



Introduction to U.S. Income Tax Regime

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Course Overview: This course will introduce students to the basic structure and operation of the U.S. income tax regime. The course will commence with an overview of the legal structure for the imposition of income taxes (constitutional authorization and limitations, statutes, regulations, other forms of administrative guidance, and case law). Turning to the existing income tax regime, much of the course will be devoted to the construction of the income tax base – that is, the initial scope of gross income, exclusions from gross income, and deductions from gross income. The course will address the taxation of property transactions, covering the realization and recognition of gains and losses as well as transactions that are afforded nonrecognition treatment. This material also will address preferential rates for capital gains as well as limitations on capital losses. The course will conclude with an overview of the structure for imposing an income tax on business entities (C Corporations, S Corporations, and Partnerships).

Course Materials: We will use a chapter by Gregg Polsky on Income Taxation (Chapter 6) in a study aid entitled *STAY AHEAD OF THE PACK: YOUR COMPREHENSIVE GUIDE TO THE UPPER LEVEL CURRICULUM*. This book chapter will be distributed to course participants. Prior to the start of the course, it would be helpful to read the narrative portion (26 pages) of a report by the Joint Committee on Taxation, [Overview of the Federal Tax System as in Effect for 2024](#), JCX-26-24 (May 2024).

Class Assignments

Note: References to “IRC” are to provisions in the Internal Revenue Code. References to “Regs.” are to provisions of the Treasury Regulations. All of these can be accessed through electronic means by searching “IRC ---” or “Treas. Reg. ---”.

1. Introduction

IRC: §§ 1(a), 11, 61
Materials: Polsky, Lessons 1-2

2. Gross Income; Realization Rule; Borrowed Funds

IRC: § 61
Regs.: § 1.61-14
Materials: Polsky, Lessons 3-4, 7

3. Gains on Dispositions of Property

IRC: §§ 1001(a)-(c)

Materials: Polsky, Lesson 5

Review Problem: Jennifer purchases stock for \$50,000 in Year 1. Following news of a potential merger, the stock increases in value to \$200,000 in Year 2. At that point, Jennifer borrows \$150,000, pledging the stock as collateral. (She uses the \$150,000 to finance the cost of her son's college education.) In Year 5, Jennifer sells the stock for \$450,000, and uses \$125,000 of the sale proceeds to satisfy the remaining balance on the loan. What are the tax consequences of these events? How would your answer change if Jennifer died in Year 5 when the stock was worth \$450,000?

4. Exclusions from Gross Income

IRC: §§ 101, 102, 104(a)(2), 105, 106, 108, 132

Materials: Polsky, Lessons 6, 8-10

Review Problem: Jon realizes the following items of economic gain during the current calendar year. What amounts, if any, are included in gross income?

- Jon works as a paralegal at a law firm, which pays him a salary of \$100,000. Jon's employer withholds \$20,000 of income tax from his regular paychecks and remits that amount to the federal government on his behalf.
- Jon's employer pays \$15,000 in health insurance premiums for Jon and his family.
- Per the law firm's program, Jon received a 50% discount on legal services normally billed at \$6,000.
- Jon has a weekend dog grooming business, which generates \$25,000 in revenue.
- Jon received a bequest from his grandmother of \$50,000.
- Jon recently settled a claim resulting from a car accident for \$300,000. Of this amount, Jon's attorney kept \$100,000 as a contingent fee.
- Jon earned \$2,000 of interest on his savings account.
- Jon found a silver bracelet on the sidewalk. He took the bracelet to a pawn shop and was offered \$400. He likes the way it looks and decided to keep it himself.

5. Deductions – Business or Profit-Seeking Activities

IRC: §§ 162, 212

Materials: Polsky, Lessons 11, 14, 15

6. Capitalization and Depreciation

IRC: § 263(a), § 167(a), skim § 168, 179, 197

Materials: Polsky, Lessons 12-13

7. Adjusted Gross Income; Standard Deduction; QBI Deduction

IRC: §§ 62, 63, 67, skim § 199A

Materials: Polsky, Lesson 18

Review Problems:

1. Barbara owns and operates a landscaping business. She earned \$500,000 in revenue from the business while paying \$200,000 in wages. She also paid \$25,000 for appropriate licenses and insurance. In addition to these amounts, Barbara paid \$36,000 to rent her apartment for the year, she made \$6,000 in contributions to her church, and she paid \$30,000 in state and local income taxes. What is Barbara's (a) gross income, (b) adjusted gross income, and (c) taxable income (assume a standard deduction of \$12,000)?
2. If Barbara purchased a new industrial mower for \$50,000, how will she recover her investment from a tax perspective?
3. If Barbara borrowed \$100,000 in connection with the acquisition of a warehouse facility for \$120,000, what is her basis in the warehouse? How will she recover her investment from a tax perspective?

8. Capital Gains and Losses

IRC: §§ 1221(a), 1222(11); skim § 1(h)
Materials: Polsky, Lesson 21

9. Quasi-Capital Gains and Losses

IRC: §§ 1231(a), (b)
Materials: Polsky, Lesson 22

10. Depreciation Recapture

IRC: §§ 1245(a), 1250(a)(1), (b)(1), 1(h)(3)-(6)
Materials: Polsky, Lesson 23

Review Problems:

1. Dan is engaged in the real estate development business. He has the following transactions in the current year:
 - Sale of ten lots in a real estate development for \$1 million. The total basis allocated to these lots was \$300,000.
 - Sale of X Corp. stock for \$60,000. Stock purchased several years ago for \$20,000.
 - Sale of Y Corp. stock for \$80,000. Stock purchased several years ago for \$100,000.
 - Sale of Z Corp. stock for \$40,000. Stock purchased earlier in the current year for \$35,000.

- Sale of office building where Dan conducts his business for \$400,000. \$100,000 of the \$400,000 sales price was allocated to underlying land. Dan purchased the building several years ago for \$250,000, \$50,000 of which was allocated to the land at the time. Dan took \$40,000 of depreciation on the building over the years.
- Sale of a vehicle that Dan used in his trade or business for \$20,000. Dan purchased the vehicle for \$30,000. Dan's basis in the truck was \$5,000 at the time of the sale.

Determine the amount of gains on losses on these sales, as well as the character of the resulting gain or loss. Will any amount of gain be subject to a preferential rate?

2. For this question only assume the vehicle Dan used in his trade or business was stolen. What are the tax consequences to Dan if, alternatively, (a) the vehicle was not insured, and (b) Dan collected \$15,000 in insurance proceeds?

11. Proper Taxpayer and Taxable Unit

Materials: Polsky, Lesson 24

12. Overview of Business Entity Income Taxation

Materials: Book chapter to be distributed