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EDITION

PRINCIPLES OF BUSINESS TAXATION

2017 PRINCIPLES OF BUSINESS TAXATION

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PREFACE

Most business students enrolled in the first federal income tax course at a four-year university, or in an associate degree program, do not pursue a career in tax. Moreover, upon graduation from a university, more accounting majors are employed as auditors or corporate accountants than as tax practitioners. The vast majority of students who take the first tax course are not going to be tax practitioners at all but they do need to understand how the tax law works and the impact taxes have on business. What is the best approach for the first tax course that can insure relevant and beneficial coverage for all students?

More traditional tax textbooks and undergraduate tax courses focus on individual income taxation and offer coverage of personal items, such as who qualifies as a dependent, the rules regarding filing status, vacation homes, and qualifying for the earned income credit. Perhaps the rationale in this approach is that all students, whether destined for tax practice or not, can walk away with helpful information on individual income tax. Those students going into tax practice would have some basics to build on in future tax classes, and those who were not destined for tax practice could have some helpful information for their own financial future.

However, tax practice has changed and individual income tax preparation is no longer the major cornerstone of accounting services. Moreover, business tax planning goes beyond individual tax planning concepts so that a student pursuing business interests after graduation will benefit more from a basic knowledge of business tax concepts and planning rather than from exposure only to individual tax planning. Today, business tax planning and practice is more central to the modern accounting firm than individual tax compliance. The AICPA and others have posited for over a decade that a better starting point for teaching taxes is a business approach. Individual income taxation software has also taken much of the sting from individual income tax preparation, so the average business major is more likely to benefit from a good understanding of how business decisions, planning, and operations are affected by taxes than a crash course on the hundreds of tax rules that relate to their own individual taxes. Just as all business and finance majors are expected to understand the time value of money, so it is also critical that these students understand basic tax principals and how various tax considerations and strategies can result in substantial tax savings. Business decisions are based on the after-tax implications of decisions and the true cost of investment and risk.

Principles of Business Taxation focuses on the central concepts that build our tax framework from a business perspective. The book approaches the study of taxation from the perspective of the business person faced with business decisions. Among all factors that must be considered in making business decisions, tax consequences are critical and the impact must be considered and understood. *Principles of Business Taxation* provides students with the necessary technical material to address common, everyday tax questions. It accomplishes this by presenting the material in an easy-to-read and straight-forward manner.

Principles of Business Taxation is divided into six parts: Overview of Taxes and the Federal Income Tax System; Federal Taxation of Business Income and Deductions; Transactions Involving Business Property; Calculating Tax Liability and Taxes Owed; Business Entity Issues and U.S. Taxation of International Transactions. Part one provides students who want to expand their technical knowledge with the skills to do so by introducing them to tax research early in the book and then providing one research question in the homework for each subsequent chapter. This perspective leads to a very different coverage in this textbook, coverage that is useful for accounting, finance, and general business majors. It encourages students to ask questions and to engage in research to discover the answers.

Although many of the exclusions, deductions, and credits in the tax system apply equally to individual and corporate taxpayers, this book focuses on the business perspective of these items. In some cases, this means covering an item not available to individuals (e.g., the dividends received deduction and the concept of earnings and profits and how it relates to corporate distributions). In other cases it means making the business, rather than the individual, aspects of the tax rules the primary focus of the topic. While the focus is on concepts and how taxes affect business decisions, taxation of sole proprietorships and other passthrough entities is not abandoned. After all, many core tax concepts apply to individuals as well as businesses, and the book is not shy in pointing out such application. When charitable contributions are introduced, the general

rules for deductibility are described, and then the limitations that apply to corporate and individual taxpayers are discussed separately. An advantage to this approach is that most of the students who take only one course in taxation will learn how businesses are taxed and, in turn, have a better appreciation for how taxes affect business decisions. Another advantage to this approach is that the topics dovetail into other business, finance, and accounting coursework.

Students using *Principles of Business Taxation* have access to the complete and comprehensive Fundamental Tax Topics library on CCH Study MATE, an online site that can be used to review any and all fundamental tax topics. (A special card with access code is bound into this book.) In this way, we believe *Principles of Business Taxation* offers a tremendous opportunity for students of taxation to experience a course and text that truly offers the most useful approach for the future, and they can access these online courses for additional information that their instructor may deem helpful based on individual circumstances and objectives.

We hope *Principles of Business Taxation* will serve you well as you consider the implications of our tax law on business decisions and development. We welcome your comments, criticisms, and questions.

Wolters Kluwer Tax Law Editors

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