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Chapter I:5  —  Property Transactions: Capital Gains and Losses

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**Posted 7/10/2015:**

Chapter I:6  —  Deductions and Losses

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Textbook Updates

Chapter I:1 — An Introduction to Taxation


Replace the last sentence of the paragraph on sales taxes with the following:
Sales taxes generally are not deductible for federal income tax purposes. However, they are deductible if incurred in a trade or business. In addition, state and local sales taxes are deductible as an itemized deduction if the taxpayer elects to deduct them instead of deducting state and local income taxes (for taxable years beginning before January 1, 2015).

Chapter I:2 — Determination of Tax

Problem I:2-58 (6/10/2014)

In part b, the 3.8% additional tax on investment income for higher income taxpayers should be $4,752 (not $4,560), calculated as follows:

\[(375,050 - 250,000) \times 0.038 = 4,752\]

Chapter I:3 — Gross Income: Inclusions

Page I:3-29 (5/22/2015)

The second sentence after the Reporting Savings Bond Interest heading should refer to $1,000 (not $900).

Problem I:3-57 (6/4/2015)

Rashid’s age should be 23 not 24.

PowerPoint slide I:3-30 (7/3/2015)

In the last bullet point, the last item should be S Corp income (not S Corp distributions).

Chapter I:4 — Gross Income: Exclusions

Problem I:4-24 (6/4/2015)

Replace the solution manual’s answer for part a with the following: “The discharge of indebtedness in not taxable in the case of certain student loans, bankruptcy, and insolvency. A limited exclusion was available of home mortgage forgiveness prior to 2015. Congress has extended the provision in the past and could extend it
again. (Knowledgeable students may be aware of an exclusion, not discussed in the textbook, that applies to some discharges of debt relating to business real estate.)”

**PowerPoint slide I:4-23 (7/3/2015)**

Replace the second bullet point with the following:

*Educational assistance* – limited to job-related education and training. Dollar amount must be reasonable

○ Under § 127, EE can exclude up to $5,250 for tuition, books, and fees for undergraduate or graduate classes.

**PowerPoint slide I:4-29 (7/3/2015)**

The word between the two criteria for the exclusion should be “or” (not “and”).

**Chapter I:5 — Property Transactions: Capital Gains and Losses**

**Page I:5-19 (7/3/2015)**

Example I:5-55 should say that Raef purchased the Monona stock on October 1, 2008 (not October 1, 2009). Example I:5-56 should say that the $200,000 LTCG is for QSBS acquired in 2006.

**Problem I:5-25 (7/3/2015)**

The last sentence of the solution manual’s answer should say that the net capital gain is ANCG (not that the NLTCG is ANCG).

**Problem I:5-40 (7/3/2015)**

In the solution manual’s answer, the basis of each stock right received is $16 ($8,000 ÷ 50 rights). The $8,000 aggregate basis for the rights is correct.

**Problem I:5-65 (7/3/2015)**

In the solution manual’s answer, the first paragraph should say that his tax will be reduced by $280 (not $240), which is 35% of $800. The third paragraph thus should say that his tax will increase by $910 (not $870) and refer to a decline in taxes of $280 (not $240).

**Chapter I:6 — Deductions and Losses**

**Page I:6-32 (5/14/2015)**

The last sentence before *Allocation Formula* should refer to Example I:6-39 (not Example I:6-40).
In Example I:6-43, the allocation and deductibility of the cabin’s depreciation expense should be determined as follows:

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<th>Allocated to Personal</th>
<th>Treatment of Personal Amounts</th>
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<tr>
<td>Depreciation</td>
<td>$12,000 \times \frac{170}{186}$</td>
<td>(10,968)***</td>
<td>(1,032)</td>
<td>Not deductible</td>
</tr>
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</table>

*** After the allocation of the expenses, the rental of the cabin results in a rental loss of - $8,548 ($10,000 – (1,397 + 699 + 5,484 + 10,968)). Because Joan’s personal use of the cabin doesn’t meet the greater of 14 days or 10% of the rental days test, Sec. 280A doesn’t apply to prevent the deductibility of the loss. However, as explained in Chapter 8, the loss may still be partially or fully disallowed under the passive activity rules. Furthermore, because Joan’s personal use doesn’t meet the greater of 14 days or 10% of the rental days test, she can’t deduct the interest allocated to her personal use of the cabin.

**Problem I:6-57 (7/10/2015)**

The first line of the solution manual’s answer should say $100,200 (not $100,500). The subsequent calculation of the $100,200 taxable income is correct.

**Problem I:6-58 (7/10/2015)**

In item 7 of the solution manual’s answer, the $1,525 of net rental income should be a positive amount. The $99,025 AGI correctly adds the $1,525.

**Chapter I:7 — Itemized Deductions**

None

**Chapter I:8 — Losses and Bad Debts**

None

**Chapter I:9 — Employee Expenses and Deferred Compensation**

**Page I:9-31 (5/19/2014)**

After “Limitation on Employer Contributions,” the first bullet point should refer to 2014 (not 2013). The $52,000 amount is correct.

**Problem I:9-53 (2/19/2015)**

In the solutions manual, for part (d), the amount that qualifies as deductible for Mike should be $500 (not $550). This amount is calculated as $50 for meals ($100 X 50%) + $200 for
hotel + $250 for entertainment ($500 X 50%). Mike’s 2% floor of $1,000 ($50,000 X 2%) is greater than the total qualified expenses, so he can take no deduction for the expenses on his return. A revised solutions manual reflecting this will be posted shortly, but you should note this correction if you already have accessed the solutions manual files.

**Problem I:9-61  (8/7/2014)**

In the solutions manual, for part (a)(3), the amount that the company can deduct should be $9,450 (not $11,250). This amount is calculated as $11,250 – ($1,200 × 50%) – ($2,400 × 50%). A revised solutions manual reflecting this will be posted shortly, but you should note this correction if you already have accessed the solutions manual files.

**Chapter I:10 — Depreciation, Cost Recovery, Amortization, and Depletion**

None

**Chapter I:11 — Accounting Periods and Methods**

None

**Chapter I:12 — Property Transactions: Nontaxable Exchanges**

**Problem I:12-49  (6/2/2014)**

The solution’s manual answer for part c currently says $94,000 but should say $131,000. A revised solutions manual with the correct answer of $131,000 will be posted shortly, but you should note this correction if you already have accessed the solutions manual files.

**Problem I:12-52  (5/12/2015)**

The bullet point preceding item a should refer to the residence that was purchased on July 25, 2013 (not July 25, 2012). This makes the date consistent with the second bullet point.

**Chapter I:13 — Property Transactions: Section 1231 and Recapture**

None
Chapter I:14 — Special Tax Computation Methods, Tax Credits, and Payment of Tax

Problem I:14-61  (6/10/2014)

In part 3 of the solution manual’s answer, the child tax credit should be part of the solution. Latisha’s refund thus should equal $6,353, not $4,353:

- Regular tax before credits: $145
- Regular child tax credit: (145)
- Additional child tax credit: (1,855)
- Earned income credit: (4,498)
- Tax due (refund): $(6,353)

Problem I:14-65  (6/2/2014)

The solution’s manual answer for part c should read as follows:

There are no special disclosure procedures. Previously, employers had to forward the Form W-4 to the IRS if the taxpayer claimed more than 10 allowances, but that requirement has been eliminated.

A revised solutions manual with this language will be posted shortly, but you should note this correction if you already have accessed the solutions manual files.

Problem I:14-71  (5/19/2014)

For this problem, ignore the net investment income tax (the solution in the Instructor Resource Manual ignores this tax). As an extension, an instructor could ask students to use Form 8960 to determine the 2013 net investment income tax for Harold Milton (click here for the uncompleted form). The tax is $76 (3.8% of the lesser of (a) $30,000 of investment income, or (b) $2,000 of AGI in excess of $200,000).

Chapter I:15 — Tax Research

PowerPoint slide I:15-27  (10/14/2014)

The citation example under the Private Letter Rulings heading should say Ltr. Rul. 200413015 (March 26, 2004). It should not say Ltr. Rul. 2004131966 (November 4, 1966).

Chapter I:16 — Corporations

Page I:16-22  (5/12/2015)

Example I:16-28 incorrectly has the shareholder’s basis as $70,000. If the shareholder received cash of $10,000 as boot in the transaction (and realized at least $10,000 of gain), the shareholder’s basis in the stock would be $60,000 ($60,000 adjusted basis of property transferred plus $10,000 gain recognized minus $10,000 boot received).
Problem I:16-53  (8/7/2014)

In the solutions manual, for part (b), the first line of the solution should note that the solution is $23,300 (not $15,000). A revised solutions manual reflecting this will be posted shortly, but you should note this correction if you already have accessed the solutions manual files.

Problem I:16-56  (8/7/2014)

In the text, the second bullet point of the problem discusses the property that is transferred by Karen. The 20-year note that is transferred should be for the amount of $20,000, not $10,000.

Chapter I:17 — Partnerships and S Corporations

Problem I:17-63  (6/2/2014)

The solution’s manual answer for part c should read as follows:

The corporation does not recognize the $25,000 ($75,000 FMV - $100,000 adjusted basis) loss (Sec. 311(a)). Clay reports no income from the distribution. The net distribution of $55,000 ($75,000 FMV - $20,000 liability) reduces his stock basis to $115,000 ($170,000 - $55,000), and Clay takes a $75,000 FMV basis in the land. Note that neither the corporation nor Clay will recognize the loss upon the distribution. Clay would be better off if the corporation sold the land, recognized the loss, and passed the loss through to Clay. The corporation then could distribute to Clay the sales proceeds (minus the liability the corporation must repay).

A revised solutions manual with this language will be posted shortly, but you should note this correction if you already have accessed the solutions manual files.

Chapter I:18 — Taxes and Investment Planning

Page I:18-10  (8/7/2014)

The exempt model formula (in the box) should read as follows (plus sign rather than minus sign):

$$ATA = ATS(1 + R)^n$$