
Table of Contents

Preface.....	v
Table of Cases.....	xxvii
Table of Code Sections	xxxii
Table of Regulation Sections	xlv
PART I: INTRODUCTION.....	1
CHAPTER 1: Introduction to Federal Income Tax.....	3
A. Sources of Federal Tax Law	4
1. Legislative Sources.....	4
2. Executive Sources.....	4
3. Judicial Sources	5
B. Determination of Federal Income Tax Liability.....	6
1. Income Tax Base	7
2. Income Tax Rates.....	7
C. Economic Considerations Outweigh Tax Considerations.....	9
PROBLEM 1-1	10
PROBLEM 1-2	10
SYNTHESIS.....	11
PART II: GROSS INCOME.....	13
CHAPTER 2: Introduction to Gross Income.....	15
PRIMARY LAW: IRC § 61(a).....	15
<i>COMMISSIONER v. GLENSHAW GLASS COMPANY AND GOLDMAN THEATRES, INC.</i>	16
<i>Defining Income</i>	19
Notes	21
<i>JAMES v. UNITED STATES.....</i>	22
Notes	25

<i>CESARINI v. UNITED STATES</i>	26	
Notes	30	
PROBLEM 2-1	31	
SYNTHESIS	32	
 CHAPTER 3: Benefits Received by Business Owners and Employees		33
PRIMARY LAW: IRC § 61(a)	33	
A. Benefits Received by Business Owners—§ 61(a)(2)	34	
B. Benefits Received by Employees—§ 61(a)(1)	35	
1. Wages and Salary	35	
<i>OLD COLONY TRUST CO. et al. v. COMMISSIONER</i>	37	
Notes	39	
PROBLEM 3-1	39	
2. Common Fringe Benefits	40	
a. Employer Provided Medical Coverage—§ 106; Reg. § 1.106-1	40	
PRIMARY LAW: IRC § 106	40	
b. Employer Provided Medical Benefits—§ 105	42	
PRIMARY LAW: IRC § 105	42	
PRIMARY LAW: IRC § 104	44	
Notes	44	
PROBLEM 3-2	45	
PROBLEM 3-3	46	
3. Other Excluded Fringe Benefits	47	
<i>Supplemental Report of the Committee on Ways and Means, U.S. House of Representatives</i>	48	
a. No Additional Cost Service—§§ 132(a)(1), (b), (j)	54	
PRIMARY LAW: IRC § 132	54	
<i>I.R.S. Technical Advice Memorandum 8741007</i>	55	
PROBLEM 3-4	57	
b. Qualified Employee Discount—§§ 132(a)(2), (c), (j)	59	
PRIMARY LAW: IRC § 132	59	
<i>Field Attorney Advice 20171202F</i>	60	
PROBLEM 3-5	63	
c. Employer Provided Lodging and Meals—§ 119(a)	64	
PRIMARY LAW: IRC § 119	64	
<i>VANICEK v. COMMISSIONER; MODEN v. COMMISSIONER</i>	64	

Note	70
PROBLEM 3-6.....	71
SYNTHESIS.....	72
 CHAPTER 4: Benefits Received by Donors and Donees 73	
A. Benefits Received by Donors	73
B. Benefits Received by Donees—§ 102.....	74
PRIMARY LAW: IRC § 102(a)	74
1. Exclusion of Gifts (Intervivos Gratuitous Transfers)	75
<i>COMMISSIONER v. DUBERSTEIN et al.; STANTON et al. v. UNITED STATES</i>	75
Notes	81
<i>LISA B. WILLIAMS v. COMMISSIONER</i>	82
Notes	85
PROBLEM 4-1	85
2. Exclusion of Bequests, DeVises and Inheritances (Testamentary Transfers)	86
<i>WOLDER v. COMMISSIONER</i>	86
Note.....	88
PROBLEM 4-2	89
PROBLEM 4-3	89
PROBLEM 4-4	90
SYNTHESIS.....	90
 CHAPTER 5: Benefits Received by Lenders and Borrowers 91	
A. Benefits Received by Lenders—§§ 61(a)(4), (5), (6)	92
PRIMARY LAW: IRC § 61(a).....	92
Notes	92
B. Benefits Received by Borrowers.....	93
1. Exclusion of Borrowed Funds from Gross Income	93
a. Determining Whether a Loan Exists.....	94
<i>STANLEY v. COMMISSIONER</i>	94
b. Recourse and Nonrecourse Debt Treated Alike.....	97
2. Income from Discharge of Indebtedness—§ 61(a)(11)	99
PRIMARY LAW: IRC § 61(a).....	99
<i>UNITED STATES v. KIRBY LUMBER CO.</i>	100

Notes	101
3. Exceptions to Discharge of Indebtedness Income—§ 108.....	102
a. Exceptions for Bankruptcy and Insolvency.....	102
PRIMARY LAW: IRC § 108(a)(1)	102
i. Bankruptcy Exception—§ 108(a)(1)(A).....	102
ii. Insolvency Exception—§ 108(a)(1)(B).....	102
<i>NEWMAN v. COMMISSIONER</i>	103
Notes.....	106
PROBLEM 5-1	106
Notes.....	107
b. Purchase Money Debt Exception for Solvent Debtors—§ 108(e)(5)	107
PRIMARY LAW: IRC § 108(e)(5)	108
PROBLEM 5-2	109
c. Gift Exception.....	110
<i>PLOTINSKY v. COMMISSIONER</i>	110
PROBLEM 5-3	113
Note	113
d. Recourse and Nonrecourse Debt Treated Alike—§ 108(d)(1)	113
SYNTHESIS	114
 CHAPTER 6: Benefits Received by Transferor of Property—§ 61(a)(3)	115
PRIMARY LAW: IRC § 61(a)	115
A. The Realization Event Requirement	116
<i>When Should Asset Appreciation Be Taxed? The Case for a Disposition Standard of Realization</i>	117
PROBLEM 6-1	119
<i>UNITED STATES v. DAVIS</i>	120
B. Quantifying Gain or Loss When a Realization Event Occurs—§ 1001(a)	122
PRIMARY LAW: IRC § 1001(a)	122
PRIMARY LAW: IRC § 1001(b)	123
PRIMARY LAW: IRC § 1011	123
1. Basis.....	123
a. Basis of Property Is Its “Cost”—§ 1012.....	124
PROBLEM 6-2	126
PROBLEM 6-3	127

b.	Basis to Donee for Intervivos Gratuitous Transfers—§ 1015.....	128
	PRIMARY LAW: IRC § 1015(a).....	128
	<i>TAFT v. BOWERS, COLLECTOR OF INTERNAL REVENUE.....</i>	128
	Notes	131
c.	Basis to Beneficiary for Testamentary Transfers—§ 1014.....	132
	PRIMARY LAW: IRC § 1014(a).....	133
	Notes	133
	PROBLEM 6-4.....	135
2.	Adjusted Basis—§§ 1011, 1016	135
	PRIMARY LAW: IRC § 1016(a).....	136
a.	Depreciation Deduction—§§ 167, 168	136
	PRIMARY LAW: IRC § 167(a).....	137
	<i>SIMON v. COMMISSIONER.....</i>	139
	Notes	143
3.	Amount Realized—§ 1001(b).....	148
	PRIMARY LAW: IRC § 1001(b).....	148
a.	Sale of Property for Money	149
b.	Exchange of Property for Other Property	149
	PROBLEM 6-5	150
c.	Exchange of Property for Services.....	150
	<i>INTERNATIONAL FREIGHTING CORPORATION v. COMMISSIONER.....</i>	150
	PROBLEM 6-6	152
d.	Gift of Property (Intervivos or Testamentary).....	153
e.	Sale of Leveraged Property with Value in Excess of Debt—Recourse and Nonrecourse Debt Treated Alike.....	153
i.	Recourse Debt	154
	SECONDARY LAW: REG. § 1.1001-2(a)	155
	PROBLEM 6-7	155
ii.	Nonrecourse Debt	155
	<i>CRANE v. COMMISSIONER.....</i>	156
	SECONDARY LAW: REG. § 1.1001-2(a)	163
	PROBLEM 6-8	164
	Notes.....	165

f. Sale of Leveraged Property with Debt in Excess of Value—Recourse and Nonrecourse Debt Treated Differently.....	165	
i. Recourse Debt.....	166	
<i>AIZAWA v. COMMISSIONER</i>	166	
Note	168	
ii. Nonrecourse Debt	169	
<i>COMMISSIONER v. TUFTS</i>	170	
Notes.....	177	
PROBLEM 6-9	178	
SYNTHESIS	179	
 CHAPTER 7: Benefits Received by a Physically Injured Party—§ 104(a)(2)		181
PRIMARY LAW: IRC § 104(a)	181	
A. Physical Injury vs. Emotional Distress	182	
<i>STEPP v. COMMISSIONER</i>	182	
Notes	186	
PROBLEM 7-1	187	
B. Allocation of Damages	188	
<i>AMOS v. COMMISSIONER</i>	188	
Notes	195	
C. Punitive Damages	195	
PROBLEM 7-2	197	
PROBLEM 7-3	197	
SYNTHESIS	198	
 CHAPTER 8: Benefits Not Constituting Gross Income		199
A. Return of Capital/Purchase Price Reduction	200	
1. Return of Capital	200	
<i>RAYTHEON PRODUCTION CORPORATION v. COMMISSIONER</i>	200	
2. Purchase Price Reduction	202	
<i>IRS Announcement 2002-18</i>	203	
Notes	204	
PROBLEM 8-1	204	
B. Imputed Income	206	
PROBLEM 8-2	206	

C. The General Welfare Exception	207
<i>IRS Letter Ruling 201001013.....</i>	207
Note.....	211
SYNTHESIS.....	212
 PART III: DEDUCTIONS.....	213
 CHAPTER 9: Disbursements for Business and Income-Producing Activities	215
A. Disbursements for Business Activities—§ 162.....	216
PRIMARY LAW: IRC § 162.....	216
1. Meaning of “Trade or Business”	217
<i>CALIFORNIANS HELPING TO ALLEViate MEDICAL PROBLEMS, INC. v. COMMISSIONER</i>	218
Notes	224
2. Meaning of “Ordinary and Necessary”	225
<i>WELCH v. HELVERING</i>	225
<i>UNITED TITLE INSURANCE CO. v. COMMISSIONER</i>	228
Notes	231
3. Meaning of “Expense” (vs. Capital Expenditure)	232
<i>MIDLAND EMPIRE PACKING COMPANY v. COMMISSIONER.....</i>	232
Notes	236
4. Meaning of “Carrying on”	237
<i>BENNETT PAPER CORPORATION v. COMMISSIONER.....</i>	237
Note.....	239
5. Reasonable Compensation (vs. Dividend)—§ 162(a)(1).....	240
PRIMARY LAW: IRC § 162	240
<i>ELLIOTTS, INC. v. COMMISSIONER.....</i>	241
Notes	246
6. Travel Expenses While Away from Home—§ 162(a)(2).....	248
PRIMARY LAW: IRC § 162	248
<i>BARRETT v. COMMISSIONER</i>	248
7. Rental Expense (vs. Purchase)—§ 162(a)(3).....	252
PRIMARY LAW: IRC § 162	252
<i>CAL-MAINE FOODS, INC. v. COMMISSIONER.....</i>	253
Notes	260

8.	Employment as a Trade or Business	261
	<i>PEVSNER v. COMMISSIONER</i>	261
	Notes	264
	PROBLEM 9-1	264
9.	Disallowance of Deduction for Unreimbursed Employee Business Expenses.....	265
10.	Business Bad Debts—§ 166.....	266
	PRIMARY LAW: IRC § 166	266
	<i>OWENS v. COMMISSIONER</i>	267
	Notes	276
B.	Disbursements for Non-Business, Income Producing Activities—§ 212	277
	<i>HIGGINS v. COMMISSIONER</i>	278
	Note.....	280
	PRIMARY LAW: IRC § 212	281
	<i>REDISCH v. COMMISSIONER</i>	281
	Notes	285
C.	Deduction for Qualified Business Income—§ 199A	288
1.	Constraint on High-Income Taxpayer Conducting a Specified Service Business.....	288
2.	Constraint on Other High-Income Taxpayers	289
	PROBLEM 9-2	291
	Note.....	291
	SYNTHESIS	292
CHAPTER 10: Disbursements for Personal Purposes—§ 262		293
	PRIMARY LAW: IRC § 262	293
A.	Borrowing for Personal Purposes—§ 163(h)	295
	PRIMARY LAW: IRC § 163(h)	295
1.	Qualified Residence Interest	297
	<i>VOSS v. COMMISSIONER</i>	297
	Notes	303
	PROBLEM 10-1	304
2.	Investment Interest	305
	PROBLEM 10-2	307
B.	Losses Incurred with Respect to Personal Use Property—§ 165	308
	PRIMARY LAW: IRC § 165	308
	<i>AUSTIN v. COMMISSIONER</i>	309

Notes	314
PROBLEM 10-3.....	315
PROBLEM 10-4.....	316
C. Other Personal Expenses.....	316
1. Medical Expenses—§ 213	316
PRIMARY LAW: IRC § 213.....	316
<i>MORRISSEY v. UNITED STATES.....</i>	317
Notes	321
2. Charitable Contributions—§ 170.....	322
PRIMARY LAW: IRC § 170.....	322
<i>HERNANDEZ v. COMMISSIONER.....</i>	323
Note.....	330
3. Taxes—§ 164	331
PRIMARY LAW: IRC § 164.....	332
PROBLEM 10-5.....	332
Note.....	333
<i>Department of the Treasury, Internal Revenue Service, Notice of Proposed Rulemaking, Contributions in Exchange for State or Local Tax Credits</i>	333
D. Limitations on Itemized Deductions.....	336
1. Section 62 Deductions vs. Itemized Deductions.....	336
PRIMARY LAW: IRC § 63.....	337
2. Temporary Disallowance of Miscellaneous Itemized Deductions—§ 67(g)	338
PRIMARY LAW: IRC § 67	338
3. Itemized Deductions vs. the Standard Deduction—§ 63	340
PRIMARY LAW: IRC § 63	340
PROBLEM 10-6.....	342
SYNTHESIS.....	343
 PART IV: TIMING OF INCOME AND DEDUCTIONS.....	345
 CHAPTER 11: Time Value and Tax Accounting.....	347
A. Introduction to the Time Value of Money.....	348
PROBLEM 11-1	351
<i>ESTATE OF STRANAHAN v. COMMISSIONER.....</i>	352
Notes	355

B. Tax Accounting.....	356
1. Cash Method of Accounting	356
SECONDARY LAW: REG. § 1.446-1(c)(i).....	356
<i>Revenue Ruling 76-135.....</i>	357
Notes	358
<i>HORNUNG v. COMMISSIONER.....</i>	358
Notes	363
PROBLEM 11-2.....	364
Note.....	365
2. Accrual Method of Accounting.....	366
SECONDARY LAW: REG. § 1.446-1(c)(ii).....	366
a. Timing of Income	366
<i>Revenue Ruling 83-106</i>	366
<i>NORTH AMERICAN OIL CONSOLIDATED v. BURNET</i>	370
Notes	372
b. Timing of Deductions.....	373
<i>GIANT EAGLE, INC. v. COMMISSIONER</i>	373
Notes	381
PROBLEM 11-3	382
3. Change in Circumstances in Subsequent Tax Year.....	383
a. Surrender of Prior Year's Income	383
<i>UNITED STATES v. LEWIS</i>	383
PRIMARY LAW: IRC § 1341.....	385
Notes	387
PROBLEM 11-4	388
b. Recovery of Prior's Years Deduction.....	389
<i>ALICE PHELAN SULLIVAN CORPORATION v. UNITED STATES</i>	389
Notes	391
PROBLEM 11-5	392
SYNTHESIS.....	393
 CHAPTER 12: Timing of Gains and Losses from Dealings in Property.....	395
A. Deferred Recognition of Gain—§ 453	396
Note.....	396
1. Fixed Payment Installment Sales.....	397
PRIMARY LAW: IRC § 453	397

PROBLEM 12-1	400
Notes	400
2. Contingent Payment Installment Sales	401
<i>BURNET v. LOGAN</i>	403
Note	405
<i>PERLIN v. COMMISSIONER</i>	406
Notes	409
B. Non-Recognition of Gain and Loss	411
1. Like-Kind Exchange of Business/Investment Property—§ 1031	412
PRIMARY LAW: IRC § 1031	412
a. Like-Kind Property	412
<i>KOCH v. COMMISSIONER</i>	412
<i>Revenue Procedure 2019-18</i>	415
b. Property Held for Business or Investment	419
<i>ADAMS v. COMMISSIONER</i>	419
c. Deferral of Gain (or Loss) and Impact of “Boot”	422
PRIMARY LAW: IRC § 1031	424
PROBLEM 12-2	425
2. Involuntary Conversion—§ 1033	426
PRIMARY LAW: IRC § 1033	426
<i>DAVIS v. UNITED STATES</i>	427
Notes	431
3. Property Transfers Between Spouses and Former Spouses—§ 1041	432
PRIMARY LAW: IRC § 1041	432
<i>LOUISE F. YOUNG v. COMMISSIONER</i>	432
Notes	436
C. Exclusion of Gain on Sale of Residence—§ 121	437
PRIMARY LAW: IRC § 121	437
<i>GATES v. COMMISSIONER</i>	438
PROBLEM 12-3	444
SYNTHESIS	444
CHAPTER 13: Special Deferral Rules	447
A. Deferral of Income—§ 83	447
PRIMARY LAW: IRC § 83	448
PRIMARY LAW: IRC § 83	450

<i>ALVES v. COMMISSIONER</i>	452
PROBLEM 13-1	457
B. Deferral of Deductions	458
1. Passive Activity Losses—§ 469	458
PRIMARY LAW: IRC § 469	459
<i>LELAND v. COMMISSIONER</i>	461
Notes	464
PRIMARY LAW: IRC § 469(i)	467
PROBLEM 13-2	468
PRIMARY LAW: IRC § 469(c)	469
<i>FRANCO v. COMMISSIONER</i>	470
PROBLEM 13-3	473
2. Net Operating Losses—§ 172	474
PRIMARY LAW: IRC § 172	475
PROBLEM 13-4	476
3. Limitation on Excess Business Losses—§ 461(l)	476
PRIMARY LAW: IRC § 461(l)	477
PROBLEM 13-5	480
SYNTHESIS	480
CHAPTER 14: Imputation	483
A. Below Market Loans—§ 7872	483
<i>DEAN v. COMMISSIONER</i>	484
PRIMARY LAW: IRC § 7872	487
<i>KTA-TATOR, INC. v. COMMISSIONER</i>	490
Notes	493
PROBLEM 14-1	495
B. Original Issue Discount	496
Notes	499
SYNTHESIS	500
PART V: IMPACT OF TAX RATES	501
CHAPTER 15: Progressive Tax Rates	503
A. Application of Progressive Tax Rates to Unmarried Individuals—	
§ 1(j)(2)(C)	504

B. Impact of Progressive Tax Rates on Marriage—§ 1(j)(2)(A).....	506
PROBLEM 15-1.....	509
C. Assignment of Income.....	509
1. Income from Services.....	509
<i>LUCAS v. EARL.....</i>	509
Note.....	511
<i>COMMISSIONER v. GIANNINI.....</i>	511
2. Income from Property.....	515
<i>HELVERING v. HORST.....</i>	515
Notes	518
<i>CORLISS v. BOWERS.....</i>	519
<i>HELVERING v. CLIFFORD</i>	521
D. Higher Tax Rates on Child's Unearned Income—§§ 1(g), (j)(4).....	524
Notes	527
PROBLEM 15-2.....	529
SYNTHESIS.....	529
 CHAPTER 16: Characterization	531
A. Taxation of Capital Gains and Losses.....	531
Note.....	534
PROBLEM 16-1.....	537
PROBLEM 16-2.....	537
PROBLEM 16-3.....	538
B. Characterization as Capital Gain or Capital Loss	538
1. Sale or Exchange Requirement.....	538
<i>KENAN v. COMMISSIONER</i>	538
Notes	542
PROBLEM 16-4.....	542
<i>GALVIN HUDSON v. COMMISSIONER.....</i>	542
Notes	544
2. Capital Asset Requirement—§ 1221.....	545
PRIMARY LAW: IRC § 1221.....	545
a. Property vs. Income	545
<i>HORT v. COMMISSIONER.....</i>	546
<i>METROPOLITAN BUILDING COMPANY v. COMMISSIONER</i>	547
Notes	551

b. Inventory Exception—§ 1221(a)(1).....	551
PRIMARY LAW: IRC § 1221	551
<i>BOREE v. COMMISSIONER</i>	552
<i>SUGAR LAND RANCH DEVELOPMENT, LLC v. COMMISSIONER</i>	560
3. Property Used in a Trade or Business—§§ 1221(a)(2), 1231.....	565
PRIMARY LAW: IRC § 1221	565
PRIMARY LAW: IRC § 1231	567
Notes	569
<i>LATIMER-LOONEY CHEVROLET, INC. v. COMMISSIONER</i>	570
<i>Revenue Ruling 75-538</i>	574
Notes	576
4. Recharacterization of Depreciable Property—§ 1245	577
Note.....	578
5. Sale of a Business	580
<i>WILLIAMS v. McGOWAN</i>	580
PROBLEM 16-5	582
6. Termination of Contract—§ 1234A.....	583
PRIMARY LAW: IRC § 1234A	583
<i>CRI-LESLIE, LLC v. COMMISSIONER</i>	583
7. Virtual Currency.....	590
<i>IRS Notice 2014-21</i>	590
8. Impact of Prior Year’s Transaction on Characterization	593
<i>ARROWSMITH et al. v. COMMISSIONER</i>	593
Notes	596
C. Dividend Income Taxed at Capital Gains Rates—§ 1(h)(11)	597
D. Surtax on Net Investment Income—§ 1411	598
SYNTHESIS	599
 PART VI: ALTERNATIVE MINIMUM TAX	601
 CHAPTER 17: Alternative Minimum Tax—§ 55	603
A. Alternative Minimum Tax Rates	603
B. Alternative Minimum Tax Base	604

C. Calculating the Alternative Minimum Tax.....	605
<i>KATZ v. COMMISSIONER</i>	607
SYNTHESIS.....	610
 PART VII: INTRODUCTION TO THE FEDERAL INCOME TAXATION OF BUSINESSES..... 611	
CHAPTER 18: Introduction to C Corporations, S Corporations, and Partnerships	613
A. The Business as an Entity Under State Law	614
B. The Business as a Taxpaying Entity—the C Corporation	616
C. The Business as a Tax Accounting Entity—the S Corporation and the Partnership.....	619
D. The Uniform Taxation of All Business Income—Preview of the Future?	621
<i>Treasury Department Report, Integration of the Individual and Corporate Tax Systems</i> ...	622
Notes	625
EPILOGUE: Review of Major Themes.....	627
A. Economic Considerations vs. Tax Considerations	627
B. The Time Value of Money.....	628
C. The Realization Event Requirement.....	629
D. The Effect of Progressive Tax Rates	630
Index	631