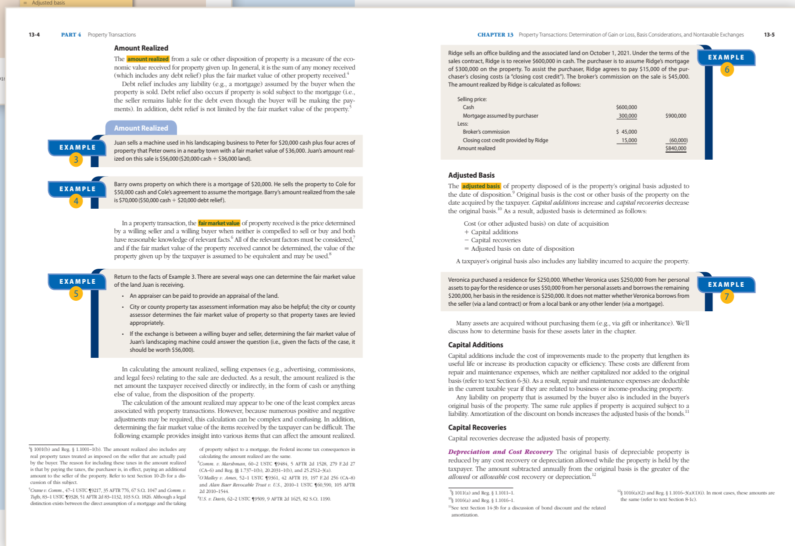
FULL-COLOR DESIGN: We understand that students struggle with learning difficult tax law concepts and applying them to real-world scenarios. The 2022 edition uses color to bring the text to life, capture student attention, and present the tax law in an understandable and logical format.



- Selected **content is streamlined** to guide students in focusing on the most important rules and concepts for the CPA Exam while still providing in-depth coverage of topics.



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

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

26. 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?
27. LO.1 On July 1, 2021, 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 3%.
    a. How much interest income and/or interest expense must Katrina report in 2021, assuming that straight-line amortization is appropriate?
    b. What is Katrina's adjusted basis for the bonds on January 1, 2022?

RESEARCH AND DATA ANALYTICS PROBLEMS:

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

BECKER PROFESSIONAL EDUCATION REVIEW QUESTIONS: End-of-chapter CPA Review Questions from Becker PREPARE STUDENTS FOR SUCCESS. Students review key concepts using proven questions from Becker Professional Education®—one of the industry's most effective tools to prepare for the CPA Exam.

- Located in select end-of-chapter sections
- Tagged by concept in CengageNOWv2
- Questions similar to what students would actually find on the CPA Exam

Becker CPA Review Questions

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

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 been in existence 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 mission.

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 filers. Students will follow a family, individual, or other taxpayer throughout the chapter, to discover how the concepts they are learning apply in the real world.

Finally, to solidify student comprehension, each chapter concludes with a **Refocus on the Big Picture** summary and tax planning scenario. These scenarios re-emphasize the concepts and topics from the chapter and allow students to confirm their understanding of the material.

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 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)*	$ xx,xxx
Less: Exclusions	(x,xxx)
Gross income	**$xx,xxx**

FORM 1040 (p. 1)
7 Capital gain or (loss). Attach Schedule D if required, If not required, check here ▶ ☐

FORM 1040 (Schedule 1)
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	**(x,xxx)**
Adjusted gross income	$ xx,xxx
Less: The greater of total itemized deductions *or* the standard deduction	**(x,xxx)**

FORM 1040 (p. 1)
12 **Standard deduction or itemized deductions** (from Schedule A)

Personal and dependency exemptions*	(x,xxx)
Deduction for qualified business income**	(x,xxx)
Taxable income	$ xx,xxx
Tax on taxable income *(see Tax Tables or Tax Rate Schedules)*	$ x,xxx
Less: Tax credits *(including income taxes withheld and prepaid)*	(xxx)
Tax due (or refund)	$ xxx

*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 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. 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, 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: Many 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 appear throughout each chapter.

> **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 gifts within three years of death), the estate tax thereon is avoided.

> **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.

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MASTERY
APPLICATION
MOTIVATION

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- **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

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- ❑ **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.
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Mastery —

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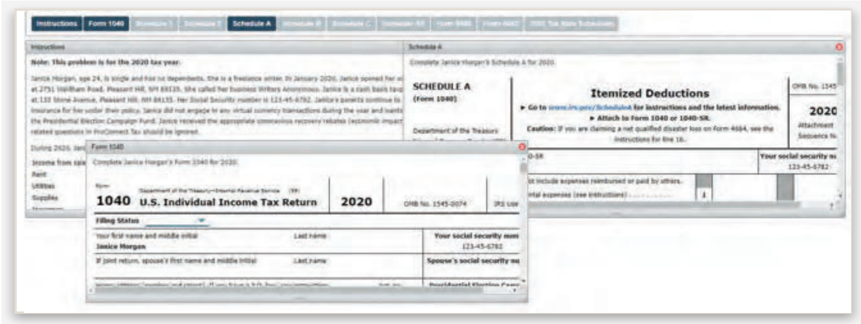

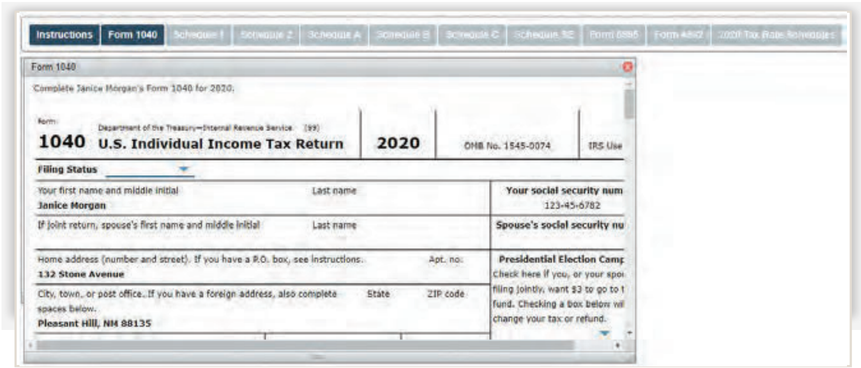

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EXTENSIVELY REVISED. DEFINITIVELY UP TO DATE.

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 2022 edition.

- Updated materials to reflect changes made by Congress through legislative action (including the tax provisions contained in the CARES Act, the Consolidated Appropriations Act of 2021, and the American Rescue Plan Act of 2021).
- Streamlined chapter content (where applicable) to clarify material and make it easier for students to understand.
- Revised numerous materials as the result of changes caused by indexing of statutory amounts.
- Revised Problem Materials, Computational Exercises, and CPA Exam problems.
- Updated Chapter Outlines to provide an overview of the material and to make it easier to locate specific topics.
- Revised *Financial Disclosure Insights* and *Global Tax Issues* as to current developments.

In addition, the following materials are available online.

- An appendix that helps instructors broaden and customize coverage of important tax provisions of the Affordable Care Act. (Instructor Companion Website at **www.cengage.com/login**)
- An appendix that covers depreciation and the Accelerated Cost Recovery System (ACRS). (Instructor Companion Website at **www.cengage.com/login**)
- An appendix that has comprehensive tax return problems for the 2020 tax filing year (Appendix F). (Instructor Companion Website at **www.cengage.com/login**)

Chapter 1

- Removed Exhibit 1.4 (on IRS audit types), but retained text discussion.
- Expanded judicial concepts to also include judicial doctrines and added new text and example on the substance over form doctrine.
- Updated end-of-chapter materials as needed.

Chapter 2

- Minor changes made to various exhibits and concept summaries.
- Updated references and citations throughout the chapter.
- Expanded Internal Revenue Bulletin coverage to include IRS Notices.
- Changed references to RIA Checkpoint to Thomson Reuters Checkpoint.
- Updated end-of-chapter materials as needed.

Chapter 3

- Updated chapter materials to reflect changes to Form 1040 and related schedules; updated exhibit summarizing when Form 1040 Schedules 1 through 3 are used.
- Updated explanation and examples of the child tax credit to reflect 2021 changes made by the American Rescue Plan Act of 2021.
- Updated chapter materials to reflect 2021 inflation adjustments.
- Updated material on virtual currency (including revised question on page 1 of Form 1040).
- Updated exhibit summarizing the 0, 15, and 20% breakpoints for the alternative tax on net capital gains.
- Revised and clarified materials (including end-of-chapter materials) as needed.

Chapter 4

- The discussion of Income Received by an Agent was moved to text Section 4-2 with the discussion of the timing of income recognition.
- Updated Global Tax Issues feature entitled "From 'All Sources' Is a Broad Definition" for the number of recent expatriations.

- Added Ethics & Equity feature on the expansion of unemployment benefits during the COVID-19 pandemic.
- Noted the 2020 unemployment compensation exclusion added by the American Rescue Plan Act of 2021.
- Added two examples illustrating the relationship of the all-events test to financial reporting.
- Added example of potential income shifting to a taxpayer not subject to the kiddie tax to highlight the general benefits of income shifting and the impact of the kiddie tax on this benefit.
- Deleted former homework Problem 55 that required completion of Worksheet 1, Figuring Your Taxable Benefits, from IRS Publication 915.

Chapter 5

- Modified Learning Objective 1 to address the definition of exclusions and that they are distinguishable from items that are not income.
- Combined the learning objective on cancellation of debt with the learning objective related to other exclusions.
- Renamed text Section 5-1 as "Income Exclusions."
- Moved material on corporate distributions from text Section 5-11 to new text Section 5-1b, to illustrate an example of something received that is not income.
- Moved and renamed former text Section 5-16 as text Section 5-14 to improve flow of chapter materials.
- The discussion of corporate payments called "dividends" (but not considered dividends for tax purposes) was moved to Chapter 4 (as part of gross income discussion).
- Updated text, examples, and end-of-chapter materials as needed, including 2021 inflation adjustments.

Chapter 6

- Revised and updated chapter materials as needed; clarified chapter materials when necessary.
- Updated text for inflation-adjusted items.
- Replaced summary of a *Fortune* article on executive compensation with summary of a *Wall Street Journal* article (text Section 6-4c).
- Revised and updated end-of-chapter materials as needed (including changes needed to reflect revised inflation-adjusted items).
- Modified items in tax form and tax computation problems to be more reflective of current income levels.

Chapter 7

- Cited a recent Tax Court decision that provides a comprehensive overview of the law related to worthless securities [*MCM Investment Management, LLC* (T.C.Memo. 2019–158)].
- Updated text to include discussion of COVID-19 casualties (and the ability to deduct these in the year prior to the loss).
- Added a new example (Example 27) demonstrating how to amortize research and experimentation expenditures incurred in taxable years beginning after December 31, 2021.
- Noted (in footnote 37) the retroactive delay of the excess business loss provision by the CARES Act (revised effective date is taxable years beginning after December 31, 2020).
- Modified the net operating loss materials to reflect changes made by the CARES Act.
- Added new part to Problem 40 to allow students to compute the appropriate deduction for research and experimentation expenditures incurred in taxable years beginning after December 31, 2021; also added a related question to the text bank and modified an essay question.
- Updated remainder of chapter materials as needed (including various inflation-adjusted amounts).

Chapter 8

- Updated chapter materials to reflect inflation adjustments to § 179 (including SUVs) and luxury automobiles.
- Updated Form 4562 and Schedule C (Form 1040) to 2020 forms.
- Updated and revised remainder of text and 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.
- Deleted coverage of § 222 (repealed as part of Consolidated Appropriations Act of 2021).
- Revised and clarified materials based on feedback from adopters.

Chapter 10

- Revised and clarified text as needed, including 2021 change to medical expense AGI floor (now permanently set at 7.5% of AGI).
- Added brief comment on CARES Act cash charitable contribution for non-itemizers (a *for* AGI deduction).
- Updated text for annual inflation adjustments.
- Updated end-of-chapter materials as needed.

Chapter 11

- Made minor changes to Learning Objectives 2 and 4.
- Updated chapter materials to reflect inflation adjustments.
- Added new research problem on virtual currency investing and software tools to help track the necessary information for tax reporting.
- Updated end-of-chapter materials as needed.

Chapter 12

- Updated for changes to various individual credits by the American Rescue Plan Act of 2021.
- Reorganized presentation of credits to show those available to businesses, to individuals, and to both types of taxpayers.
- Updated Ethics & Equity scenarios to reflect current tax law considerations.
- Added a problem on the AMT.
- Updated problems, improved readability.
- Added an exhibit summarizing various energy credits (Exhibit 12.4).
- Updated Affordable Care Act materials.

Chapter 13

- Revised introductory discussion of realized gains and losses (text Section 13-1a).
- Expanded the discussion of basis when a liability is involved, adding Example 7.
- Reduced the discussion of basis computations, deleting former Example 11.

Chapter 14

- Updated Exhibit 14.1 summarizing 2021 and 2020 break points for the 0%/15%/20% alternative tax rates on net capital gains and qualified dividend income.
- Updated text and end-of-chapter materials for 2021 inflation adjustments to Tax Rate Schedules and alternative tax rate brackets (for net capital gains).
- Enhanced text materials, Concept Summary 14.6, and Concept Summary 14.8 to show integration with the capital gain materials more clearly.

Chapter 15

- Updated chapter materials to reflect 2021 inflation adjustments to QBI deduction threshold limits.
- Updated example illustrating the completion of 2020 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 QBI deduction threshold limits and completion of 2020 Form 8995).

Chapter 16

- Removed discussion of conditions for granting approval to change an accounting period.
- Replaced a research problem with one involving a sole proprietor and the constructive receipt doctrine (and added a communications requirement).

Chapter 17

- Updated and revised text and end-of-chapter materials as needed.
- Noted the changes to the excessive executive compensation rule made by the American Rescue Plan Act of 2021.
- Added a new research problem focused on the CARES Act.

Chapter 18

- Switched Learning Objectives 2 and 3 to allow for better understanding of the relevance of stock basis.
- Switched text Sections 18-1e and 18-1f to enhance student comprehension.
- Reversed the order of discussion of assigning basis in § 351 transactions and the effect of liabilities transferred to a corporation on stock and asset bases.
- Added a test bank problem on § 1202.

Chapter 19

- Revised and updated chapter materials as needed; clarified chapter materials when necessary.
- Updated end-of-chapter materials as needed.

Chapter 20

- Revised and updated chapter materials as needed; clarified chapter materials when necessary.
- Retitled text Sections 20-5b and 20-5c.
- Updated end-of-chapter materials as needed.
- Added and replaced several new items.
- Replaced Research Problem 2.

Chapter 21

- Added Concept Summary 21.4 entitled "Comparing a Partner's Tax Basis and Capital Account."
- Show reporting of guaranteed payments split between those for services versus use of capital as changed by the IRS on Schedule K-1.
- Added new "formula" version of Excel spreadsheet for current distributions in Problems 24 and 25.
- Replaced calculation spreadsheets to correct typo in Problems 24 and 25.
- Expanded response to part (b) of Problem 28.
- Added new "formula" version of Excel spreadsheet for liquidating distributions in Problem 29.
- Added calculation spreadsheets supporting answers in Problem 29.

Chapter 22

- Revised Learning Objectives 1, 9, and 10.
- Changed titles for text Sections 22-3a, 22-3d, and 22-3e.
- Revised Exhibit 22.1 comparing business entities.
- Revised introductory material in text Section 22-1.
- Updated statistics about S corporations and partnerships/LLCs.
- Deleted Exhibit 22.5.
- Revised material in text Sections 22-3f and 22-3g.
- Placed Discussion Questions, Computational Exercises, and Problems in chronological learning objective order.
- Added two new research problems, one involving data analytics.

Chapter 23

- Revised Learning Objective 5.
- Revised titles of text Sections 23-2c, 23-7a, and 23-7c.
- Updated statistics about the nonprofit sector of the economy, for private foundations, and for the UBIT.
- Updated statistics about the tax on university endowments and the applications for exempt status.
- Added material about the UBIT "silo" rule.
- Deleted some material from the discussion of debt-financed UBTI.

- Added material concerning the loss of exempt status due to a failure to file Form 990.
- Updated end-of-chapter materials as needed, including revising Research Problem 6 and adding new Research Problem 7 (communications and data analytics).
- Added new Research Problem 7 (communications and data analytics).

Chapter 24

- Added information on the MTC's project to update its *Statement of Information Concerning Practices of Multistate Tax Commission and Signatory States Under Public Law 86–272*, for changes in business practices primarily due to technology.

Chapter 25

- Revised Learning Objectives 3 and 5.
- Replaced a Global Tax Issues feature ("COVID-19 and Permanent Residency").
- Revised the discussion of tax treaties (text Section 25-2).
- Updated and added statistics about the global economy, worldwide tax rates, treaty withholding rates, advance pricing agreements, FTC deferrals, and CFCs.
- Revised Concept Summary 25.4 (which now illustrates the components of Subpart F income).
- Deleted text Section 25-5b ("Creating a Cross-Border Entity").
- Revised and expanded the discussion of Global Intangible Low-Taxed Income (GILTI).
- Added a number of new examples to illustrate text materials.
- Revised Research Problem 6, which asks students to explore and report on OECD base erosion and profit shifting (BEPS) developments.

Chapter 26

- Made minor revisions to Learning Objectives 2 and 6.
- Added text Section 26-3f ("Ethics in the Tax Practice").
- Updated and expanded statistics about the IRS workforce and budget, tax filings, offers in compromise, penalties, and audit rates and results.
- Updated and reorganized the material on informants.
- Updated the Ethics & Equity item about self-assessment.
- Expanded materials about the unauthorized practice of law.
- Added a research problem about the timely filing of tax returns.

Chapter 27

- Revised Learning Objectives 1, 2, 5, 8, and 9.
- Updated statistics about estate and gift tax returns filed.
- Rearranged and revised material in text Section 27-2a.
- Revised material in Concept Summary 27-3.
- Revised introductory material in text Section 27-3.
- Revised and rearranged material concerning life insurance in the gross estate.
- Updated information about estate and gift tax treaties with other countries.
- Replaced a research problem with a new data analytics problem.
- Revised titles for text Section 27-1b.
- Updated statistics about the net worth of U.S. households.
- Expanded the list of requirements for using a buy-sell agreement.
- Revised the discussion of the § 1014(e) rule.
- Expanded material in text Section 27-3b.
- Added material on charitable gifts using donor-advised funds.

Chapter 28

- Revised Learning Objective 1 and added a new learning objective.
- Revised title of text Section 28-1.
- Expanded statistics about Forms 1041 filed.
- Updated tax amounts in Exhibit 28.3.
- Added information about entity tax rates for net long-term capital gains.
- Augmented explanation in Example 4.
- Revised the Ethics & Equity items on pet-assistance trusts and choice of trustee.
- Added a new text Section 28-5 entitled "Grantor Trusts."
- Replaced a research problem with a new data analytics and communications problem.

TAX LAW OUTLOOK

From your SWFT Series Editors:
Legislation related to the COVID-19 pandemic was a vehicle for tax changes in 2020. And, a variety of tax changes were incorporated into the American Rescue Plan Act of 2021 (enacted in March 2021). The Biden administration and 117th Congress began to discuss a wide variety of tax law changes, including changes to the Tax Cuts and Jobs Act of 2017 (TCJA). Still others are expected in the Biden administration's Build Back Better plan (with legislation likely to be discussed and possibly enacted before the end of the 117th Congress).

Taxpayers and their advisers will need to evaluate how these changes will affect their short- and long-term planning (adjusting those 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: Comprehensive Tax Return Problems and answers with explanations to the end-of-chapter Becker CPA Review Questions. **Available on the Instructor Companion Website at www.cengage.com/login.**

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- An appendix that helps instructors broaden and customize coverage of important tax provisions of the Affordable Care Act
- The Depreciation and the Accelerated Cost Recovery System (ACRS) appendix
- Comprehensive Tax Return Problems appendix

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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.

ACKNOWLEDGMENTS

We want to thank all the adopters and others who participated in numerous online surveys as well as the following individuals who provided content reviews and feedback in the development of the ***South-Western Federal Taxation 2022 titles***.

James C. Young / David M. Maloney / Annette Nellen / Mark B. Persellin / Andrew D. Cuccia

Lindsay G. Acker, *University of Wisconsin-Madison*
Deborah S. Adkins, *Nperspective, LLC*
Mark P. Altieri, *Kent State University*
Susan E. Anderson, *Elon University*
Henry M. Anding, *Woodbury University*
Jennifer A. Bagwell, *Ohio University*
George Barbi, *Lanier Technical College*
Terry W. Bechtel, *Texas A&M University – Texarkana*
Chris Becker, *LeMoyne College*
Tamara Berges, *UCLA*
Ellen Best, *University of North Georgia*
Tim Biggart, *Berry College*
Rachel Birkey, *Illinois State University*
Israel Blumenfrecht, *Queens College*
Patrick M. Borja, *Citrus College / California State University, Los Angeles*
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Sheila Woods, *DeVry University, Houston, TX*
Xinmei Xie, *Woodbury University*
Thomas Young, *Lone Star College – Tomball*

SPECIAL THANKS

We are grateful to the faculty members who have diligently worked through the problems and test questions to ensure the accuracy of the ***South-Western Federal Taxation*** homework, solutions manuals, test banks, and comprehensive tax form problems. Their comments and corrections helped us focus on clarity as well as accuracy and tax law currency. We also thank Thomson Reuters for its permission to use Checkpoint™ with the text.

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Kate Mantzke, *Northern Illinois University*
Ray Rodriguez, *Murray State University*
Miles Romney, *Florida State University*
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Donald R. Trippeer, *State University of New York College at Oneonta*
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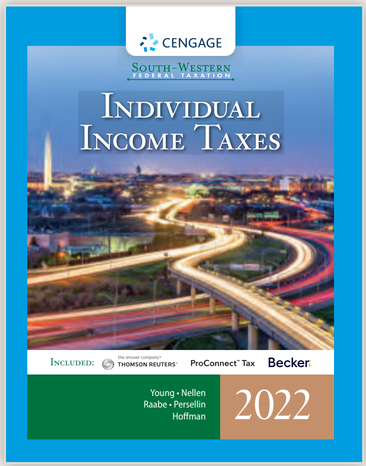

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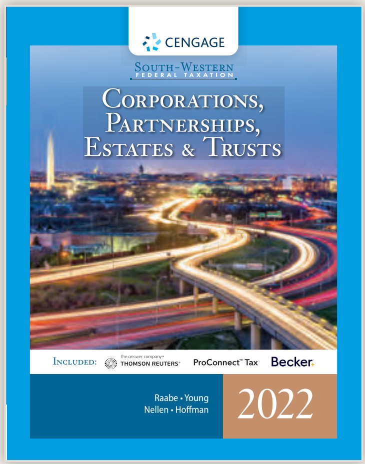

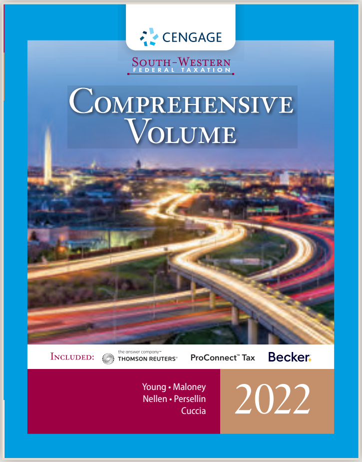

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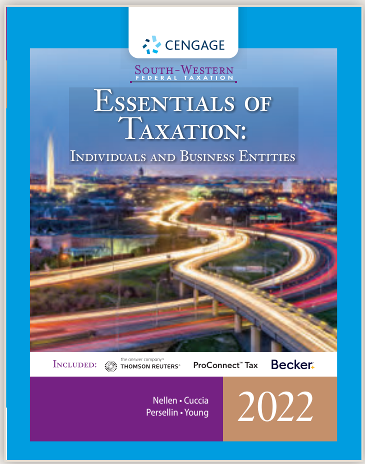

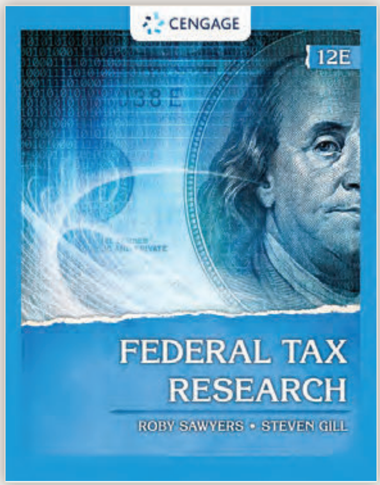

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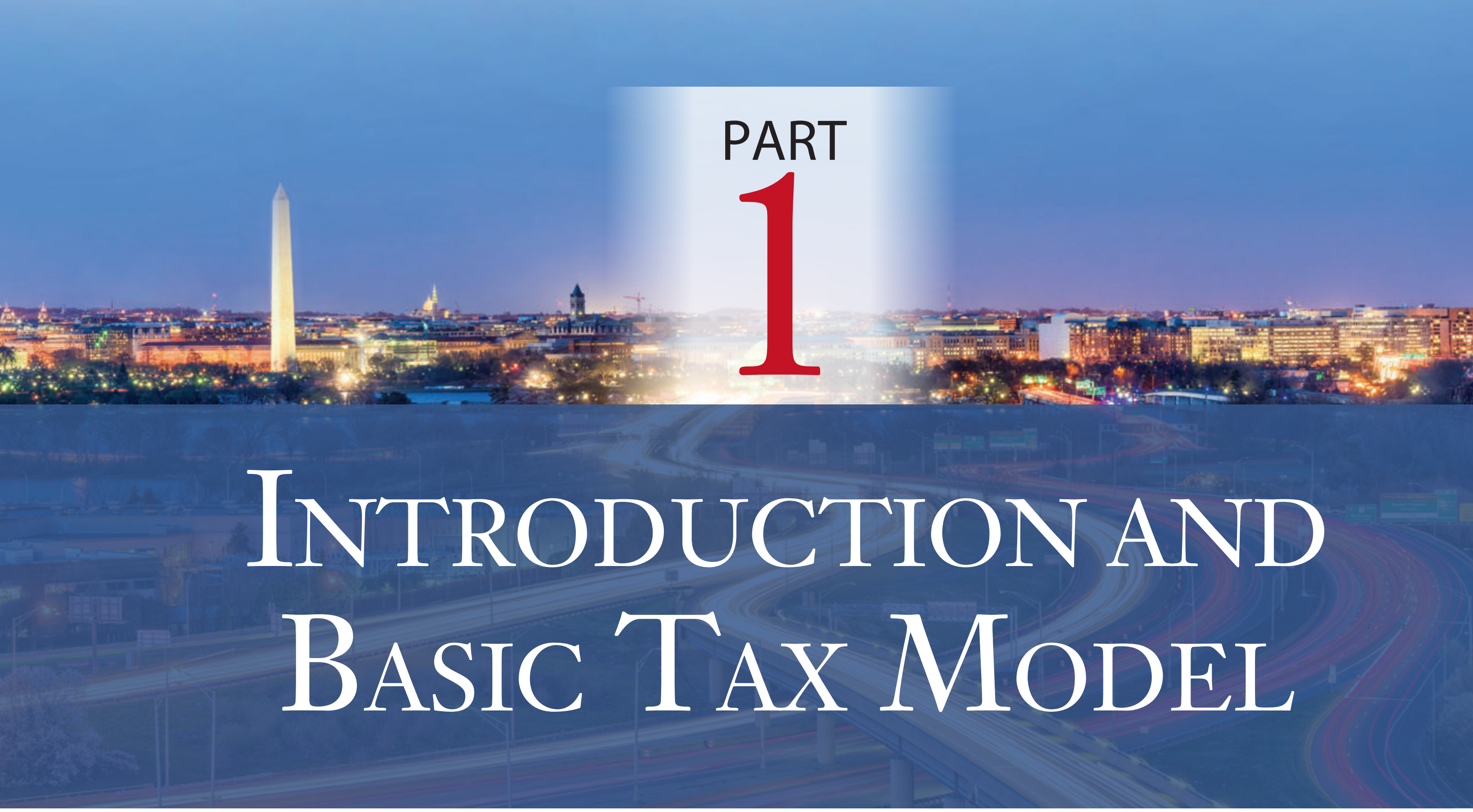


PART 1

Introduction and Basic Tax Model

CHAPTER 1

An Introduction to Taxation and Understanding the Federal Tax Law

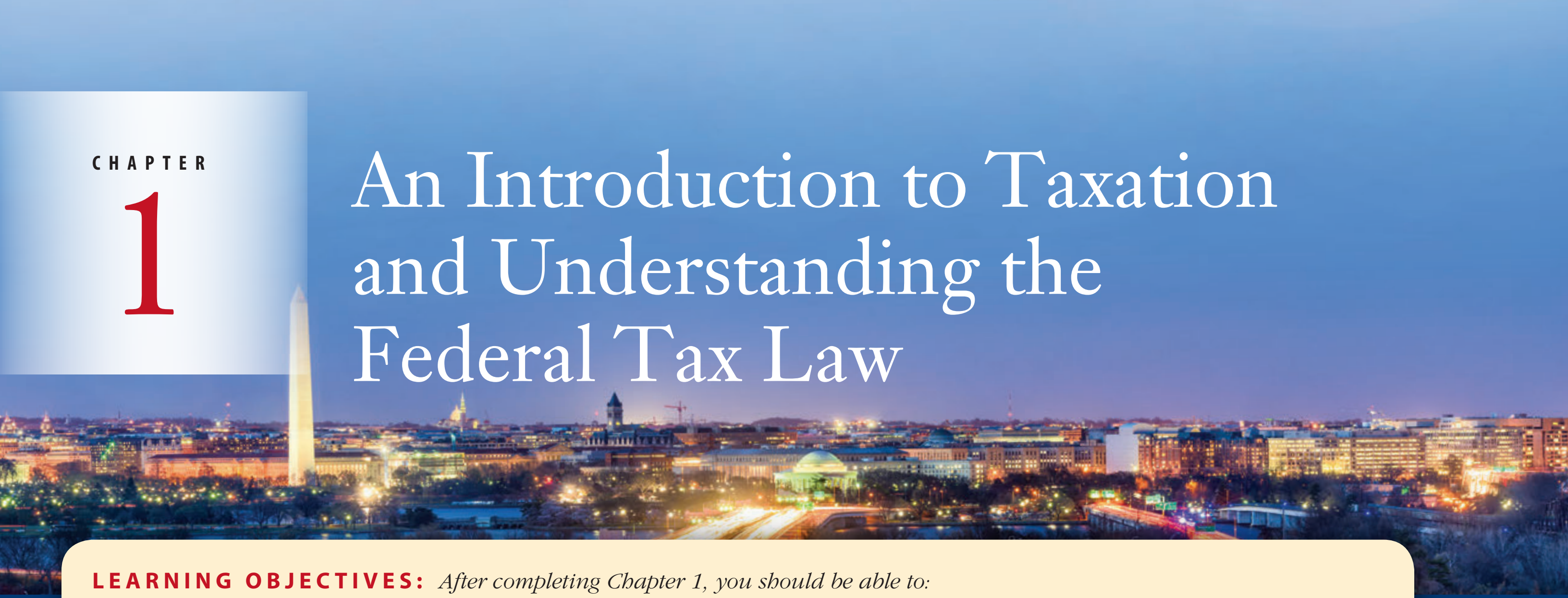
CHAPTER 2

Working with the Tax Law

CHAPTER 3

Tax Formula and Tax Determination; An Overview of Property Transactions

Part 1 provides an introduction to taxation in the United States. Although this text focuses on income taxation, other types of taxes also are briefly discussed. The purposes of the Federal tax law are examined, and the legislative, administrative, and judicial sources of Federal tax law, including their application to the tax research process, are analyzed. Part 1 concludes by introducing the basic tax model for the individual taxpayer and providing an overview of property transactions.



CHAPTER 1

An Introduction to Taxation and Understanding the Federal Tax Law

LEARNING OBJECTIVES: *After completing Chapter 1, you should be able to:*

- **LO.1** **Explain the importance of taxation and apply methods for studying this topic.**
- **LO.2** **Describe some of the history and trends of the Federal income tax.**
- **LO.3** **Describe and apply principles and terminology relevant to the design of a tax system.**
- **LO.4** **Identify the different taxes imposed in the United States at the Federal, state, and local levels.**
- **LO.5** **Explain the administration of the tax law, including the audit process utilized by the IRS.**
- **LO.6** **Evaluate some of the ethical guidelines involved in tax practice.**
- **LO.7** **Classify tax rules based on their possible economic, social, equity, and political reasons for inclusion in a particular tax system.**
- **LO.8** **Explain the role played by the IRS and the courts in the evolution of the Federal tax system.**

CHAPTER OUTLINE

THE BIG PICTURE

Family and Taxes—A Typical Year

Travis and Amy Carter are married and live in a state that imposes both a sales tax and an income tax. They have two children, April (age 17) and Martin (age 18). Travis is a mining engineer who specializes in land reclamation. After several years with a mining corporation, Travis established a consulting practice that involves a considerable amount of travel due to work he performs in other states. Amy is a registered nurse who, until recently, was a homemaker. In November of this year, she decided to reenter the job market and accepted a position with a medical clinic. The Carters live only a few blocks from Ernest and Mary Walker, Amy Carter's parents. The Walkers are retired and live on interest, dividends, and Social Security benefits.

Activities during the year with possible tax ramifications are summarized below.

- The ad valorem property taxes on the Carters' residence are increased, whereas those on the Walkers' residence are lowered.
- When Travis registers an automobile purchased last year in another state, he is required to pay a sales tax to his home state.
- As an anniversary present, the Carters gave the Walkers a recreational vehicle (RV).
- Travis employs his children to draft blueprints and prepare scale models for use in his work. Both April and Martin have had training in drafting and topography.
- Early in the year, the Carters are audited by the state on an income tax return filed a few years ago. Later in the year, they are audited by the IRS on a Form 1040 they filed for the same year. In each case, a tax deficiency and interest were assessed.
- The Walkers are audited by the IRS. Unlike the Carters, they did not have to deal with an agent, but settled the matter by mail.

Explain these developments, and resolve the issues raised.

Read the chapter and formulate your response.