

McGraw-Hill's
TAXATION *of* **INDIVIDUALS**
2010 Edition



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Dedications

We dedicate this book to:

My children Braxton, Cameron, Ethan, and Lauren and to my parents Ray and Janet. Last but not least, to my wife Kim for allowing me to take up valuable kitchen space while I was working on the project. I love you all.

Brian Spilker

Wife Marilyn, daughters Margaret Lindley and Georgia, son Benjamin, and parents Bill and Linda.

Ben Ayers

JES, Tommy, Michelle, and Laura.

John Robinson

Family Jane, Mark, Sarah, and Jeff and to Professor James E. Wheeler, my mentor and friend.

Ed Outslay

Wife Anne, sons Matthew and Daniel, and daughters Whitney and Hayley.

Ron Worsham

Wife Jennifer and daughters Annika, Corinne, and Lina.

John Barrick

Husband Dan, son Travis, daughter Alix, and parents Charles and Helen.

Connie Weaver

ABOUT THE AUTHORS



Brian Spilker (Ph.D., University of Texas at Austin, 1993) is the tax group coordinator and the Georgia White Professor in the School of Accountancy at Brigham Young University. He teaches taxation in the graduate and undergraduate programs at Brigham Young University. He received both B.S. and M.Acc. (tax emphasis) degrees from Brigham University before working as a tax consultant for Arthur Young & Co. (now Ernst & Young). After his professional work experience, Brian earned his Ph.D. at the University of Texas at Austin. In 1996, he was selected as one of two nationwide recipients of the Price Waterhouse Fellowship in Tax award. In 1998, he was a winner of the American Taxation Association and Arthur Andersen Teaching Innovation award for his work in the classroom; he has also been honored for his use of technology in the classroom at Brigham Young University. Brian researches issues relating to tax information search and professional tax judgment. His research has been published in such journals as *The Accounting Review*, *Organizational Behavior and Human Decision Processes*, *Journal of the American Taxation Association*, *Behavioral Research in Accounting*, *Journal of Accounting Education*, *Journal of Corporate Taxation*, and *Journal of Accountancy*.



Ben Ayers (Ph.D., University of Texas at Austin, 1996) is the Director of the J.M. Tull School of Accounting at the University of Georgia. He holds a Ph.D. from the University of Texas at Austin and a M.T.A and B.S. from the University of Alabama. Prior to entering the Ph.D. program at the University of Texas, Professor Ayers was a tax manager at KPMG in Tampa, Florida, and a contract manager with Complete Health, Inc. in Birmingham, Alabama.

Professor Ayers teaches tax planning and research courses in the undergraduate and graduate programs at the University of Georgia. He is the recipient of eleven teaching awards at the School, College, and University levels, including the Richard B. Russell Undergraduate Teaching Award, the highest teaching honor for University of Georgia junior faculty members. Professor Ayers' current research interests include the effects of taxation on firm structure, mergers and acquisitions, and capital markets and the effects of accounting information on security returns. He has published articles in journals such as the *Accounting Review*, *Journal of Finance*, *Journal of Accounting and Economics*, *Contemporary Accounting Research*, *Review of Accounting Studies*, *Journal of Law and Economics*, *Journal of the American Taxation Association*, and *National Tax Journal*. Professor Ayers was the 1997 recipient of the American Accounting Association's Competitive Manuscript Award and the 2003 and 2008 recipient of the American Taxation Association's Outstanding Manuscript Award.

ABOUT THE AUTHORS



John Robinson (Ph.D., University of Michigan, 1981) is the C. Aubrey Smith Professor of Accounting in the McCombs School of Business at the University of Texas at Austin. Professor Robinson received his J.D. (*Cum Laude*) from The University of Michigan in 1979, and he was awarded his Ph.D. in accounting from The University of Michigan in 1981. Prior to joining the faculty at Texas in 1985, he taught at The University of Kansas where he was The Arthur Young Faculty Scholar from 1982-1984. John teaches introductory taxation, corporate tax, taxation of partnerships, and tax planning. He is the recipient of the Henry A. Bubb Award For Outstanding Teaching, the Texas Blazer's Faculty Excellence Award and the MPA Council Outstanding Professor Award. John conducts research in a broad variety of topics involving financial accounting, mergers and acquisitions, and the influence of taxes on financial structures and performance. His scholarly articles have appeared in *Accounting Review*, *Journal of Finance*, *National Tax Journal*, *Journal of Law and Economics*, *Journal of the American Taxation Association*, *The Journal of the American Bar Association*, and *The Journal of Taxation*. In addition, John was the editor of *The Journal of the American Taxation Association*, from 2002 through 2005, and he was a co-author of the articles honored with the 2003 and 2008 ATA Outstanding Manuscript Awards.



Ed Outslay (Ph.D., University of Michigan, 1981) is a Professor of Accounting and the Deloitte / Michael Licata Endowed Professor of Taxation in the Department of Accounting and Information Systems at Michigan State University, where he has taught since 1981. He received a B.A. from Furman University in 1974 and an MBA and Ph.D. from the University of Michigan in 1977 and 1981. Ed currently teaches graduate classes in corporate taxation, multiunit enterprises, accounting for income taxes, and international taxation. In February 2003, Ed testified before the Senate Finance Committee on the Joint Committee on Taxation's Report on Enron Corporation. MSU has honored Ed with the Presidential Award for Outstanding Community Service, Distinguished Faculty Award, John D. Withrow Teacher-Scholar Award, Roland H. Salmonson Outstanding Teaching Award, Senior Class Council Distinguished Faculty Award, MSU Teacher-Scholar Award, and MSU's 1st Annual Curricular Service-Learning and Civic Engagement Award in 2008. Ed received the Ray M. Sommerfeld Outstanding Tax Educator Award in 2004 from the American Taxation Association. He has also received the ATA Outstanding Manuscript Award twice, the ATA/Deloitte Teaching Innovations Award, and the 2004 Distinguished Achievement in Accounting Education Award from the Michigan Association of CPAs. Ed has been recognized for his community service by the Greater Lansing Chapter of the Association of Government Accountants, the City of East Lansing (Crystal Award), and the East Lansing Education Foundation. He received a National Assistant Coach of the Year Award in 2003 from AFLAC and was named an Assistant High School Baseball Coach of the Year in 2002 by the Michigan High School Baseball Coaches Association.



ABOUT THE AUTHORS



Ron Worsham (Ph.D., University of Florida, 1994) is an associate professor in the School of Accountancy at Brigham Young University. He teaches taxation in the graduate, undergraduate, MBA, and Executive MBA programs at Brigham Young University. He has also taught as a visiting professor at the University of Chicago. He received both B.S. and M.Acc. (tax emphasis) degrees from Brigham University before working as a tax consultant for Arthur Young & Co. (now Ernst & Young) in Dallas Texas. While in Texas, he became licensed to practice as a CPA. After his professional work experience, Ron earned his Ph.D. at the University of Florida. He has been honored for outstanding innovation in the classroom at Brigham Young University. Ron has published academic research in the areas of taxpayer compliance and professional tax judgment. He has also published legal research in a variety of areas. His work has been published in such journals as *The Journal of the American Taxation Association*, *The Journal of International Taxation*, *The Tax Executive*, *The Journal of Accountancy*, and *Practical Tax Strategies*.



John Barrick (Ph.D., University of Nebraska at Lincoln, 1998) is currently an Accountant at the United States Congress Joint Committee on Taxation; he is also an associate professor in the Marriott School at Brigham Young University. He teaches taxation in the graduate and undergraduate programs at Brigham Young University. He received both B.S. and M.Acc. (tax emphasis) degrees from Brigham University before working as a tax consultant for Price Waterhouse (now PricewaterhouseCoopers). After his professional work experience, John earned his Ph.D. at the University of Nebraska at Lincoln. Professor Barrick was the 1998 recipient of the American Accounting Association, Accounting, Behavior, and Organization Section's Outstanding Dissertation Award. John researches issues relating to professional tax judgment and tax information search. His research has been published in such journals as *Organizational Behavior and Human Decision Processes*, *Contemporary Accounting Research*, and the *Journal of the American Taxation Association*.

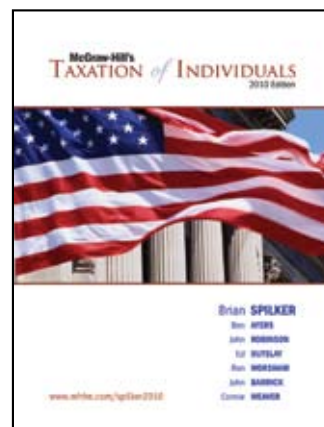
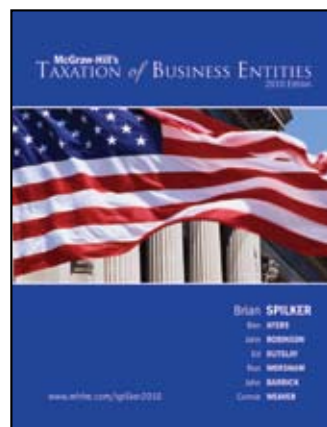
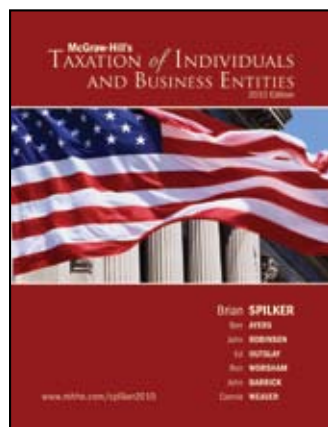


Connie Weaver (Ph.D., Arizona State University, 1996) is an associate professor in the Mays Business School at Texas A&M University and a certified public accountant. She holds a Ph.D. from Arizona State University, a Masters of Professional Accounting from the University of Texas at Arlington, and a Bachelors of Science in Chemical Engineering from the University of Texas at Austin. Prior to obtaining her Ph.D., Professor Weaver was a tax manager at Ernst & Young in Dallas, TX.



Professor Weaver teaches introductory taxation in the undergraduate program at Texas A&M University. She has also taught undergraduates and graduate students at the University of Texas at Austin and the University of Wisconsin – Madison. She is the recipient of several teaching awards, including the 2006 American Taxation Association/Deloitte Teaching Innovations Award. Connie's current research interests include the effects of tax and financial incentives on corporate decisions and reporting. She has published articles in journals such as the *Accounting Review*, *Contemporary Accounting Research*, *Journal of the American Taxation Association*, and *Tax Notes*. She serves on the editorial board of *The Journal of the American Taxation Association* and was the 1997 recipient of the American Taxation Association/Price Waterhouse Outstanding Dissertation Award.

TEACHING THE CODE IN CONTEXT



The basic approach to teaching taxation hasn't changed in decades. Today's student deserves a new approach. McGraw-Hill's Taxation of Individuals and Business Entities is a bold and innovative new textbook that's already generating enthusiasm across the country.

McGraw-Hill's Taxation is designed to provide a unique, innovative, and engaging learning experience for students studying taxation. The breadth of the topical coverage, **the storyline approach to presenting the material**, the emphasis on the tax and nontax consequences of multiple parties involved in transactions, and the integration of financial and tax accounting topics make this book ideal for the modern tax curriculum.

This text is one of the best written textbooks I have ever read. It covers the material using real world examples. It is easy to understand but provides the student with everything they need for the course. This textbook would make teaching the class easy.

– Hughlene Burton, University of North Carolina – Charlotte

Development on these chapters started in December of 2005, when the first of more than 140 instructors completed **180 manuscript reviews** and attended symposia or focus groups. Throughout this preface, their comments on the book's organization, pedagogy, and unique features are a testament to the **grass-roots nature of Taxation's development.**

A lot of thought and planning went into the structure and content of the text, and a great product was achieved. **One of the most unique and helpful features is the common storyline** throughout each chapter.

– Raymond J. Shaffer,
Youngstown State University

This is a **very thorough tax textbook** covering many details about corporate tax. The authors include real life examples and several stories that make the **materials more understandable and "accessible" to students.**

– Sonja Pippin, University of Nevada – Reno

A MODERN APPROACH FOR TODAY'S STUDENT

Very innovative organization of topics with text that is very readable and some of the best quantitative examples I've seen.

– Melanie James Earles,
Tennessee Technological University

Key to this new tax series' remarkably positive reception are the five core precepts around which the text is built:


- 1 Storyline Approach:** Each chapter begins with a storyline that introduces a set of characters or a business entity facing specific tax-related situations. Each chapter's examples are related to the storyline, giving students the opportunities to **learn the code in context.**
- 2 Conversational Writing Style:** The authors took special care to write a textbook that fosters a friendly dialogue between the text and each individual student. The tone of the presentation is intentionally conversational – creating the impression of **speaking with the student**, as opposed to *teaching* to the student.
- 3 Superior Organization of Related Topics:** McGraw-Hill's Taxation takes a fresh approach to taxation by grouping related topics together in **theme chapters**, including separate chapters on home ownership, compensation, investments, and retirement savings & deferred compensation.
- 4 Real World Focus:** Students learn best when they see how concepts are applied in the real world. For that reason, real-world examples and articles are included in **"Taxes in the Real World"** boxes throughout the book. These vignettes demonstrate current issues in taxation and show the relevance of tax issues in all areas of business.
- 5 Integrated Examples:** The examples used throughout the chapter relate directly to the storyline presented at the beginning of each chapter, so students become familiar with one fact set and learn how to apply those facts to different scenarios. In addition to providing in-context examples, we provide **"What if"** scenarios within many examples to **illustrate how variations in the facts might or might not change the answers.**

It's a **better alternative to the West text** than anything else I have seen.
– Lyn Wheeler,
Washington & Lee University

It is a **breath of fresh air in its very original approach.**
– Alan Davis,
Truman State University

A STORYLINE APPROACH THAT WILL RESONATE WITH STUDENTS

Storyline Summary	
Taxpayer:	Tina Hillman
Location:	Chicago, Illinois
Employment status:	Graduating student about to begin career in Corporate Business Associates tax department.
Starting salary:	\$60,000 per year
Filing status:	Single
Dependents:	None
Marginal tax rate:	Current year 15 percent. Next year 25 percent.
Taxpayer:	Lisa Whitlark
Location:	Chicago, Illinois
Employment status:	Recently promoted to Chief Financial Officer (CFO) for Corporate Business Associates.
Salary:	\$400,000
Marginal tax rate:	33 percent
Dependents:	Spouse and three children
Taxpayer:	Dave Allan
Location:	Chicago, Illinois
Employment status:	Recently retired as CFO for Corporate Business Associates after 20 years of employment with the company.
Salary at retirement:	\$400,000
Retirement benefits:	Participant in Corporate Business Associates defined benefit plan, 401(k) plan, and nonqualified deferred compensation plan.
Filing status:	Married filing jointly
Dependents:	Spouse



Tina Hillman
Tina Hillman had just completed her last exam, finally fulfilling the requirements for a bachelor's degree in accounting. It was the end of June and she would finally have some time to vacation and see her family before September when she will start her professional career working in the tax department of Corporate Business Associates (CBA). While Tina was looking forward to the time off, she was also anxious to start making money instead of just spending it. She had a great experience during her internship at CBA last year. She had some challenging but enjoyable work and she got along

Each chapter begins with a storyline that introduces a set of characters facing specific tax-related situations. This revolutionary approach to teaching tax emphasizes real people facing real tax dilemmas. Students learn to apply practical tax information to specific business and personal situations.

I really like the use of the chapter storylines that tie together the different examples and exhibits. It definitely accomplishes the goal of providing a big picture background and allowing tax rules to be applied in real world settings.

– Scott White,
Lindenwood University

Examples

Examples are the cornerstone of any textbook covering taxation. For this reason, *McGraw-Hill's Taxation* took special care to create clear and helpful examples that relate to the storyline of the chapter. Students learn to refer to the facts presented in the storyline and apply them to other scenarios—in this way, they build a greater base of knowledge through application. Many examples also include “What if?” scenarios that add more complexity to the example or explore related tax concepts.

Example 8-4

Rick employs Joan, an arborist who specializes in trimming trees and treating local tree ailments. Joan generates a great deal of goodwill and revenue for Rick's business, but is in her mid-60s and suffers from diabetes. In November, Rick purchased a “key-employee” term-life insurance policy on Joan's life. The policy cost Rick \$720 and will pay him a \$20,000 death benefit if Joan passes away during the next 12 months. What amount of life insurance policy premium can Rick deduct?

Answer: \$0. Rick cannot deduct the \$720 premium on the life insurance policy because the life insurance proceeds from the policy are tax-exempt.

What if: Suppose Rick purchased the life insurance policy on Joan's life and allowed Joan to name the beneficiary. The policy cost Rick \$720 and will pay the beneficiary a \$20,000 death benefit if Joan passes away during the next 12 months. What amount of life insurance policy premium can Rick deduct?

Answer: \$720. In this scenario, Rick can deduct the entire premium of \$720 as a compensation expense because the benefit of the policy inures to Joan and not to Rick's business.

THE PEDAGOGY YOUR STUDENTS NEED TO PUT THE CODE IN CONTEXT

Taxes in the Real World

Taxes in the Real World are short boxes used throughout the book to demonstrate the real-world use of tax concepts. Current articles on tax issues, real-world application of chapter-specific tax rules, and short vignettes on popular news in tax are some of the issues covered in Taxes in the Real World boxes.

other than cash per employee per year.²² The award is not excluded from the employee's income if circumstances suggest it is disguised compensation.²³

Taxes in the Real World Oprah Car Winners Hit with Hefty Tax

Like any prize, the value is counted as income; winners must pay up to \$7,000 or forfeit the car.

September 22, 2004: 7:05 PM EST
NEW YORK (CNN/Money)—Leave it to Uncle Sam to spoil the party.

When Oprah Winfrey gave away 276 cars last week to the audience of her show, images of people laughing, jumping, crying—some hysterically—filled the airwaves and the give-away became stuff of legend. Late night talk show hosts and newspaper columnists are still talking about it. But now some of those eager prize-winners have a choice: Fork over \$7,000 or give up the car.

According to a spokeswoman for Harpo Productions Inc., Oprah's company, the recipients must pay a tax on the winnings, just like any prize. For a brand new Pontiac G-Six, the model given away on the show, the sticker price is \$28,500. The \$28,500 would need to be claimed as income so, depending on the individual's tax bracket, the tax could be as high as \$7,000. And that was after Pontiac agreed to pay most of the local charges, including state sales tax and licensing fees. The Harpo Spokeswomen said winners had three choices. They could keep the car and pay the tax, sell the car and pay the tax with the profits, or forfeit the car.

Source: http://money.cnn.com/2004/09/22/news/newsmakers/oprah_car_tax/

Taxpayers must include the gross amount of their gambling winnings for the year in gross income. Taxpayers are allowed to deduct their gambling losses to the extent of their winnings, but the losses must be deductible.

Best I've seen in giving real world explanations and examples that apply the complex IRS rules.

– James E. Racic, Lakeland Community College

Key Facts

The Key Facts provide quick synopses of the critical pieces of information presented throughout each chapter.

THE KEY FACTS

Employee FICA Tax

- **Social Security Tax**
 - 6.2 percent rate on wage base.
 - 2009 wage base limit is \$106,800.
- **Medicare Tax**
 - 1.45 percent rate on wage base.
 - Wage base unlimited.

Self-Employment Taxes

While employees equally share their FICA (Social Security and Medicare) tax burden with employers, self-employed taxpayers must pay the *entire* FICA tax burden on their self-employment earnings.²⁰ Just as it is with FICA taxes for employees, self-employment taxes consist of both Social Security and Medicare taxes. Because their FICA taxes are based on their self-employment earnings, FICA taxes for self-employed taxpayers are referred to as **self-employment taxes**. Just as it is with employees, the base for the Social Security component of the self-employment tax is limited to \$106,800. The base for the Medicare portion of the self-employment tax is unlimited. The process for determining the taxpayer's self-employment taxes payable requires the following three steps:

Step 1: Compute the amount of the taxpayer's net income from self-employment activities (this is generally the taxpayer's net income from **Schedule C** of

Exhibits

Today's students are visual learners, and *McGraw-Hill's Taxation* delivers with a textbook that makes appropriate use of charts, diagrams, and tabular demonstrations of key material.

Spilker's text adds examples that flow through the chapter with “Key Facts” boxes.

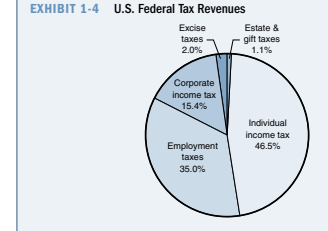
– Deb Oden,
Missouri State University

ment taxes consist of the Old Age, Survivors, and Disability Insurance (OASDI) tax, commonly called the Social Security tax, and the Medical Health Insurance (MHI) tax known as the Medicare tax. The Social Security tax pays the monthly retirement, survivor, and disability benefits for qualifying individuals, whereas the Medicare tax pays for medical insurance for individuals who are elderly or disabled. The tax base for the Social Security and Medicare taxes is wages or salary.

Medicare tax.

- Unemployment taxes fund temporary unemployment benefits for individuals terminated from their jobs without cause.
- Excise taxes
 - Third largest group of taxes imposed by the U.S. government.
 - Levied on the quantity of products sold.
- Estate and gift taxes
 - Levied on the fair market values of wealth transfers upon death or by gift.

EXHIBIT 1-4 U.S. Federal Tax Revenues



I found the quality and quantity of presented examples to be outstanding.

– Adolph A. Neidermeyer, West Virginia University

The case study approach is excellent as you follow the taxpayers through the chapters.

– Irwin Uhr,
Hunter College

PRACTICE MAKES PERFECT WITH A...

SUMMARY

LO1 Determine a taxpayer's regular tax liability and identify tax issues associated with the process.

- Individual income is taxed using progressive tax rate schedules with rates ranging from 10 percent to 35 percent.
- Marginal tax rates depend on filing status and amount of taxable income.
- Progressive tax rate schedules may lead to either a marriage penalty or a marriage benefit for married taxpayers.
- Long-term capital gains and qualifying dividends are taxed at either a 0 percent or 15 percent rate, depending on the taxpayer's amount of taxable income.
- Strategies to shift investment income from parents to children are limited by reducing the standard deduction for children and taxing investment income at the parent's marginal tax rate.

LO2 Compute a taxpayer's alternative minimum tax liability and describe the tax characteristics of taxpayers most likely to owe the alternative minimum tax.

Summary

A unique feature of *McGraw-Hill's Taxation* is the end of chapter summary organized around learning objectives. Each objective has a brief, bullet-point summary that covers the major topics and concepts for that chapter, including references to critical exhibits and examples.

All end of chapter material is tied to learning objectives:

Learning Objectives

Upon completing this chapter, you should be able to:

LO 1 Compute the taxable gain on the sale of a residence and explain the requirements for excluding gain on the sale.

LO 2 Determine the amount of allowable interest expense deductions on loans secured by a residence.

LO 3 Discuss the deductibility of real property taxes and describe the first-time home buyer credit.

LO 4 Explain the tax issues and consequences associated with rental

The authors' approach is **very helpful for students like mine that often have very little actual business experience.**

– Anne Christensen, Montana State University

DISCUSSION QUESTIONS

- (LO1)** What is a tax bracket? What is the relationship between the width of the tax brackets in the tax rate schedule and the amount of tax liability?
- (LO1)** In 2007, for a taxpayer with \$50,000 of taxable income, compute any actual computations, which filing status provides the lowest tax liability? Which filing status provides the highest tax liability?
- (LO1)** What is the tax marriage penalty and circumstances would a couple experience a tax marriage penalty?
- (LO1)** Once they've computed their taxable income, how do they determine their regular tax liability? What additional steps do they need to compute their tax liability when they have property in other states?

Questions are provided for each of the major concepts in each chapter, providing students with an opportunity to review key parts of the chapter and answer evocative questions about what they have learned. Each question is linked to a learning objective.

[The] end of chapter material relates to the text of each chapter; the chapter coverage emphasizes only the most important concepts for each topic. **Chapter summary eliminates need for study guide.**

– David B. Bojarsky, California State University, Long Beach

...WIDE VARIETY OF ASSIGNMENT MATERIAL

Problems are designed to test the comprehension of more complex topics. Each problem at the end of the chapter is tied to that chapter's learning objective, with multiple problems for critical topics.

PROBLEMS

54. **(LO1)** Whitney received \$75,000 of taxable income in 2007. All of the income was salary from her employer. What is her income tax liability in each of the following alternative situations?

- She files under the single filing status.

The **end of chapter material follows the learning objectives very well** and the text provides sufficient examples for the student to follow in completing assignments.

– Priscilla O'Clock, Xavier University

Research Problems are special problems throughout the end of the chapter's assignment material. These require students to do both basic and more complex research on topics outside of the scope of the book. Each Research Problem includes an icon to differentiate it from regular problems.

Research

47. **(LO2)** Jennifer has been living in her current principal residence for three years. Six months ago Jennifer decided that she would like to purchase a second home near a beach so she can vacation there for part of the year. Despite her best efforts, Jennifer has been unable to find what she is looking for. Consequently, Jennifer recently decided to change plans. She purchased a parcel of land for \$200,000 with the intention of building her second home.

The questions and problems associated with the text are good and of varying levels. There are also **more questions and problems to choose from.**

– Laurie Hagberg, Trident Technical College

Planning Problems are another unique set of problems, also located at the end of the chapter's assignment material. These require students to test their tax planning skills after covering the chapter's topics. Each Planning Problem includes an icon to differentiate it from regular problems.

planning

48. **(LO2)** Rajiv and Laurie Amin are recent college graduates looking to purchase a new home. They are purchasing a \$200,000 home by paying \$20,000 down and borrowing the other \$180,000 with a 30-year loan secured by the home. The Amins have the option of (1) paying no discount points on the loan and paying interest at 8 percent or (2) paying one discount point on the loan and paying interest of 7.5 percent. Both loans require the Amins to make

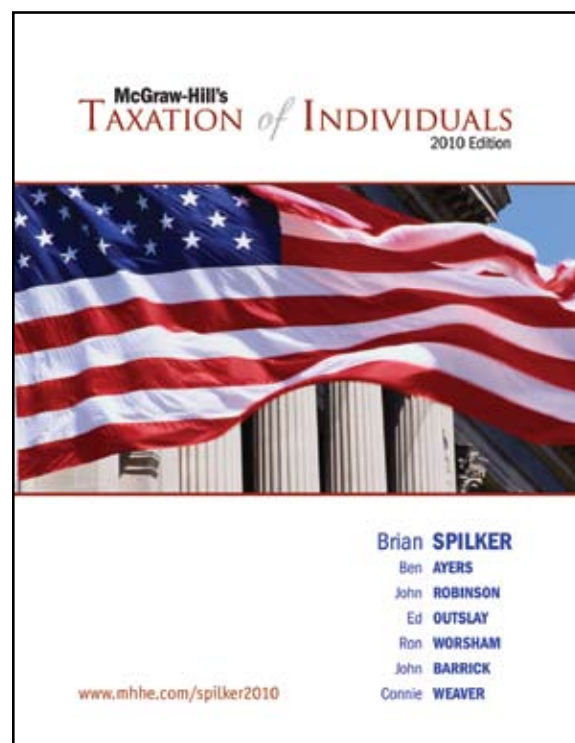
Comprehensive and Tax Return Problems address multiple concepts in a single problem. Comprehensive problems are ideal for cumulative topics; for this reason, they are located at the end of all chapters. In the end of book Appendix C, we include Tax Return Problems that cover multiple chapters.

COMPREHENSIVE PROBLEMS

40. Marc and Michelle are married and earned salaries this year (2009) of \$64,000 and \$12,000, respectively. In addition to their salaries, they received interest of \$350 from municipal bonds and \$500 from corporate bonds. Marc and Michelle also paid \$2,500 of qualifying moving expenses, and Marc paid alimony to a prior spouse in the amount of \$1,500. Marc and Michelle have a 10-year-old son, Matthew, who lived with them throughout the entire year. Thus, Marc and Michelle are allowed to claim a \$1,000 child tax credit for Matthew. Marc and Michelle paid \$6,000 of expenditures that qualify as itemized deductions and they had a total of \$5,500 in federal income taxes withheld from their paychecks during the course of the year.

A Logical Organization

McGraw-Hill's Taxation of Individuals is organized to maximize topical efficiency and to emphasize topics that are most important to undergraduates taking their first tax course. The first three chapters provide an introduction to taxation and then carefully guide students through tax research and tax planning. Part II discusses the fundamental elements of individual income tax, starting with the tax formula in chapter 4 and then proceeding to more depth on individual topics in chapters 5-7. Part III then discusses tax issues associated with business and investment activities. On the business side, it addresses business income and deductions, accounting methods, and tax consequences associated with purchasing assets, property dispositions (sales, trades, or other dispositions). For investments it covers portfolio-type investments such as stocks and bonds and business investments including loss limitations associated with these investments. Part IV is unique among tax textbooks; this section combines related tax issues for compensation, retirement savings, and home ownership. The storylines in all of these chapters show how realistic individuals and business owners benefit from a clear understanding of the tax code.



Part I: Intro to Taxation

1. An Introduction to Tax
2. Tax Compliance, the IRS, and Tax Authorities
3. Tax Planning Strategies and Related Limitations

Part II: Basic Individual Taxation

4. Individual Income Tax Overview
5. Gross Income and Exclusions
6. Individual Deductions
7. Individual Income Tax Computation and Tax Credits

Part III: Business and Investment-Related Transactions

8. Business Income, Deductions, and Accounting Methods
9. Property Acquisition and Cost Recovery
10. Property Dispositions
11. Investments

Part IV: Specialized Topics

12. Compensation
13. Retirement Savings and Deferred Compensation
14. Tax Consequences of Home Ownership

Makes Learning Efficient

McGraw-Hill's Taxation of Business Entities begins with the process for determining gross income and deductions for businesses, and the tax consequences associated with purchasing assets, property dispositions (sales, trades, or other dispositions). Part II provides a comprehensive overview of entities, and the formation, reorganization and liquidation of corporations. Unique to this series is a complete chapter on FAS 109, which provides a primer on the basics of calculating the income tax provision. Included in the narrative is a discussion of temporary and permanent differences and their impact on a company's book "effective tax rate." Part III provides a detailed discussion of partnerships and S corporations. The last part of the book covers state and local taxation, multinational taxation and transfer taxes and wealth planning.

Part I: Business and Investment-Related Transactions

1. Business Income, Deductions, and Accounting Methods
2. Property Acquisition and Cost Recovery
3. Property Dispositions

Part II: Entity Overview and Taxation of C Corporations

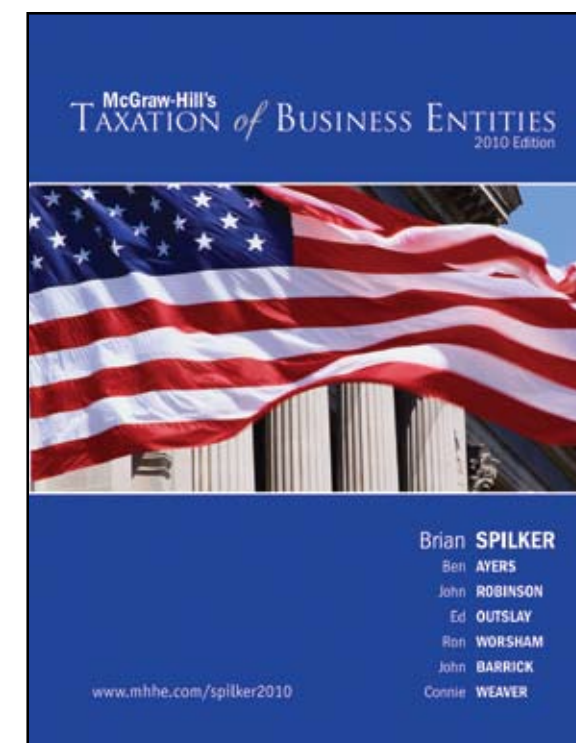
4. Entities Overview
5. Corporate Operations
6. FAS 109: Accounting for Income Taxes
7. Corporate Taxation: Nonliquidating Distributions
8. Corporate Taxation: Formation, Reorganization, and Liquidation

Part III: Taxation of Flow-Through Entities

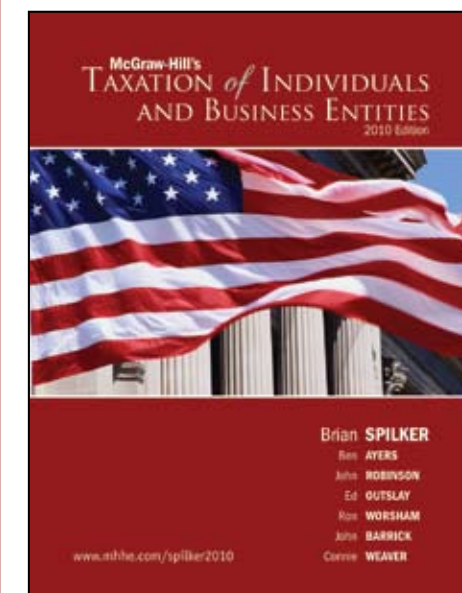
9. Forming and Operating Partnerships
10. Dispositions of Partnership Interest and Partnership Distributions
11. S Corporations

Part IV: Multijurisdictional Taxation and Transfer Taxes

12. State and Local Taxes
13. The U.S. Taxation of Multinational Transactions
14. Transfer Taxes and Wealth Planning



McGraw-Hill's Taxation of Individuals and Business Entities covers all chapters included in the two split volumes in one convenient volume. See the next page!



The material in this book is very to read and understand. The chapter does a very good job of introducing a tax system to a student. – Hughlene Burton, University of North Carolina – Charlotte

GREAT idea to have a whole separate chapter on home ownership—THAT is an innovation that WEST does not have. – Lyn Wheeler, Washington & Lee University

I loved this chapter. I like the organization and especially the storyline that explained the different topics especially the way you included ethics in this topic. – Jennifer J. Wright, Drexel University

Spilker puts the concepts in basic, easy to understand terms. I also like the ethics paragraph just above the chapter conclusion. – Teresa Lang, Columbus State University

Very straightforward description of the individual income tax formula. Provides a great foundation for the rest of the chapters. I really like the bare bones description in this chapter. – Jim Smith, University of San Diego

All types of income are brought together in one problem instead of a lot of small problems that address one type of income at a time. – Hughlene Burton, University of North Carolina – Charlotte

The explanations in Spilker are appropriate for beginning tax students. – William C. Hood, Central Michigan University

Spilker does an excellent job of breaking complex material into manageable, comprehensible pieces. – Melanie James Earles, Tennessee Technological University

Spilker's use of charts/tables/examples allows the presentation of detailed information regarding property dispositions to be both read and understood. – Adolph Neidermeyer, West Virginia University

I like the fact that many of these topics are removed from the earlier chapter and placed into a separate chapter. This allows you to get through the earlier material quicker. – Jim Smith, University of San Diego

The Spilker book does a better job of explaining these topics. It gives better examples and more clearly explains the details. – Karen Wisniewski, County College of Morris

This chapter is the best chapter in the Spilker text. My current book spreads these topics throughout various chapters. – William C. Hood, Central Michigan University

- 1 An Introduction to Tax
- 2 Tax Compliance, the IRS, and Tax Authorities
- 3 Tax Planning Strategies and Related Limitations
- 4 Individual Income Tax Overview
- 5 Gross Income and Exclusions
- 6 Individual Deductions
- 7 Individual Income Tax Computation and Tax Credits
- 8 Business Income, Deductions, and Accounting Methods
- 9 Property Acquisition and Cost Recovery
- 10 Property Dispositions
- 11 Investments
- 12 Compensation
- 13 Retirement Savings and Deferred Compensation

- 14 Tax Consequences of Home Ownership
- 15 Entities Overview
- 16 Corporate Operations
- 17 FAS 109: Accounting for Income Taxes
- 18 Corporate Taxation: Nonliquidating Distributions
- 19 Corporate Taxation: Formation, Reorganization, and Liquidation
- 20 Forming and Operating Partnerships
- 21 Dispositions of Partnerships Interests and Partnership Distributions
- 22 S Corporations
- 23 Cross Border Transactions: State and Local Taxes
- 24 The U.S. Taxation of Multinational Transactions
- 25 Transfer Taxes and Wealth Planning

I like the storyline in Spilker and all the examples analyzing the different tax consequences of choosing to operate as a corporation or flow through entity. – Anne Christensen, Montana State University

Spilker uses a real-world book-to-tax approach that would be followed in an audit-tax return engagement. – A. David Austill, Union University

Spilker gives a much more detailed discussion on accounting for deferred tax assets and liabilities than our current text. It would truly integrate well with our intermediate accounting topics on it. – Laurie Hagberg, Trident Technical College

The exhibits in this chapter that bridge the gap between the academic world and the real world are very good. – Philip Fink, University of Toledo

Spilker was probably the best explained book yet on corporate formation issues. – James E. Racic, Lakeland Community College

I really liked the breakdown of tax consequences under several scenarios with varying property distributed. – Karen Trott, Wake Technical Community College

Spilker has an engaging discussion of S Corporations using a "real life" scenario to illustrate the important tax rules. – Sy Pearlman, California State University, Long Beach

The chapter begins with a very good explanation of State and Local taxes, why they are used, and how they are distinguished from other federal taxes. – Bruce McClain, Cleveland State University

This is a very technical area but the chapter is comprehensive, clear and well written. – Darryl Brown, Illinois State University

I can't tell you how excited I am to see this material in your book. This is a huge issue for high wealth clients with family businesses and one that I deal with all the time in my private practice. – Dan Holder, University of Illinois

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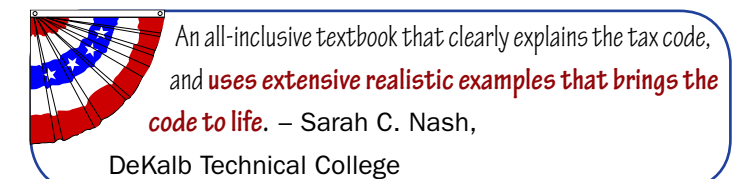
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