

**West's Federal Taxation**  

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**1995 Edition**

**COMPREHENSIVE  
VOLUME**

**Willis Hoffman Maloney Raabe**  

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1995 ANNUAL EDITION

# WEST'S FEDERAL TAXATION:

## COMPREHENSIVE VOLUME

### GENERAL EDITORS

**Eugene Willis, Ph.D., C.P.A.**      **William H. Hoffman, Jr., J.D., Ph.D., C.P.A.**  
**David M. Maloney, Ph.D., C.P.A.**      **William A. Raabe, Ph.D., C.P.A.**

### CONTRIBUTING AUTHORS

**James H. Boyd,**  
Ph.D., C.P.A.  
*Arizona State University*

**D. Larry Crumbley,**  
Ph.D., C.P.A.  
*Texas A & M University*

**Steven C. Dilley,**  
J.D., Ph.D., C.P.A.  
*Michigan State University*

**Patrica C. Elliott,**  
D.B.A., C.P.A.  
*University of New Mexico*

**Mary Sue Gately,**  
Ph.D., C.P.A.  
*Texas Tech University*

**Jerome S. Horvitz,**  
J.D., LL.M. in Taxation  
*Suffolk University*

**William H. Hoffman, Jr.,**  
J.D., Ph.D., C.P.A.  
*University of Houston*

**David M. Maloney,**  
Ph.D., C.P.A.  
*University of Virginia*

**Marilyn Phelan,**  
J.D., Ph.D., C.P.A.  
*Texas Tech University*

**William A. Raabe,**  
Ph.D., C.P.A.  
*University of Wisconsin-Milwaukee*

**Boyd C. Randall,**  
J.D., Ph.D.  
*Brigham Young University*

**W. Eugene Seago,**  
J.D., Ph.D., C.P.A.  
*Virginia Polytechnic Institute  
and State University*

**James E. Smith,**  
Ph.D., C.P.A.  
*College of William and Mary*

**Eugene Willis,**  
Ph.D., C.P.A.  
*University of Illinois at Urbana*

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# PREFACE

**W**est's *Federal Taxation: Comprehensive Volume* is an abridged version of West's *Federal Taxation: Individual Income Taxes* and West's *Federal Taxation: Corporations, Partnerships, Estates, and Trusts*. In condensing all of this material to a manageable form, it was necessary to utilize our editorial license to pick and choose. Thus, a great deal of useful, but not essential, information had to be pruned in order to arrive at the final product. What to cover or not to cover in any abridgment process is, understandably, a judgment call. We can only hope that we acted correctly in making our decisions.

The *Comprehensive Volume* is designed to provide flexibility for those who offer only one course in Federal taxation or for a two-course sequence. In cases where the *Comprehensive Volume* is used for only one course, a broad scope of coverage could be the ultimate objective. Although the income taxation of individuals may be stressed, it is conceivable that some may wish to devote significant classroom time to other areas of Federal taxation. For example, the allocation of course coverage might be structured as follows: 60 percent to the individual income tax (Chapters 1–15) and 40 percent to the tax treatment of corporations, partnerships, etc. (Chapters 16–28).

For those who encounter time constraints and/or want to emphasize some areas and not others, the last segment of the text (Chapters 16–28) possesses potential for selectivity. For example, an instructor who wants to cover corporations (Chapters 16–21) and tax practice (Chapter 25), but not the other subjects (Chapters 22–24 and 26–28), can proceed accordingly without disrupting the flow of the material. In this regard, the last segment of the text offers the flexibility for partial coverage through a number of different combinations (e.g., for a “light” coverage of corporations, select Chapters 16 through 18, but for a “heavy” concentration, assign Chapters 16–21).

## SPECIAL FEATURES

A variety of pedagogical devices is used to assist the student in the learning process. Each chapter begins with a statement of the learning objectives for the chapter. The learning objectives are followed by a topical outline of the material in the chapter. Page references appear in the outline to provide easy access to each topic. The readability of the material in the text is enhanced by the following.

- Including three levels of headings that aid in organization and presentation.
- Italicizing key words to emphasize their importance.
- Avoiding legal terminology except where it is beneficial.
- Using Concept Summaries to synthesize important concepts in chart or tabular form.

- Organizing material in lists with bullets rather than presenting it in lengthy sentences.
- Using examples frequently to help the student understand the tax concept being discussed.

If the *Comprehensive Volume* is to be used in whole (or in part) for a one-course tax offering, the pace of coverage of the subject matter may have to be accelerated. In recognition of this fact, we have followed certain guidelines.

- In an accelerated setting, a decided constraint is placed on the amount of problem solving that can be expected from the reader. We have, therefore, limited the quantity of the problem materials. In this connection, we have strived to maintain the integrity of the quality of the materials.
- Although not eliminated entirely, the research orientation has been kept to a minimum. Restricting judicial analysis and controlling the number of footnotes spare the reader some measure of distraction. The result is a quicker coverage of the textual material.
- For those users who feel the need for some material on research methodology, the last chapter in the text, "Working with the Tax Law," is available. Along with the usual problem materials, this chapter also includes numerous research problems, arranged by chapter, dealing with the subject matter treated in the text. Instructors who emphasize research can assign Chapter 28 early in the course and then select from these problems as other chapters are covered.
- Once knowledge of the tax law has been acquired, it needs to be used. The tax minimization process normally requires careful planning. Because we recognize the importance of planning procedures, most chapters include a separate section (called *Tax Planning Considerations*) illustrating the applications of such procedures to specific areas.
- The appendixes to the text contain a great deal of useful material. In addition to the usual Subject Index, the following items are included: Tax Rates and Tables (Appendix A); Tax Forms (Appendix B); Glossary of Tax Terms (Appendix C); Table of Code Sections Cited (Appendix D); and Comprehensive Tax Return Problems for 1993 (Appendix E).

## ENHANCED PEDAGOGICAL PLAN

In the 1995 edition, we have enhanced the pedagogy to assist the student in the learning process and to address the recommendations of the Accounting Education Change Commission (AECC).

- *Learning Objectives.* Each chapter begins with student learning objectives for the chapter. These behavioral objectives provide the students with guidance in learning the key concepts and principles.
- *Chapter Outline.* The learning objectives are followed by a topical outline of the material in the chapter. Page references appear in the outline to provide the student with ready access to each topic.
- *Chapter Introductions.* The introductions link the material in the current chapter to previous chapters and demonstrate its relevance. Frequently, the chapter introduction includes a "real world" illustration to help convey the relevance of the material.
- *Margin Notes.* Each of the learning objectives appears in the margin where the related material is introduced and helps to guide the student through the chapter.



- *Tax in the News*. Tax in the News items appear in each chapter as a boxed feature to enliven the text discussion. These items are drawn from today's business press and present current issues that are relevant to the chapter material.
- *Ethical Considerations*. Ethical Considerations features appear in each chapter presenting thought-provoking issues related to the chapter topics. In response to the recommendations of the AECC, they also demonstrate that many issues do not have a single correct answer. The questions raised in the Ethical Considerations were selected to provoke discussion and provide opportunities for debate (oral communication) based on the student's value system rather than to provide a defensible answer.
- *Key Terms*. Before the Problem Materials in each chapter is a list of key terms to assist student learning. When the key term is introduced in the chapter, it appears in bold print. The list of key terms includes page references to the chapter coverage. In addition, each key term is defined in the Glossary (Appendix C).
- *Communication Assignments*. In recognition of the increasing emphasis in accounting and tax education on communication, identified items in the Problem Materials now include a written communication component. Selected Problems, Cumulative Problems, and Research Problems are identified as communication assignments with a "scroll" icon. These problems ask the student to prepare a tax client letter and a memorandum for the tax files. The discussion of the tax research process in Chapter 28 includes an illustration of these items.
- *Decision-Making Problems*. The Problem Materials include decision-making problems that are designed to enhance the student's analytical skills. These problems are identified with a "balance" icon.



## SUPPLEMENTS

Other products in our 1995 instructional package include the following.

- The 1995 *Instructor's Guide with Lecture Notes* contains lecture notes that can be used as lecture outlines, as well as teaching aids and information not contained in the text. It also includes solutions to the research problems (Chapter 28 in the text) and the comprehensive tax return problems (Appendix E in the text). For the 1995 edition, we have added synopses of many interesting and unusual court cases that can be used to illustrate technical points in the tax law. The lecture notes are also available on disk in ASCII files.
- A *Solutions Manual* that has been carefully checked to ensure accuracy. A matrix is included indicating topic coverage for each problem, which problems are new, modified, or unchanged in the new edition and the problem number for the unchanged and modified problems in the prior edition. The solutions are referenced to pages in the text.
- A *Test Bank* with a comprehensive set of examination questions and solutions. The answers to these are referenced to pages in the text. The questions are arranged in accordance with the sequence of the material in the chapter. To assist the professor in selecting questions for an examination, all questions are labeled by topical coverage in a matrix that also indicates which questions are new, modified, or unchanged in the new edition and the question number for the unchanged and modified questions in the prior edition. Approximately 20 percent of the questions in the 1995 edition are new or modified.

- *Westest*, a microcomputer test generation program for IBM PCs and compatibles and the Macintosh family of computers.
- *West's CD-ROM Federal Tax Library* (Compact Disk with Read-Only Memory) provides a complete tax research library on a desktop. The *Federal Tax Library* is a set of compact disks with a software package that reads the disks through a PC. Each disk has a remarkable storage capacity—roughly 1,000 times more than a single-sided floppy disk. A brief list of the library contents includes the complete IRS Code and Regulations, the 1986 Tax Reform Act with Amendments and legislative History, Federal Court cases on tax, Tax Court cases, Revenue Rulings, and Revenue Procedures. The CD-ROM library is available to qualified adopters.
- Limited free use to qualified adopters of WESTLAW, a computer-assisted tax and legal research service that provides access to hundreds of valuable information sources.
- A *Student Study Guide* prepared by David M. Maloney, University of Virginia, and William A. Raabe, University of Wisconsin (Milwaukee). This *Study Guide* includes a chapter review of key concepts and self-evaluation tests with solutions that are referenced to the text.
- *Transparency Masters* for selected complex and cumulative problems, with a larger typeface for greater readability.
- *Teaching Transparency Acetates* containing charts and tables that can be used to enhance classroom presentations.
- *Instructor's Resource Notebook*—this three-ring binder can be used to house all or portions of the supplements and text. The 1995 edition is offered in looseleaf form so the instructor can reorganize the book and incorporate supplemental materials to fit course lectures.
- *Astound Presentation Software* allows qualified adopters to create interactive lectures and manipulative graphs, charts, and figures during in-class lectures. The package contains approximately 25 transparency masters per chapter consisting of alternate figures, outlines, and key points.
- *Teaching Transparency Masters* include all screens from the Astound package reproduced as transparency masters for instructors who may wish to use traditional transparencies.
- A *Student Note-Taking Guide* includes selected screens from the Astound package consisting of chapter outlines and key points. This unique guide provides students with the core chapter information, so they can concentrate in class on learning key concepts instead of copying basic lecture outlines and transparencies. In addition, the charts and graphs in the Astound package have been printed and bound in a manner similar to accounting working papers. The pages include all the information from the Astound screens while still leaving room for student notes.
- *WFT Individual Practice Sets* and *WFT Corporation, S Corporation, and Partnership Practice Sets* 1994–95 edition, prepared by John B. Barrack, University of Georgia. They are designed to cover most of the common forms that would be used by a tax practitioner for the average client.
- *West's Internal Revenue Code of 1986 and Treasury Regulations: Annotated and Selected: 1995 Edition* by James E. Smith, College of William and Mary. This provides the opportunity for the student to be exposed to the Code and the Regulations in a single-volume book, that also contains useful annotations.
- *West's Federal Taxation Newsletter* is mailed to adopters twice a year. It focuses on new tax legislation and updated information.
- *WFT On-Line Electronic Bulletin Board* is the latest supplement from West that puts the most current information in your hands as soon as it is available. Qualified adopters can log onto the Bulletin Board from their home or office



via a toll-free phone number and immediately gain access to the most recent taxation information available, including the Code and Regulations, case citations, new court rulings, and other newsworthy items. This information can then be transferred to a word-processing program for editing, printout, and classroom use while the information is still topical.

- *West's Federal Taxation Video Library* includes selected videos from the Arthur Andersen series as well as other topical videos for classroom use by qualified adopters.

## SOFTWARE

The trend toward increased use of the computer as an essential tool in tax practice has accelerated. To ensure that the West's Federal Taxation instructional package continues to set the pace in this important area, the following products are available to be used with the 1995 edition:

- *TurboTax* © Personal/1040 by Chipsoft, Inc., is a commercial tax preparation package. It enables students to prepare over 80 forms, schedules, and worksheets and automatically performs all mathematical calculations and data transfers. *TurboTax* also assists students with tax planning and helps them prepare "anticipated" tax returns. The *TurboTax* package, available for student purchase includes disks bound with a 200-page workbook containing exercises and problems. The software runs on IBM PCs and compatibles with 512K memory. Both DOS and Windows versions of *TurboTax* are available. Also available is *MacInTax*, the best-selling tax preparation software for the Macintosh.
- *Corporation and Partnership Tax Return Preparation with TurboTax Pro Series 1120/1120S/1065* is a commercial tax preparation package that includes disks bound with a workbook containing exercises and problems.
- *West's Federal Taxation: Tax Planning with Electronic Spreadsheets*, prepared by Sam A. Hicks, Jr., Virginia Polytechnic Institute and State University, contains Lotus-based tax computation and planning templates for individual taxpayers and is available free to adopters.

These software products are powerful, easy to learn, and easy to use. We believe that tax education can be raised to a higher level through the use of computers and well-designed software. These software packages take the drudgery out of performing the complex computations involved in solving difficult tax problems. This allows students to concentrate on applying concepts and interpreting results.



To enable students to take advantage of these software products, the text contains numerous tax return and tax planning problems. The tax planning problems allow students to evaluate alternative tax planning strategies and calculate the effects of various alternatives on the taxpayer's liability. Problems that lend themselves to solutions using the software packages described above are identified by a computer symbol to the left of the problem number. The instructions for each of these problems indicate which software packages are appropriate for solving the problems.

## TAX FORMS COVERAGE

- Although it is not our purpose to approach the presentation and discussion of taxation from the standpoint of preparation of tax returns, some orientation to forms is necessary. Because 1994 forms will not be available until later in the year, most tax return problems in this edition are written for tax year 1993. The 1993 problems may be solved manually, or many may be solved

using the tax return preparation software (*MacInTax*<sup>®</sup> or *TurboTax*) that may be purchased by students who use this text.

- Appendix E contains comprehensive tax return problems written for tax year 1993. Each of these problems lends itself for use as a term project because of the sophistication required for satisfactory completion. Solutions to the problems in Appendix E are contained in the *Instructor's Guide with Lecture Notes*.
- For the reader's convenience, Appendix B contains a full reproduction of most of the 1993 tax forms frequently encountered in actual practice. Most tax textbooks are published in the spring, long before tax forms for the year of publication are available from the government. We believe that students should be exposed to the most current tax forms. As a result, we write several new forms problems and provide adopters with reproducible copies of these problems, along with blank tax forms and solutions on the new forms. Shortly after the beginning of 1995, adopters will receive selected tax return problems, updated and solved on 1994 forms.

## TAX LAW UPDATES

Since the original edition was issued in 1983, we have followed a policy of annually revising the text material to reflect statutory, judicial, and administrative changes in the Federal tax law and to correct any errors or other shortcomings.

In the event of *significant* tax law changes, a supplement will be written for the three texts in the West series. Our aim is to provide a timely, complete, and easy-to-use supplement.

## ACKNOWLEDGMENTS

As is the case with any literary undertaking, we welcome user comments. Please rest assured that any such comments will not be taken lightly and, we hope, will lead to improvements in later editions of *West's Federal Taxation: Comprehensive Volume*.

We are most appreciative of the many suggestions that we have received for revising the text, many of which have been incorporated in past editions and in the 1994 edition. In particular, we would like to thank all those users who have called or written with suggestions for improving the book, and David Ryan, Temple University who did a detailed review of this edition. We would also like to thank those people who have painstakingly worked through all the problems and test questions and generally acted as problem checkers to ensure the accuracy of the book and ancillary package. They are Tracey A. Anderson, Indiana University at South Bend; Caroline K. Craig, Illinois State University; Frank Linton, Illinois State University; Mark B. Persellin, St. Mary's University; Debra L. Sanders, Washington State University; Randall K. Serrett, University of Alaska at Fairbanks; Thomas Sternburg, University of Illinois; and Raymond F. Wacker, Southern Illinois University at Carbondale.

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Eugene Willis  
William H. Hoffman, Jr.  
David M. Maloney  
William A. Raabe



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