Individual Taxation:

1. Chapter 1
   a. Law made possible by the Sixteenth Amendment to the Constitution
   b. Original tax rates 1% to 7%
   c. Law now known as the Internal Revenue Code of 1986, as amended
   d. Tax law enactment. The bill must start in the House of Representatives, then go through the ordinary law structure, passage by both houses and signature by the President.
   e. The IRS is a part of the Department of the Treasury
   f. Statute of Limitations
      i. Generally 3 years from the later of the due date of the return (April 15, if filed before that date) or the filing date
      ii. 6 years if more than 25% of gross income is not reported
      iii. Unlimited if a fraudulent return is filed
   g. Interest
      i. Is payable by the IRS if a refund is not paid within 45 days of filing the return.
      ii. Is payable by the taxpayer if an amount is not timely paid
   h. Penalties
      i. 5.0% per month (or fraction thereof) for failure to timely file
      ii. 0.5% for failure to pay the amount due
         1. Maximum of 25% combined under the two penalties
         2. Penalty is based on net due (Tax - payments)
      iii. Fraud = 75%

Research, (Chapter C-1 in the middle of the book)

i. Method of communicating research, "IRAC"
   1. Facts
   2. (I) Issue
   3. (R) Rule
   4. (A) Analysis
   5. (C) Conclusion

j. Source of the tax law
   i. The law - Internal Revenue Code of 1986, as amended -
      1. Numbers, for example Section 61(a)(1)(B)
      2. Also included payroll taxes, estate and gift taxes and excise taxes
   ii. Treasury Regulations - IRS written (codified explanations of the Code) by number, Reg. Section 1.61-1
      1. Legislative (when Congress has requested specific guidelines) has the force of law
      2. Interpretive (under the IRS general authority) hard to beat by taxpayer as this is well thought out, reviewed and opinions solicited
3. May be proposed, temporary or final

iii. Other Treasury interpretations:
1. Revenue Rulings (specific facts generally written just like a memo in IRAC format, but not always), numbered by year and number, Rev. Rul. 99-3
2. Revenue Procedures (procedures for filing, such as how to mail in a return). Rev. Proc. 99-3.
3. Letter rulings - requested by taxpayers and issued by the IRS, are binding on the IRS for this taxpayer only.

iv. Available courts if taxpayer and IRS can't agree
1. Tax Court (1 court in D.C. that travels to other cities)
   a. Must file petition within 90 of IRS deficiency letter
   b. Don't have to pay the tax to contest the IRS!
2. District Court - Judge and Jury, must pay the tax first
3. U.S. Court of Federal Claims - Judge only - must pay first

v. Tax Treaties, between U.S. and foreign countries override the IRC

vi. Lots of Tax Magazines that explain issues

vii. Treatises, books on specific tax subjects - many of them

viii. Tax Services
1. Complete list of the law, code, regs, rulings, cases, etc, either by code section or subject
2. RIA Federal Tax Coordinator in our Library
3. CCH Standard Federal Tax Reporter
4. Mertens

2. Chapter 2 - Determination of the Tax

a. Tax Formula for individual taxation:
   i. All income
   ii. Exclusion = Gross Income
   iii. Deductions for adjusted gross income ("AGI") = AGI
   iv. Greater of
      1. Standard deduction, or
      2. Itemized deduction
   v. Personal & dependency exemptions =
   vi. Taxable income
   vii. Times tax rate based on filing status = tax
   viii. + additional taxes, - credits = net due

ix. Tax Rates

Married Filing Jointly (& Surviving Spouse)

<table>
<thead>
<tr>
<th>Tax Rate</th>
<th>2017 Taxable Income</th>
<th>2016 Taxable Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>10%</td>
<td>$0 - $18,650</td>
<td>$0 - $18,550</td>
</tr>
<tr>
<td>15%</td>
<td>$18,651 - $75,900</td>
<td>$18,551 - $75,300</td>
</tr>
<tr>
<td>25%</td>
<td>$75,901 - $153,100</td>
<td>$75,301 - $151,900</td>
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<tr>
<td>28%</td>
<td>$153,101 - $233,350</td>
<td>$151,901 - $231,450</td>
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<tr>
<td>33%</td>
<td>$233,351 - $416,700</td>
<td>$231,451 - $413,350</td>
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<tr>
<td>35%</td>
<td>$416,701 - $470,700</td>
<td>$413,351 - $466,950</td>
</tr>
<tr>
<td>39.6%</td>
<td>$470,701+</td>
<td>$466,951+</td>
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</table>

Single

<table>
<thead>
<tr>
<th>Tax Rate</th>
<th>2017 Taxable Income</th>
<th>2016 Taxable Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>10%</td>
<td>$0 - $9,325</td>
<td>$0 - $9,275</td>
</tr>
<tr>
<td>15%</td>
<td>$9,326 - $37,950</td>
<td>$9,276 - $37,650</td>
</tr>
<tr>
<td>Tax Rate</td>
<td>2017 Taxable Income</td>
<td>2016 Taxable Income</td>
</tr>
<tr>
<td>----------</td>
<td>---------------------</td>
<td>---------------------</td>
</tr>
<tr>
<td>10%</td>
<td>$0 – $13,350</td>
<td>$0 – $13,250</td>
</tr>
<tr>
<td>15%</td>
<td>$13,351 – $50,800</td>
<td>$13,251 – $50,400</td>
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<tr>
<td>25%</td>
<td>$50,801 – $131,200</td>
<td>$50,401 – $130,150</td>
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<tr>
<td>28%</td>
<td>$131,201 – $212,500</td>
<td>$130,151 – $210,800</td>
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<tr>
<td>33%</td>
<td>$212,501 – $416,700</td>
<td>$210,801 – $413,350</td>
</tr>
<tr>
<td>35%</td>
<td>$416,701 – $444,550</td>
<td>$413,351 – $414,000</td>
</tr>
<tr>
<td>39.6%</td>
<td>$444,551+</td>
<td>$441,001+</td>
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Head of Household

<table>
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<tr>
<th>Tax Rate</th>
<th>2017 Taxable Income</th>
<th>2016 Taxable Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>10%</td>
<td>$0 – $13,350</td>
<td>$0 – $13,250</td>
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<td>15%</td>
<td>$13,351 – $50,800</td>
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<tr>
<td>28%</td>
<td>$131,201 – $212,500</td>
<td>$130,151 – $210,800</td>
</tr>
<tr>
<td>33%</td>
<td>$212,501 – $416,700</td>
<td>$210,801 – $413,350</td>
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<tr>
<td>35%</td>
<td>$416,701 – $444,550</td>
<td>$413,351 – $414,000</td>
</tr>
<tr>
<td>39.6%</td>
<td>$444,551+</td>
<td>$441,001+</td>
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Married Individuals Filing Separate Returns

<table>
<thead>
<tr>
<th>Tax Rate</th>
<th>2017 Taxable Income</th>
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<tbody>
<tr>
<td>10%</td>
<td>$0 – $9,325</td>
<td>$0 – $9,275</td>
</tr>
<tr>
<td>15%</td>
<td>$9,326 – $37,950</td>
<td>$9,276 – $37,650</td>
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<tr>
<td>25%</td>
<td>$37,951 – $76,550</td>
<td>$37,651 – $75,950</td>
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<tr>
<td>28%</td>
<td>$76,551 – $116,675</td>
<td>$75,951 – $115,725</td>
</tr>
<tr>
<td>33%</td>
<td>$116,676 – $208,350</td>
<td>$115,726 – $206,675</td>
</tr>
<tr>
<td>35%</td>
<td>$208,351 – $235,350</td>
<td>$206,676 – $233,475</td>
</tr>
<tr>
<td>39.6%</td>
<td>$235,351+</td>
<td>$233,476+</td>
</tr>
</tbody>
</table>

x.

b. Standard deduction

i. An allowance (deduction) based on filing status, age and eye sight of the taxpayer only (not their dependents)

ii. Amounts:

<table>
<thead>
<tr>
<th>Status</th>
<th>2017</th>
<th>2018</th>
<th>Owe Tax 2017</th>
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<tbody>
<tr>
<td>Single</td>
<td>$6,350</td>
<td>$12,000</td>
<td>$10,400</td>
</tr>
<tr>
<td>Joint</td>
<td>12,700</td>
<td>24,000</td>
<td>$20,800</td>
</tr>
<tr>
<td>Head Household</td>
<td>9,350</td>
<td>18,000</td>
<td>$13,400</td>
</tr>
<tr>
<td>Surviving Spouse</td>
<td>12,700</td>
<td>24,000</td>
<td>$16,750</td>
</tr>
<tr>
<td>Married Filing Separately</td>
<td>$6,350*</td>
<td>$12,000*</td>
<td>$4,050*</td>
</tr>
</tbody>
</table>
* If the other spouse itemizes, then the taxpayer (married filing separately) must itemize — which means they don’t get the standard deduction.

1. Additional amounts for blind or 65 or older:

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2018</th>
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</thead>
<tbody>
<tr>
<td>Unmarried</td>
<td>$1,550</td>
<td>$1,550</td>
</tr>
<tr>
<td>Married</td>
<td>$1,250</td>
<td>$1,250</td>
</tr>
</tbody>
</table>

c. Note: The age additional amounts is used for both filing requirements and filing, the blind does not affect filing requirements but can be claimed when the return is filed.

d. Also note that if you itemize, this extra is irrelevant.

e. Exceptions:
   i. Married filing separately must itemize if his or her spouse itemizes, if not, then same as single. But for filing, they only get the personal exemption
   ii. Dependents —
      1. 2018 Greater of ??:
         a. Earned income + 350, or
         b. 1,050
      2. 2017 Greater of:
         a. Earned income + $350, or
         b. $1,050
   iii. Phases out for high income taxpayers —
      1. AGI in excess of $258,250 2015 single or $309,900 2015 married filing jointly
      2. For every $2,500 over the AGI, 2% reduction

f. Personal & dependent exemptions
   i. Amount per year
      1. 2010 = none
      2. 2017 = $4,050
      3. There is one for each of us, the question is who can claim it (on which return)
   ii. Phases out for high income taxpayers —
      1. 2018 —
      2. 2017 — AGI in excess of $261,500 — $384,400 single or $313,800 — $436,300 married filing jointly
      3. For every $2,500 over the AGI, 2% reduction
   iii. You can claim one for you and one for a spouse (only if you file a joint return since your spouse can not be your dependent — weird?), unless you are a dependent

g. Definition of dependent depend, either a:
   i. Either a Qualified Child or
   ii. Qualified Relative (or lives in the home the entire year)
   ii. Qualified Child — uniform definition
      1. Child of taxpayer, sibling and descendants of either (adopted or foster or step)
      2. Under 19, or full time student under 24, or permanently or totally disabled —
         Note, if the child is over 23 then they must qualify as another dependent — a 24 year old can’t be a “qualified child”
      3. Must have the same abode (house) as the taxpayer for at least half the year
      4. Support — the child can not provide more than one-half of his or her own support.
   h. Must be younger then the taxpayer??
i. Tie Breaking Rules (if more than one person claims the dependent - if not it goes to the qualifying one who does claim the dependent)
   1. Qualifying Child beats out other dependent
   2. Parents have priority over others
   3. If the two above don’t resolve it, then the taxpayer with the highest AGI gets the exemption

ii. Qualified Relative (Other dependent) 5 parts (all must be met)
   1. Support - you must provide over half the support for the dependent
      a. Exception: Multiple Support Agreement
         i. Would qualify under the other test, but gave < 50% and > 10%
         ii. All such qualified persons must sign Form 2120 to allocate the personal exemption among them.
         iii. If anyone give over 50%, not multiple support, they get the exemption
      b. Exception: Divorce
         i. Exemption goes to the parent with custody (majority of the time)
         ii. Can be given to non-custodial parent by signed agreement, Form 8332
   2. Gross Income - Dependent’s gross income (from taxable sources must be less than the exemption amount (2017 = $4,050) (Has nothing to do with net assets or support!)
   3. Relationship or residence
      a. Relationship as listed (doesn't include cousins), or
      b. Lives with the taxpayer the entire year (and not an illegal relationship)

iii. For all dependents
   1. Dependent can not file a joint return
   2. Citizenship of U.S. or resident of U.S., Mexico or Canada (even illegal)

j. Child care credit =
   i. 2017 - $1,000 per child (it is not indexed for inflation since 2005) Phases out for high income taxpayers. Must be under 17 years of age.
      1. Phases out $50 for each $1,000 starting at (2016) $75,000 single and $110,000 married filing jointly.
   ii. 2018 - $2,000 per child under 17
   iii. 2018 - $500 for other dependents

k. Filing status
   i. Joint return can be filed if married - If legally married on the last day of the year (or at the time of death if during the year and not remarried that year)
      1. Both responsible for 100% of the tax shown
      2. Exceptions for innocent spouse
   ii. Married couple can file separately
   iii. Surviving Spouse:
      1. For the two years following the death of a spouse
      2. Must have been able to file joint return in year of death
      3. Must have 1 dependent Child living at home
   iv. Single - if not married
   v. Head of Household
      1. Single on the last day of the year, unless spouse died during the year (or abandoned spouse)
      2. Not a surviving spouse
      3. US citizen or resident
   vi. Pay over one half the cost of maintaining your home, in which a dependent relative lives more than half the year. Exception for your parent that you support doesn't have to live with you
      1. Exception for divorce - custodial can claim head of household even if the dependency exemption has been passed to the other parent if 50% paid
by the one claiming head of household.

vii. Abandoned Spouse (not a filing status) - the affect is to make a married person single. As a single person, can therefore qualify as head of household
1. Live apart from spouse the last 6 months of the year
2. Pay over half the cost of the house in which the taxpayer and their child lives
3. US citizen or resident

l. Special tax rate for dependents under 19 and dependent students under 24
   i. Their unearned income (earned = salary and similar income) less $1,050
   ii. Child pays tax at own rate on earned income (usually covered by the standard deduction - see above) and on the first $1,050 @ 10%.

m. Change of status:
   i. Can change from Separate return to Joint return
   ii. Can not change from Joint to Separate

n. Who must file (see handout)
   i. Those whose Gross Income exceeds their standard deduction and personal exemptions (not dependency exemptions)
   ii. Anyone with net Self-employment income of $400, must file to pay the SE Tax

o. Due date: 15th day of fourth month following the year, April 15th
   i. If Saturday, Sunday or legal Holiday, the next day that isn't.
   ii. Can get an extension to file (must pay by April 15)

p. Tax Forms:
   i. Page one bottom: AGI or Line (as in above the line)
   ii. Page two or below the line (standard or itemized deductions on Schedule A) and personal and dependency exemptions
   iii. Self-Employment Tax on Schedule SE

3. Chapter 3 - Gross Income - Inclusions

a. Gross income - Section 61 - "... all income from whatever source derived, including but not limited to..."

b. Exceptions are generally made by Code provisions

c. Assignment of income - you must pay tax on your income, no matter who receives the money

d. Allocating between married persons, in California (Community Property)
   i. Community property rules state that all earnings from services during marriage and all earnings on community property are earned equally by both spouses
   ii. Separate property is that property owned before marriage and earnings from that property and amounts received during marriage as gifts or inheritances

e. When is income taxable
   i. Cash method -
      1. actually received, or
      2. constructively received
   ii. Accrual method -
      1. When all the events...
      2. Except that generally advanced receipts (prepaid income are taxable when received!

f. Specific items:

g. Tax Exempt income is interest from State and Local Bonds (indebtedness)
   i. Interest on Federal obligations are taxable for federal but not for state
      1. T Bills - at maturity (1 year)
      2. Treasury Bonds and Notes
      3. Savings Bonds (Series EE) when cashed in
   ii. Interest on state tax refunds is taxable (no bond)

h. Dividends - Qualified dividends are taxed at a maximum of (0%/15%/20%) are distributions from a corporation’s
   1. current or
   2. accumulate earnings and profits (similar to retained earnings)
   3. Divided tax rate:
a. 0% if tax rate is 10 - 15% brackets
b. 15% up to the 39.6% bracket
c. 20% when in the 39.6% bracket,
d. Plus possible Medicare tax 3.8% over $200,000 AGI single $250,000
AGI married filing jointly

ii. Stock dividend is generally not taxable unless there is an option to take
    cash or property instead of the stock or if the effect is to give only some of
    the shareholder's their pro-rata share of the stock

iii. Capital Gain dividend (generally from a mutual fund), is taxable but receives
    the favorable capital gain treatment

iv. Constructive dividend is when a corporation makes an indirect payment, the
    effect of which is to have paid a dividend

v. Special rule beginning in 2003 states that the tax rate for dividend income
    shall be the same as that for long term capital gains, generally 15%, but can
    be 0% if taxpayer is in 15% or lower tax bracket.

i. Changes after 2018
   i. Up until 2018 divorce decrees, Alimony is taxable to the recipient and
      deductible by the payor. It is defined as alimony only if:
         1. It is cash (not property)
         2. It is pursuant to a divorce or separation written agreement
         3. It is not designated as child support or property settlement
         4. The couple is living in separate households
   
   ii. Effect of excess front loading of Alimony (recapture)
       1. Front loading occurs only in the third year, if the first two years
          exceeded the prior years by more than $15,000 computed as follows:
          a. Year 1 = Year 1 - (Year 2* + Year 3)/2 - $15,000.
          2. Year 2 = Year 2 - (Year 3) - $15,000
             a. (use the permissible amount from Year 2 in the Year 1 equation,
                not the amount paid)
          3. The recaptured amounts are deductible by the recipient and taxable to the
             payor in year 3.

   iii. 2019 non-deductible but no longer income to the recipient.

j. Pensions are generally taxable in full, unless taxpayer has a basis in the pension,
   such as a non-deductible IRA account.

k. Annuities are taxed by a formula:
   i. Expected Return / Investment = Exclusion Ratio
   ii. Expected return uses the IRS life expectancy tables, not family history
   iii. Each year's payment is then subject to tax, less the excluded part until the
        investment is received tax free
    1. After fully recovered, 100% is taxable
   iv. If death occurs before the investment is received, a deduction is allowed in
       the final year for the unrecovered amount

l. Passthrough entities - Trusts, partnerships, S Corporations (individual pays the
tax, not the business)

m. Prizes, awards, etc. are taxable "income from all sources"

n. Illegal income is taxable - taxed on worldwide income

o. Unemployment income is taxable - make sure to withhold!

p. Social Security Benefits - May be taxable (up to 85%) if "Modified (Provisional)
Adjusted Gross Income" is to high
   i. Married filing separately - 85%!
   ii. Others depends on MAGI =
      1. Regular AGI +
      2. Tax Exempt income! +
      3. % (50% or 85%) of Social Security Benefits
   iii. Taxable portion is lesser of:
      1. MAGI - Base Amount, or
      2. (50% or 85%) of Social Security Benefits
   iv. Base Amount
      1. Married Filing Separately = 0
2. Joint = $32,000 (50%), $44,000 (85%)
3. Single = $25,000 (50%), $34,000 (85%)

q. Amounts previously deducted are income if received in a subsequent year, such as taxes, medical expense

r. Claim of right – income when you take the money, even if it isn't yours (theft, finding something)

s. 2018 – Section 199A deduction
   i. 20% of business net income is a deduction
      1. Limited to 20% of business income or taxable income
      2. Is a below the line deduction
   ii. Allowed for all business and rental income but
   iii. Not allowed for Accountants, Lawyers, Consultants, Medical, if taxable income exceeds $315,000 (phase out at about $415,000)
   iv. For other business, if taxable income exceeds $315,000 - $415,000 MFJ, then limited to 50% or wages, plus 2.5% of fixed assets.

   t. Tax Forms:
      i. Alimony – Page 1 of the return (above the line deduction or income)
      ii. Interest – Schedule B
      iii. Dividends – Schedule B

4. Chapter 4 - Gross income - exclusions
   a. Unrealized income - unsold assets
      i. Must sell assets to realize (calculate gain)
   b. Self help (planting your own food) is not income
   c. Gifts and inheritances excluded by statute
   d. Life insurance proceeds generally non taxable
      i. Includes accelerated death benefits
      ii. Taxable if purchased from the owner (instead of from the insurance company), unless purchased by the insured or a partner of the insured. If taxable, taxable on receipts - cost
      iii. Taxable if cashed in before the death, unless imminent death (see book)
      iv. Dividends on life insurance are generally tax free return of the cost of the policy
   e. Awards are tax free, if no additional service required and you don't get the money
   f. Scholarships – tax free, up to an amount equal to:
      i. Tuition, books and supplies
      ii. Taxable if for room and board
   g. Injury and sickness payments (lawsuits) are tax free only if for personal physical injury
      i. Emotional distress is taxable (less medical costs)
      ii. Punitive damages are always taxable
      iii. Wage replacements are taxable
   h. Employer health insurance is tax free to the employee as are reimbursements under a qualified plan (EE, spouse and children)
   i. Self-employed persons may deduct health insurance only above the line (100% of the insurance); the remaining medical costs must be itemized
   j. Group term life insurance for employees is tax free up to $50,000 per year
      i. Additional amounts are taxable based on the IRS table
      ii. If $70,000, then only the value of the $20,000 is taxable
   k. Other employee benefits
      i. No additional cost benefits are tax free, such as standby airline tickets for airline employees, hotel rooms for hotel employees
      ii. Goods and services are tax free
         1. For goods, if sold for at least Cost of Goods Sold
         2. For services, up to 20% discount
         3. Additional discounts are taxable - Thus, for $5,000 services, if the employee pays nothing there is $4,000 of income
      iii. Transportation – In 2018 still not income, but employer can not take a deduction for the employee reimbursement of up to:

<table>
<thead>
<tr>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### 5. Chapter 5 Property Transactions - Capital Gains and Losses

a. Formula for Realized Gain = Amount Realized - Adjusted Basis

b. Above = A.R. - A.B. = Realized Gain

c. Realized gain is "recognized" (reported on the tax return) unless there is a specific non-recognition provision

d. Amount Realized = Cash plus FMV of other property received

e. Adjusted Basis = Initial Basis (usually cost) + increases (improvements) - decreases (depreciation or deductions)

f. Losses can be recognized if:
   i. Trade or business
   ii. Activity entered into for profit
   iii. Casualty or theft loss
   iv. Personal losses (sale of home or car) are not deductible

g. Basis = Cost = purchase price (not cash paid, thus notes and mortgages are taken into account)

h. Interest and real estate taxes on production of the asset must be capitalized if real estate or over two year production cycle

i. Gifts = Basis = it depends!
   i. For sales at a gain = Donors basis (carryover basis)
   ii. For sales at a loss: Lesser of:
      1. FMV date of gift
      2. Donor's Cost
   iii. If both of the above don't apply, no gain or loss

j. Adding Gift Tax to the appreciated gifts
   i. Add Gift tax x (FMV - Basis)/FMV.

k. Inheritances
   i. Basis is generally FMV date of death, or
   ii. FMV @ Alternative Valuation Date (6 months later)
      1. Must be elected on all assets
      2. Total value must be less that Date of Death
      3. Estate tax must be lower
   iii. Community Property - basis is "stepped up" to FMV on both decedent's and the

---

### Table 1

<table>
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<th>$255</th>
<th>$255</th>
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</thead>
<tbody>
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</tr>
<tr>
<td>Bicycle commuter</td>
<td>taxable</td>
<td>$20</td>
</tr>
</tbody>
</table>

iv. De minimis - small stuff like coffee, photocopies, etc

l. Employee achievement or length of service is tax free if property (not cash!) and for achievement or at least 5 years of service

m. Employee death benefits are taxable (unless a gift-rare!)

n. Dependent care

o. Educational assistance - up to $5,250

p. Cafeteria Plan (pick what you want out of your own money that you leave with the employer) generally used to pay deductible medical bills, braces, psychiatrists, etc

q. Foreign **earned** income - Exclusion up to
   1. $101,300 (2016)
   2. $102,100 (2017)
   ii. Must be resident entire year, or
   iii. 330 days during the 12 month period

r. Income from discharge of indebtedness, unless you are insolvent at the time

s. Exclusion for small business stock
   i. 50% excluded
   ii. Post August 10, 1993 stock held 5 years
   iii. $10,000,000 maximum
   iv. Later years can be up to 100% excluded
surviving spouse's property

iv. No basis step up if the asset is IRD (income in respect of a decedent)
l. Converted property to business use. For depreciation, use lower of Adjusted Basis or FMV.
m. Capital Asset is defined as all property except:
i. Inventory
ii. Property used in business and subject to depreciation
   1. §1245 for personal property
   2. §1250 for real property
iii. Accounts receivable
iv. Letters, copyrights, etc. produced by or for the taxpayer
n. Real property subdivided – safe harbor if meet §1237
   i. 5 year hold
   ii. No substantial improvements
   iii. Not a dealer in real estate
   iv. 5 lots are capital gain
      v. On 6th lot and later, 5% is ordinary income
o. Taxation of Capital Gains
   i. Separate long-term gain or loss (more than one year) from
   ii. Separate short-term gain or loss (one year or less)
   iii. Net Capital Gain taxed at 0%, 15% or 20%
      1. Net Long Term Capital Gain
      2. Less: Net Short Term Capital Loss
      3. Tax Rates:
         a. 0 % if tax rate is 15% or less
         b. 15% up to 39.6% bracket
         c. 20% if in the 39.6% bracket
         d. Plus possible Medicare tax
      4. Plus Medicare surtax of 3.8% if AGI > $200,000 single, $250,000 MFJ
   iv. Long Term Collectibles are taxed at 28% and are not treated as LTCG for the 15% tax
   v. Depreciation recapture on Real Estate taxed at 25%
   vi. Collectables taxed at 28%
   vii. Capital Losses (net)
      1. Deductible up $3,000 per year
      2. Remaining amount carries to future years
      3. Short term loss used before long term loss
p. Sale or Exchange
   i. Sale = all cash
   ii. Exchange = some consideration other than cash
q. Worthless securities – treated as sold the last day of the year (Dec. 31)
r. OID - If the bond is originally sold at a discount, then that discount is treated on the accrual basis as income
s. Market Discount Bonds - Discount of more than 1/4% per year is treated as interest income at the time of redemption or sale
t. Options -
u. Patents - §1235 = long term capital gain, if substantially all rights are sold (entire country!)
v. Lease cancellation payments
   i. To lessor = rent
   ii. To lessee = capital gain
w. Holding Period
   i. Gifts
      1. If gain basis, then carry-over holding period
      2. If loss basis, from the time received
   ii. Inheritance = Long Term, regardless of actual time
   iii. Non taxable exchanges = carry-over
x. Tax Forms
   i. Capital Gains – Schedule D is now a summary only
ii. Details reported Form 8949

6. Chapter 6 Deductions and losses

a. Generally either
   i. Trade or Business (§162) - above the line, or
   ii. Expenses incurred in the production of income (§212)
      1. Generally itemized deductions
      2. Also included expenses for the collection of tax
      3. Rental expenses are allowed above the line

b. Business Expense (§162) of a trade or business
   i. Must be ordinary and necessary
   ii. Reasonable in amount
      1. Generally applies to payments to related parties
   iii. Documented (substantiated)
   iv. Incurred by taxpayer
   v. Not capitalized
      1. Fixed assets vs. repairs
      2. Can elect to capitalize some expenses

c. Self-employed are in a trade or business, thus their expenses are above the line

d. Legal fees may or may not be deductible; it is based on the underlying expense.
   Thus, legal fees of a business are §162 expenses, legal fees to fight the IRS are §212 itemized deductions and legal fees to sue your neighbor are non-deductible personal expenses

e. Expenses related to tax exempt income are not deductible
   i. But for test in most cases
   ii. Exception for home purchase or long-term business loans

f. Expenditures contrary to public policy are not deductible
   i. Illegal payments
   ii. Fines and penalties
   iii. But, expenses of an illegal business are deductible (unless it is the drug business - §280E)

g. Business investigation -
   i. Not deductible, must be capitalized
   ii. With an election, may be amortized over 60 months
   iii. If you don't go into the business, no deduction!
   iv. Once in business, extension of the business is not capitalized

h. Substantiation
   i. Generally taxpayer burden of proof, but see Cohan rule
   ii. Specific, must have documentation rule for
      1. Travel and entertainment
      2. Business meals
      3. Computers and automobiles

i. When is it deductible?
   i. Cash basis, when paid
      1. Prepaid must be amortized if substantially beyond the year
      2. Prepaid interest must be amortized
   ii. Accrued (when all the events test is met)
      1. Economic Performance Test:
         a. When services are provided
         b. When products used
         c. Exception allows current accrual for "recurring items" if elected

j. Wash sales (losses only) are not deductible
   i. Sale at a loss, and within 30 days before or after
   ii. Substantially identical stock is acquired

k. Related Party Rules (§267)
   i. Disallows losses on sales of property to related parties (basis carries over)
   ii. Disallows expenses accrued to related cash basis parties until the related party reports the income (deductible when paid)
      1. Salary
      2. Interest
3. Rent
   iii. Related parties
      1. Individuals and spouse, siblings, ancestors (up or down)
      2. Related trusts, partnerships and corporations (generally with greater than 50% ownership)
   1. Hobby Losses
      i. Not a trade or business, thus "hobby" (facts and circumstances)
         1. If profit in three of last five years, burden shift to IRS
         2. Otherwise, taxpayer must prove it is a business
      ii. Effect is that gross income is reported and deductions are limited to those that would be deductible if a trade or business and they are limited to the gross income reported
   m. Vacation home - when a home is used for both personal and rental
      i. Home if used as a home the greater of:
         1. 14 days (days doing repairs not counted), or
         2. 10% of the days rented
      ii. Rental unless rented less than 15 days
      iii. Allocation of expense deduction if both
         1. Total Expense X (# days rented)/(# days rented + # days pers. use)
         2. Rental days only include actual, not days "for rent"
      iv. No loss is allowed, expenses are limited to gross income (except that taxes and interest may be allowed)
   n. Office in the home
      i. Must be a principal place of business, or meeting with clients
      ii. Benefit, you can write off some of your home's costs
   o. Tax Forms
      i. Section 162 trade or business Schedule C (business) or Schedule F (farm), or Schedule E (rental)
      ii. Employee Business Expense, Schedule A itemized
      iii. Self-employed - Schedule C
      iv. Hobby loss, income on page 1, deductions on Schedule A

7. Chapter 7 Itemized Deductions (Schedule A, Form 1040)
   a. Medical Expense
      i. Who qualifies?
         1. Taxpayer
         2. Dependent (but need not meet the gross income test)
         3. Children of divorce (if one of the parent's can claim)
      ii. What qualifies?
         1. Diagnostic
         2. Doctors
         3. Glasses, braces, etc.
         4. Prescription drugs and insulin
         5. Transportation for medical
            a. 19 cents per mile for 2016
            b. .0 cents per mile for 2017
      6. Lodging @ $50 per night maximum - no meals
      7. Capital Expenditures (to the extent they don't increase FMV of property)
      8. Medical Insurance - medical, eyes and dental
      9. Self-employed health insurance = 100% above the line
      10. But not COSMETIC unless to cure or fix a defect
      iii. When paid! (credit card = payment)
      iv. Limitation - Must exceed 10% of AGI (7.5% if over 65)
   b. Taxes
      i. Deductible
         1. State and local income taxes (California withholding and payments) or Sales Tax
         2. Personal property tax (your car's registration)
         3. State local and even foreign real property taxes
         4. Taxes paid in a trade or business (except Calif. income tax) are
generally deductible as expenses or capitalized into the
inventory/project
5. Social Security Tax employer 1/2 (Self-employed get an above the line
deduction)

ii. Not Deductible
1. Federal income taxes
2. Inheritance and gift taxes (gift taxes may be added, in part, to basis)
3. Social Security Taxes (employee 1/2)

iii. When deductible? When paid, not when due!

c. Interest – Must fall into a deductible category:
   i. Active trade or business – deductible against the business income
   ii. Passive Activity – deductible against the passive activity
      1. Definition of passive activity – A trade or business in which the
taxpayer does not materially participate, or any rental business,
         a. Up to $25,000 of losses allowed if the taxpayer “actively”
            engages in the rental business if AGI < $100,000
         b. If a real estate professional = 750 hours and it is the majority
            job, then not a passive activity and can take all the losses
   iii. Investment interest – interest on debts to purchase investments
      1. Stocks or bonds
      2. Deduction is limited to net investment income
         a. Gross income from stocks, bonds, bank interest, etc. plus short
            term capital gains from the sale of such items
         b. Less: Investment expenses (itemized deductions related thereto)
   iv. Qualified Residential
      1. Must be secured by the residence!
      2. Either acquisition (or construction or improvement) limited to $1,000,000
         of loans (post Oct. 13, 1987), or
      3. Home equity loans are up to $100,000 of loans (if there is equity)
      4. Can only be on the principal residence and any one other residence
      5. Refinanced loans keep their original character, but, the amount can not
         be increased, except as Home Equity Loans
      6. Points –
         a. Only deductible if purchase of principal residence
         b. Later loans or other loans must be amortized over the life of the
            loan
   v. Student Loan
      1. Above the line! if
      2. Up to $2,500
      3. Phased out for AGI > $50,000 ($100,000 joint)
      4. Only for higher education loans
      5. Can't qualify if a dependent!
   vi. Other – not deductible!

d. Charitable Contributions
   i. Various organizations qualify, the IRS publishes a list!
   ii. Value
      1. Cash = $
      2. Property
         a. Ordinary income property = lower of basis or FMV
         b. Unrelated use of tangible personal property = lower of basis or
            FMV
         c. Real estate, intangibles (like stock) and related use property =
            FMV if sale would be long-term capital gain. No deduction is
            allowed for any short term capital gain (basis only)
      3. Services –
         a. only out of pocket costs and
         b. mileage 14 cents per mile (all years)
      4. Limitation
         a. 50% for cash and basis only
b. 30% for appreciated property
5. Athletics = 80% of the cost of joining athletic group (none for tickets)
6. Excess amounts carry over for 5 years only and current years amounts are used first!

e. Miscellaneous Itemized Deductions – Section 212 (must exceed 2% of AGI)
   i. What items?
      1. Employee business expenses
         a. Union dues
         b. Clothing only for business
         c. Continuing education
      2. Expense to produce income (not trade or business)
         a. Legal fees
         b. Clean up
      3. Tax advice
         a. Annual accounting
         b. IRS Audits
         c. Tax planning
   f. Reduction in itemized deduction by 3% of AGI > (not to exceed 80%)
      i. 2016 $259,400 single or $285,350 married filing jointly
      ii. 2017 $261,500 single or $287,650 married filing jointly
      iii. Certain items are always deductible
           1. Investment interest
           2. Medical
           3. Casualty
           4. Wagering losses

8. Chapter 8 Losses and Bad Debts
   a. Many different causes of losses
   b. Deduction depends on type of property
      i. Allowed on trade or business
      ii. Allowed on investment property
      iii. Not allowed on losses from personal property, such as homes, cars etc.
   c. Worthless securities
      i. In the year it becomes worthless
      ii. Treated as if it occurred on the last day of the year
   d. Must determine whether ordinary or capital (see Chapter 5)
   e. Section 1244 stock allows capital loss to be ordinary
      i. Up to $50,000 ($100,000 joint return) if
      ii. Stock owned by individual
      iii. Originally issued
      iv. Less than $1,000,000 of stock
   f. Passive Losses
      i. Limits losses from passive activities to passive income
      ii. Allows suspended losses to be used in future years
      iii. Allows suspended losses to be used in the year of disposition
      iv. Definition: Trade or business in which taxpayer does not materially participate, or a rental business
         1. Material participation is:
            a. 500 hours per year
            b. All the activity
            c. 5 of last 10 years
            d. Facts and circumstances
         2. Real estate is not a passive activity if someone is a real estate professionals, if
            a. Majority job is real estate business and
            b. 750 hours in real estate job
         v. Up to $25,000 passive loss is allowed on rental real estate losses if
            1. If AGI <$100,000, phases out at $150,000
            2. Must be active participant and 10% owner
3. Phases out $1.00 of loss for $2.00 of AGI

g. Casualty Loss
   i. Identifiable event
   ii. Sudden or unexpected
   iii. Casualty or theft
      iv. Limited on personal loss
         1. Yearly total must exceed 10% of AGI
         2. $100 reduction for each event
         3. Reduced by insurance reimbursement

h. Bad Debts
   i. Must use specific write off method
   ii. Must be bona-fide (family losses or friends)
   iii. Limited to basis (accounts receivable on cash basis = no loss!)
   iv. Must be worthless (totally)
   v. Nonbusiness - non trade or business debts
      1. Treated as Short Term Capital Losses
      2. Length of time is not relevant
   vi. Business bad debts - ordinary loss allowed
   vii. Recoveries are income in the year recovered

i. Net Operating Losses
   i. Business or person
   ii. Usually when AGI is negative for personal
   iii. Carried back 2 year - can elect to waive carryback
   iv. Carried forward 20 years

9. Chapter 9 Employee Expense
   a. Employee vs. Independent Contractor (Business)
      i. Employee expenses are misc. itemized deductions - Less 2% of AGI
      ii. Business expenses are above the line
   b. Misc. itemized deduction subject to 2% reduction, after adding all of the following
      i. Unreimbursed employee business expenses
         1. Job hunting
         2. Union dues
         3. Education
         4. Special clothing
      ii. Investment expenses
         1. Wall Street Journal
         2. Seminars (but no travel out of town)
      iii. Tax return preparation and related expenses
         1. Planning
         2. Preparation
         3. IRS and Court costs
   c. Travel
      i. Defined as away from home overnight
      ii. Connected with business
      iii. For airfare - primary purpose must be business
      iv. For Hotels, meals prorate days that are business/personal
      v. If trip is only for general education - not deductible
   d. Transportation (and travel) includes
      i. Taxis, Tolls, Parking
      ii. Getting to a second job in one day
      iii. To a temporary job
   e. Temporary
      i. Less than one year
      ii. Facts are as originally understood
   f. Auto is either actual or cents per business miles
      i. 2016 - 54.0 cents per mile
      ii. 2017 - XX.X cents per mile
   g. Meals and Entertainment
      i. If deductible, then limited to 50%
ii. Directly Related are allowed, business discussions, not just goodwill
iii. Indirect allowed if immediately precedes or follows a business meeting
iv. If on travel status (away from home overnight) then meals qualify as business meals
v. Club dues no longer deductible
vi. Tickets, limited to face price (then 50%)
h. Business Gifts - Limited to $25 per year per donee
i. Employee reimbursement
   i. If an accountability plan, no income to employee
   ii. If not, income to employee and itemized deduction for costs
j. Moving expenses
   i. Allowable as an above the line deduction
   ii. Only direct costs allowed
      1. Cost of moving your things (Van costs)
      2. Cost of travel to new job (hotel but no meals)
         a. 2016 - 19 cents per mile for driving
         b. 2017 ?
iii. New job must be at least 50 miles further from your old home than was you former job from your old home
iv. Must stay at the new job at least 39 weeks in the next 12 months
v. For self-employed 78 weeks in next two years
vi. Students starting their first job can qualify
k. Education expenses
   i. Allowed:
      1. Allowed if to maintain or improve skill of existing job
      2. Or to meet new requirements of the job
   ii. Not allowed, even if the above is met:
      1. Not deductible if they are to meet the minimum requirement of the job
      2. Or prepares for a new trade or business
l. Office in home
   i. Must be exclusively used as office
   ii. Must be principal place of business or meet clients, or
   iii. Used for administrative purposes and no other place to do it
   iv. Expenses related to the house are limited to those otherwise deductible, plus the income from the business
m. Tax Forms
   i. Moving Expense Form 3903
   ii. Home Office Form 8829

10. Chapter 10 MACRS Depreciation and Cost Recovery
a. For currently acquisitions, use MACRS (Modified Accelerated Cost Recovery System)
b. For business property and assets held for the production of income
c. When calculating gain, must reduce basis of asset by depreciation allowed or allowable
d. Depreciation begins when a property is placed in service (not purchase date)
e. Types of property
   i. Personal Property
      1. Tangible
      2. Intangible
   ii. Real Property
      1. Residential
      2. Other (commercial)
f. If property is converted from personal to business, basis is lower of:
   i. Cost
   ii. FMV
g. ACRS - used 1986 and before - most personal property was 5 year property
h. MACRS - current system for new or used property
   i. Personal property convention
      1. 1/2 year in year of purchase or sale
      2. DDB (double declining balance - switch to straight line)
3. Classification:
   a. 5 year - cars, trucks and computers (fax, etc)
   b. 7 year - other tangible property (a few exceptions)

ii. Real Estate
   1. 1/2 month in month of acquisition
   2. Straight line
   3. Classification
      a. Residential - 27.5 years
      b. Non-residential - 39 years

iii. IRS Tables provided
   1. Use cost times the percentages indicated for each year
   2. In year of sale use 1/2 the amount in the chart (the chart is for a full
      year)
   3. Real estate tables are in the book's appendix, C7 and C9

i. Expense rather than depreciation - §179
   i. Limit and phase out

<table>
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<th>Section 179</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Limit</td>
<td>$500,000?</td>
<td>$500,000</td>
</tr>
<tr>
<td>Phase Out</td>
<td>$2,000,000?</td>
<td>$2,000,000</td>
</tr>
</tbody>
</table>

   ii. Only for tangible personal property and not for rental property
   iii. Must be reduced $ for $ for tangible personal property acquisitions during
         the year of more than $2,000,000
   iv. Can not use §179 expense to produce or increase a loss for the year
   v. If loss, excess carries over to future years
   vi. Qualifying real property improvements can account for $250,000 of the $500,000

j. Listed property - Cars, computers, cell phones
   i. To use MACRS business use must exceed 50%
   ii. Must be for the convenience of the employer for EE bus. expense
   iii. If less than 50%, must use straight line method
   iv. Luxury automobiles
      1. Calculated under MACRS if > 50%
      2. Maximum in years 1 - 5 are set to luxury car amounts

k. Depletion allowed on mineral interests
   i. Percentage depletion (15% of revenue) allowed for small producers
   ii. Cost depletion for the big companies

l. Section 197 - Goodwill
   i. Allowed for post Aug. 13, 1993 acquisitions
   ii. Goodwill is extensive, it includes goodwill, customer lists, turn-key,
       covenants, etc.
   iii. Method of write off, straight line, 15 years

m. Research and Experimentation (R&D)
   i. Can either capitalize and depreciate, or
   ii. Expense
   iii. Credit may also be available

n. Exceptions
   i. Method not expressed in terms of years, such as units of production
   ii. Income forecast method

o. Other issues - land is not depreciable

p. Tax Form for depreciation Form 4562

11. Chapter 11 Accounting Periods and Methods

   a. Installment sales
      i. Treat deferred sales as current sale
      ii. Report only the % of the profits based on the percentage of the receipts
           received

   b. Imputed Interest
i. These rules were designed to tax loans with no or low interest payments
ii. Can apply to purchases and sales
iii. Can apply to family/business loans
iv. Must charge at least 100% of the applicable federal rate (AFR) to avoid rules
c. Family loan - gift loans
   i. If no interest charged, each year a fiction is created in which
      1. Interest is treated as paid
      2. An additional gift is made equal to the interest paid
d. Assuming a $1,000,000 loan and an 8% AFR:
   e. Parent Child
      Interest expense $80,000 child
      Interest income $80,000 parent
      Gift $80,000 parent
      Gift $80,000 child (not taxable)

In the business context:
Employer Employee
Interest expense $80,000 employee (maybe)
Interest income $80,000 employer
Salary expense $80,000 employer
Salary income $80,000 employee

12. **Chapter 12 Property Transactions - Non taxable exchanges**
   a. Like Kind Exchanges
      i. Tax free exchange for trade or business or investment property
      ii. Must be like-kind
      iii. U.S. real estate must be exchanged for U.S. real estate
      iv. Must be same class
         1. Any real estate for other real estate
            a. apartment for office
            b. house for land
         2. furniture, equipment
         3. Computers
         4. Automobiles
         5. Buses
         6. Trucks
      v. Non like-kind
         1. Inventory
         2. Securities
         3. Livestock of different sexes!
         4. Silver and gold
      vi. Direct exchange must occur
      vii. Exception - Third Party exchanges
      viii. Exception - Non simultaneous exchange
         1. New property must be identified within 45 days
         2. Must be acquired within the early of:
            a. Due date of the return (plus extensions), or
            b. 180 days
      ix. Receipt of boot is taxable up to the amount of gain or boot, whichever is
         less
         1. Boot is any cash, or
         2. Any non like-kind property
      x. Basis of new property
         1. + Basis of the old property,
         2. - Boot received,
         3. + Gain recognized
      xi. Related party exchanges are not qualified if the property is disposed of
         within two (2) years
      xii. Holding period
1. Exchanged property includes holding period of the old property
2. Boot begins on the date of the exchange

b. Involuntary Conversions
   i. Allows an election to defer gain on involuntary conversion
   ii. Can receive cash or boot as long as it is reinvested
   iii. Threat is sufficient (if real)
   iv. Must be involuntary, but negligence is ok
   v. Gain realized (amount received - adjusted basis) is not recognized if
      1. Purchases replacement property
      2. Cost of replacement property is = or greater than the amount realized
      3. If replacement is less than the amount realized, the difference is boot
         a. Gain is the lesser of boot, or
         b. Realized gain
   vi. Basis of replacement property
      1. + Cost of the new property
      2. - Deferred gain (un-recognized gain)
   vii. Severance damages
      1. Represents payments for a small piece of land taken
      2. Reduced basis of the remaining land
   viii. Non recognition is mandatory if there is a direct conversion into replacement property
   ix. Replacement property must qualify
      1. Functional Test -
         a. More restrictive than like kind exchange
         b. Must function in the same way
         c. If real property used in trade or business - like kind test
      2. Taxpayer use test
         a. For rental property - must therefore acquire rental property
         b. Function of the lease may be different
   x. Obtaining replacement property
      1. Must be purchased
      2. Must be within the next two taxable years
      3. For real property - next three taxable years
      4. Time period can be waived by the IRS

c. Sale of Principal Residence
   i. After May 7, 1997, may exclude gain on sale
      1. $250,000 if single
      2. $500,000 if married
   ii. Loss is not deductible
   iii. Must be the principal residence
   iv. Principal residence includes, condo, boat, etc.
   v. Can only be used every two years
      1. Unless change of employment or
      2. Change of health
   vi. Ownership and use test
      1. Must own and use for 24 months
      2. Shorter ownership and use will be pro-rated
      3. Includes the time the spouse owned the property
   vii. Involuntary conversion of principal residence
      1. Can elect deferral
      2. Can instead use the exclusion
      3. If Presidentially declared disaster area,
         a. Contents not separately schedule do not have to be replaced
         b. Time is extended from two years to three
   viii. Can elect not to use the exclusion - but why would you?

13. **Chapter 13 Property transactions: Section 1231 and recapture**
   a. Section 1231 gains and losses are netted
      i. If net gain, all gains and losses are long-term (gain or loss)
      ii. If net loss, all gains and losses are ordinary income or loss
1. Not capital loss
2. Therefore, fully deductible (no $3,000 limit)

iii. If net loss, five year look back
1. For five year, future 1231 gains will be ordinary
2. Up to the 1231 loss claimed

iv. Definition
1. Real Property used in a trade or business
2. Depreciable property used in a trade or business
3. Must be held more than one year (long-term)

v. Section 1231 gain is total gain, less §1245 or §1250 recapture
vi. Section 1231 loss is the loss!

b. Recapture provisions (Sections 1245 and 1250) (See handout on the web)
i. Section 1245 - personal property used in a trade or business
1. Gain is treated as ordinary income to the extent of depreciation recapture
2. Amount is equal to the lower of the gain or the depreciation allowed or allowable
3. Thus, depreciation expense (ordinary deduction) is treated as ordinary income when recaptured
4. Section 179 expense is treated as depreciation for this purpose

ii. Section 1250 - most real estate used in a trade or business
1. Only applies to accelerated depreciation - straight line
2. Since MACRS requires straight line, there is currently no §1250 recapture
3. For corporations 20% of the depreciation recapture potential is treated as ordinary income

iii. Section 1250 tax rate -
1. Unrecaptured gain = what would be depreciation recapture if the property were 1245 property
2. It is treated as 1231 gain, but, subject to a 25% tax rate, rather than the usual 20%

iv. For charitable gifts, ordinary income does not generate a charitable contribution, thus section 1245 recapture does not result in a tax deduction

v. No recapture on gifts, but the potential is passed on with the gift

vi. At death, all recapture disappears, the property takes its new FMV basis

vii. Installment sales - generally results in gain only being reported as cash (or property) is received
1. Recapture must be recognized in the year of sale
2. Excess gain is reported as payments are received

c. Related party sales
i. If property sold to a related party is depreciable by the buyer,

ii. Gain is treated as ordinary income, not capital gain or 1231 gain
iii. Only applies to sales to majority owned entities

14. Chapter 14 Tax Computations, methods

a. Alternative minimum tax
i. This is an entirely separate tax calculation
1. Pay the difference between the tentative AMT and the regular tax
2. Net result is that regular tax + AMT tax = tentative AMT

ii. Essentially start with regular taxable income and adjust for

iii. Tax preferences & adjustments
1. Depreciation
2. Tax exempt interest on private activity bonds
3. Exclusion for sale of small business stock
4. Incentive stock option
5. Itemized deductions - only certain ones are allowed
a. Casualty and theft losses
b. Charity
c. Medical (but must exceed 10% of AGI)
d. Qualified housing interest
e. Investment interest
6. Itemized deductions that are not allowed
   a. Taxes
   b. Miscellaneous itemized deductions

iv. Exemption
   1. Get rid of regular tax exemptions
   2. Replace with 2016 exemption which phase out if income is too high:
      a. $53,900 single (ends at $119,700)
      b. $83,800 married (ends at $159,700)
   3. 2017 exemption and phase out amounts
      a. $54,300 single (ends at $120,700)
      b. $84,500 married (ends at $160,900)

v. Tax Rate =
   1. 26% on first $185,400 2015
   2. 28% thereafter

vi. Generally, only the foreign tax credit can reduce this tax

b. Self-employment tax
   i. Paid in place of employment taxes on wages (FICA)
   ii. 1/2 paid by employee, 1/2 paid by employer (same person)
   iii. Tax generally 15.3% of self employment income

iv. Social Security tax = 6.2% up to S.E. income of
   1. 2016 - $118,500
   2. 2017 - $127,200
   3. These amounts reduced by FICA taxes paid on wages

v. Medicare tax = 1.45% x 2 on all S.E. income

vi. 2015 new Medicare Surtaxes:
   1. Investment income 3.8% if MAGI > $250,000 married or $200,000 single
   2. Wages and S.E. Income of 0.9% on wages or S.E. > $250,000 married or
      $200,000 single (per return, not per taxpayer)

c. American Opportunity and Lifetime Learning Credits
   i. Hope now four years and called the American Opportunity Credit
      1. - applies to first four years of college - up to $2,500 credit
         a. Limited to 100% of first $2,000
         b. 25% of the next $2,000
         c. As many taxpayers as qualified
         d. Goes to parents if student is a dependent unless they don’t
            claim the dependent
   ii. Lifetime Learning 20% of the amount paid for post-secondary education
      1. maximum of $2,000 ($10,000 of qualified expenses)
      2. Only one per return

d. Estimated Taxes
   i. Forces taxpayers to pay their tax in installments during the year
   ii. Must pay in through either withholding or estimates on a quarterly basis, lower of
      1. 90% of current year tax
         a. regular tax
         b. alternative minimum tax
         c. Self-employment tax
      2. 100% of those taxes on the prior year's return, or if AGI > $150,000
         i. 2016 = 110%
         ii. 2017 = 110%

iii. Penalty for failing to pay in the required amounts is = to a calculation
    similar to interest

iv. Due
   1. April 15
   2. June 15
   3. September 15
   4. January 15

v. Withholding can be treated as paid evenly throughout the year, regardless of
when paid, or when paid

vi. Prior years overpayments, credited to the following year are treated as paid in by April 15th (assuming they had been paid in by then)
### Summary of Tax Numbers:

<table>
<thead>
<tr>
<th>Filing requirements for 2017</th>
<th>Standard Deduction</th>
<th>Personal Exemption</th>
<th>Must File</th>
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<tbody>
<tr>
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<td>6,350</td>
<td>4,050</td>
<td>$10,400</td>
</tr>
<tr>
<td>Joint</td>
<td>12,700</td>
<td>8,100</td>
<td>$20,800</td>
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<tr>
<td>Married Separate</td>
<td>See Note 1</td>
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</tr>
<tr>
<td>Head of Household</td>
<td>9,350</td>
<td>4,050</td>
<td>13,400</td>
</tr>
<tr>
<td>Surviving Spouse</td>
<td>12,700</td>
<td>4,050</td>
<td>16,750</td>
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