

READING ASSIGNMENTS PART V

NOTES:

- Focus on the Code and Regulation sections listed below (rather than the Code and Regulation sections listed in each header in the casebook)
- You are responsible for preparing (prior to class) all assigned problems
- As the end of the semester approaches, the reading assignments may be modified to account for the time remaining

PART FIVE – THE YEAR OF INCLUSION OR DEDUCTION

19. Fundamental Timing Principles

A. Introduction

Text: pp. 587-591 (we will only briefly discuss the difference between the cash method and the accrual method of accounting)

Code: Skim §§ 441(a)-(e); 442; 446(a)-(c), (e); 451(a); 461(a). Note § 448.

20. Integrity of the Taxable Year

D. The Carryover and Carryback Devices

Text: pp. 677-679. At the bottom of p. 677, note that the CARES Act postponed the limitations on NOLs from 2018 to 2021, so in 2020 taxpayers generally can carry forward 100% of their NOLs, and can also carry back NOLs for 5 years.

Code: § 172(a), (b)(1)

C.2. Statutory Deferred Compensation and Medical Insurance Arrangements

Text: pp. 672-677

Handout: *Simplified IRA Example* (available on course website; I will explain this handout, including time value of money concepts, in class)

Code: § 62(a)(7), (19). Note §§ 219; 223; 408(a); 408A; 529; 530; 7701(a)(37)

PART SIX – THE CHARACTERIZATION OF INCOME AND DEDUCTIONS

21. Capital Gains and Losses

A. Introduction

Text: pp. 683-688

B. & C. The Mechanics of Capital Gains / The Mechanics of Capital Losses

Rather than having you read the detailed discussions of these topics in the text, I will briefly summarize the key components in class.

Code: §§ 165(f); 1211. Note §§ 1(c), 1(h)(1), 1(h)(11), 1(i); 1212; 1222

Problems: None

D. The Meaning of “Capital Asset”

Text: pp. 701-709

Code: § 1221(a)(1)-(4), (8). Note § 1221(a)(5)-(7)

F. The Holding Period

Text: 717-719 (stop at the Note near the bottom of p. 719)

Code: §§ 1223(1), (2), (9); 1222(1)-(4). Review §§ 1014(a); 1015(a); 1041(b)(2)

Problems: pp. 722-723 (Problems 1(a), (b), (f) & (g) only)

H.2. Section 1231 Recharacterization

Text: pp. 750-752 (stop at the “Section 1231(a)(4)(C) Subhotchpot” heading at the bottom of p. 752)

Code: Note § 1231

(We will only briefly summarize this material)

23. Deductions Affected by Characterization Principles

B. The Charitable Deduction

Text: pp. 798-818 (you may skim pp. 811-813 regarding partial interests in property, and pp. 813-817 regarding the percentage ceilings on charitable contributions). Near the bottom of p. 814, note that the 60% limitation for cash contributions to public charities applies after the 50% limitation for noncash contributions, thereby allowing an extra deduction in cash for up to 10% of the taxpayer's contribution base. In addition, for 2020, the CARES Act increased the limit on cash contributions from 60% to 100% of the taxpayer's contribution base (this modification is not codified into section 170).

Code: §§ 67(b)(4); 170(a)(1), (c), (f)(8), (f)(17), (i), (j), (l); 501(a), (b), (c)(3)-(7); 6113; 6115. Note §§ 162(b); 170(b), (d), (e), (f)(1)-(4)

Regs: §§ 1.170A-1(c)(1), (g), (h)(1) & (2); 1.170A-13(f)(1)-(3)

Problems: pp. 818-820 (Problems 1(f); 2(a), (c) & (d); 3(b), (c) & (e) only). In doing Problems 2(a), (c) & (d), assume that the "contribution base" is \$500,000, rather than \$200,000, so the ceiling percentages in § 170(b) are not relevant – merely focus on whether T may deduct \$70,000 or \$90,000.

In doing Problem 3(c), also consider a taxpayer who cuts her long hair and donates it to Locks of Love, a 170(c)(2) charity that provides hairpieces to financially disadvantaged children suffering from cancer-treatment hair loss. Might there be a stronger argument for deductibility for the hair donation than for the blood donation?

In addition, consider the extent to which Alumnus can claim a charitable deduction for the following:

- (x) Alumnus donates \$8,000 to the Domer University Annual Fund (donors of \$5,000 or more are entitled to purchase tickets – at an additional cost – to a university football game). See Code § 170(l).

PART SEVEN – DEFERRAL AND NONRECOGNITION OF INCOME & DEDUCTIONS

24. The Interrelationship of Timing and Characterization

D. Property Transferred in Connection with Services

Text: pp. 871-877

Code: § 83 (omit (c)(3) and (g))

Regs: §§ 1.83-1(a)(1); -2(a); -3(c)(1) & (2); -3(d); -4(a) & (b); -6(a)(1) & (c)

Problem: Omit the Problems in the casebook. Instead, consider the following:

(x) On December 1, 2020, E receives, as compensation for services, stock of her employer, Web Corporation. E must return the stock to Web if she ceases to work for Web before December 1, 2024. The restriction is noted on the stock certificate and is binding on any transferee. E may, however, transfer the stock (subject to the restrictions) by gift or sale. The stock is worth \$40,000 on December 1, 2020, and \$90,000 on December 1, 2024. What are the tax consequences to both E and Web under the following alternatives:

- (1) E continues to work for Web beyond December 1, 2024, and sells the stock for \$100,000 on December 31, 2025.
- (2) Same as in (1), except E sells the stock for \$100,000 on January 1, 2025.
- (3) Same as in (1), except that the forfeiture will occur only if E is fired for cause
- (4) Same as in (1), except E makes a timely election under § 83(b)
- (5) E makes a timely election under § 83(b), but resigns from Web in 2022 and forfeits the stock

26. Nonrecognition Provisions

A. Introduction

Text: pp. 893-895

B. Like Kind Exchanges

1. The Like-Kind Exchange Requirements

Text: pp. 895-898 (omit the *Leslie* case)

Code: §§ 1001(c); 1031(a)(1) & (2), (e); 1223(1). Note § 121(d)(10)

Regs: §§ 1.1031(a)-1; -2(a)

3. Other Section 1031 Issues

Text: pp. 910-912

Code: §§ 1031(b), (c), (d)

Regs: 1.1031(b)-1(a); -1(b) Example 1; 1.1031(d)-1

Problems: pp. 912-913 (only Problem 2(a), regarding the tax consequences to T).

In addition, consider the following:

(x) T has 100 acres of unimproved land (Greenacre) that he holds as an investment. He purchased the land in 1998 for \$190,000, and its current value is \$200,000. He trades Greenacre to Ms. B, who transfers the following to T in exchange: Blackacre (unimproved land worth \$170,000 that T intends to hold as an investment), and \$30,000 cash. What are the tax consequences to T?

2. Three-Cornered Exchanges

Text: pp. 906-910

Code: § 1031(a)(3)

PART EIGHT – CONVERTING TAXABLE INCOME INTO TAX LIABILITY

27. Computations

A.4. Tax Rates on Net Capital Gains and Dividends

Text: pp. 945-946 (this is a review of what we briefly discussed in the capital gains chapter)

Problems: None

B. Credits Against Tax

Text: pp. 951-958 (merely skim this section to get an overview of the types of credits that are allowed; while we already discussed the American Opportunity Tax Credit and Lifetime Learning Credits in detail, we will not be addressing the details of the other credits mentioned in this section)

Problems: None

C. The Alternative Minimum Tax (If Time Permits)

Text: pp. 959-964. You should merely skim this material. I will summarize the main features in class, if time permits.

Code: Note §§ 55-58

Problems: None