Welcome to the study of personal income tax. I hope you find the course interesting, useful and (sometimes) fun. Albert Einstein once said “The hardest thing in the world to understand is the income tax,” but together we’ll try to make sense of it.

**Tax Fundamentals and Changes**

Congress frequently makes changes in the tax law (two important tax bills became law in the last week of December) and the courts continually interpret it. However, the *fundamentals* of federal taxation you will study in this course have a long shelf life. Congress enacted significant tax reductions in 2001 that will expire in 2010. Therefore, Congress must enact major tax legislation within the next two years. These changes will affect rates and other provisions, but “fundamental tax reform” is not currently on the table.

**Class Preparation**

Read the pages in the 8th Edition of the casebook, the handout pages, and the Code and Regulations sections assigned on the syllabus. Prepare answers to the assigned problems for class discussion. Page numbers on the syllabus without a reference (e.g., read 12-14) refer to casebook pages and “h/o” (handout) refers to handout pages. Sections of the Internal Revenue Code (“Code”) and Regulations (“Regs.”) are in the 2008 Selected Federal Taxation and Statutes and Regulations (SSR). The Regulations begin on page 879 of the SSR and have the same number as the corresponding Code section, preceded by a “1.”. For example, Code § 61 is on page 57 and Regs. § 1.61 begin on page 884.

**Grade**

The grade will be based primarily on a 4-hour, 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.

**Assignments**

Assignments for each week are on an assignment page available on the website.

**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.
CHAPTER ASSIGNMENTS

Chapter 1  INTRODUCTION TO FEDERAL INCOME TAXATION

1. Preface; 4-8
2. Skim 1095-1098
3. We will discuss h/o 1-6 in the first class.

Chapter 2  GROSS INCOME AND LIMITATIONS

1. § 61 and Regs. §§ 1.61-1(a), 1.61-2(a) and (d)(1), and 1.61-14(a)
2. 24-28; first full paragraph on 30
3. Bargain Purchases on 32 to 45
4. casebook problems
   In problem 1(f), assume they agreed that Bill would build the greenhouse in exchange for the legal work she did for him, and that Bill spent $400 for materials.
5. Watch the video at http://www.youtube.com/watch?v=bDofRN0oJVU; answer these questions:
   (a) Who should get the money and what will be the tax consequences?
   (b) If the owner of the money decides to give $50,000 to Kitts, what will be the tax consequences for both parties?
   (c) Would your answer to (b) change if a court ordered the owner to pay Kitts $50,000?

Chapter 3  THE EFFECT OF AN OBLIGATION TO REPAY

1. first two paragraphs on 57; 60-63
2. problems 1-3 on 55

Chapter 4  GAINS DERIVED FROM DEALINGS IN PROPERTY

1. Chapter 4; omit the last full paragraph on 88 through the first full paragraph on 89
2. §§ 1001(a), (b), 1011(a)
3. h/o 7-8
4. problems on h/o 9; the answer to problem 1 is on h/o 10
5. 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 land and the European vacation reduced 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.
Chapter 5 GIFTS, BEQUESTS AND INHERITANCES

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

2. Chapter 5, but omit the last paragraph on 98 through the top of 100 and Goodwin on 112

3. §§ 102, 1014(a)(1), (b)(1), 1014(e), and the first sentence of § 1015(a)
   In the 6th line of § 1015(a) (on the third line on SSR p. 606), write the word “only” after the clause “for the purpose of determining loss.”

4. Section 1015(a) provides the following basis rules when a donee sells property acquired by gift:
   (1) The basis for determining the donee’s gain is always the donor’s basis.
   (2) The basis for determining donee’s loss depends on the FMV of the property on the gift date.
      (a) If the FMV is greater than the donor’s basis on the date of the gift, the basis for determining loss is the donor’s basis.
      (b) If the FMV is less than the donor’s basis at on the date of the gift, the donee’s basis for determining loss is the FMV.
   (3) If there is no gain using (1) and no loss using (2), the donee has no gain or loss on the sale.

5. 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 $18,000? For $23,000?
   Problem 6: Read part-gift, part-sale on p. 103 and Regs. §§ 1.1001-1(e), and 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 first full paragraph on 103 and § 1014(e)(1).

Chapter 6 SALE OF A PRINCIPAL RESIDENCE

1. Chapter 6
   Change the citation in the last first full paragraph on 127, three lines from the bottom, to Reg. § 1.121-1(b)(2); skim that regulation. Some examples in the casebook are long. Skim them to help you do the problems. Omit example 4 on 121 and the second full paragraph on 127.

2. §§ 121(a)-(d)(3)(B), 121(f)

3. h/o 16

4. problems on h/o 17 and the casebook problems
   Add the following to problem 2(b): What if Chris had lived in San Francisco for more than 2 years? Consider § 121(f).
Chapter 7 SCHOLARSHIPS AND PRIZES
1. 133-138
   Skim the text relating to “employee achievement awards” discussed at the bottom of 133-134; ignore the computations. Handout 18 explains some exclusions discussed at the bottom of 135.
2. §§ 74(a), (b) and (c)(1); 102(c); 117(a), (b), (c)(1) and (d)(1)-(2)
3. problems on h/o 19
4. casebook problems, but omit casebook problem 2; read the last paragraph of Bingler for problem 5

Chapter 8 LIFE INSURANCE AND ANNUITIES
A. Life Insurance
1. 147-148; last line on 150 to 151
2. §§ 101(a), (c) and (d)(1); skim § 101(g)(1) and (2)(A)
3. h/o 20 and the problems at the bottom of the page
4. casebook problems 1, 3, and 4
B. Annuities
5. 154-156; note the tax advantages of annuities on 156.
   An easy way to calculate the annuity exclusion ratio explained on 154 is to divide the investment in the contract by the number of years the payments will be received. Using the facts in the example on 154, when you divide the $10,000 investment in the contract by 25 years, the result is $400 excluded each year.
6. §§ 72(a) and (b) through § 72(b)(3)(A)
7. problems on 152; refer to Regs. § 1.72-9, Table V for problems 2-4 and Table VI for problem 5

Chapter 9 DISCHARGE OF INDEBTEDNESS
1. first paragraph on 166; first paragraph in part 2 at the bottom of 170, including the Preslar quote
2. paragraph 3 on 172; Section B on 173
3. h/o 21-23
4. problems on h/o 24; casebook problems 1 and 4

Chapter 10 COMPENSATION FOR PERSONAL INJURY AND SICKNESS
1. 184-196
2. h/o 25; 201-206
3. §§ 104(a)(1)-(3); last two sentences of 104(a) immediately before § 104(b); 105(a) & (b); 106(a)
4. h/o 26-28 and do the casebook problems
Chapter 11  **FRINGE BENEFITS AND MISCELLANEOUS EXCLUSIONS**

A. **Meals and Lodging**
   1. 211-214; 223-228
   2. § 119(a) and (b)(1)
   3. casebook problems 1 and 2

B. **Fringe Benefits and § 132**
   4. 214-222; 228 to the top of 230
   5. § 132
   6. 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 the parking spaces and $125 per month the bus passes. The inflation-adjusted amounts for 2008 are $115 for § 132(f)(2)(A) and $255 for § 132(f)(2)(B).
   7. Read the first two paragraphs on 211 and determine how the law student should treat each fringe benefits for tax purposes.

C. **Miscellaneous Exclusions**
   8. 235; skim 236-240
      - the 2008 inflation adjustments are: adoption deduction and exclusion: $11,650; foreign earned income exclusion: $87,600
   9. h/o 30

Chapter 34 **ASSIGNMENT OF INCOME**
   1. 816 to the middle of 818; *Lucas v. Earl*, 823-824.
   2. h/o 31-32
   3. Consider the likely success of plans 1, 2(a), 3(a) and (b) in the problem on 813.
Chapter 37  TAX CONSEQUENCES OF DIVORCE

A.  Alimony
1.  863-870 (omit Child Support on 866-867 and the indented text on 868-869)
2.  h/o 33-34
3.  §§ 71, 215; omit § 71(f)(1)-(4)
4.  casebook problems 1-3 (omit problems 2(d)); problems on h/o 35 (the solutions are on h/o 36)

B.  Child Support
5.  866-867; h/o 37
6.  § 71(c); Regs. § 1.71-1T(c), Q&A 17 and 18, but ignore references to situation 2 in A-18
7.  problem 1 on h/o 38 (the solution is on h/o 39)
8.  casebook problem 4; for part 4(c), see Regs. § 1.71-1T Q&A 6

C.  Property Transfers Between Spouses and Legal Expenses
9.  874 through first full paragraph on 872; second paragraph on 873
   part H on 874 to the middle of 875; page 883
10.  § 1041(a)-(c)
11.  problem 2 on h/o 38; casebook problems 5 (d), (e), and 6 using the following 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 principles studied in the last chapter, then read the last paragraph on 875 and
          substitute “truck rental income” for references to deferred compensation.
   Problem 5(e)
      (1) This 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. What was Frank
          required to give Maureen?
      (2) If § 1041 does not apply, the Davis rule discussed on 871 applies. What are the tax
          consequences under Davis?
   Problem 6: Read Legal Expenses on 844 and §§ 212(1) and (3).