

CONCEPTS OF
TAXATION
1993
EDITION



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SILVIA A. MADEO
KENNETH E. ANDERSON
BETTY R. JACKSON

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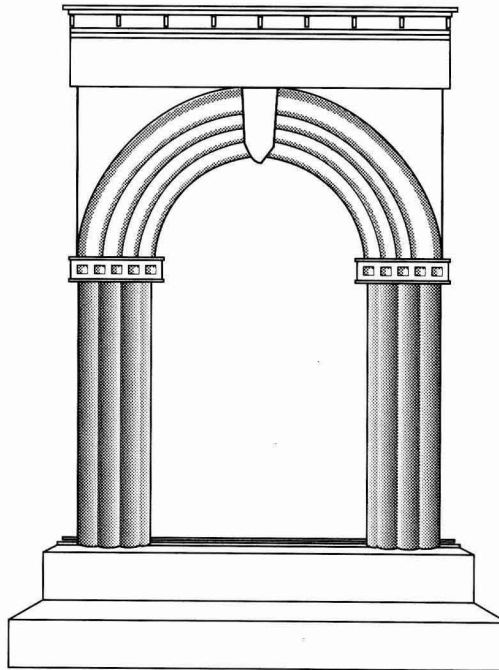
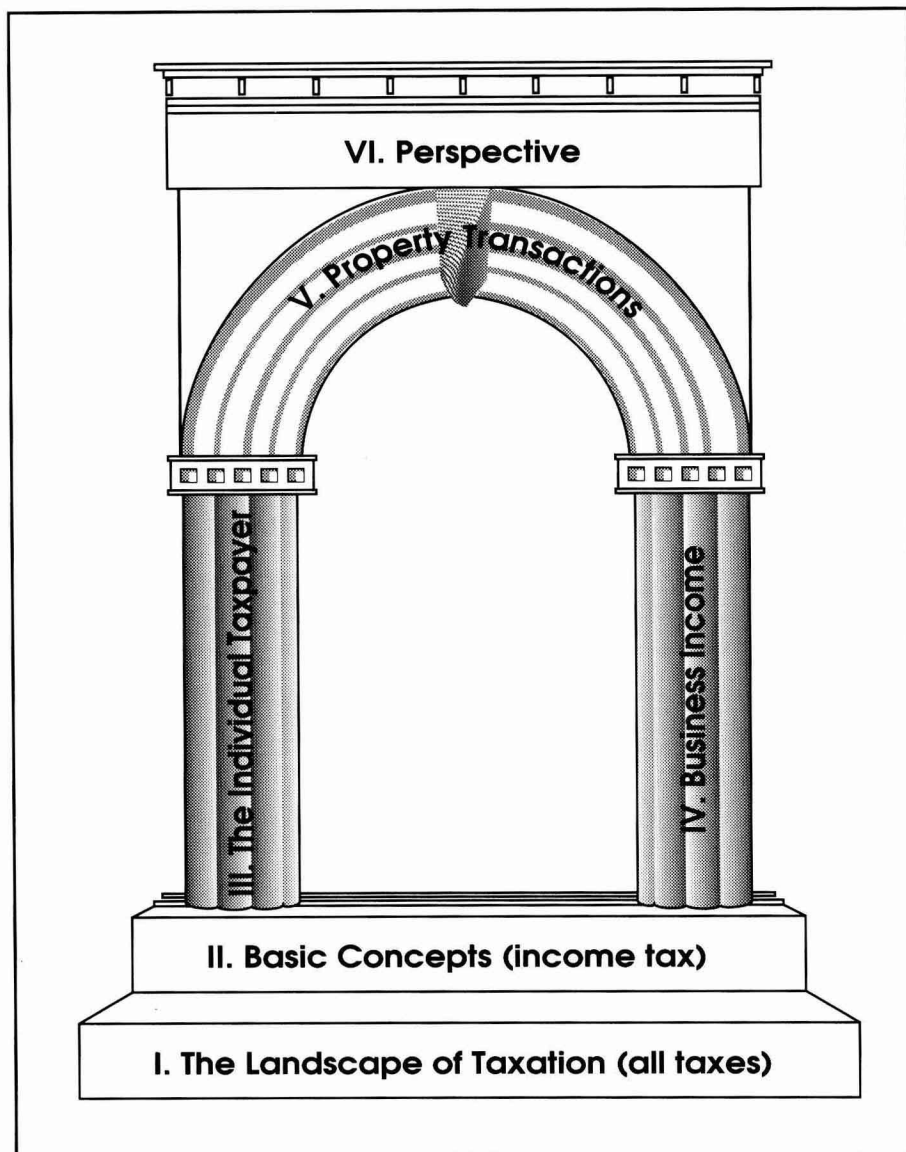


FIGURE A

Overview of the
Organization of
*Concepts of
Taxation*



Preface

Concepts of Taxation, 1993 Edition, is a completely redesigned introductory tax course emphasizing the U.S. income tax and its broad implications. The entire textbook can be covered in one semester, although some instructors will choose to skip selected chapters. As described later in the preface, this new textbook provides ample material in the form of thought problems, group projects, and research assignments to maximize the kind of real learning experience that will last for a lifetime rather than for just one term. The textbook stresses the important fact that only *one* U.S. income tax is imposed on *three* different taxpayers (individuals, corporations, and fiduciaries). The textbook further explains the taxation of income earned both inside the United States and abroad by individuals, partnerships, S corporations, estates, and trusts.

THE GOAL OF THIS TEXT

Concepts of Taxation was created in direct response to the challenge for new and more conceptual educational material, as articulated by the Accounting Education Change Commission, the Bedford Committee Report, the Big Eight White Paper, and other leading business education authorities. As implied by the title, this textbook places primary emphasis on concepts, yet it draws liberally on specific details of the U.S. income tax law to illustrate how concepts are routinely applied in actual situations. The overriding objective of this textbook is to instill in each reader a clear appreciation for the important impact that taxes have on individual behavior, business activity, and civilized society in general. See Figure A for an overview of

the organization of the textbook into six parts. A separate mission statement is provided for each part so that students can clearly understand the intended interrelationship between the six parts and 19 chapters of the textbook. In addition, learning goals are articulated at the beginning of each chapter so that every student can determine continuously and independently whether or not he or she is comprehending the most important information contained

in that chapter. Thereafter each learning goal is clearly identified in the margin to help students associate textual material with the chapter goals. The margins also contain a running glossary to define technical words and phrases used in both the textbook and in real-world tax discussions.

The same educational authorities identified earlier further call for a reduced emphasis on memorization and a corresponding increase in learning to learn. To facilitate the achievement of this recommendation, all problem materials are subdivided into two clearly identified categories, namely (1) recall and (2) thought questions. All recall questions can be answered directly from the material presented in the chapter.

Thought questions, on the other hand, require a higher level of comprehension. By using either inductive or deductive logic, or through the synthesis of multiple notions introduced earlier as separate topics, students are encouraged to think beyond the words of the textbook and to apply a conceptual understanding to similar but different circumstances, not specifically addressed in any chapter. Every question, in both the recall and thought categories, is specifically identified with one or more of the

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learning goals identified for that chapter. By the careful selection of advanced problem assignments, instructors can thus emphasize memorization of detail, learning to learn, or a balance between both objectives, on a chapter-by-chapter basis.

Finally, the same education authorities call for an increased use of group projects to facilitate greater teamwork and improved communication skills. Our response to these recommendations is a series of group assignments located at the very end of every chapter. By making frequent assignments from the group projects, tax instructors can better respond to this final challenge for new and improved methods of teaching the traditional introductory tax course in the business curriculum.

In summary, our goal in writing this textbook was to give the student a foundation for a lifetime of learning rather than a litany of detailed rules that have value only in the short term. As faculties struggle to respond to the growing demand for change, we encourage them to investigate the breadth of educational experience available through our conceptual approach to the tax component of the accounting curriculum.

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nontaxable entities to taxable entities. Chapter 7 introduces the important accounting-period and -method rules. And finally, Chapter 8 synthesizes several concepts introduced in the four preceding chapters to illustrate how tax information is captured in the basis concept.

Part Three introduces many of the details of income taxation unique to individual taxpayers. Although these four chapters (9–12) contain more detail than most others, they continue to stress underlying concepts as much as possible. The goal is to give students an understanding of current rules while providing a conceptual framework for understanding future changes in the law.

Part Four consists of three chapters. Chapter 13 details with special problems in the measurement of business income. Chapter 14 is devoted to cost recovery (or depreciation) rules applicable to business properties. Chapter 15 introduces the special tax rules that may be applicable to certain related-party transactions encountered in everyday business.

Part Five has two chapters that concentrate on the income derived from property transactions. Chapter 16 covers the capital gain and loss provisions.

Chapter 17 contains the general rules for certain tax-deferred transactions, commonly known as the “nontaxable exchange” provisions.

Part Six also contains two chapters. Chapter 18 gives students a perspective of what tax accountants do and how individuals become tax specialists. Chapter 19 illustrates what can happen when tax planning is too successful! It illustrates the typical congressional reaction to widespread tax avoidance schemes through a discussion of (1) the passive activity loss rules and (2) the alternative minimum tax rules.

TOPICAL ORGANIZATION

Part One offers an overview of the U.S. tax system. Chapter 1 is a general introduction to all forms of taxation. Chapter 2 contains a brief history of the income tax and a discussion of possible near-term changes in the U.S. tax structure. Chapter 3 reviews the process that produces and interprets our tax laws and thereby lays the groundwork for independent research assignments.

Part Two introduces the basic concepts of income taxation. Chapter 4 explains the concept of *gross income*, the starting point in the tax determination process. Chapter 5 explains the general notion of *deductions*, including the deduction for certain losses. Chapter 6 explains the various tax rates that are applicable to income earned by the three taxable entities, as well as the method used to allocate the income earned by

INSTRUCTOR'S ANCILLARIES

To support the efforts of the instructor, the authors and publisher have created a number of teaching tools. Most of

these are gathered in the Instructor's Manual. For each chapter, the Instructor's Manual includes

- ✓ a chapter outline for the use of the instructor in developing class lectures.
- ✓ author comments and suggestions.
- ✓ expanded solutions with comments for all recall problems, thought problems, and class projects.
- ✓ miscellaneous teaching transparencies.

All of these materials are provided by the authors of the textbook themselves. The final section of the Instructor's Manual consists of a Test Bank, by Marci A. Flanery (University of Kansas), of more than 570 test items in all. For each chapter, the test bank includes the following items:

- 10 purely conceptual multiple-choice items.
- 10 multiple-choice items that involve both conceptual understanding and an understanding of procedures or computation.
- 5 problems requiring moderate computations.
- 3 challenging objective questions.
- 2 essay questions.

This test bank is also available in the form of the ExamMaster™ computerized test bank software for both the IBM PC and the Macintosh microcomputers.

AUTHORS

Many of the ideas utilized in this textbook build on *An Introduction to Taxation*, previously published by Harcourt Brace Jovanovich, Inc. Professors Ray Sommerfeld (The

University of Texas at Austin) and Silvia Madeo (University of Missouri—St. Louis) contributed to both volumes. Join-

ing them as co-authors of our new textbook are Professors Ken Anderson (University of Tennessee at Knoxville) and Betty Jackson (University of Colorado at Boulder). All co-authors are actively involved in both accounting education and research and all are highly respected by the professional accounting community.

ACKNOWLEDGMENTS

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thank our students who previewed some of the material.

SUGGESTIONS FOR CHANGE

The textbook will be revised during the fall of 1992 and spring of 1993. We urge all adopters to communicate their suggestions for improvements and their identification of errors to any one or all of the authors—or to the publisher, in care of Bill Teague, Managing Developmental Editor, The Dryden Press/HBJ College, City Centre Tower II, 301 Commerce Street, Suite 3700, Fort Worth, TX 76102.

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