

CCH FEDERAL TAXATION BASIC PRINCIPLES



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CCH FEDERAL TAXATION Basic Principles

GENERAL EDITORS

Ephraim P. Smith
California State University,
Fullerton

Philip J. Harmelink
University of New Orleans

James R. Hasselback
Clarion University

CONTRIBUTING AUTHORS

Ted D. Englebrecht
Louisiana Tech University

Christopher J. Fenn
Georgia State University

Edward C. Foth
DePaul University

Philip J. Harmelink
University of New Orleans

James R. Hasselback
Clarion University

Sharon Lassar
University of Denver

Robert Ricketts
Texas Tech University

Ephraim P. Smith
California State University,
Fullerton

Larry Tunnell
New Mexico State University

Chapters 1–14, 17, and 18 also appear in *2018 CCH Federal Taxation—Comprehensive Topics*.

Revision Author and Consultant: David L. Gibberman, J.D.

CCH® StudyMATE™ Author: David L. Gibberman, J.D.

EDITORIAL STAFF

Production: Jennifer Schencker

Cover Design: Geraldine Lally

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2700 Lake Cook Road

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800 344 3734

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Preface

CCH Federal Taxation—Basic Principles introduces the student of accounting to the complex and absorbing study of federal taxation. *Basic Principles* focuses on the basic forms and structures of federal taxation and delves particularly into those aspects that affect individual taxpayers.

The field of federal taxation has developed from several separate disciplines, chiefly accounting and law. Thus, there is no single source document that fully defines, in a clear, consistent, and comprehensive manner, all the elements involved in federal taxation (both the theoretical and practical aspects). This book is written to interpret and demystify the extensive body of knowledge that must be understood by any student who wishes to pursue a career in the field of federal taxation or by any individual who desires a clearer understanding of federal taxation for personal use.

Basic Principles covers these topics: Individual Taxation, Gross Income (two chapters), Deductions (three chapters), Tax Credits, Property Transactions (three chapters), Partnerships and Corporations, Trusts and Estates, and Tax Planning for Individuals. As cornerstones for the foundation of federal taxation, these topics constitute the basic extensive outline of the field; this book distills the major ideas and operational techniques for dealing with problems encountered in these areas.

The thirty-fourth edition of *CCH Federal Taxation—Basic Principles* has been prepared to ensure that all material presented is complete and reflects all tax acts, issued regulations, and case developments through March 2017. The evolution of the income tax laws to their present state has been periodically accelerated by many reforms, including the comprehensive Tax Reform Act of 1986, which led to the redesignation of the tax code as the Internal Revenue Code of 1986. Predictably, changes soon followed and, in almost every year since 1986, a new tax bill has been signed into law. Reformation of the tax law continues to be the trend, and for this reason information on the tax law must be monitored and revised. Thus, extensive research and review have gone into the preparation of each annual edition of this book.

This edition continues the practice of using Tax Return Problems. The problems are highlighted as such in the Problems section of the following chapters: 4-7, 10-12, and 17-18. For faculty teaching the course in the fall semester of 2017, draft copies of Form 1040 and accompanying schedules are usually available in September.

This volume can stand alone, and the format is flexible enough so that individual segments can stand alone as well. Therefore, instructors can adapt the use of this text to a wide range of interests and to fit a number of time constraints. It will still offer a balanced approach to the overall topic.

This book was not prepared as a restatement of the Internal Revenue Code and related tax law. Many such works currently exist. It was designed as a learning device to present federal tax information in a way that will stimulate thought and planning as well as aid in mastery of the difficult, tightly interwoven intricacies of federal tax law. Various sections of the book present topics of federal tax law in a sequence different from that in the Code. This was done so that common ideas and underlying similarities could be linked in the mind of the student and unifying characteristics could be drawn together to present a clearer and more functional picture of the whole.

The contributing authors of the volume wish to thank many of their colleagues for helpful suggestions and for the time and energy they have given in improving the manuscript.

March 2017

Ephraim P. Smith

How to Use This Book

CCH Federal Taxation—Basic Principles has been organized to make it easy to study the fundamental concepts of federal tax laws affecting individuals. Special features, end-of-chapter materials, an appendix, and supplementary materials are provided to further assist in the learning process.

CHAPTER OPENINGS

All chapters begin with the same elements: a list of the learning objectives and an overview. This information provides a framework for understanding the material that will be studied in the chapter.

SPECIAL FEATURES

Special features—Keystone Problems, Planning Pointers, and Tax Blunders—appear throughout the book. Their purpose is to make familiar the specific applications of the tax law, suggest tax-saving strategies, and illustrate methods of avoiding undesired tax consequences. Additionally, vivid and realistic examples to illustrate salient points are included within the chapters to show application of the law and accounting techniques.

END-OF-CHAPTER MATERIALS

Every chapter ends with a summary of the material covered. Questions and Problems follow for applying the principles learned and allowing the instructor to evaluate and recall the main ideas discussed in the chapter. The problems are sequenced in the order in which the topics are presented in the chapter. Also included are Comprehensive Problems and Research Problems. Comprehensive Problems are designed to develop computational skills, while the purpose of the Research Problems is to provide an opportunity to learn and utilize the methodology of tax research.

END-OF-BOOK MATERIALS

In addition to the Topical Index, other useful research materials are found at the end of the book. The Appendix covers various Tax Rate Schedules, and the Glossary of Tax Terms contains over 200 definitions. In addition, the Finding Lists and Table of Cases detail the textbook's citations by Internal Revenue Code Sections, Regulation Sections, Revenue Procedures, Revenue Rulings, and court cases.

SUPPLEMENTARY MATERIALS

A *Study Manual*, sold separately, outlines and highlights the in-depth textbook presentation and contains Objective Questions (and Answers) for self-evaluation. It also includes a series of Tax Return Problems designed to complement conceptual study of federal taxation and to provide exposure to various aspects of tax return preparation.

To order the *Study Manual* for this volume (*CCH Federal Tax Study Manual, 2018*), contact your bookstore or write or call: Wolters Kluwer, 2700 Lake Cook Road, Riverwoods, Illinois 60015 (800-344-3734; CCHGroup.com).

ACCESS UPDATES

CCH has created a special webpage to keep you up to date with changing tax laws and new developments. This page will also hold any revised content that may be created before the next edition is released.

Visit CCHGroup.com/CTBP to find information on updates to the book and latest developments!

FREE ONLINE AIDS

CCH® *StudyMATE*™ is an online learning center for college students. The *Study MATE Fundamental Tax Topics* library was created to supplement this textbook by providing an easy online tutor to help students with difficult concepts and test them on their knowledge. Each course contains online learning features to capture student attention and “Test Your Knowledge” questions to aid comprehension. At the end of each course, a 15-question final exam is presented. Students have the opportunity to take the exam three times. After passing the exam, students can e-mail a completion certificate to their professor.

Professors and students who use CCH textbooks have free access to the Fundamental Tax Topics library for a full year! To view the courses available, visit www.cchstudymate.com. To enroll, follow the instructions provided on the tear-out instruction card bound into the book and use the access code as payment.

Anyone with questions, comments, or feedback can contact us at studymate@cch.com.

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