
This is a course on the federal income taxation of individuals. Federal is in contrast to state or local (although many state and local income taxes are based on the federal income tax) and to other nations. Income is in contrast to such other common bases of taxation as sales, value added, property, wages, gasoline, tobacco, etc. Income means something like profit, e.g., what you have left after subtracting necessary expenses from what you receive. Taxation is in contrast to voluntary contributions by citizens or earnings collected by government enterprises. Individuals is in contrast to taxation related to such entities as partnerships, corporations, and trusts.

The authority important to this course includes the U.S. Constitution (it now is relevant in very few tax matters), the Internal Revenue Code of 1986 (in Title 26, U.S. Code) (“the Code”), the regulations (“the Regs”) issued by the Treasury explaining the Code, and Revenue Rulings and federal judicial decisions interpreting the Code and the Regs. The red paperback contains excerpts from the Code and the Regs. The text has rulings, decisions, other authorities, and the authors' thoughts and questions. We will spend much of our class time working through the book's problems and questions: please pay careful attention to them in preparing for class.

Many people think of tax as presenting problems of taxpayer v. tax collector. There are, of course, many such cases, but tax is even more likely to come up in transactions between private parties, as each tries to cast the transaction so as to provide favorable tax consequences to that party. Alternatively, the parties may choose to give tax benefits to the person in the higher tax bracket, and compensate the other party with economic or other non-tax benefits.

Some income-like items are not taxed as income, and some income qualifies for the reduced rates on capital gains. Sometimes expenditures not necessary to making a profit are nonetheless allowed as deductions. Most commonly, however, tax issues are matters of timing. To delay reporting income, or to take a deduction early, delays paying tax. Because of interest, tax payments
delayed are effectively tax payments reduced. If the interest rate is 8%, to delay having to pay a tax for nine years effectively halves the tax. Thus a major issue in tax is deferral.

I enthusiastically support the University policy of accommodating religious observances. Please notify me advance so that we can work matters out. Any work missed can and should be made up.

I enthusiastically support the University policy of accommodating people with disabilities. If you believe that you need such accommodation, please contact me or the Office of Disability Services, 303-492-5614.

ASSIGNMENTS

Background: During the first week, please read Chapter 1 of the text.

Class Discussion:
§ 61 of Code
      § 119(a,b) of Code, § 1.119-1 of Regs
   2. Other Fringe Benefits, pp. 49-56
      § 125(a,c,d,f)
      § 132 of Code, SCAN Regs under § 132
   3. Economic Effects, pp. 56-58
B. Imputed Income, pp. 62-69
C. Windfalls And Gifts
   1. Punitive Damages, pp. 69-72.
      § 102
      § 274(b)
   4. Transfer of Unrealized Gain, pp. 94-98
      § 1001(a-c)
      § 1011(a)
      § 1015(a)(first sentence only)
      (d)(1,6)
   5. Transfers at Death, pp. 98-102
      § 1014(a,c)
      § 691(a)(1,3)
      (c)(1)(A)
D. Recovery of Capital, pp. 104-106.
§ 101 (a,c,d)
§ 72(a,b)
5. Losses, pp. 120-25.
§ 165(a-c)
   (h)(1,2)
Losses on property that is personal (as opposed to business or investment) are normally not deductible, because a decline in that property's value is considered a personal expense. If personal property is converted to business use, its basis for computing losses and depreciation is the lesser of its basis and its FMV at the time of conversion. Its basis for determining gain is its original basis, even if above its value at the time of conversion, reduced by depreciation. Like §1015(a).

E. Annual Accounting,
      § 172(a)
      (b)(l)(A)
      (2,3)
      (c,d)
      §§ 1311-12
   2. Claim of Right, pp. 130-37.
      § 1341(a)
      § 461(f)
   3. Tax Benefit Doctrine, pp. 137-40
      §§ 111, 186(a-c)

F. Recovery for Personal & Business Injuries
1-3. Personal Injury, pp. 140-44
   § 104, 106
   § 105(a-f)
   § 461(h)(l)
   (2)(C)

G. Loans, pp. 144-79.
   § 108(e)(2)
   § 7701(g)
   § 1.1015-4

H. Illegal Income, pp. 179-84

I. Interest on State and Local Bonds, pp. 184-89.

J. Gain on Sale of Home, pp. 189-90.
   § 121(a) – (d)(3).

Chapter 3: Problems of Timing
A. Gains from Investment in Property
1-2. Origins, pp. 191-208
   §§ 109, 1019
5-7. Nonrecognition Provisions, pp. 222-235
   § 1031 (a-d), 1.1031(a)-2(b)(1-3), 1.1031(d)-2
   § 1033(a)(2)(A,B)
   (b)(2)
   (g)

C. Original Issue Discount, pp. 239-43.
D. Sales with Delayed Payments, pp. 243-51.
   § 453(a-d)
   (f)(6)
   § 453B(a-c)
   § 1.453-4

E. Constructive Receipt etc., pp. 251-97
   Note the related but distinct concepts used here: Constructive Receipt,
   Economic Benefit (a term of art not to be taken literally), Cash Equivalent (to be
distinguished from Fair Market Value), and Receipt by Agent.
   §§ 83(a-c,e,h), 404(a)(5)

F. Transfers in Marriage, Divorce, pp. 297-314.
   §§ 1041, 71, 215

I. Cash-Flow of Accrual TPs, pp. 318-30.
   § 461 (f,h)


Chapter 6: Deductions for Costs of Earning Income
      § 162(a)(before 1,2,3)
      § 263(a)

B. Repairs, pp. 483-96.

C. Inventories, pp. 496-499.

D. Rent v. Installment Purchase, pp. 499-503.

E. Goodwill, pp. 503-08

F. 2. Reasonable Compensation, pp. 515-16.
      § 162(c,f,g)

G. Depreciation, ACRS, ITC, pp. 522-29.

H. Depletion, pp. 529-32.

I. Tax Shelters, pp. 532-34, 546-72

Chapter 7: Splitting Income, pp. 573-74.
   A-C. Services Income, pp. 575-83.
   E-F. Property, pp. 591-603.
      § 1286


Chapter 8: Capital Gains & Losses
   A-C. Background, Statute, Policy, pp. 639-45.
Chapter 4: Personal Deductions, Exemptions, Credits
A. Introduction, pp. 335-38.
B. Casualty Losses, pp. 338-41, and Bad Debts
   § 165(a-e)
   (h)(1-2)
   § 165(g), § 166
E. Interest, pp. 378-83.
F. Taxes, pp. 383-84.
G. Personal, Dependency Exemptions, pp. 384-85.
H. Personal Credits, pp. 385-88.

   § 183(a-d), § 1-183-l(b)
   § 280A
C. Childcare, pp. 439-40, nn. 4-5
D. Commuting, pp. 440-56.
E. Clothing, pp. 456-59.