

WEST'S
FEDERAL
TAXATION

Corporations,
Partnerships,
Estates,
and Trusts

1990 EDITION

HOFFMAN

RAABE

1990 ANNUAL EDITION

WEST'S FEDERAL TAXATION:

CORPORATIONS, PARTNERSHIPS,
ESTATES, AND TRUSTS

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Cover design: Peter Thiel

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PREFACE

This work was inspired by and designed to relieve the absence, perceived by the authors, of suitable textual material for a second course in Federal taxation—the follow-up to a course outlining the Federal income taxation of individuals. This text serves as the basis for a second course offered at either the undergraduate or graduate level or as a tool for self-study.

Throughout the text the authors stress the practical application of the materials through a liberal use of examples, most of which have been classroom tested and found to be effective learning devices. At the same time, the evolution of specific statutory provisions through the interaction of case law, political compromise, and economic considerations is discussed to offer the student a broad base for understanding and applying the tax law. Our text does not purport to be a treatise on historical and fiscal policy considerations; its primary concern is tax practice. For this reason, such discussions of the law's development were minimized. In our opinion, this minimization does not compromise the subject matter's presentation.

Special Features

- At the center of the practical application of tax law is tax planning—the legal minimization of the tax burden. The authors are sensitive to this facet of tax law education; therefore, all chapters conclude with a special section—*Tax Planning Considerations*.
- Most chapters contain one or more *Concept Summaries* that synthesize important concepts in chart or tabular form.
- The authors are of the opinion that any advanced Federal tax course should offer the student the opportunity to learn and utilize the methodology of tax research; therefore, chapter 1 is devoted in part to this topic, and each chapter contains several research projects. The effectiveness of the text does not, however, depend upon the use of these research materials. They may be omitted without diminishing the presentation of all other topics.
- There is a great deal of the useful material contained in the appendixes to the text. 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-1); Table of Regulations Cited (Appendix D-2); Table of Revenue Procedures and Revenue Rulings Cited (Appendix D-3); and Table of Cases Cited (Appendix E).

New to this Edition

- The 1990 edition of the text contains several new features. First, the text has been divided into parts to facilitate a compartmentalization of the subjects covered. Thus, Part 2, which includes chapters 2 through 6, largely deals with C corporations. Part 3, which is designated Pass-through Entities, contains the material on partnerships (chapters 7 and 8) and S corporations (chapter 9). Further groupings have been made to improve the organization of the text.
- Second, the material on C corporations has been arranged to flow logically. Because of recent changes in the tax law and the expiration of phase-out rules, stock redemptions are treated similarly to liquidations. For this reason, redemptions and liquidations are now discussed in the same chapter. The increased importance of the alternative minimum tax (AMT) warrants emphasis. As a result, the AMT is now the highlight of new chapter 5, and the chapter title prominently reflects its presence.
- Third, Part 4 (Advanced Tax Practice Considerations) contains three new chapters that treat four subjects. The first portion of new chapter 10 presents a detailed analysis of the various considerations that enter into the decision-making process in choosing the form of doing business. As such, the material is the capstone of what has been previously discussed and furnishes the foundation for choosing the appropriate business form. The rest of chapter 10 deals with tax-exempt organizations, a controversial area that is receiving considerable media attention and Congressional inquiry.
- New chapter 11 covers international transactions in a comprehensive manner. Increased foreign investment in U.S. enterprises, erosion of the dollar against major foreign currencies, and continuing trade deficits have increased interest in the tax aspects of this area. New chapter 12 explores the problems encountered when business is conducted in more than one state. Many of the multistate taxation issues are of vital interest in today's climate of competitive economic development.
- In adding the new material we did not intend to overwhelm the user of the text. The purpose of Part 4 is to illustrate *some* of the specialized areas that tax practice involves. Furthermore, the subjects are arranged so as to maximize selectivity. For example, the user may wish to cover tax-exempt organizations (chapter 10) and omit the material on multi-state taxation (chapter 12). Since these modules are not interdependent, selective omission does not detract from the effectiveness of what the user chooses to cover.

Supplements

Accompanying the text is a comprehensive package of instructional aids.

- *Instructor's Guide* that contains the following materials:

- Suggested Course Coverage.
- Instructor's Summaries that can be used as lecture outlines and provide the instructor with teaching aids and information not contained in the text.
- Incorporated as part of the Instructor's Summaries are selected queries that facilitate the use of WESTLAW, a computerized compilation of legal sources (judicial, legislative, and administrative) pertinent of the area of taxation. WESTLAW, a service available from West Publishing Co., provides a sophisticated short cut for carrying out in-depth analysis of various tax issues.
- Improved and additional Examination Questions with solutions thereto. The solutions are referenced to pages in the text.
- The solutions to the Research Problems contained in the text.
- The solutions to the Comprehensive Tax Return Problems contained in the text.
- Solutions to the Practice Sets
- A separate *Solutions Manual* contains the answers to the Discussion Questions and Problems. These solutions are referenced to pages in the text.
- WESTEST, a microcomputer test generation program for IBM PC's and compatibles and the Apple II family of computers.
- WEST-TAX PLANNER-CORPORATE, a Lotus-based tax computation and planning spreadsheet template for corporate taxpayers (available free to adopters).
- V-P PLANNER PLUS, a spreadsheet program that is completely compatible with LOTUS 1-2-3 (Release 2) and can be used to run WEST-TAX PLANNER. An educational version of V-P PLANNER PLUS and brief guide can be purchased by students.
- A *Student Study Guide*, prepared by Paul R. O'Brien, Governors State University, includes key concepts, self-evaluation tests, return problems and flowcharts of various sections of the Internal Revenue Code.
- *West's Federal Taxation Practice Sets*, 1989-90 Edition, prepared by Gerald E. Whittenberg, San Diego State University and John Barrack, University of Georgia, is designed to cover 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: 1989 Edition* by James Smith, College of William and Mary.
- *West's Federal Taxation Newsletter Update* will be mailed to adopters twice a year. It will focus on new tax legislation and updated information.

We are delighted to have the opportunity, as editors, to coordinate the efforts of our authors in this, the 1990 Annual Edition of *West's Federal Taxation: Corporations, Partnerships, Estates and Trusts*. The more than ten

years that have elapsed since our text was first made available to the academic and professional communities have more than justified the hope that it would fulfill a real need.

Acknowledgements

We are extremely grateful to the users of our text who were kind enough to provide us with constructive comments concerning its effectiveness both as a teaching and as a learning device. In particular, we express our gratitude to the following professors who extensively critiqued the text: John J. Connors, University of Wisconsin-Milwaukee; Andrew J. Demotses, Fairfield University; Edmund D. Fenton, Jr., Eastern Kentucky University; Richard T. Helleloid, University of Michigan; Michael J. R. Hoffman, Louisiana State University; John Karayan, California State University, Los Angeles; Gary A. H. Laursen, University of Southern Florida; M. Jill Martin, Georgia Southern College; and James P. Trebby, Marquette University.

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William H. Hoffman, Jr.
William A. Raabe

March 1989

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CORPORATIONS, PARTNERSHIPS,
ESTATES, AND TRUSTS

PART

1

INTRODUCTION

The Federal tax law is an unbelievably complex set of rules. In working with these rules, however, it is helpful to understand *why* these rules came about. Also necessary is the ability to locate the sources of these rules. Part 1, therefore, is devoted to the “whys” of the tax law and the applications of the tax research process.

CHAPTER

1

Understanding and Working with the Federal Tax Law

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CORPORATIONS, PARTNERSHIPS, ESTATES, AND TRUSTS

GENERAL
EDITORS

William H. Hoffman, Jr., J.D.,
Ph.D., C.P.A.

William A. Raabe, Ph.D., C.P.A.

CONTRIBUTING
AUTHORS

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

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

Jerome S. Horvitz,
J.D., LL.M. in
Taxation
University of Houston

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*

Willis C. Stevenson,
Ph.D., C.P.A.
*University of Wisconsin-
Madison*

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

ASSOCIATE
EDITOR

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

WEST PUBLISHING COMPANY

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