



51A Middle Street, Newburyport, MA 01950

Phone: 800-588-7039

contact@bhfe.com

[www.bhfe.com](http://www.bhfe.com)

## COURSE INFORMATION

**Course Title:** *Small Business Tax Planning*

**#495324**

**Number of continuing education credit hours recommended for this course**

In accordance with the standards of the CFP Boards, the National Registry of CPE Sponsors, and the IRS, CPE credits have been granted based on a 50-minute hour.

**CFP®:** **19** (All States) CFP Board Course ID# 268603  
CFP Board sponsor number: 1008.

**CPA:** **24** (All States)  
National Registry of CPE Sponsors ID Number: 107615.  
Sponsor numbers for states requiring sponsor registration:  
Florida Division of Certified Public Accountancy: Sponsor: 0004761 (Ethics #0011467)  
Hawaii Board of Public Accountancy: 14003  
New York State Board of Accountancy (for ethics): 002146  
Ohio State Board of Accountancy: CPE .51 PSR  
Pennsylvania Board of Accountancy: PX 178025  
Texas State Board of Accountancy: 009349

**EA/OTRP:** **24** (All States) IRS: Qualified Sponsor number: *FWKKO*.

**CLU, ChFC:** **24** (Professional Recertification)

### Course Description

Americans who want to be their own boss are not entirely on their own. They have a rich uncle - Uncle Sam - who is there to help, as well as to make demands. The nation's tax laws are intended to encourage people to start new businesses and are chock full of incentives and tax breaks, as well as sometimes onerous reporting requirements.

This course is a fast-paced and entertaining guide through tax issues affecting business entities and their owners. The focus of this class is on tax devices and techniques available to the small-business owner. Emphasis will be given to operational deductions, fringe benefits, compensation, family income splitting, retirement plans, and estate planning.

## Course Content

Publication/Revision Date: 6/12/2024.

Author: Danny Santucci, J.D.

Final exam (online): One-hundred twenty questions (multiple-choice).

**Program Delivery Method:** Self-Study (NASBA QAS Self-Study / Interactive)

## Subject Codes/Field of Study

NASBA (CPA), CFP Board of Standards, Inc.; "D" Taxes.

IRS (EA, OTRP): Federal Tax Law.

NAPFA: Taxes

## Course Level, Prerequisites, and Advance Preparation Requirements

Program Level: CFP Board: Intermediate; NASBA/CPA, IRS: Overview.

This program is appropriate for professionals at all organizational levels.

Prerequisites: Basic familiarity with federal taxation

Advance Preparation: None

### Instructions for Taking This Course

- **Log in to your secure account at [www.bhfe.com](http://www.bhfe.com). Go to "My Account."**
- **You must complete this course within one year** of purchase (If the course is "Expired," contact us and we will add the latest edition of the course to your account (no charge).
- **To retain the course-PDF after completion (for future reference) and to enable enhanced navigation:** From "My Account," Download and save the course-PDF to your computer. This will enable the search function (Menu: Edit>Find) and bookmarks (icon on left side of document window).
- **Complete the course by** following the learning objectives listed for the course, studying the text, and, if included, studying the review questions at the end of each major section (or at the end of the course).
- **Once you have completed studying the course** and you are confident that the learning objectives have been met, answer the final exam questions (online).

### Instructions for Taking the Online Exam

- **Log in to your secure account at [www.bhfe.com](http://www.bhfe.com). Go to "My Account."**
- A passing grade of at least **70%** is required on the exam for this course.
- You will have three attempts to pass the exam (call or email us after three unsuccessful attempts for instructions).
- The exam is not timed, and it does not need to be completed in one session.
- For a printed copy of the exam questions, open the exam and press "Print Exam."
- Once you pass the exam, the results (correct/incorrect answers) and certificate of completion appear in "My Account." A confirmation email is also sent.
- CFP Board and IRS credit hours, if applicable, are reported on Tuesdays and at the end of the month.

**Have a question?** Call us at 800-588-7039 or email us at [contact@bhfe.com](mailto:contact@bhfe.com).

# LEARNING ASSIGNMENTS & OBJECTIVES

As a result of studying each assignment, you should be able to meet the objectives listed below each assignment.

<b>ASSIGNMENT</b>	<b>SUBJECT</b>
<b>Chapter 1</b>	<b>Structure, Reporting &amp; Accounting</b>

At the start of Chapter 1, participants should identify the following topics for study:

- \* Sole proprietorships
- \* Partnerships
- \* Regular corporations
- \* Recordkeeping
- \* Kinds of records to keep
- \* Business transactions
- \* Bookkeeping systems
- \* How long to keep records
- \* Accounting periods & methods
- \* Inventories

### **Learning Objectives**

After reading Chapter 1, participants will be able to:

1. Recognize sole proprietorships, partnerships, and corporations as organizational formats for new and existing businesses.
2. Identify how choice of entity relates to the type of records to keep, listing issues related to substantiation and documentation.
3. Specify available accounting periods and methods and the methods for identifying and valuing inventory items.

After studying the materials in Chapter 1, answer exam questions 1 to 11.

<b>ASSIGNMENT</b>	<b>SUBJECT</b>
<b>Chapter 2</b>	<b>Business Income, Credits &amp; Assets</b>

At the start of Chapter 2, participants should identify the following topics for study:

- \* Rental income
- \* Interest
- \* Discharge of debt income
- \* Dividends
- \* Recoveries
- \* Depreciation recapture
- \* Partnership income
- \* Business & investment credits
- \* Asset types

\* Non-recognition transfers

### **Learning Objectives**

After reading Chapter 2, participants will be able to:

1. Identify the various types of income and their implications, including the hidden income tax dangers of cancellation of indebtedness income, tax recoveries, and depreciation recapture.
2. Specify the existing basic business and investment tax credits, naming their tax requirements, and business asset types that affect the character of gain or loss, and recognize the tax treatment on the disposition of business assets, including non-recognition transfers and §1231 assets.

After studying the materials in Chapter 2, answer exam questions 12 to 18.

### **ASSIGNMENT**

### **SUBJECT**

#### **Chapter 3**

#### **Selected Business Expenses**

At the start of Chapter 3, participants should identify the following topics for study:

- \* Section 162
- \* Expenses of not-for-profit activities
- \* Rent expenses
- \* Interest expense
- \* Deductible taxes
- \* Other selected deductible costs
- \* Amortization
- \* Depletion -§613
- \* Business bad debts
- \* Depreciation

### **Learning Objectives**

After reading Chapter 3, participants will be able to:

1. Recognize the importance of §162 in deducting and substantiating business expenses and costs and specify the implications of the deduction timing and limits specifying the treatment of not-for-profit activities.
2. Identify conditional sales contracts, leveraged leases, and true leases, and determine how to qualify for rent expense deductions including through leasehold improvements.
3. Specify the various forms of interest expense under §163(a) recognizing related reporting and filing issues, and identify the distinctions between deductible and nondeductible interest.
4. Recognize deductions for real estate, state, and local taxes and list deductions for home office use, research and experimentation costs, barrier removal, and mine development.
5. Identify the various forms of tax treatment under the concepts of depreciation and amortization, including the effect on amortization of §197.

6. Determine the differences between cost depletion and percentage depletion as a means of accounting for the reduction of a product's reserves.
7. Specify the types of bad debt and their effect on accounting and the various methods for dealing with bad debt.
8. Recall MACRS classifications, cite the recapture provisions and exceptions, and identify the alternative depreciation system.

After studying the materials in Chapter 3, answer exam questions 19 to 51.

<b>ASSIGNMENT</b>	<b>SUBJECT</b>
<b>Chapter 4</b>	<b>Employee Compensation &amp; Benefits</b>

At the start of Chapter 4, participants should identify the following topics for study:

- \* Wages, salary & pay
- \* Tests for deducting pay to employees
- \* Selected types of compensation
- \* Payroll taxes
- \* Selected fringe benefits
- \* Interest-free & below-market loans
- \* Equity participation
- \* Advantages of nonqualified deferred compensation
- \* Funded company account plans
- \* Segregated asset plans

#### **Learning Objectives**

After reading Chapter 4, participants will be able to:

1. Specify the common-law rules used by the IRS to determine whether a person is an employee for purposes of FICA, FUTA, and federal income tax withholding.
2. Identify the tests for wages to be deductible and how excluded fringe benefits can result in more employer deductions and incentive-based compensation to employees.
3. Recognize the use of deferred compensation agreements including the basic types of nonqualified deferred compensation, and the tax consequences related to these plans.

After studying the materials in Chapter 4, answer exam questions 52 to 64.

<b>ASSIGNMENT</b>	<b>SUBJECT</b>
<b>Chapter 5</b>	<b>Automobiles</b>

At the start of Chapter 5, participants should identify the following topics for study:

- \* Apportionment of personal & business use
- \* Deduction limitations using the actual cost method
- \* Expensing - §179
- \* Predominate business use rule
- \* Auto leasing
- \* Standard mileage method

- \* Auto trade-in vs. sale
- \* Employer-provided automobile
- \* Nonpersonal use vehicle
- \* Reporting of an employer-provided automobile

### **Learning Objectives**

After reading Chapter 5, participants will be able to:

1. Identify the apportionment of business and personal use of an automobile, including deduction limitations, and specify the various depreciation methods such as MACRS and §179 expensing.
2. Recognize personal auto leasing, its advantages and disadvantages, and the various kinds of leasing arrangements that can be used, such as closed-end or open-end leases.
3. Recall the standard mileage method listing its limitations and identify the various working condition fringe benefits including their impact on the gross income of employees.
4. Identify the various valuation methods used in determining the actual value of an employee's personal use of an automobile specifying the reporting options available to the employer.

After studying the materials in Chapter 5, answer exam questions 65 to 78.

<b>ASSIGNMENT</b>	<b>SUBJECT</b>
<b>Chapter 6</b>	<b>Business Travel &amp; Entertainment</b>

At the start of Chapter 6, participants should identify the following topics for study:

- \* Transportation & travel distinguished
- \* Definition of "tax home"
- \* Temporary & indefinite assignments
- \* Business purpose requirement for business travel
- \* Conventions & meetings
- \* Statutory exceptions of the ordinary & necessary requirement
- \* Restrictions on entertainment & facilities
- \* Employee expense reimbursement & reporting
- \* Self-employed persons
- \* Employers

### **Learning Objectives**

After reading Chapter 6, participants will be able to:

1. Recognize the "away from home" requirement and related deductions, specifying the tests for tax home and recognize the differences between temporary and indefinite work assignments.
2. Differentiate the requirement of domestic and foreign travel including North American area and cruise ship conventions.
3. Determine what constitutes business entertainment, identify business entertainment activity disallowance and specify the §274(e) exceptions.

4. Recognize the necessity of expense substantiation, and determine accountable and non-accountable plans stating the impact on deductions.

After studying the materials in Chapter 6, answer exam questions 79 to 89.

<b>ASSIGNMENT</b>	<b>SUBJECT</b>
<b>Chapter 7</b>	<b>Retirement Plans</b>

At the start of Chapter 7, participants should identify the following topics for study:

- \* Qualified deferred compensation
- \* Basic requirements of a qualified pension plan
- \* Basic types of corporate plans
- \* Types of defined contribution plans
- \* Self-employed plans – Keogh
- \* Distribution & settlement options of IRAs
- \* Tax-free rollovers for IRAs
- \* Roth IRAs
- \* Simplified employee pension plans (SEPs)
- \* SIMPLE Plans

### **Learning Objectives**

After reading Chapter 7, participants will be able to:

1. Recognize the requirements and characteristics of qualified retirement plans by:
  - a. Citing the limitations imposed by ERISA and TEFRA;
  - b. Specifying trust requirements and tests associated with these requirements, such as the ratio test; and
  - c. Identifying three classes of vesting listing how the vesting standards affect retirement plans.
2. Determine the differences between defined contribution and defined benefit plans recognizing the different types of plans and their effect on retirement benefits.
3. Identify Keogh Plans, traditional and Roth IRAs, and SIMPLE 401(k) plans by specifying their characteristics and determining how and when they may and may not be appropriate.

After studying the materials in Chapter 7, answer exam questions 90 to 104.

<b>ASSIGNMENT</b>	<b>SUBJECT</b>
<b>Chapter 8</b>	<b>Insurance</b>

At the start of Chapter 8, participants should identify the following topics for study:

- \* Company paid insurance
- \* Group term life insurance
- \* Retired lives reserve
- \* Split-dollar life insurance
- \* Medical & dental insurance

- \* Disability income insurance
- \* Interest limitation on policy loans
- \* Self-employed health insurance deduction
- \* Capitalized insurance
- \* Health savings account

### **Learning Objectives**

After reading Chapter 8, participants will be able to:

1. Recognize the benefits of company-provided insurance policies by identifying how to qualify for group term life insurance and citing the requirements of re-tired lives reserve funds and split-life insurance policies.
2. Identify the §264 interest disallowance rule and specify the COBRA continuance of group health benefits.

After studying the materials in Chapter 8, answer exam questions 105 to 109.

<b>ASSIGNMENT</b>	<b>SUBJECT</b>
<b>Chapter 9</b>	<b>Estate Planning</b>

At the start of Chapter 9, participants should identify the following topics for study:

- \* Unlimited marital deduction
- \* Simple will
- \* Types of trusts
- \* Charitable trusts
- \* Family documents
- \* Private annuities
- \* Business valuation
- \* Redemptions
- \* Lifetime dispositions
- \* Installment payment of federal estate taxes

### **Learning Objectives**

After reading Chapter 9, participants will be able to:

1. Recognize the elements of general estate planning such as the unlimited marital deduction, including the qualified terminable interest property trust, stepped-up basis, and former modified carryover basis rules.
2. Identify the primary dispositive plans, such as simple wills, the various types of trusts, annuities, related family documents, and conservatorships.
3. Specify the various special business issues related to estate planning, such as methods of business valuation, the implications of important revenue rulings, the use of estate planning tools recognizing buy-sell agreements, and deferred compensation agreements.

After studying the materials in Chapter 9, answer exam questions 110 to 120.



## **Notice**

This course and test have been adapted from materials and information contained in the above text and any supplemental material provided. This course is sold with the understanding that the publisher is not engaged in rendering legal, accounting, or other professional advice and assumes no liability whatsoever in connection with its use. Since laws are constantly changing, and are subject to differing interpretations, we urge you to do additional research and consult appropriate experts before relying on the information contained in this course to render professional advice.

# Small Business Tax Planning



By

**Danny C. Santucci**

The author is not engaged by this text, any accompanying electronic media, or lecture in the rendering of legal, tax, accounting, or similar professional services. While the legal, tax, and accounting issues discussed in this material have been reviewed with sources believed to be reliable, concepts discussed can be affected by changes in the law or in the interpretation of such laws since this text was printed. For that reason the accuracy and completeness of this information and the author's opinions based thereon cannot be guaranteed. In addition, state or local tax laws and procedural rules may have a material impact on the general discussion. As a result, the strategies suggested may not be suitable for every individual. Before taking any action, all references and citations should be checked and updated accordingly.

*This publication is designed to provide accurate and authoritative information in regard to the subject matter covered. It is sold with the understanding that the publisher is not engaged in rendering legal, accounting, or other professional service. If legal advice or other expert advice is required, the services of a competent professional person should be sought.*

*—From a Declaration of Principles jointly adopted by a committee of the American Bar Association and a Committee of Publishers and Associations.*

**Copyright June, 2024**

**Danny C. Santucci**

# TABLE OF CONTENTS

## **CHAPTER 1 - Structure, Reporting & Accounting .....1-1**

Introduction .....	1-1
Entity Tax Divide .....	1-2
Passthrough Entities - 20% Deduction .....	1-2
Limitations .....	1-2
Deduction Amount.....	1-3
Qualified Trade Or Business.....	1-3
Corporations - 21% Rate .....	1-4
Types of Business Organizations .....	1-4
Sole Proprietorships.....	1-5
Schedules C & Former C-EZ.....	1-5
Self-Employment Taxes .....	1-6
Estimated Tax Payments .....	1-7
Advantages .....	1-7
Disadvantages.....	1-7
Partnerships .....	1-7
Agreement .....	1-8
General Tax Aspects.....	1-8
Form 1065.....	1-9
Limited Partnerships.....	1-9
Passive Presumption .....	1-9
At-Risk Rules - §465 .....	1-10
Financing .....	1-10
Passive Loss Limitations - §469.....	1-10
Active/Passive Determination.....	1-11
Triggering Suspended Losses .....	1-11
Regular Corporations.....	1-11
Electronic Federal Tax Payment System (EFTPS).....	1-12
Form 1120 - Corporate Income Tax Return .....	1-13
Which Form To File .....	1-13
Penalty for Late Filing of Return .....	1-14
Penalty for Late Payment of Tax .....	1-14
Limit on Deduction for Dividends.....	1-14
Effect on Net Operating Loss .....	1-15
At-Risk Rules for Closely Held Corporations .....	1-15
Alternative Minimum Tax for Corporations .....	1-15
Reinstatement of AMT for Larger Corporations - §55(b)(2).....	1-16
Tax Rate - 21% .....	1-16
Advantages .....	1-17
Disadvantages.....	1-17
Qualified Personal Service Corporation .....	1-18
S Corporations .....	1-20
Advantages .....	1-20
Disadvantages.....	1-21

Limited Liability Company .....	1-22
Advantages .....	1-24
Disadvantages.....	1-24
Record keeping.....	1-25
Why Keep Records? .....	1-25
Monitor the Progress of a Business .....	1-25
Prepare Financial Statements.....	1-25
Identify Source of Receipts .....	1-25
Keep Track Of Deductible Expenses.....	1-26
Prepare Tax Returns .....	1-26
Support Items Reported On Tax Returns.....	1-26
Kinds of Records to Keep.....	1-26
Supporting Documents .....	1-26
Gross Receipts .....	1-26
Purchases.....	1-27
Expenses.....	1-27
Assets .....	1-27
Business Transactions.....	1-28
Basic Recordkeeping .....	1-29
Business Checkbook.....	1-29
Reconciling the Checking Account .....	1-30
Bookkeeping Systems.....	1-31
Single-Entry.....	1-31
Double-Entry .....	1-32
Computerized System.....	1-32
Microfilm .....	1-33
Electronic Storage System.....	1-33
How Long To Keep Records .....	1-34
Employment Taxes.....	1-35
Assets .....	1-35
Records for Nontax Purposes .....	1-35
Accounting Periods & Methods.....	1-35
Tax Year.....	1-35
Section 444 Election .....	1-36
Business Purpose .....	1-36
Changes in Accounting Periods.....	1-37
Accounting Method.....	1-37
Changing a Business's Method of Accounting.....	1-38
Inventories .....	1-38
Identification Methods.....	1-38
Specific Identification Method .....	1-38
FIFO Method .....	1-39
LIFO Method.....	1-39
Valuation Methods .....	1-39
Cost Method .....	1-40
Uniform Capitalization Rules - §263A.....	1-40
Lower of Cost or Market Method .....	1-41
<b>CHAPTER 2 - Business Income, Credits &amp; Assets .....</b>	<b>2-1</b>
Business Income.....	2-1

Overview .....	2-1
Types of Income .....	2-2
Barter.....	2-2
Information Returns.....	2-2
Rental Income.....	2-3
Individual Lessors.....	2-3
Advance Rent.....	2-3
Lease Bonus.....	2-3
Security Deposits .....	2-3
Payment for Canceling a Lease.....	2-4
Payments to Third Parties .....	2-4
Settlement Payments.....	2-4
Interest.....	2-4
Uncollectible Loans .....	2-4
Below-Market Loans .....	2-4
Installment Sales.....	2-5
Interest on Insurance Dividends.....	2-5
Discharge of Debt Income .....	2-5
Exceptions from Income Inclusion .....	2-5
Reduction of Tax Attributes .....	2-6
Order of Reductions .....	2-6
Sale of Products or Services .....	2-6
Dividends .....	2-6
Ordinary Dividends .....	2-6
Money Market Funds .....	2-7
Dividends on Capital Stock.....	2-7
Dividends Used to Buy More Stock .....	2-7
Qualified Dividends.....	2-7
Tax on Net Investment Income - §1411 .....	2-8
Recoveries .....	2-10
Itemized Deduction Recoveries .....	2-11
Recovery Limited to Deduction .....	2-11
Recoveries Included in Income .....	2-11
Non-Itemized Deduction Recoveries.....	2-11
Amounts Recovered for Credits .....	2-11
Tax Benefit Rule.....	2-12
Recapture of Depreciation.....	2-12
Sale Or Exchange Of Depreciable Property .....	2-12
Listed Property.....	2-12
Section 179 Property.....	2-12
Sole Proprietorship Income .....	2-12
Partnership Income .....	2-13
Partnership Agreement .....	2-13
Partnership Return .....	2-13
Partner's Return .....	2-14
Corporate Income .....	2-14
S Corporation Income.....	2-14
S Corporation Return .....	2-14
Shareholder's Return .....	2-15
Distributions .....	2-15
Alternative Minimum Tax Income .....	2-15

Business & Investment Credits .....	2-16
Business Credit Carryback & Carryforward Rules - §39(a) .....	2-17
NOL Comparison .....	2-17
Disposition of Business Assets.....	2-17
Amount Realized .....	2-18
Basis of Assets.....	2-18
Unstated Interest.....	2-18
Allocation of Purchase Price .....	2-18
Asset Types .....	2-19
Section 1231 Assets.....	2-19
Character of Gain or Loss.....	2-19
5 Year Averaging.....	2-19
Like-Kind Exchanges .....	2-20
Qualified Property Requirement.....	2-20
Like-kind Requirement.....	2-20
Like-kind Exchanges Limited to Real Property.....	2-21
Goodwill Prohibition .....	2-21

### **CHAPTER 3 - Selected Business Expenses.....3-1**

Section 162.....	3-1
Cost of Goods Sold.....	3-2
Capital Expenses - §263 .....	3-3
Cost Recovery Depreciation - §168.....	3-3
Personal vs. Business Expenses.....	3-3
At-Risk Amounts - §465.....	3-3
Passive Losses - §469 .....	3-4
Net Operating Loss - §172.....	3-4
Creation of an NOL .....	3-4
Individual NOLs.....	3-4
Carryovers .....	3-4
Farming .....	3-5
Corporate NOLs .....	3-5
Timing of Expense Deduction.....	3-6
Economic Performance - §461 .....	3-6
Prepayment of Expenses.....	3-6
Contested Liability .....	3-7
Related Person - §267.....	3-7
Expenses of Not-for-Profit Activities - §183 .....	3-7
Presumption of Profit.....	3-8
Using The Presumption Later.....	3-8
Limit on Deductions .....	3-9
Partnerships & S Corporations .....	3-10
More Than One Activity.....	3-10
Rent Expenses .....	3-12
Rent Paid In Advance .....	3-13
Lease vs. Sale .....	3-13
Leveraged Leases .....	3-14
Leveraged Leases Of Limited-Use Property.....	3-14
Leases over \$250,000 - §467 .....	3-14
Taxes on Leased Property.....	3-15

Cost of Getting a Lease .....	3-15
Options To Renew .....	3-16
Cost Of A Modification Agreement .....	3-16
Commissions, Bonuses, & Fees .....	3-17
Loss On Merchandise & Fixtures .....	3-17
Leasehold Improvements - §168.....	3-17
Assignment of a Lease.....	3-17
Capitalizing Rent Expenses - §263A.....	3-18
Interest Expense - §163 .....	3-18
Business Interest - §162.....	3-18
Interest Paid In Advance .....	3-19
Mortgage Interest.....	3-19
Prepayment Penalty .....	3-19
Points - §461.....	3-20
Expenses to Obtain a Mortgage.....	3-20
Interest on Installment Purchases - §483 & §1271 .....	3-20
Investment Interest - §212 .....	3-20
Investment Property.....	3-21
Limit on Deduction.....	3-21
Net Investment Income.....	3-22
Investment Income .....	3-22
Capital Gain Inclusion Election .....	3-22
Investment Expenses .....	3-22
Losses from Passive Activities.....	3-23
Carryover .....	3-23
When to Deduct Investment Interest .....	3-23
Form 4952.....	3-23
Interest on Margin Accounts .....	3-23
Interest on a Market Discount Bond.....	3-24
Nondeductible Interest.....	3-24
Interest on Income Tax Owed .....	3-24
Penalties .....	3-24
Commitment Fees & Service Charges.....	3-24
Capitalized Interest.....	3-25
Production Period .....	3-25
Traced Debt .....	3-25
Avoided Cost Debt .....	3-26
When Interest Is Paid or Incurred .....	3-26
Partnerships & S Corporations .....	3-26
Interest Related To Tax-Exempt Income - §265 .....	3-26
Interest on Insurance Policy Loans - §264 .....	3-27
Single Premium Life Insurance .....	3-27
Systematic Plan of Borrowing .....	3-27
Key Person Insurance .....	3-29
Deductibility of Premiums & Interest on Life Insurance.....	3-30
Existing Interest on Purchase .....	3-30
Corporate Acquisition Interest.....	3-30
Interest Allocation Rules for Multi-Purpose Loans .....	3-30
Allocation period.....	3-31
Proceeds Not Disbursed To Borrower.....	3-31
Proceeds Deposited In Borrower's Account .....	3-31

Order Of Funds Spent.....	3-32
Payments From Checking Accounts.....	3-32
Amounts Paid Within 30 Days .....	3-32
Optional Method For Determining Date Of Reallocation .....	3-33
Interest On A Separate Account .....	3-33
Accrued Interest .....	3-34
Accrued Interest Before Debt Proceeds Are Received .....	3-34
Loan Repayment.....	3-34
Continuous Borrowings.....	3-35
Loan Refinancing .....	3-35
Special Rules for Partnerships & S Corporations .....	3-35
Debt-Financed Acquisitions .....	3-35
Reallocation.....	3-36
How to Report .....	3-36
Debt-Financed Distributions.....	3-36
Optional Method.....	3-36
How to Report .....	3-37
Deductible Taxes.....	3-37
Tax Refunds.....	3-37
Change in Date of Tax Accrual .....	3-37
Real Estate Taxes.....	3-38
Local Benefits.....	3-38
Real Estate Taxes on Purchase Or Sale .....	3-39
Choosing To Ratably Accrue.....	3-39
Separate Choices .....	3-40
Making the Choice .....	3-40
Form 3115 .....	3-40
State & Local Income Taxes.....	3-40
Foreign Income Taxes .....	3-41
States & Local Sales Tax for Individuals .....	3-41
Employment Taxes .....	3-41
Unemployment Fund Taxes.....	3-42
Self-employment Tax .....	3-42
Other Taxes .....	3-42
Business Casualty & Theft Losses - §16.....	3-42
Proof of Loss .....	3-43
Amount of Loss .....	3-43
Limitations.....	3-43
Dividends Received Deduction - §243.....	3-43
Dividends from Domestic Corporations .....	3-44
65% Exception .....	3-44
Ownership.....	3-44
Limitation .....	3-44
Other Selected Deductible Costs .....	3-47
Home-Office Deduction - §280A .....	3-47
Requirements - §280A.....	3-47
Non-Exclusive Use Exceptions .....	3-47
Income Limitation .....	3-47
Administrative or Management Activities.....	3-48
Research & Experimental Costs Deduction Repealed - §174(a) .....	3-48
Business Start-Up & Organizational Costs – §195.....	3-48



How To Make The Choice .....	3-49
Carrying Charges .....	3-49
Intangible Drilling Costs .....	3-49
Exploration Costs .....	3-49
Partnerships .....	3-50
Reduced Corporate Deductions For Exploration Costs .....	3-50
Recapture Of Exploration Expenses .....	3-50
Mine Development Costs .....	3-50
Circulation Costs .....	3-50
Reforestation Costs .....	3-50
Retired Asset Removal Costs .....	3-51
Barrier Removal Costs.....	3-51
Deduction Limit .....	3-51
Partners & Partnerships .....	3-51
Qualification Standards .....	3-52
Other Barrier Removals.....	3-52
How To Make The Choice.....	3-52
Amortization.....	3-53
Deducting Amortization .....	3-53
Start-Up Costs - §195 .....	3-53
Amortization Period .....	3-53
Qualifying Costs.....	3-53
Purchasing An Active Trade Or Business .....	3-54
Corporate Organizational Costs - §248 .....	3-54
Qualifying Costs.....	3-54
Nonqualifying Costs.....	3-55
Partnership Organizational Costs - §709 .....	3-55
Qualifying Costs.....	3-55
Nonqualifying Costs.....	3-56
Partnership Liquidation .....	3-56
Costs of Obtaining a Lease.....	3-56
Intangibles - §197 .....	3-59
Cost Attributable To Other Property .....	3-59
Section 197 Intangibles Defined.....	3-59
Goodwill .....	3-59
Going Concern Value .....	3-60
Workforce In Place, Etc.....	3-60
Business Books And Records, Etc.....	3-60
Patents, Copyrights, Etc.....	3-60
Customer-Based Intangible.....	3-60
Supplier-Based Intangible.....	3-61
Government-Granted License, Permit, Etc.....	3-61
Covenant Not To Compete .....	3-61
Franchise, Trademark, Or Trade Name .....	3-62
Professional Sports Franchise.....	3-62
Contract for the Use of, or a Term Interest in, a §197 Intangible .....	3-62
Assets That Are Not §197 Intangibles.....	3-62
Computer Software.....	3-63
Computer Software Defined .....	3-63
Rights Of Fixed Duration Or Amount .....	3-63
Safe Harbor for Creative Property Costs .....	3-64

Anti-Churning Rules .....	3-64
Disposition of §197 Intangibles.....	3-64
Nondeductible Loss .....	3-64
Covenant Not To Compete .....	3-65
Nonrecognition Transfers .....	3-65
Research & Experimental Cost Amortization - §174(f) .....	3-66
Definitions – Reg. §1.174-2 .....	3-66
Product.....	3-66
Costs Not Included .....	3-67
Interaction with Research & Development Credit - §41 & §280 .....	3-67
Depletion - §613.....	3-67
Cost Depletion .....	3-68
Basis For Depletion .....	3-68
Total Recoverable Units .....	3-68
Number Of Units Sold.....	3-69
Determining The Cost Depletion Deduction .....	3-69
Percentage Depletion .....	3-69
Gross Income.....	3-69
Taxable Income Limit .....	3-70
Partnerships & S Corporations .....	3-70
Partner’s or Shareholder’s Adjusted Basis .....	3-70
Records.....	3-71
Reporting the Deduction.....	3-71
Mines & Geothermal Deposits .....	3-71
Gross Income From The Property .....	3-72
Excise Tax .....	3-72
Extraction .....	3-72
Treatment Processes .....	3-72
Transportation Of More Than 50 Miles.....	3-73
Lessor’s Gross Income .....	3-73
Bonuses & Advanced Royalties .....	3-73
Timber .....	3-73
Business Bad Debts - §166.....	3-75
Credit Transactions.....	3-76
Income Inclusion .....	3-77
Accrual Method Taxpayers.....	3-77
Cash Method Taxpayers .....	3-77
Former Business .....	3-77
Debt Acquired from a Decedent.....	3-77
Political Debts .....	3-77
Insolvency of Partner .....	3-78
Business Loan Guarantees.....	3-78
Reporting .....	3-79
Methods of Treating Bad Debts.....	3-79
Specific Charge-Off Method .....	3-79
Partly Worthless Debts .....	3-79
Deduction Disallowed .....	3-79
Totally Worthless Debts .....	3-80
Recovery of Bad Debt.....	3-80
Property Received for a Debt.....	3-80
Bankruptcy Claim.....	3-81

Sale of Mortgaged Property .....	3-81
Net Operating Loss .....	3-81
Nonaccrual-Experience Accounting Method.....	3-81
Performing Services.....	3-81
Interest & Late Charges .....	3-82
Energy .....	3-82
Alternative Fuel Refueling Property - §30C .....	3-82
Clean Vehicle Credit - §30D .....	3-83
Production Tax Credit (PTC) - §45 .....	3-83
Carbon Capture & Sequestration Credit Enhancements - §45Q.....	3-83
Clean Hydrogen Production Tax Credit - §45V .....	3-83
Qualified Commercial Clean Vehicles - §45W .....	3-83
Advanced Manufacturing Production Credit - §45X.....	3-83
Clean Electricity Production Credit - §45Y.....	3-84
Clean Fuel Production Credit - §45Z.....	3-84
Investment Tax Credit (ITC) - §48.....	3-84
Advanced Energy Project Credit - §48C(e).....	3-84
Advanced Manufacturing Investment Credit - §48D.....	3-84
Clean Electricity Investment Credit - §48E.....	3-85
Energy Efficient Commercial Building Deduction - §179D .....	3-85
Depreciation - §168.....	3-85
Personal Property.....	3-86
MACRS .....	3-86
Elections .....	3-86
Bonus (or Additional First-year) Depreciation - §168(k).....	3-87
MACRS Conventions .....	3-87
Mid-quarter Convention Exception .....	3-87
Recapture - §1245 .....	3-88
Real Property .....	3-88
MACRS .....	3-88
Recapture - §1250 & §1245.....	3-88
Section 1245 .....	3-89
Full Recapture.....	3-89
Section 1250.....	3-89
Partial Recapture.....	3-89
MACRS Recapture Exception for Real Property .....	3-89
Alternative Depreciation System - §168(g).....	3-89
Mandatory Application.....	3-89
Method .....	3-90

**CHAPTER 4 - Employee Compensation & Benefits .....4-1**

Wages, Salary & Pay .....	4-1
Employee vs. Contractor Status.....	4-2
Factors .....	4-2
Tests for Deducting Pay to Employees .....	4-4
Test #1 - Reasonableness.....	4-4
Overall Limitation .....	4-4
Allowance of Deduction.....	4-5
Publicly Traded Corporation Limitation .....	4-5
Limitation on Accrual Deduction .....	4-5

Employment Contracts .....	4-5
Scope of Examination.....	4-5
Officer’s Compensation.....	4-5
Factors .....	4-6
Employee’s Qualifications .....	4-6
Size of the Business.....	4-6
Employee’s Compensation History .....	4-6
Unreasonably Low Salaries.....	4-6
Past Service .....	4-6
Reasonable Dividends .....	4-7
Bonuses as Constituting Dividends.....	4-7
Payback Agreements .....	4-7
Miscellaneous Factors .....	4-8
Test #2 - For Services Performed .....	4-8
Employee-Shareholder Salaries.....	4-8
Selected Types of Compensation.....	4-8
Awards .....	4-8
Bonuses .....	4-8
Employee Gifts of Nominal Value .....	4-9
Education Expenses.....	4-9
Fringe Benefits .....	4-9
Life Insurance Coverage.....	4-9
Welfare Benefit Funds.....	4-9
Loans or Advances .....	4-10
Property .....	4-10
Restricted Property .....	4-10
Sick & Vacation Pay .....	4-11
Payroll Tax Withholding & Reporting .....	4-11
Form 941 .....	4-11
Deposit Rules.....	4-12
Lookback Period.....	4-12
Monthly Depositor .....	4-13
Semi-Weekly Depositor .....	4-13
One-Day Rule .....	4-13
Forms 940, 943, 944, and 945 .....	4-13
Form W-4 .....	4-14
Form W-2 .....	4-14
Form W-3 .....	4-15
Social Security’s Payroll Tax or FICA - §3111 & §3121.....	4-15
Rates .....	4-16
FUTA - §3301 & 3306 .....	4-16
Form 940 .....	4-16
Selected Fringe Benefits.....	4-17
No-Additional-Cost Services - §132(b).....	4-17
Covered Employees.....	4-17
Line of Business Requirement.....	4-18
Definition.....	4-18
Qualified Employee Discounts - §132(c) .....	4-18
Manner of Discount.....	4-18
Real Estate & Investment Property Exclusion .....	4-18
Amount of Discount .....	4-19

Working Condition Fringes - §132(d) .....	4-19
Covered Employees.....	4-19
Exceptions .....	4-19
Substantiation .....	4-20
De Minimis Fringes - §132(e) .....	4-20
Subsidized Eating Facilities.....	4-20
Discrimination .....	4-20
Employee Achievement Awards - §74(c) & §274(j).....	4-22
Exclusion .....	4-23
Definition of Employee Achievement Awards.....	4-23
Qualified Plan Award.....	4-23
Employer Deduction Limits .....	4-24
Aggregation Limit .....	4-24
Special Partnership Rule.....	4-24
Employee Impact .....	4-24
Group Term Life Insurance - §79 .....	4-24
Dependent Care Assistance - §129 .....	4-25
Amount of Assistance.....	4-25
Requirements.....	4-25
Conflict with Dependent Care .....	4-25
Cafeteria Plans - §125.....	4-26
Definition .....	4-26
Qualified Benefits.....	4-26
Non-Qualified Benefits.....	4-26
Controlled Group Rules.....	4-26
Salary Reduction Plans.....	4-27
Nondiscrimination .....	4-27
Meals & Lodging - §119 .....	4-27
Income Exclusion .....	4-27
Convenience of Employer .....	4-27
Self-Insured Medical Reimbursement Plans - §105 .....	4-28
Allowable Expenses .....	4-28
Requirements.....	4-28
Benefits.....	4-28
Exposure.....	4-28
Employee Educational Assistance Programs - §127.....	4-29
Employer-Provided Automobile - §61 & §132 .....	4-29
General Valuation Method .....	4-29
Annual Lease Value Method .....	4-29
Computation .....	4-31
Cents Per Mile Method.....	4-31
Commuting Value Method.....	4-31
Interest-Free & Below-Market Loans - §7872.....	4-31
Permissible Discrimination.....	4-31
Employee Needs .....	4-31
Imputed Interest - §7872 .....	4-32
Types of Loans .....	4-32
Demand Loans.....	4-32
Term Loans.....	4-32
Application of §7872 and Rate Determinations .....	4-33
Summary .....	4-33

Moving Expense Reimbursement - §217.....	4-33
Family & Medical Leave - §45S .....	4-33
Qualified Transportation - §132(f) .....	4-34
Employer-Provided Retirement Advice & Planning - §132 .....	4-35
Financial Planning - §67 & §212.....	4-35
Popularity .....	4-35
Taxation.....	4-36
Tax Planning - §67 & §212 .....	4-36
Taxation.....	4-36
Estate Planning - §67 & §212.....	4-37
On-premises Athletic Facility - §132(j)(4)(B).....	4-37
ERISA Compliance .....	4-37
Welfare Plans .....	4-38
Additional Requirements .....	4-38
Equity Participation.....	4-38
Stock Transfers or Equity Grants.....	4-39
Stock Sales or Unrestricted Stock Plan.....	4-39
Stock Plans .....	4-40
Stock Bonus.....	4-40
ESOT.....	4-40
Phantom Stock.....	4-40
Advantages .....	4-41
Comparison with Profit-Sharing Plans .....	4-41
Repurchase or Restricted Stock Agreement .....	4-41
Stock Options .....	4-42
Section 83.....	4-42
Risk of Forfeiture.....	4-42
Election.....	4-42
Stock Appreciation Rights Plans .....	4-43
Tandem Plans.....	4-43
Qualified Incentive Stock Option .....	4-43
Requirements.....	4-44
Nonqualified Deferred Compensation.....	4-46
Postponement of Income .....	4-47
Advantages .....	4-47
IRS Scrutiny & Approval .....	4-47
Nondiscrimination .....	4-47
ERISA.....	4-47
Funding.....	4-47
No Immediate Cash Outlay.....	4-48
Annual Report .....	4-48
Notice Requirement .....	4-48
Purposes.....	4-48
Benefit Formula.....	4-48
Incentive .....	4-49
Deferred Bonuses .....	4-49
Tax Status .....	4-49
Service's Position .....	4-49
Rationale .....	4-49
Constructive Receipt.....	4-50
Beyond Actual Receipt.....	4-50

Simple Set-Asides Are Not Possible.....	4-50
Revenue Ruling 60-31 .....	4-50
Regulations.....	4-50
Time & Control Concept.....	4-51
Control.....	4-51
Timing .....	4-51
Economic Benefit.....	4-51
Has Something of Value Been Transferred? .....	4-52
Insurance Coverage Has a Calculable Value .....	4-52
Segregated Funds Have Immediate Economic Value .....	4-52
General Principles .....	4-52
Unfunded Bare Contractual Promise Plan - Type I.....	4-53
Risk.....	4-53
Funded Company Account Plan - Type II.....	4-53
Ownership & Segregation .....	4-53
Bookkeeping Reserve or Separate Account .....	4-53
Employee Bears Economic Risk .....	4-54
Limited Protection .....	4-54
Investment of Deferred Amounts .....	4-54
Life Insurance.....	4-54
Premiums.....	4-55
Third Party Guarantees.....	4-55
Segregated Asset Plan - Type III.....	4-55
Section 83 Approach .....	4-56
Tight Rope Format .....	4-56
Transferable or Not Subject To A Risk of Substantial Forfeiture .....	4-56
Substantial Restrictions.....	4-56
Redemption or Forfeiture .....	4-56
Condition Related to a Purpose of the Transfer.....	4-57
Noncompetition .....	4-57
Consultation.....	4-57
Time Alone is Not Enough.....	4-57
Realization & Taxation.....	4-57
30-Day Election Period .....	4-58
Deduction Allowed.....	4-58
Timing .....	4-58
Withholding .....	4-58
Tax Consequences .....	4-58
Reciprocal Taxation/Deduction Rule .....	4-58
No Difference between Cash or Accrual .....	4-59
Separate Accounts for Two or More Participants.....	4-59
Income Tax on Employer Held Assets .....	4-59
Inclusion in Income Under §409A .....	4-59

**CHAPTER 5 - Automobiles.....5-1**

Apportionment of Personal & Business Use .....	5-1
Car Pool.....	5-2
Fines .....	5-2
Parking Fees .....	5-2
Interest Deduction Limit for Individuals .....	5-3

Self-Employed Exception.....	5-3
Property Taxes.....	5-3
Sales Taxes.....	5-3
Former Sales Tax Deduction for Qualified Vehicles (Expired) - §164.....	5-3
Actual Cost Method.....	5-4
Deduction Limitations.....	5-5
Definition of Car.....	5-5
Depreciation and Expensing.....	5-5
Basis.....	5-6
Trade-In of Old Car for New.....	5-6
Placed in Service.....	5-6
Conversion to Business Use - “Lesser of” Rule.....	5-7
MACRS - 5 (Actually 6) Years.....	5-7
200% Double Declining Balance Method.....	5-7
150% Declining Balance Method Election.....	5-8
Straight-Line Method Election.....	5-8
Half-Year Convention.....	5-8
Mid-Quarter Convention.....	5-9
Depreciation “Caps” - §280F(a).....	5-10
Passenger Auto Depreciation Safe Harbor Method - R.P. 2019-13.....	5-12
No Separate Depreciation Caps for Trucks & Vans.....	5-14
Post-Recovery Period Depreciation - Max Reduction Rule.....	5-14
Partial Business Use.....	5-15
Improvements.....	5-15
Bonus (or Additional First-year) Depreciation - §168(k).....	5-16
Expensing - §179.....	5-16
Cost of Car.....	5-17
Basis Reduction.....	5-17
Making the §179 Election.....	5-18
Business Use Reduction.....	5-18
SUV Limitation.....	5-18
Predominate Business (More Than 50%) Use Rule.....	5-19
Qualified Business Use.....	5-20
Exclusions.....	5-21
Change From Personal to Business Use.....	5-22
Employee Use of Their Own Car.....	5-22
Failure to Meet Predominate Business Use Rule.....	5-22
Later Reduction in Qualified Use.....	5-23
ITC Recapture - Highly Unlikely.....	5-23
Straight-line Depreciation.....	5-23
Excess Depreciation Recapture.....	5-24
Short Tax Year Depreciation Reduction.....	5-24
Auto Leasing.....	5-26
Pros & Cons.....	5-27
Leasing Terminology.....	5-27
Closed-End vs. Open-End Lease.....	5-30
Formula for Monthly Payments.....	5-30
Leasing Deduction Restrictions.....	5-31
Income Inclusion Amount.....	5-31
Separate Lease Inclusion Table for Trucks & Vans.....	5-32
Cars Leased For 30 Days or More After 1986.....	5-32



Computation of Inclusion .....	5-32
Nine-Month Following Year Rule.....	5-35
Buying v. Leasing .....	5-35
Standard Mileage Method .....	5-36
Limitations on Standard Mileage Method .....	5-37
Use, Ownership & Prior Depreciation.....	5-37
Switching Methods .....	5-37
Charitable Transportation .....	5-38
Medical Transportation.....	5-39
Auto Trade-In vs. Sale.....	5-39
Working Condition Fringe Benefits .....	5-40
Qualified Transportation - §132(f) .....	5-41
Employer-Provided Automobile.....	5-44
General Hypothetical Valuation Method.....	5-44
Special Method #1 - Lease Value.....	5-44
Annual Lease Value - For Entire Calendar Year .....	5-45
Fair Market Value .....	5-46
Safe Harbor Value.....	5-47
Items Included in Annual Lease Value Table.....	5-47
Prorated Annual Lease Value - For 30 Days or More .....	5-48
Daily Lease Value - For Less Than 30 Days .....	5-48
Optional Fleet-Average Valuation Rule (FAVR) .....	5-48
Special Method #2 - Cents per Mile .....	5-49
Regular Use - 50% Business.....	5-49
Mileage Rule - 10,000 Miles .....	5-50
Items Included In Cents-Per-Mile Rate .....	5-50
Special Method #3 - Commuting Value .....	5-51
Control Employee .....	5-51
Employer-provided Transportation in Unsafe Areas .....	5-52
Qualified Employee.....	5-53
Nonpersonal Use Vehicles - 100% Excludable .....	5-53
Clearly Marked Police or Fire Vehicles.....	5-54
Unmarked Law Enforcement Vehicles .....	5-54
Law Enforcement Officer .....	5-54
Trucks & Vans.....	5-55
Pickup Truck Guidelines .....	5-55
Van Guidelines .....	5-55
Qualified Automobile Demonstration Use .....	5-56
Full-time Automobile Salesperson .....	5-56
Restrictions on Personal Use .....	5-57
Reporting by Employer .....	5-57
Election Not to Withhold for Income Taxes.....	5-57
Value Reported .....	5-57
Accounting Period .....	5-58
Special Accounting Period - Pour Over Method .....	5-58

## **CHAPTER 6 - Business Travel & Entertainment.....6-1**

Business Travel .....	6-1
Transportation & Travel Distinguished .....	6-1
Travel Expenses .....	6-2

Transportation Expenses .....	6-2
Determining a Tax Home .....	6-2
Regular Place of Abode in a Real & Substantial Sense.....	6-3
Two Work Locations.....	6-3
Itinerant Worker - No Tax Home .....	6-4
Assignments .....	6-4
Temporary vs. Indefinite Assignments.....	6-4
One-Year Expectation Rule .....	6-4
Away From Home Requirement.....	6-5
Sleep & Rest Rule .....	6-6
Substantial Period .....	6-6
Business Purpose Requirement.....	6-7
Categories of Expense .....	6-7
Travel Costs to and from the Destination .....	6-7
Costs at Destination .....	6-7
All or Nothing .....	6-8
Primarily for Business Test .....	6-8
Time.....	6-8
Other Factors .....	6-8
51/49 Percent Test .....	6-8
Domestic Business Travel .....	6-8
Foreign Business Travel .....	6-9
Personal Pleasure – At Destination Only.....	6-9
Primarily Business - Partial Deduction.....	6-9
Travel Considered Entirely for Business - Full Deduction .....	6-9
Definition of Business Day.....	6-10
Meals – 50% Reduction.....	6-10
Standard Meal Allowance .....	6-11
Lodging.....	6-11
Conventions & Meetings .....	6-11
Agenda Test.....	6-11
Foreign Conventions .....	6-12
Factors .....	6-12
North American Area .....	6-12
Allowable Expenses .....	6-13
Cruises Ship Conventions.....	6-13
Deduction Limitation.....	6-13
Reporting Statements.....	6-13
Luxury Water Travel .....	6-13
Exceptions .....	6-14
Family Member Travel Expenses .....	6-14
Business Entertainment .....	6-16
Statutory Exceptions - §274(e).....	6-17
Food and Beverages for Employees .....	6-17
Expenses Treated as Compensation .....	6-18
Reimbursed Expenses.....	6-18
Recreational Expenses for Employees.....	6-18
Employee, Stockholder and Business Meetings.....	6-19
Trade Association Meetings .....	6-19
Items Available to Public .....	6-19
Entertainment Sold to Customers .....	6-19

Expenses Includible in Income of Non-employees .....	6-19
Business Meals .....	6-19
Percentage Reduction for Meals - §274(n)(1) .....	6-20
Application of Reduction Rule .....	6-20
Eating Facilities .....	6-20
Exceptions - §274(n)(2) .....	6-20
Entertainment Facilities .....	6-21
Exceptions .....	6-21
Covered Expenses .....	6-21
Club Dues .....	6-22
Sales Incentive Awards .....	6-22
Substantiation & Record Keeping - §274(d) .....	6-23
Travel Expense Items to be Substantiated .....	6-23
Meal Expense Items to be Substantiated .....	6-23
Business Gifts Expense Substantiation .....	6-24
Substantiation Methods .....	6-24
Adequate Records .....	6-24
Exceptions to Documentary Evidence Requirement .....	6-25
Sufficiently Corroborated Statements .....	6-25
Exceptional Circumstances .....	6-25
Retention of Records .....	6-26
Exceptions to Substantiation Requirements .....	6-26
Payback Agreements .....	6-27
Employee Expense Reimbursement & Reporting .....	6-27
Unreimbursed Employee Expenses .....	6-27
Reimbursed Employee Expenses .....	6-27
Accountable Plans .....	6-28
Business Connection .....	6-29
Reasonable Period of Time .....	6-29
Fixed Date Safe Harbor - #1 .....	6-29
Periodic Statement Safe Harbor - #2 .....	6-29
Adequate Accounting .....	6-30
Per Diem Allowance Arrangements .....	6-30
Federal Per Diem Rate .....	6-30
Related Employer Restriction .....	6-35
Reporting Per Diem Allowances .....	6-36
Reimbursement Not More Than Federal Rate .....	6-36
Reimbursement More Than Federal Rate .....	6-37
Nonaccountable Plans .....	6-38
Self-Employed Reimbursement & Reporting .....	6-39
Expenses Related to the Self-Employed's Business .....	6-39
Reimbursed Expenses Incurred on Behalf of a Client .....	6-40
With Adequate Accounting .....	6-40
Without Adequate Accounting .....	6-40

**CHAPTER 7 - Retirement Plans.....7-1**

Deferred Compensation .....	7-1
Qualified Deferred Compensation .....	7-1
Qualified v. Nonqualified Plans .....	7-1
Major Benefit .....	7-2

Current Deduction .....	7-2
Timing of Deductions .....	7-2
Part of Total Compensation .....	7-2
Compensation Base .....	7-2
Salary Reduction Amounts .....	7-3
Benefit Planning .....	7-3
Corporate Plans .....	7-4
Advantages .....	7-4
Current.....	7-4
Deferred.....	7-4
Disadvantages .....	7-4
Employee Costs.....	7-5
Comparison with IRAs & Keoghs.....	7-5
Basic ERISA Provisions .....	7-5
ERISA Reporting Requirements.....	7-7
Fiduciary Responsibilities.....	7-7
Bonding Requirement.....	7-7
Prohibited Transactions .....	7-7
Additional Restrictions .....	7-8
Fiduciary Exceptions .....	7-8
Loans .....	7-8
Employer Securities.....	7-9
Excise Penalty Tax .....	7-10
PBGC Insurance .....	7-10
Sixty-Month Requirement .....	7-10
Recovery Against Employer.....	7-10
Termination Proceedings .....	7-11
Plans Exempt from PBGC Coverage .....	7-11
Basic Requirements of a Qualified Pension Plan .....	7-12
Written Plan.....	7-12
Communication.....	7-12
Trust .....	7-12
Requirements .....	7-13
Permanency .....	7-13
Exclusive Benefit of Employees.....	7-13
Highly Compensated Employees.....	7-13
Reversion of Trust Assets to Employer .....	7-14
Participation & Coverage .....	7-14
Age & Service.....	7-14
Coverage .....	7-15
Percentage Test.....	7-15
Ratio Test .....	7-15
Average Benefits Test .....	7-16
Numerical Coverage .....	7-16
Related Employers.....	7-17
Vesting .....	7-17
Full & Immediate Vesting .....	7-17
Minimum Vesting.....	7-18
Unified Vesting .....	7-18
Nondiscrimination Compliance .....	7-18
Contribution & Benefit Limits .....	7-19

Defined Benefit Plans (Annual Benefits Limitation) - §415.....	7-19
Defined Contribution Plans (Annual Addition Limitation) - §415 .....	7-19
Limits on Deductible Contributions - §404 .....	7-20
Assignment & Alienation .....	7-20
Miscellaneous Requirements .....	7-21
Basic Types of Corporate Plans.....	7-24
Defined Benefit .....	7-24
Mechanics .....	7-24
Defined Benefit Pension .....	7-24
Defined Contribution.....	7-25
Mechanics .....	7-25
Discretion.....	7-25
Favorable Circumstances .....	7-25
Types of Defined Contribution Plans .....	7-25
Profit-Sharing .....	7-26
Requirements for a Qualified Profit-Sharing Plan.....	7-26
Written Plan .....	7-26
Eligibility .....	7-26
Deductible Contribution Limit .....	7-27
Substantial & Recurrent Rule.....	7-27
Money Purchase Pension .....	7-27
Cafeteria Compensation Plan.....	7-29
Thrift Plan.....	7-29
Section 401(k) Plans .....	7-29
Death Benefits .....	7-31
Defined Benefit Plans .....	7-31
Money Purchase Pension & Target Benefit Plans .....	7-32
Employee Contributions .....	7-32
Non-Deductible.....	7-32
Life Insurance in the Qualified Plan.....	7-32
Return .....	7-32
Universal Life .....	7-33
Compare.....	7-33
Plan Terminations & Corporate Liquidations.....	7-33
10-Year Rule.....	7-33
Lump-Sum Distributions .....	7-34
Asset Dispositions .....	7-34
IRA Limitations .....	7-34
Self-Employed Plans - Keogh .....	7-34
Mechanics.....	7-35
Contribution Timing .....	7-35
Controlled Business.....	7-35
General Limitations .....	7-36
Effect of Incorporation .....	7-36
Design.....	7-37
Parity with Corporate Plans.....	7-38
Types of Keogh Plans.....	7-38
Figuring Retirement Plan Deductions For Self-Employed .....	7-38
Self-Employed Rate .....	7-38
Determining the Deduction.....	7-39
Individual Plans - IRAs .....	7-42

Deemed IRA.....	7-42
Mechanics.....	7-42
Phase-out .....	7-43
Special Spousal Participation Rule - §408A(c)(3).....	7-43
Spousal IRA.....	7-44
Eligibility.....	7-45
Contributions & Deductions.....	7-45
Employer Contributions.....	7-45
Retirement Vehicles .....	7-45
Distribution & Settlement Options .....	7-46
Life Annuity Exemption .....	7-46
Minimum Distributions.....	7-47
Required Minimum Distribution .....	7-47
Definitions.....	7-48
Required Minimum Distributions During Owner’s Lifetime .....	7-48
Required Minimum Distributions in Year of the Owner's Death .....	7-50
Beneficiaries - Distributions after Owner’s Death .....	7-51
Estate Tax Deduction .....	7-56
Charitable Distributions from an IRA .....	7-56
Post-Retirement Tax Treatment of IRA Distributions.....	7-57
Income In Respect of a Decedent .....	7-58
Estate Tax Consequences.....	7-58
Losses on IRA Investments .....	7-58
Prohibited Transactions .....	7-58
Effect of Disqualification.....	7-59
Penalties.....	7-59
Borrowing on an Annuity Contract .....	7-59
Tax-Free Rollovers.....	7-59
Rollover from One IRA to Another .....	7-60
Waiting Period Between Rollovers .....	7-60
Partial Rollovers .....	7-60
Rollovers from Traditional IRAs into Qualified Plans .....	7-61
Rollovers of Distributions from Employer Plans.....	7-61
Withholding Requirement .....	7-61
Waiting Period Between Rollovers .....	7-61
Conduit IRAs.....	7-61
Keogh Rollovers.....	7-62
Direct Rollovers From Retirement Plans to Roth IRAs.....	7-62
Rollovers of §457 Plans into Traditional IRAs.....	7-62
Rollovers of Traditional IRAs into §457 Plans.....	7-63
Rollovers of Traditional IRAs into §403(B) Plans .....	7-63
Rollovers from SIMPLE IRAs .....	7-63
Roth IRA - §408A.....	7-64
Eligibility .....	7-66
Contribution Limitation .....	7-66
Roth IRAs Only.....	7-66
Roth IRAs & Traditional IRAs.....	7-66
Conversions .....	7-67
Recharacterizations.....	7-68
Reconversions.....	7-69
Taxation of Distributions .....	7-69

No Required Minimum Distributions .....	7-69
Simplified Employee Pension Plans (SEPs) .....	7-70
Contribution Limits & Taxation .....	7-72
SIMPLE Plans .....	7-72
SIMPLE IRA Plan .....	7-73
Employee Limit .....	7-73
Other Qualified Plan .....	7-73
Set up .....	7-73
Contribution Limits .....	7-74
Salary Reduction Contributions.....	7-74
Employer Matching Contributions .....	7-74
Deduction of Contributions .....	7-75
Distributions .....	7-75
SIMPLE §401(k) Plan .....	7-75

**CHAPTER 8 - Insurance .....8-1**

Company Paid Insurance.....	8-2
Popularity .....	8-2
Types of Life Insurance.....	8-2
Group Term Life - §79 .....	8-2
Requirements.....	8-2
“Key Employee” Defined.....	8-3
Cost Of Group-term Life Insurance.....	8-3
Ten Employee Rule .....	8-4
Retired Lives Reserve.....	8-4
Revenue Ruling 68-577 .....	8-4
Taxation.....	8-5
Advantages .....	8-5
Split-Dollar Life .....	8-5
Low-Cost Term Insurance .....	8-7
Regulatory Requirements .....	8-7
Taxation.....	8-7
Business Travel Accident Insurance.....	8-7
Medical & Dental Insurance .....	8-7
Premiums.....	8-8
Disability Income Insurance .....	8-8
Interest Limitation on Policy Loans - §264A .....	8-9
Disallowance of Interest Deduction.....	8-9
Impact.....	8-9
Limit on Deductibility of Premiums & Interest.....	8-9
Interest Limitation for Tax-Exempt Interest Income.....	8-10
Key Person Life Insurance .....	8-10
Closely Held Corporations .....	8-10
Sole Shareholder Applications .....	8-11
Other Selected Insurances .....	8-11
Self-Employed Health Insurance Deduction .....	8-11
Long-Term Care Premiums .....	8-12
Capitalized Insurance .....	8-12
Health Savings Accounts.....	8-12
COBRA .....	8-13

Affected Employers.....	8-13
Small Business Health Insurance Expense Tax Credit - §45R .....	8-13

**CHAPTER 9 - Estate Planning .....9-1**

Unlimited Marital Deduction.....	9-2
Outright To Spouse.....	9-3
Marital Deduction Trust .....	9-3
Qualified Terminable Interest Property Trust.....	9-3
Applicable Exemption (or Exclusion) Amount .....	9-4
Spousal Portability of Unused Exemption Amount - §2010(c)(2) .....	9-5
Stepped-up Basis .....	9-5
Basic Estate Planning Goals .....	9-6
Primary Dispositive Plans.....	9-6
Simple Will.....	9-6
Danger for Larger Estates .....	9-8
Probate .....	9-8
Assets Not Subject to a Will .....	9-8
Assets Subject to a Will .....	9-8
Trusts .....	9-9
Types of Trusts .....	9-9
Living Trusts.....	9-9
Testamentary Trusts.....	9-10
Revocable & Irrevocable .....	9-10
Living “A-B” Revocable Trust.....	9-10
Living “A-B-C” (QTIP) Trust .....	9-12
Impact of Spousal Portability on Trust B under TUIRJCA.....	9-14
Charitable Trusts.....	9-14
Charitable Remainder Trusts .....	9-14
Charitable Income Trusts .....	9-15
Insurance Trusts.....	9-15
Family Documents.....	9-17
Living Will .....	9-17
Property Agreement & Inventory .....	9-18
Durable Power Of Attorney .....	9-18
Power of Attorney for Health Care .....	9-18
Conservatorship.....	9-20
Funeral Arrangements .....	9-20
Anatomical Gifts .....	9-20
Private Annuity.....	9-20
Advantages to the Transferor .....	9-21
Disadvantages to the Transferor .....	9-21
Advantages to the Transferee .....	9-21
Disadvantages to the Transferee.....	9-21
Business Valuation .....	9-24
Relevant Facts .....	9-25
Revenue Ruling 59-60.....	9-25
Tangible Assets .....	9-26
Special Real Estate Election - §2032A .....	9-27
Limitations.....	9-28
Related Party Cash Lease .....	9-30



Intangible Assets & Goodwill .....	9-30
R.R. 68-609.....	9-30
Land Subject To Conservation Easement - §2032A(c)(8).....	9-31
Family Member .....	9-31
Indirect Ownership of Land.....	9-31
Qualified Conservation Easement.....	9-31
Qualified Real Property Interest .....	9-32
Qualified Organization .....	9-32
Conservation Purpose .....	9-32
No Additional Income Tax Deduction.....	9-32
Valuation Discounts .....	9-33
Minority Interests.....	9-33
Special Valuation plus Minority Discount .....	9-35
Fractional Interests.....	9-35
Lack of Marketability .....	9-36
Swing Vote Premium.....	9-36
Buy-Sell Agreements.....	9-37
Redemptions Under §303 .....	9-38
Requirements.....	9-39
Corporate Accumulation For §303 Redemption.....	9-39
Accumulation in Anticipation of Shareholder's Death.....	9-40
Death of a Spouse .....	9-40
Bypass Trust.....	9-41
Lifetime Dispositions .....	9-42
Gifts .....	9-42
Stock Redemptions Under §302.....	9-42
Substantially Disproportionate Redemption - 80/50 Rule .....	9-42
Redemptions Not Essentially Equivalent to a Dividend .....	9-43
Complete Redemptions.....	9-43
Constructive Ownership - §318 .....	9-43
Double Attribution .....	9-44
Stock Attribution in Complete Redemptions.....	9-44
Stock Recapitalization .....	9-45
Section 306 Taint.....	9-46
Deferred Compensation Agreements.....	9-46
Installment Payment of Federal Estate Taxes - §6166.....	9-47
Computation .....	9-47
Eligibility & Court Supervision.....	9-48
Closely Held Business.....	9-48
Acceleration of Payment .....	9-48