

Syllabus

Course Overview

This course is an introduction to concepts of individual income taxation in the United States. Focus areas in the course include tax-related transactions pertaining to:

- Gains.
- Losses.
- Income.
- Expenses.
- Tax-free exchanges.
- Depreciation.
- Deductions.
- Credits.

This course provides conceptual material, with projects designed to teach and reinforce tax compliance rules and to provide a foundation for tax research. Primarily, this course highlights topics on individual taxation, with some attention to business partnerships and corporations.

Course Competencies

(Read Only)

To successfully complete this course, you will be expected to:

- 1 Analyze the background of the federal income tax system.
- 2 Analyze the basics of individual income tax return preparation.
- 3 Assess types of non-individual entities subject to federal taxation.

Course Prerequisites

Prerequisite(s): BUS4060.



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Required

The materials listed below are required to complete the learning activities in this course.

Integrated Materials

Many of your required books are available via the VitalSource Bookshelf link in the courseroom, located in your Course Tools. Registered learners in a Resource Kit program can access these materials using the courseroom link on the Friday before the course start date. Some materials are available only in hard-copy format or by using an access code. For these materials, you will receive an email with further instructions for access. Visit the [Course Materials](#) page on Campus for more information.

Book

Cruz, A., Deschamps, M., Niswander, F., Prendergast, D., & Schisler, D. (2020). *Fundamentals of taxation 2020* (13th ed.). New York, NY: McGraw-Hill. ISBN: 9781259969621.

External Resource

Please note that URLs change frequently. While the URLs were current when this course was designed, some may no longer be valid. If you cannot access a specific link, contact your instructor for an alternative URL. Permissions for the following links have been either granted or deemed appropriate for educational use at the time of course publication.

- Congressional Budget Office (CBO). (n.d.). [Congressional budget office](http://www.cbo.gov/). Retrieved from <http://www.cbo.gov/>
- Congressional Budget Office. (2007). [Alternative minimum tax](https://www.cbo.gov/publication/24818). Retrieved from <https://www.cbo.gov/publication/24818>
- Sommers, R. L. (2002, May). [Gaming odds tables. IRS audits wage earners, rather than the wealthy. Hot Topic](http://www.taxprophet.com/archives/hot_topic/may02.shtml). Retrieved from http://www.taxprophet.com/archives/hot_topic/may02.shtml

Suggested

The following materials are recommended to provide you with a better understanding of the topics in this course. These materials are not required to complete the course, but they are aligned to course activities and assessments and are highly recommended for your use.

Optional

The following optional materials are offered to provide you with a better understanding of the topics in this course. These materials are not required to complete the course.

Unit 1 >> Introduction to Taxation and Tax Structures

Introduction

The art of taxation consists in so plucking the goose to obtain the largest amount of feathers with the least possible amount of hissing.

—Jean-Baptiste Colbert, French Minister of Finance from 1665 to 1683 under the rule of King Louis XIV.

If the scenario described in Colbert's quote seems familiar, it is probably because it is repeated annually by the millions of U. S. citizens, who are obligated to pay homage to the Internal Revenue Service by remitting many of their hard-earned dollars because they underpaid Uncle Sam throughout the prior tax year. The federal tax system is a huge structural machine that seems more complex each year.

In the first half of this unit, you will examine the tax rate structures and the tax system; particularly the progressive, proportional, and regressive tax structures. Then, you will look at the concepts of average and marginal tax rates, as well as a simple tax formula. Finally, you will determine an individual's tax liability when he or she uses tax Form 11040EZ.

In the second half of this unit, you will examine how an individual's filing status is determined and apply it to computing the amount of tax that he or she owes. In the final part of this unit, you will look at how the IRS determines interest and penalties in circumstances where an individual taxpayer is unable or unwilling to comply with the provisions of the tax code.

Try to keep the hissing down as we begin to pluck the feathers off the goose one at a time.

Reference

Quotegarden.com. (2007). *Quotations about taxes*. Retrieved March 28, 2007 from <http://www.quotegarden.com/taxes.html>

Learning Activities

u01s1 - Studies

Readings

Use your *Fundamentals of Taxation* text to complete the following:

- Read Chapter 1, "Introduction to Taxation, the Income Tax Formula, and Form 1040EZ," on pages 1-1 to 1-24. This chapter introduces the tax structure, formula for computing tax liability, and completion of form 1040EZ.
- Read Chapter 2, "Expanded Tax Formula, Forms 1040A and 1040, and Basic Concepts," on pages 2-1 to 2-28. Now that you have the fundamentals from the first chapter of the text, you will learn how this knowledge will help you in working with more complicated tax forms and with more complex formulae.

Note that these assigned readings will help you successfully complete the Unit 1 assignments and discussion.

u01a1 - Tax Rate Structures, Liability, and Return Preparation

Using your text, complete the following. In these problems, apply your knowledge of tax rate structures, tax liability, and tax return preparation.

- Problem 37, on page 1-32.
- Problem 41, on page 1-32.
- Problem 43, on page 1-33.
- Problem 45, on page 1-33.
- Problem 50, on page 1-33.

Refer to the Tax Structures, Liability, and Return Preparation Scoring Guide to ensure you have met all of the requirements of the assignment.

u01a2 - Tax Filing Status, Rate Tables and Formula, and Penalties

Using your text, complete the following. In these problems, apply your knowledge of the proper tax filing status, use of the tax rate tables and tax formula, and determination of IRS tax penalties.

- Problem 33, on page 2-32.
- Problem 35, on page 2-32.
- Problem 39, on page 2-33.
- Problem 40, on page 2-34.
- Problem 45, on page 2-35.

Refer to the Tax Rate Structures, Liability, and Return Preparation Scoring Guide to ensure you have met all of the requirements of the assignment.

Course Resources

[Tax Form: Filing Status.](#) | [Transcript](#)

u01d1 - Flat Tax Structure

In an article published on the HowStuffWorks.com website, author Kevin Bonsor writes:

Humorist and travel writer Stanton Delaplane once offered this lighthearted suggestion for a simplified tax form: "How much money did you make last year? Mail it in." While that may be a drastic way to change the tax system, there has been no shortage of people proposing new tax systems since the 16th amendment was passed in 1913 (Bonsor, 2006, para. 17).

Bonsor suggests a new tax structure called the *flat tax*.

We currently use a marginal tax system, also called a graduated tax, in which the percentage you pay in taxes varies based on your income. Under a flat tax system, you pay a flat rate on your income. In other words, there is a single tax bracket for all taxpayers. A common percentage thrown out for a flat-tax system is 17 percent. This is the rate proposed by former presidential candidate Steve Forbes and U. S. Representative Dick Armey. Proponents of a flat-tax [sic] system say that it would do away with the complicated tax code and tax forms. The flat tax would need only one form, about the size of a postcard and consisting of only 10 lines. You would merely add up wage, salary, and pension income, subtract any personal allowances, and pay 17 percent of your taxable income. This type of plan eliminates deductions and credits. (para. 18).

In this discussion, describe your beliefs about the flat tax structure and its implementation. Answer the following questions and incorporate those answers into your discussion response:

- Who would most benefit from the change?
- Who would be hurt by this tax structure?

Submit your initial post in this discussion. It is recommended that you post relatively early in the week, to allow time for peer responses. Refer to the Discussion Participation Scoring Guide for posting expectations. Unless otherwise stated, these will be the expectations for all discussions within this course.

Note: Throughout this course, you will engage in discussions prompted by quotes from current popular literature. These quotes reflect various viewpoints in the field, and should not necessarily be interpreted as factual or scholarly. The intention of these discussions is to engender critical thinking and respectful debate about topical issues in tax strategies and concepts.

In your posts for these discussions, remember to be respectful of others' opinions, even when you disagree with them. Follow the standards for conduct for participation outlined in the Discussion Participation Scoring Guide.

Response Guidelines

Select and read the posts of two of your peers. In each response, provide a reaction by presenting follow-up questions and drawing attention to issues that your peer may not have considered.

Reference

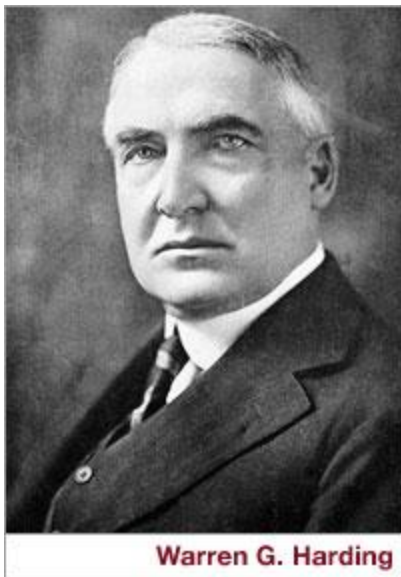
HowStuffWorks, Inc. (2006). *How income taxes work*. Retrieved March 28, 2007, from <http://money.howstuffworks.com/income-tax.htm/printable>

Course Resources

Undergraduate Discussion Participation Scoring Guide

Unit 2 >> Income Inclusions and Exclusions

Introduction



Warren G. Harding

I don't know what to do or where to turn in this taxation matter. Somewhere there must be a book that tells all about it, where I could go to straighten it out in my mind. But I don't know where the book is, and maybe I couldn't read it if I found it.

— **Warren G. Harding**,
the 29th President of the United States, 1921–1923.

About now, many of you are nodding your heads in agreement with President Harding's quote about the complexity of the tax code, with its many inclusions and exclusions. What started out as a simple document, designed to raise capital to make the new nation independent from the British Empire, has evolved over the centuries and decades into a complex maze of rules and regulations.

Nowhere is that more pronounced than in the rules for including and excluding income in the calculation of a taxpayer's adjusted gross income (AGI) for income tax purposes. Gross income is commonly defined as the amount of a company's or a person's income before all reductions, except that which is specifically excluded by the Internal Revenue Code, before taking deductions or taxes into account. Since not all of an individual's personal income is subject to taxation, one must crack open the voluminous tax codebook to discover exclusions from the tax collector's grasp.

In the first half of this unit, you will examine and apply the rules associated with inclusions and exclusions to an individual's gross income. In the second half of this unit, you will discuss and apply another set of code rules for an important step in determining the actual tax liability of an individual. This step will determine a taxpayer's AGI.

Reference

BrainyMedia.com. (2007). *Taxation quotes*. Retrieved January 8, 2007, from <http://www.brainyquote.com/quotes/keywords/taxation.htm>

Learning Activities

Readings

Use your *Fundamentals of Taxation* text to complete the following:

- Read Chapter 3, "Gross Income: Inclusions and Exclusions," on pages 3-1 to 3-30. This chapter presents how to record income for tax purposes. It also describes rules associated with tax items excluded from gross income and rules associated with tax accounting for saving bond interest used for education expenses.
- Read Chapter 4, "Adjustments for Adjusted Gross Income," on pages 4-1 to 4-23. This chapter presents tax rules for student loan interest, health savings account deductions, and deductions on moving expenses.

These assigned readings will help you successfully complete the Unit 2 assignments and discussion.

u02a1 - Inclusions and Exclusions

Using your text, complete the following. In these problems, apply your knowledge of the inclusions and exclusions recorded for tax purposes on income tax forms.

- Problem 34, on page 3-35.
- Problem 38, on page 3-36.
- Problem 39, on page 3-37.
- Problem 41, on page 3-37.
- Problem 43, on page 3-37.

Refer to the Inclusions and Exclusions Scoring Guide to ensure you have met all of the requirements of the assignment.

u02a2 - Adjusted Gross Income

Using your text, complete the following. In this problem, apply your knowledge of the adjustments for adjusted gross income that are necessary for completion of income tax forms.

- Problem 45, on page 4-27.
- Problem 47, on page 4-27.
- Problem 50, on page 4-28.
- Problem 53, on page 4-29.
- Problem 55, on page 4-29.

Refer to the Adjusted Gross Income Scoring Guide to ensure you have met all of the requirements of the assignment.

Course Resources

[Tax Form: Adjusted Gross Income.](#) | [Transcript](#)

u02d1 - Reporting Taxpayer Income

The primary purpose of the Internal Revenue Service is to raise revenue for the government. However, the U. S. Congress has chosen to exempt certain income from taxation, such as scholarships, gifts, life insurance proceeds, municipal bond interest, and employee fringe benefits.

In this discussion, describe why you believe Congress has provided these exemptions to taxpayers. Present potential items that could be added to the list of exempt items. Be sure to explain your rationale for proposing the additional items you identify.

Submit your initial post in this discussion. Refer to the Discussion Participation Scoring Guide for posting expectations.

Response Guidelines

Select and read the posts of two of your peers. Review the additional exemptions provided by each peer, and respond with the following:

- Which of the additional exemptions do you agree with? Explain.
- Which of the additional exemptions would you challenge? Explain.

Course Resources

Undergraduate Discussion Participation Scoring Guide

Introduction



If you make any money, the government shoves you in the creek once a year with it in your pockets, and all that don't get wet you can keep.

— **Will Rogers**,
an American cowboy and humorist.

Staying with Will Rogers' analogy, Schedule A is analogous to a sealed sandwich bag that protects some of the coins from the raging waters of government greed. If you are fortunate enough to have made significant income during a tax year, it is quite possible that you also have significant deductions to offset those monies. The Schedule A tax form allows taxpayers to itemize their deductions, rather than using the standard deduction.

In this unit, you will examine the laws, rules, and taxing authority that make up the categories of personal expenditures that may be allowed as tax deductions from a taxpayer's AGI on the 1040 tax form. You will begin your examination with medical expenses, and state and local taxes. Next, you will look at interest expenses, charitable contributions, and casualty losses. Finally, you will explore miscellaneous deductions and employee expenses that are unreimbursed by an individual taxpayer's employer.



Tax
Form:
1040
Income

Following the examination of each of the itemized deduction categories, you will apply your knowledge to solve problems involving each of the deductions. In the discussion topic for this unit, consider high-income taxpayers and their responsibility for sharing the tax burden.

Reference

Quotegarden.com. (2007). *Quotations about taxes*. Retrieved March 28, 2007 from <http://www.quotegarden.com/taxes.html>

Course Resources

Tax Form: 1040 Income.

Learning Activities

u03s1 - Studies

Readings

Use your *Fundamentals of Taxation* text to complete the following:

- Read Chapter 5, "Itemized Deductions," on pages 5-1 to 5-36. Pay particular attention to factors such as state and federal tax deductions, how to report miscellaneous expenditures, and how to apply the tax rules associated with the interest deductions.

Note that these assigned readings will help you successfully complete the Unit 3 assignment and discussion.

u03a1 - Schedule A Rules and Laws

Using your text, complete the following. In these problems, apply your knowledge of the rules and laws associated with itemized deductions that appear on the Schedule A tax form.

- Problem 50, on page 5-43.
- Problem 51, on page 5-43.
- Problem 53, on page 5-44.
- Problem 54, on page 5-44.

- Problem 58, on page 5-45.
- Problem 60, on page 5-45.
- Problem 63, on page 5-46.
- Problem 65, on page 5-46.

Refer to the Schedule A Rules and Laws Scoring Guide to ensure you have met all of the requirements of the assignment.

Course Resources

[Tax Form: Schedule A, Profit or Loss from Business.](#) | [Transcript](#)

u03d1 - Tax Burden for High-income Taxpayers

Consider the following findings from the article, "Recent Tax and Income Trends among High-Income Taxpayers," from the Center on Budget and Policy Priorities:

Although high-income households paid a larger share of federal taxes in 2003 than in 1990, their after-tax incomes increased much faster over this period than those of any other income group. The CBO data show that from 1990 to 2003—the period that the Treasury fact sheet covers—the average after-tax income of the top one percent of the population jumped 35 percent, while the average after-tax income of the middle fifth of the population rose 12 percent. When the 1980s are included, this differential is even larger. It should be noted that a significant part of the increase in the share of taxes that is paid by high-income households simply reflects the large rise in their share of the total income in the nation.

The tax burden on high-income households is not high in historical terms. Even though high-income taxpayers pay a significant share of federal taxes, their actual tax burdens—the percentage of income that they pay in federal taxes—have declined. According to the CBO data, the top one percent of households paid a slightly smaller share of their income in federal taxes in 2003 than they paid in any year since 1992. The percentage of income that these households paid in federal taxes dropped significantly between 2002 and 2003, as tax cuts from which they benefit—such as the reduction in the top income tax rates and the cut in capital gains and dividend tax rates—took effect (Center on Budget and Policy Priorities, 2006, para. 5–6).

In this discussion, describe whether you believe that high-income taxpayers should or should not be held responsible for paying more money in taxes relative to the share that is paid by middle- and low-income taxpayers. Support your argument and cite your sources.

Submit your initial post in this discussion. Refer to the Discussion Participation Scoring Guide for posting expectations.

Response Guidelines

Select and read the posts of two of your peers. As you respond to each, evaluate whether your peer's answers clearly explain his or her perspective:

- Respond to statements with which you concur and provide examples and explanations, as appropriate.
- Challenge the views with which you disagree and point out areas in which you have additional questions, or which could be more strongly argued.

Reference

Center on Budget and Policy Priorities. (2006, April 10). *Recent tax and income trends among high-income taxpayers*. Retrieved March 28, 2007, from <http://www.cbpp.org/4-10-06tax5.htm>

Course Resources
Undergraduate Discussion Participation Scoring Guide

Unit 4 >> Schedule C: Self-Employed Business Income

Introduction



The government's view of the economy could be summed up in a few short phrases: If it moves, tax it. If it keeps moving, regulate it. And if it stops moving, subsidize it.

If an individual is searching for a tax strategy to offset his or her income from a primary job, being self-employed on the side is quite possibly one of the best options, along with being a real estate property owner or an investor. Each of these has the advantage of allowing an individual to reduce current income by any losses suffered from freelancing, renting out property, or investing.

However, the individual takes on additional work for the filing process. Schedule C must be completed, a task that requires an individual to know much more about the tax rules for recognizing income and maximizing expenses than many persons are willing to invest the time to research.

This is the first unit in which you will study how income items for AGI deductions aggregate to determine the effect of AGI. Income received from operating a sole proprietorship business interacts with related ordinary and necessary business expenses to determine the increase or decrease in AGI. The use of Schedule C is required when the individual's business is not incorporated or formed as a partnership or limited liability company.

Reference

Quotegarden.com. (2007). *Quotations about taxes*. Retrieved March 28, 2007, from <http://www.quotegarden.com/taxes.html>

Learning Activities

u04s1 - Studies

Readings

Use your *Fundamentals of Taxation* text to complete the following:

- Read Chapter 6, "Self-Employed Business Income (Line 12, Form 1040 and Schedule C)," on pages 6-1 to 6-43. In this reading, you will learn about how self-employed individuals' income and expenses are recognized and reported. In addition, you will learn about deducting travel and entertainment expenses, how to calculate self-employment taxes, and how to apply the rules for deducting the business portion of a residence and business bad debts.

Note that these assigned readings will help you successfully complete the Unit 4 assignment and discussion.

u04a1 - Schedule C - Reporting Self-Employed Business Income

Using your text, complete the following. In these problems, apply your knowledge of the rules and laws associated with Schedule C.

- Problem 37, on page 6-54.
- Problem 38, on page 6-55.
- Problem 39, on page 6-55.
- Problem 41, on page 6-55.
- Problem 46, on page 6-56.
- Problem 48, on page 6-56.
- Problem 54, on page 6-57.
- Problem 55, on page 6-58.

Refer to the Schedule C – Reporting Self-employed Business Income Scoring Guide to ensure you have met all of the requirements of the assignment.

Course Resources

[Tax Form: Schedule C, Self-Employed Business Income.](#) | [Transcript](#)

u04d1 - Tax Consumption Versus Income

A consumption tax is a tax on the purchase of a good or service. It is known as a tax on the sale of a product or service; hence its commonly used name—a sales tax. There are a number of proponents for taxing based on use rather than income. Webster's New World Finance and Investment Dictionary defines a consumption tax as "a taxation system in which taxes are assessed on how much the taxpayer spends instead of on the taxpayer's income."

In this discussion, explain whether you believe that the federal government should abolish the current income tax structure and replace it with a consumption tax structure. Explain the pros and cons of the current income tax structure and the consumption tax structure. Support your argument with examples, providing the appropriate citations.

Submit your initial post in this discussion. Refer to the Discussion Participation Scoring Guide for posting expectations.

Response Guidelines

Select and read the posts of two of your peers. As you respond, evaluate whether your peers' answers clearly explain why they believe that the federal government should abolish the current income tax structure and

replace it with a consumption tax structure.

- Respond to statements with which you concur and provide examples and explanations, as appropriate.
- Challenge the views with which you disagree and point out areas in which you have additional questions, or which could be more strongly argued.

Reference

Etzel, B. J. (2003). Consumption tax. In *Webster's new world finance and investment dictionary*. Retrieved March 25th, 2009, from YourDictionary.com website: www.yourdictionary.com/finance/consumption-tax

Course Resources

Undergraduate Discussion Participation Scoring Guide

Unit 5 >> Capital Gains and Other Income Items

Introduction



Erwin N. Griswold

We have long had death and taxes as the two standards of inevitability. But there are those who believe that death is the preferable of the two. "At least," as one man said, "there's one advantage about death; it doesn't get worse every time Congress meets."

— **Erwin N. Griswold**,

Solicitor General of the United States, 1967–1973, under Presidents Lyndon Johnson and Richard Nixon.

Our government likes to tinker with the inner workings of the IRS by adjusting the ways and means by which the IRS raises revenues. Just when you believe that the tax code will be stable for a couple of years,

Congress decides that they will help themselves to a larger slice of the taxpayer pie. Although, in an election year, lawmakers are fond of cutting the taxpayer's burden just enough to be re-elected, they can raise taxes with a secured victory.

One of the biggest political benefits in the tax code is the capital gains tax. A capital gain is profit that results from the appreciation of a capital asset over its purchase price. If the price of the capital asset has declined instead of appreciated in value, this is a capital loss. Capital gains occur in both real assets, such as property, and financial assets, such as stocks and bonds. By rewriting the rules for handling capital gains, Congress can help shield taxpayer gains from taxation, or make more amounts subject to taxation.

In this unit, you will study capital gains. The first part of the unit will present the IRS treatment of gains and losses from the sale of assets that are included in taxable income. The gain or loss can appear in different locations on the tax return, depending upon several scenarios, which are discussed in this unit. The second half of this unit will present the tax code treatment of activities that have a profit motive but are not related to trade or business. The term for these activities is *for the production of income*. It is associated with Schedule E in the tax preparation process.

Reference

Quotegarden.com. (2007). *Quotations about taxes*. Retrieved from <http://www.quotegarden.com/taxes.htm>

Learning Activities

u05s1 - Studies

Readings

Use your *Fundamentals of Taxation* text to complete the following:

- Read Chapter 7, "Capital Gains and Other Sales of Property (Schedule D and Form 4797)," on pages 7-1 to 7-39. Chapter 7 introduces you to capital gains and other sales of property, Schedule D, and Form 4797.
- Read Chapter 8, "Rental Property, Royalties, and Income from Flow-Through Entities (Line 17, Form 1040 and Schedule E)," on pages 8-1 to 8-23. This reading introduces rental property, royalties, and income from flow-through entities, Line 17, Form 1040, and Schedule E.

Note that these assigned readings will help you successfully complete the Unit 5 assignments and discussion.

u05a1 - Property Sales Taxes



 [Launch Illustration](#) |  [Transcript](#)

Using your text, complete the following. In these problems, apply your knowledge of the rules and laws associated with the sale of ordinary assets, capital assets, and business assets.

- Problem 41, on page 7-47.
- Problem 43, on page 7-48.
- Problem 46, on page 7-49.
- Problem 51, on page 7-52.
- Problem 56, on page 7-53.

Refer to the Property Sales Taxes Scoring Guide to ensure you have met all of the requirements of the assignment.

Course Resources

Tax Form: Schedule D, Capital Gains and Property Sales.

u05a2 - Production of Income



 [Launch Illustration](#) |  [Transcript](#)

Using your text, complete the following. In these problems, apply your knowledge of the rules and laws associated with the production of income that retain a profit motive for the taxpayer, but are not related to

trade or business activities.

- Problem 34, on page 8-29.
- Problem 37, on page 8-30.
- Problem 38, on page 8-30.
- Problem 40, on page 8-31.
- Problem 42, on page 8-32.

Refer to the Production of Income Scoring Guide to ensure you have met all of the requirements of the assignment.

Course Resources

Tax Form: Schedule E, Production of Income.

u05d1 - Capital Gains Tax

In his article written for the *National Review Online*, author Bruce Bartlett presents the following argument against the imposition of capital gains taxation:

Trees grow and they also produce fruit. The fruit is income and is justly taxed. But growth of the tree is an increase in capital. More capital will produce more income in the future, which will be taxed, but taxing the capital itself is counterproductive. We are taxing the tree and the fruit, when we should only be taxing one or the other. Taxing capital gains is like chopping limbs off of trees. We only end up with less fruit in the future. Not taxing capital gains—not chopping limbs—would allow the tree to grow, which will produce more fruit in the future and increase government's take of it (Bartlett, para. 3).

In this discussion, explain whether you believe that the federal government should abolish the current capital gains taxation structure. Provide solid justification for your stance on the issue with relevant examples and appropriate citations.

Submit your initial post in this discussion. Refer to the Discussion Participation Scoring Guide for posting expectations.

Response Guidelines

Select and read the posts of two of your peers. As you respond, evaluate whether your peers' answers accurately explain their beliefs in abolishing the current capital gains taxation structure.

- Respond to statements with which you concur and provide examples and explanations, as appropriate.
- Challenge the views with which you disagree and point out areas in which you have additional questions, or which could be more strongly argued.

Reference

Bartlett, B. (2002, September 9). *A fruitful argument*. Retrieved March 28, 2007, from http://www.nationalreview.com/nrof_bartlett/bartlett090902.asp

Course Resources

Undergraduate Discussion Participation Scoring Guide

Unit 6 >> Tax Credits on the 1040A Form

Introduction



When a new source of taxation is found it never means, in practice, that the old source is abandoned. It merely means that the politicians have two ways of milking the taxpayer where they had one before.

— **Henry Louis Mencken**,
one of the most influential American writers of the early Twentieth Century.

Mencken makes a good point about politicians and their penchant for finding ways for doing one of two things:

- Enacting tax credits for the benefit of individual taxpayers as a means of putting more money in taxpayer pockets to stimulate the economy.
- Enacting tax credit legislation for the benefit of specific groups or industries in the business sector.

The hope is that businesses will take the additional monies and reinvest them in the business for the benefit of the economy.

Tax credits work to lower taxpayer liability rather than provide refund incentives. A tax credit is subtracted directly from the taxpayer's tax obligation, providing equal relief to all taxpayers. This can make the credit more valuable than a deduction taken during the filing process.

In this unit, you will learn about potential tax credits, each of which designed to benefit a particular group of taxpayers. Unit 6 examines credits for foreign taxes paid, child and dependent care expenses, and credits for the elderly or disabled. Next, credits for education, retirement savings contributions, and residential energy are considered. Finally, this unit will cover the child tax credit, adoption, and earned income credits.

When you have completed the problem assignments for this unit, you, too, will receive a credit. As a learner, you will receive grade credit for your efforts. Sorry—there is no line on the 1040 form to enter this data to lower your taxable income. Then again, you never know what Congress is going to enact for the next great tax credit.

Reference

Quotegarden.com. (2007). *Quotations about taxes*. Retrieved March 28, 2007, from <http://www.quotegarden.com/taxes.html>.

Learning Activities

u06s1 - Studies

Readings

Use your *Fundamentals of Taxation* text to complete the following:

- Read Chapter 9, "Tax Credits (Lines 47 through 54 and Line 64A, Form 1040)," pages 9-1 to 9-30. This chapter explains various tax rules and calculations. These include credit for child and dependent care expenses, credit for the elderly or the disabled, education credits, foreign tax credit (FTC), and child credit tax.

The assigned reading will help you successfully complete the Unit 6 assignment and discussion.

u06a1 - Tax Credits to Reduce Tax Liability

Using your text, complete the following. In these problems, apply your knowledge of the variety of tax credits designed to reduce a taxpayer's tax liability.

- Problem 47, on page 9-49.
- Problem 51, on page 9-50.
- Problem 53, on page 9-51.
- Problem 54, on page 9-51.
- Problem 55, on page 9-51.
- Problem 56, on page 9-52.
- Problem 57, on page 9-52.
- Problem 58, on page 9-52.

Refer to the Tax Credits to Reduce Tax Liability Scoring Guide to ensure you have met all of the requirements of the assignment.

Course Resources

[Tax Form: Tax Credits.](#) | [Transcript](#)

u06d1 - Next Great Tax Credit

Congress is always on the watch for ways to stimulate the U. S. economy, by enacting laws that provide tax credits for individual and business taxpayers. Just when you thought preparing a 1040 tax form could not get any more complicated, there is yet another tax credit. Some of those credits can benefit individual taxpayers by lowering their taxable income.

It is time to find the next great tax credit for individual taxpayers. In this discussion, devise a tax credit that will benefit individual taxpayers. Explain what it is, and how this credit will benefit the individual taxpayer, the individual's family, and the U. S. economy.

Submit your initial post in this discussion. Refer to the Discussion Participation Scoring Guide for posting expectations.

Response Guidelines

Select and read the posts of two of your peers. In each response, evaluate whether your peer's next great tax credit will benefit individual taxpayers and the U.S. economy.

- Respond to statements with which you concur and provide examples and explanations, as appropriate.
- Challenge the views with which you disagree and point out areas in which you have additional questions, or which could be more strongly argued.

Course Resources

Undergraduate Discussion Participation Scoring Guide

Unit 7 >> Tax Issues Associated with Payroll

Introduction

There may be liberty and justice for all, but there are tax breaks only for some.

— **Martin A. Sullivan**,
Contributing Editor to Tax Analysis publications.

Looking at much of the legislation regarding tax breaks leads one to believe that to be entitled to a tax break requires that one not *need* a break. Those taxpayers most in need of a break in their tax rates certainly make up the largest percentage of individual taxpayers, and represent the biggest spenders in the U. S. economy. It would follow that if government wants to keep the economy steaming forward, the government should give tax breaks to those most in need. As you will see in our discussion topic for this unit, Congress does not always vote logically.

This unit also focuses on the employer and employee relationship that exists when individual taxpayers employ others in a work setting. This relationship presents tax implications for the employer taxpayer, beyond paying wages to the employee. The employer is also responsible for withholding payroll taxes and paying federal and state unemployment taxes. The employer must file additional forms and make payments to taxing authorities periodically during the tax year. The final section of Unit 7 will examine tax issues associated with household employees, such as nannies and similar employees.

Grab your Forms 940 and 941 and you will begin learning about tax issues associated with payroll.

Reference

Quotegarden.com. (2007). *Quotations about taxes*. Retrieved from <http://www.quotegarden.com/taxes.html>

Learning Activities

Readings

Use your *Fundamentals of Taxation* text to complete the following:

- Read Chapter 10, "Payroll Taxes," on pages 10-1 to 10-35. You will be introduced to the reporting treatment for payroll taxes that are paid by taxpayers who are responsible for the individuals they employ.

Note that these assigned readings will help you successfully complete the Unit 7 assignments and discussion.

u07a1 - Payroll Tax Reporting Issues

Using your text, complete the following. In these problems, apply your knowledge of a variety of issues linked to reporting payroll taxes on Forms 940 and 941.

- Problem 51, on page 10-40.
- Problem 53, on page 10-41.
- Problem 55, on page 10-41.
- Problem 56, on page 10-41.
- Problem 57, on page 10-42.

Refer to the Payroll Tax Reporting Issues Scoring Guide to ensure you have met all of the requirements of the assignment.

u07d1 - More for the Rich or Less for the Poor

According to an article by Gene C. Gerard in the *People's Weekly World* online newspaper, the rich will always be rich and will be getting the benefit of more tax cuts over the next 13 years. The article goes on to say:

The Joint Committee on Taxation has estimated that over the next 13 years these tax breaks for the wealthy will deprive the country of \$197 billion in revenue. And a study by the Brookings Institution determined that 97 percent of the Pease and PEP tax breaks will go to those

households with incomes above \$200,000. And more than half of these breaks will benefit the 0.2 percent of families with annual incomes exceeding \$1 million. Once these tax cuts are fully implemented in 2010, the average millionaire will save \$19,000 annually in taxes.

Families with yearly incomes between \$100,000 and \$200,000 will receive an average tax cut of only \$25. And families earning less than \$100,000—the vast majority of Americans—will not benefit at all.

Shortly before these tax cuts became effective, Republicans in Congress voted to cut \$11 billion over the next five years from Medicaid, the health care system that serves America's poor. Substantial reductions made in childcare assistance will result in 255,000 children living in poverty losing federal assistance.

Congressional Republicans cut \$343 million in funding for foster care programs. These reductions will make it more difficult for grandparents who are raising their grandchildren to receive assistance. Over \$12 billion was cut from federal college loan programs, making it more difficult for poor and middle-class Americans to afford a college education. In fact, over the next five years these tax breaks from the Pease and PEP tax cuts exceed the savings from all of the reductions in low-income assistance programs that Congress voted to cut (Gerard, 2006, para. 4–7).

In this discussion, draft a speech to be aired on major TV and radio networks that sells the benefits of these tax breaks to the American people. Forget that you are one of the taxpayers who will not benefit from the tax breaks, and present an argument in favor of them.

Submit your initial post in this discussion. Refer to the Discussion Participation Scoring Guide for posting expectations.

Response Guidelines

Select and read the posts of two of your peers. As you review the speeches, evaluate whether your peers are convincing enough to stop the rioting in the streets or whether your peers' speeches need further development in order to sell the tax breaks.

Reference

Gerard, G. C. (2006, February 23). Tax breaks for the wealthy. *PWW.org*. Retrieved from <http://www.pww.org/article/view/8646/1/310/>

Course Resources

Undergraduate Discussion Participation Scoring Guide

Introduction



Ogden Nash

The more you earn, the less you keep, And now I lay me down to sleep, I pray the Lord my soul to take, If the tax-collector hasn't got it before I wake.

— **Ogden Nash**,

an American poet best known for writing funny, light verses.

The challenge of preparing for retirement is figuring out how to spend time without spending money. When it comes to taxation, the more money you can put aside through various retirement vehicles, the better off you will be in those years. The reason is simple: the taxman will not tax you on the money you put away, and when the monies are withdrawn, the tax rate for the distributions will be lower, because of your lower adjusted gross income.

The authors of your text point out that tax laws are not solely intended to raise tax revenue, but sometimes to encourage taxpayers to use their money for their own benefit. Congress wants taxpayers to save money for retirement, so they will not be dependent on the government during their senior years. Taxpayers may set aside funds in designated accounts that are tax-deferred, as opposed to tax-free.

The discussions about the rules for tax-deferred retirement contributions and distributions can be a bit complicated. In the first half of this unit, the focus will be on the rules for reporting the contributions and distributions on the appropriate tax forms. The second half of this unit will focus on special tax treatment for certain taxpayer transactions involving like-kind exchanges of property, accounting and reporting involuntary property conversions, residential home exchanges, and wash sales of stock.

Reference

Quotegarden.com. (2007). *Quotations about taxes*. Retrieved March 28, 2007, from <http://www.quotegarden.com/taxes.html>

Learning Activities

u08s1 - Studies

Readings

Use your *Fundamentals of Taxation* text to complete the following:

- Read Chapter 11, "Retirement and Other Tax-Deferred Plans and Annuities," on pages 11-1 to 11-24. You will learn about the tax rules associated with retirement and other tax-deferred plans and annuities, including details about and contributions to individual-sponsored retirement plans and contributions to tax-deferred nonretirement plans.
- Read Chapter 12, "Special Property Transactions," on pages 12-1 to 12-24. You will learn about tax treatment of special property transactions. This includes how to defer gains using the like-kind exchange rules, and how to account for and report involuntary conversions.

Note that these assigned readings will help you successfully complete the Unit 8 assignments and discussion.

u08a1 - Tax-Deferred Plans and Annuities

Using your text, complete the following. In these problems, apply your knowledge of the rules and laws associated with retirement and other tax-deferred plans and annuities.

- Problem 54, page 11-38.
- Problem 55, page 11-38.
- Problem 59, page 11-39.
- Problem 61, page 11-39.
- Problem 63, page 11-40.

Refer to the Tax-Deferred Plans and Annuities Scoring Guide to ensure you have met all of the requirements of the assignment.

u08a2 - Special Property Transactions

Using your text, complete the following. In these problems, apply your knowledge of tax code treatment for special taxpayer property transactions.

- Problem 45, page 12-30.
- Problem 52, page 12-33.
- Problem 56, page 12-34.
- Problem 59, page 12-35.
- Problem 61, page 12-36.

Refer to the Special Property Transactions Scoring Guide to ensure you have met all of the requirements of the assignment.

u08d1 - Robin Hood and the IRS Sheriff

Forget Las Vegas and Atlantic City. Do not waste your money on your state's lottery. Get out of the office football pool. There is a better gambling mechanism awaiting you, every April 15! It involves your odds of being audited by the IRS.

If you like high-stakes gambling with your own money, and do not mind risking some jail time, playing against the IRS is just the ticket to give you goose bumps and an adrenaline rush. Winning means you get to keep your money—at least for a while; losing means giving the winner your money—plus penalties and interest (not to mention possible time away from family and your employer).

Review the gaming odds from the article, "IRS Audits Target Wage Earners, Rather Than Wealthy," which is located on The Tax Prophet website. The link to the article and the gaming odds are provided in the Resources section of this discussion. Explain how you would put together a plan that could be enacted into law, to improve the odds of the IRS auditing wealthy taxpayers and corporations.

Submit your initial post in this discussion. Refer to the Discussion Participation Scoring Guide for posting expectations.

Response Guidelines

Select and read the posts of two of your peers. In each response, evaluate whether your peer's plans could be enacted into law. Explain why or why not.

Unit 9 >> Alternative Minimum Tax

Introduction



The income tax has made more liars out of the American people than golf has. Even when you make a tax form out on the level, you don't know when it's through if you are a crook or a martyr.

— **Will Rogers**,
an American cowboy and humorist.

In the initial part of this unit, you will examine the rules used when a taxpayer experiences losses from activities where he or she did not materially participate in the business, or where the economic loss is not apparent.

Author Jeff Schnepfer relates that, "Tax shelters are not a thing of the past. Some taxpayers have wrongly assumed that recent changes in our nation's tax laws eliminated these government-sponsored programs" (Schnepfer, 2007, para. 1). Tax shelters have been described by the unsophisticated as gimmicks, or loopholes. The fact is, Congress created these loopholes, after careful deliberation, to serve economic and social goals.

A tax shelter is any investment designed to reduce or avoid income taxes. This is not bad. "Former IRS Commissioner Donald Alexander once said, as a citizen, you have an obligation to the country's tax system, but you also have an obligation to yourself to know your rights under the law and possible tax deductions and to claim every one of them" (DiscoverAbroad.com, 2001, para. 1).

The second half of this unit presents a separate tax system from the one you have been studying. The goal of this second system is to identify individual and corporate taxpayers who might escape paying taxes, by using the Internal Revenue Code's advanced tax incentives and programs. This alternative minimum tax (AMT) system employs rules based on a taxpayer's AMT income. As you will learn, little income escapes the IRS.

References

DiscoverAbroad.com. (2001). *Tax shelters*. Retrieved February 12, 2007, from <http://www.discoverabroad.com/US/LivingAbroad/money/TaxShelters.htm>.

Quotegarden.com. (2007). *Quotations about taxes*. Retrieved March 28, 2007, from <http://www.quotegarden.com/taxes.htm>

Schnepper, J. (2007). *Tax shelters still exist and can save you money*. Retrieved February 12, 2007, from MSN Money website:
<http://articles.moneycentral.msn.com/Taxes/TaxShelters/taxSheltersStillExistAndCanSaveYouMoney.aspx>

Learning Activities

u09s1 - Studies

Readings

Use your *Fundamentals of Taxation* text to complete the following:

- Read Chapter 13, "At-Risk/Passive Activity Loss Rules and the Individual Alternative Minimum Tax," on pages 13-1 to 13-35. You will be introduced to how at-risk rules and passive activity loss rules work together to limit the deductibility of losses from activities in which a taxpayer does not actively participate. In addition, there is information on the AMT for individual taxpayers.
- Read the Congressional Budget Office publication, "[The Alternative Minimum Tax](#)." If you have any trouble accessing this PDF document via the link provided, follow these instructions:
 - Go to the [Congressional Budget Office](#) home page.
 - From the menu choices at the top of your page, click on *Publications* without choosing from the pull-down menu.
 - On the resulting subject area page, locate and choose *Taxes*.
 - On the tax publications page, scroll down to year 2004 using the year markers on the right.
 - Find and read the article, "The Alternative Minimum Tax," dated April 15, 2004.

These assigned readings will help you successfully complete the Unit 9 assignment and discussion.

u09a1 - Applying the IRS Code Rules

Using your text, complete the following. In these problems, apply your knowledge of the rules and laws associated with at-risk or passive activity losses, as well as the individual AMT.

- Problem 37, on page 13-41.
- Problem 40, on page 13-41.
- Problem 44, on page 13-42.
- Problem 47, on page 13-43.
- Problem 48, on page 13-43.
- Problem 51, on page 13-44.
- Problem 54, on page 13-45.
- Problem 57, on page 13-46.

Refer to the Applying the IRS Code Rules Scoring Guide to ensure you have met all of the requirements of the assignment.

u09d1 - Changing the Alternative Minimum Tax Structure

Refer to the article, "Revenue and Tax Policy Brief: Alternative Minimum Tax," which you read in this unit's study. In his revenue and tax policy brief, Roberton Williams of the Congressional Budget Office concludes that:

Over the coming decade, a growing number of taxpayers will become liable for the AMT. In 2010, if nothing is changed, one in five taxpayers will have AMT liability and nearly every married taxpayer with income between \$100,000 and \$500,000 will owe the alternative tax. Rather than affecting only high-income taxpayers who would otherwise pay no tax, the AMT has extended its reach to many upper-middle-income households. As an increasing number of taxpayers incur the AMT, pressures to reduce or eliminate the tax are likely to grow (Williams, 2007, p. 8).

In the article, under the heading, "Changing the AMT," review the four solutions the author proposes. Select the solution that you believe would be in the best interests of both the taxpayers and the IRS. Provide a convincing argument in favor of your chosen solution's enactment into law.

Response Guidelines

Select and read the posts of two of your peers. In each response, evaluate whether your peer's chosen solution should be enacted into law. Do not be afraid to ask tough questions and challenge your peers.

Congressional Budget Office. (2007). *Alternative minimum tax*. Retrieved March 28, 2007, from <http://www.cbo.gov/>

Course Resources

Undergraduate Discussion Participation Scoring Guide

Unit 10 >> Partnership and Corporate Taxation

Introduction

To take something from a person and keep it for oneself: that is robbery. To take something from one person and then turn it over to another in exchange for as much money as you can get: that is business. Robbery is so much more stupid, since it is satisfied with a single, frequently dangerous profit; where as in business it can be doubled without danger.

— **Octave Mirbeau,**

French journalist, art critic, pamphleteer, novelist, and playwright.

There is a need for other forms of business ownership beyond sole proprietorship. Small businesses can only do so much to provide the public with the array of goods and services that match the public's insatiable appetite. To this end, large corporate entities are better equipped to provide the required goods and services. Partnerships, in all of their forms, also fill a niche, especially in the area of services, such as legal, health, and welfare.

When it comes to these business entities' responsibility for reporting their income and deductions, the tax code becomes very complicated. Their tax reporting needs may require the services of certified public accountants, who know the code thoroughly.

In this final unit, we will identify many of the issues faced by partnerships and corporations when they report and pay their income tax liability. Each form of ownership has inherent advantages and disadvantages at tax time. We will look at the flow of income for each, as well as the limits on the liability for the participants in each organizational structure. Finally, we will identify some of the forms that must be completed and filed, to account for the organization's income and deductions.

Remember the reference to the robber in our opening quote? If you are going to rob the public, make sure you limit your individual liability by incorporating or forming a limited liability company.

Learning Activities

u10s1 - Studies

Readings

Use your *Fundamentals of Taxation* text to complete the following:

- Read Chapter 14, "Partnership Taxation," on pages 14-1 to 14-31. This chapter introduces the tax and reporting rules associated with the partnership form of business ownership.
- Read Chapter 15, "Corporate Taxation," on pages 15-1 to 15-27. This chapter explains the tax and reporting rules associated with the corporate form of business ownership.

Note that these assigned readings will help you successfully complete the Unit 10 assignments and discussion.

u10a1 - Partnership Tax Reporting Issues

Using your text, complete the following. In these problems, apply your knowledge of the rules and laws associated with tax reporting for the partnership form of business ownership.

- Problem 49, on page 14-39.
- Problem 51, on page 14-39.
- Problem 55, on page 14-40.
- Problem 56, on page 14-41.
- Problem 61, on page 14-42.

Refer to the Partnership Tax Reporting Issues Scoring Guide to ensure you have met all of the requirements of the assignment.

u10a2 - Corporate Tax Reporting Issues

Using your text, complete the following. In these problems, apply your knowledge of tax code treatment for corporate earnings and shareholder transactions.

- Problem 47, on page 15-36.
- Problem 50, on page 15-37.
- Problem 52, on page 15-37.
- Problem 53, on page 15-38.
- Problem 56, on page 15-39.

Refer to the Corporate Tax Reporting Issues Scoring Guide to ensure you have met all of the requirements of the assignment.

u10d1 - Fixing the Government's Broken Toy

For the final discussion:

- Create a list of the top five areas in the tax code that you believe are broken and in need of substantial repair.
- Explain how each item on your list is broken.
- Finally, select one item on your list and explain in detail how you would fix it. Do not write that you would simply eliminate the item.

Submit your initial post in this discussion. Refer to the Discussion Participation Scoring Guide for posting expectations.

Response Guidelines

Select and read the posts of two of your peers. In each response, evaluate your peer's list and the solution he or she provided for the chosen item. Do not be afraid to challenge your peer's choices.

Course Resources

Undergraduate Discussion Participation Scoring Guide