

ASSIGNMENT # 1: INTRODUCTION TO INCOME TAXATION

OBJECTIVES¹

At the conclusion of this assignment, a student will be able to do the following:

1. locate IRC sections and regulations in the Selected Sections volume;
2. understand the basic structure of the IRC;
3. understand basic income tax terminology;
4. explain why the U.S. taxes income and recognize some of the underlying policies that motivate tax laws;
5. understand and determine the definition for “income”;
6. apply the definition of “income” to hypotheticals to determine whether something of value is taxed.

READINGS

Syllabus (posted on CANVAS)

Text² pages 3 to 36; 39-45.

IRC Selected Sections and Regulations as needed to answer the problems.³

SUGGESTED READINGS

There are three Power Point presentations posted on Canvas under Assignment 1 that might be helpful:

Sources of Tax Law

Federal Income Tax Brief Overview

Tax Terminology

PROBLEMS

1. Read the Syllabus so that you understand the course requirements.
2. Review briefly Revenue Procedure 2024-40. This Revenue Procedure provides inflation adjustments to the rate schedule, the standard deduction, and other IRC provisions. We will refer to these amounts and this revenue procedure periodically during the course.

¹ Objectives are included for each assignment to help you focus on important concepts and skills and the materials that will be discussed in class.

² Text refers to Lind, Lathrope, and Field, FUNDAMENTALS OF FEDERAL INCOME TAXATION (20th ed. Foundation Press 2022).

³ All sections of the Internal Revenue Code (IRC) and Regulations can be found in Federal Income Tax, Code and Regulations, Selected Sections (CCH 2024-2025).

3. Tax law has its own vocabulary. We will cover these terms in some depth during the semester. These terms, however, may be used in class prior to those assignments so you should understand these terms. See the PowerPoint Presentation entitled Tax Terminology posted on Canvas under Assignment 1. We will not discuss these definitions directly as part of this assignment.

gross income	progressivity
adjusted gross income	marginal tax rate
standard deduction	taxable unit
audit lottery	taxable income
joint tax return	tax base
tax credit	capital gain
cash method taxpayer	accrual method taxable
annual accounting	depreciation

4. Recognize the various sources of tax law (see pages 18 to 32 of the text). We will discuss various sources during the semester and there will be a tax research unit later in the semester that covers other sources.

Internal Revenue Code	Action on Decisions
Regulations	Cases
Revenue Rulings	Revenue Procedures
Private Letter Rulings	IRS Publications

5. Using only your casebook, the assigned Internal Revenue Code book, *i.e.*, Federal Income Tax, Code and Regulations, Selected Sections be prepared to answer the following questions.

- a. **Jill had made some purchases from her local thrift store, and she was getting ready to put everything in the wash, so she went through the pockets of her purchases. Those old tissues can make quite a mess. She also tries on a coat that she had just purchased and admires herself in the mirror, noticing a piece of paper folded up in a tiny square in a pocket inside a pocket. She unfolds it and it appears to be an old stock certificate for 10 Apple common stock from 1982. She calls Apple's shareholder services on Monday and learns that it is still an active stock certificate, but with no record of who the owner is. Does Jill have income?**
- i. **Does your answer change if the Apple's shareholder services can give Jill a name of the registered owner and the state has a finder's statute. Finder's statutes assume that you must try to locate the true owner by turning the property over to authorities and possibly requiring a legal notice to be published if the property is valuable. If the true owner does not claim it after a year, the property is yours. Assume the stock is now selling for \$200 per share.**

- b. After talking to Apple, Jill realized she would have to jump through a lot of hoops to get the certificate registered in her name, a task for which she doesn't have the patience. So, she asks her very organized sister, Kate, if she wants to do the work and they can own the stock 50/50. Who has income? Jill or Kate?**
- c. Kate gets the stock registered in both her and Jill's names as co-owners. Kate finds out that because of various stock dividends and splits, the 10 Apple shares they thought they owned are actually 100 Apple shares. What is the tax consequence of this?**