

PRENTICE HALL'S

# Federal Taxation 2001

## COMPREHENSIVE



*Thomas R. Pope · Kenneth E. Anderson · John L. Kramer*

*D. Dale Bandy · N. Allen Ford · Anna C. Fowler · Robert L. Gardner  
Richard J. Joseph · Sandra S. Kramer · Susan L. Nordhauser  
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**PRENTICE HALL'S  
FEDERAL TAXATION**

**2001**

**Comprehensive**

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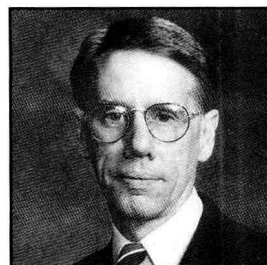
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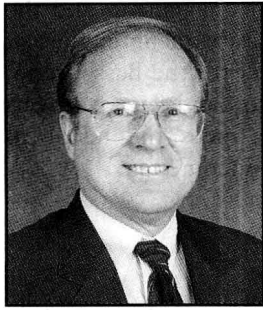


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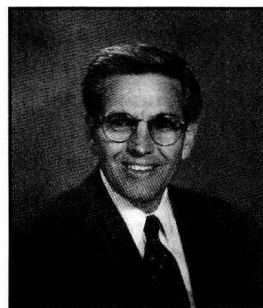
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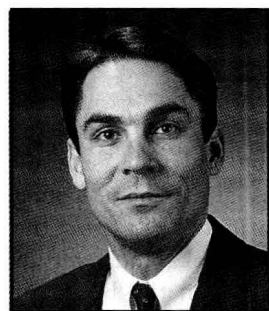
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# P R E F A C E

## OBJECTIVES AND USE

This text is designed for use in a first and second course in federal taxation for undergraduate and graduate accounting and business students. The text materials have been updated to reflect recent legislative (through January 1, 2000), judicial, and administrative changes in the tax law.

The *Comprehensive* volume joins 14 chapters of *Prentice Hall's Federal Taxation, 2001: Individuals* volume with 14 chapters of the *Prentice Hall's Federal Taxation, 2001: Corporations, Partnerships, Estates, and Trusts* volume. It may be used with either a one-term survey course for undergraduate or graduate students or a two-term sequence.

Our objective is to provide a readable format with a high level of technical content. We accomplish this through a process of continuous review, improvement, and clarification of the text, examples, and problem material. If you find what you believe is an error, please provide the item to one of the editors along with your comments. We maintain this level of content by focusing on primary topics and relegating minor exceptions footnotes.

## FEATURES

- ▶ The 2001 Edition of *Prentice Hall's Federal Taxation* continues to include an online Multistate Income Taxation chapter. This chapter provides tax instructors with a vehicle to introduce students to a topic of increasing importance among tax practitioners. It provides an overview of state and local tax systems, as well as a more in-depth discussion of state income tax issues such as nexus, corporate filing options, the definition of state taxable income, allocation and apportionment, and state taxation of S Corporations, partnerships and limited liability companies. A complete set of assignment material is available with the chapter. Instructors and students may download the chapter, free of charge, from the Web site that accompanies the book [www.prenhall.com/phtax](http://www.prenhall.com/phtax).
- ▶ Chapter C1: Tax Research. This chapter has been extensively updated to (1) provide more information on the steps in the research process and (2) explain the role of computers in tax research. A special supplement called *How to Do Tax Research* is available from the Web site at [www.prenhall.com/phtax](http://www.prenhall.com/phtax). This downloadable supplement further enhances coverage by explaining how to electronically research a problem based on an actual case.
- ▶ Problems combining tax and financial accounting. Since taxes have an impact on virtually every financial transaction, students should understand the interrelationship and differences between financial accounting and tax accounting. At least one problem per chapter now asks students to compare the tax and financial accounting treatments of various transactions and are identified by a marginal icon.
- ▶ A careful choice of topics. Users have found favor with the choice of topics and the extent of detail presented throughout the text. They are particularly pleased with our balance between exhaustive detail and too little detail for topics such as tax research, passive activity losses, the individual and corporate alternative minimum tax, and partnership taxation.
- ▶ Unique chapter organization. The *Comprehensive* volume differs from other texts on the market with its early coverage of property transactions, the life cycle approach to the taxation of the corporation, and the way that the partnership and S corporation materials are tied together.
- ▶ Clear examples. Users regularly praise the clarity and number of examples in this text.
- ▶ Margin notes. Students appreciate learning about more than just tax rules, so we developed a series of comments in the margin to enrich their learning experience. *Key Points* emphasize areas where students require repetition and reinforcement. *Typical Misconceptions* identify concepts that students are likely to misunderstand and help them correct their thinking before they take a wrong approach.

*Real-World Examples* provide facts and anecdotes about actual companies and real-life strategies.

*Additional Comments* elaborate on material presented in the text.

*Self-Study Questions* provide an in-text study guide. Each question is accompanied by a full solution.

*Historical Notes* offer a comprehensive understanding of concepts by examining them in their historical context.

*Ethical Points* focus on ethical questions that confront the tax practitioner, and are designated with an ethics icon.

► **Topic Reviews.** Each chapter contains several topic reviews to help students organize their understanding of the material and aid in preparing for exams. Many of these reviews are in tabular form for easy reference.

► **Tax Planning Considerations.** For the forward-looking part of Our Tax Planning Considerations teach students how to offer tax savings advice to their clients.

► **Compliance and Procedural Considerations.** Forms, procedures, and timing are addressed in the Compliance and Procedural Consideration section at the end of each chapter.

► **Footnotes.** An important component of “learning to learn” is knowing where to turn for authoritative information. We collected important references to the tax authorities in the footnotes for students to use as sources.

► **A full complement of assignment material.** The typical format for each chapter includes: discussion questions, issue identification questions, problems, comprehensive problems, tax form/return preparation problems, case study problems, and tax research problems. Tax return problems that can be solved using TaxCut software are marked with an icon.

► **Oral and written communications.** More emphasis is being placed on oral and written communication skills by the various accounting professional organizations (e.g., the American Institute of CPAs and the Accounting Education Change Commission). The case study problems at the end of each chapter are designed to meet this need, by requiring students to consider a number of alternatives and present a written or oral solution to the problem. None of these case studies require the student to research the tax law.

► **Expanded coverage of ethics.** Most chapters contain boxes labeled “What Would You Do in This Situation?” and a reprinting of the AICPA’s Statements on Responsibilities in Tax Practice in Appendix E expand our coverage of ethics. The boxes include many controversies that are as yet unresolved or currently being considered by the courts. The boxes and the Statements on Responsibilities enhance the ethical point margin notes and the ethical issues that are found in the case study problems already presented in the text.

► **Stop & Think Feature.** These “speedbumps” ask students to stop and think about a business application of tax, or an extension of the basic material, at various points in the chapter. These are not “boxes,” which typically fall outside the running text and can be bypassed. They are part of the text, complete with solutions to show students “how to do it,” and identified by the icon you see here in the margin.

► **Issue Identification Questions.** Part of the process of learning involves sorting out important information from unimportant details. In an area as detail-oriented as taxation, developing the ability to identify key issues is of paramount importance. We include questions at the end of each chapter that ask students to focus on the important questions that a practitioner faces on a daily basis.

► **Improvements in the Test Bank.** Aside from the solutions manual, no other supplement is as important to educators as the test bank. Every year the test bank authors place special emphasis on refining and polishing the test questions.

► **TaxCut Software—**This software allows you to easily prepare your individual tax return by asking you questions just like a tax professional would and filling in the form for you. TaxCut audits your return before you file, allows you to print IRS-approved forms on your own printer and offers context sensitive IRS instructions. The software is free to professors adopting a Prentice Hall tax text and students can purchase copies for \$19.95 directly from Block Financial Corp. by using the coupons found in the book.

► **Tax Analysts’ OneDisc CD-ROM—**Provides all the tools used by tax professionals to do research—Code, regulations, revenue rulings and procedures, court decisions and more! The



software is free to professors adopting a Prentice Hall tax text and students can purchase copies for \$19.99 directly from Tax Analysts by using the coupon found in the book.

## **SUPPLEMENTAL MATERIALS**

The text includes a full complement of supplementary materials. Adopters are encouraged to use these materials to enhance their teaching effectiveness and the students' learning experience. The following aids are available for instructor and student use:

### **INSTRUCTOR AIDS**

- ▶ Looseleaf Edition—This three-hole punched version of the textbook allows the professor complete flexibility in course customization and is available on demand from Prentice Hall.
- ▶ Instructor's Guide—This specially crafted instructor's guide includes: a sample syllabus for one- and two-semester courses, instructor outlines, and solutions to the tax return/tax form preparation problems, case studies, and tax research problems. The instructor outlines are available in Word files to enable faculty members to make their own modifications to the master outlines prior to using them in class. The outlines highlight tax law changes affecting the 2001 edition. Also there is a cross-reference table which cross-references problems in the 2000 and 2001 editions as well as indicates any new problems and the nature of the change (if any) to the problems from the 2000 edition. Additional written assignments involving deferred compensation, publicly-traded partnerships, and mergers and acquisitions are provided for faculty use in the 2001 edition.
- ▶ Test Bank—This bank of test questions includes fully worked-out solutions to many of the more complex problems.
- ▶ Solutions Manual—Prepared by the authors and thoroughly reviewed by the editors, this volume includes solutions to the discussion questions, problems, and comprehensive problems. Solutions to all problems are available in Word files to facilitate the preparation of transparencies. The solutions to the tax form/return preparation problems, the case studies, and tax research problems are included in the *Instructor's Guide*.
- ▶ PowerPoint Transparencies—Approximately 600 full color electronic transparencies are available to enrich the teaching experience. Instructors can make additions or modifications to the files prior to using them in class. These are also on the Web site at [www.prenhall.com/phtax](http://www.prenhall.com/phtax).
- ▶ Prentice Hall Test Manager, Windows Version—Prentice Hall Test Manager is a state-of-the-art classroom management system.
- ▶ Supplemental Tax Law Update—Whenever major tax legislation is passed, we provide an updating supplement. A mid-year update is provided for the inflation-adjusted numbers each year. These update supplements can be downloaded from the Web site that accompanies the book [www.prenhall.com/phtax](http://www.prenhall.com/phtax).

### **STUDENT AIDS**

Our foremost goal has been to provide students with a perspective that stresses readability, accuracy, and familiarity with technical aids to tax practice. The following student aids are currently available:

### **WEB SITE**

Prentice Hall has created a Web site [www.prenhall.com/phtax](http://www.prenhall.com/phtax) that offers a wide variety of free and saleable resources.

- ▶ Free Student Resources include—current events (with page references and questions linking them directly to the text); internet resources; tax law updates; inflation adjusted figures; student study tips; a chapter on multistate income taxation with assignment material, and C8: Consolidated Tax Returns.
- ▶ Free Faculty Resources include downloadable files for—PowerPoint transparencies; instructor's outlines; sample syllabi; teaching tips; solutions for on-line tax practice problems.
- ▶ Saleable Student Resources include—on-line study guides and on-line tax practice problems. Students must purchase a passcode that allows them to access both the on-line study guides and the online tax practice problems.



- ▶ **On-line Study Guide**—This electronic supplement replaced the print-based version. By purchasing a password, students can access multiple choice, true/false, and computation questions and tax return preparation problems through Prentice Hall's Web site *www.prenhall.com/phtax*. Students can look at hints for help before they answer questions and submit them to the server for grading. Customized feedback is supplied for wrong answers when the graded material is returned so students can try again.
- ▶ **On-line Tax Practice Problems**—This electronic supplement replaced the print-based version. By purchasing a password, students can access a series of cases that require them to analyze an individual's and a partnership, S corporation, and C corporation's tax situation. Based on each scenario, students will complete a tax return for the individual and each entity and answer a tax research, tax planning, and tax compliance question.

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