

# Principles of Taxation

**for Business and Investment Planning**

2020 Edition

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# Content Organization

The content and organization of this text are highly compatible with the Model Tax Curriculum proposed by the American Institute of Certified Public Accountants. According to the AICPA, the introductory tax course should expose students to a broad range of tax concepts and emphasize the role of taxation in the business decision-making process. Under the model curriculum, students first learn to measure the taxable income from business and property transactions. They are then introduced to the different types of business entities and the tax considerations unique to each type. Individual taxation should be one of the last topics covered, rather than the primary focus of the course. Because *Principles of Taxation for Business and Investment Planning* reflects this recommended pedagogical approach, the text is ideal for courses based on the AICPA Model Tax Curriculum.

## PART ONE

### *Exploring the Tax Environment*

- 1 Taxes and Taxing Jurisdictions 1–3
- 2 Policy Standards for a Good Tax 2–1

**Part One** consists of two chapters that familiarize students with the global tax environment. Chapter 1 describes the environment in terms of the legal relationship between taxes, taxpayers, and governments. Definitions of key terms are developed,

and the major taxes are identified. Chapter 2 considers the tax environment from a normative perspective by asking the question: “What are the characteristics of a good tax?” Students are introduced to the notions of tax efficiency and tax equity and learn how contrasting political beliefs about efficiency and equity continue to shape the tax environment.

## PART TWO

### *Fundamentals of Tax Planning*

- 3 Taxes as Transaction Costs 3–3
- 4 Maxims of Income Tax Planning 4–1
- 5 Tax Research 5–1

**Part Two** concentrates on developing a methodology for incorporating tax factors into business decisions. Chapter 3 introduces the pivotal role of net present value of cash flows in evaluating financial alternatives. Students learn how to compute tax costs and tax savings and how to interpret them as cash flows. Chapter 4 covers the maxims of income tax planning. The characteristics of the tax law that create planning opportunities are explained, and the generic techniques for taking advantage of those opportunities are analyzed. Chapter 5 provides a succinct overview of the tax research process and prepares students to solve the research problems included at the end of each chapter. The chapter explains the six steps in the tax research process and contains a cumulative example of the application of each step to a research case.

## PART THREE

### *The Measurement of Taxable Income*

- 6 Taxable Income from Business Operations 6–3
- 7 Property Acquisitions and Cost Recovery Deductions 7–1
- 8 Property Dispositions 8–1
- 9 Nontaxable Exchanges 9–1

**Part Three** focuses on the quantification of business taxable income. Chapter 6 covers the computation of income or loss from ongoing commercial activities, with special emphasis on differences between taxable income and net income for financial statement purposes. Chapters 7 and 8 explore the tax implications of acquisitions and dispositions of business property, while Chapter 9 is devoted to nontaxable exchanges.

## PART FOUR

### *The Taxation of Business Income*

- 10 Sole Proprietorships, Partnerships, LLCs, and S Corporations 10–3
- 11 The Corporate Taxpayer 11–1
- 12 The Choice of Business Entity 12–1
- 13 Jurisdictional Issues in Business Taxation 13–1

**Part Four** teaches students how to calculate the tax on business income. Chapter 10 describes the function of sole proprietorships, partnerships, LLCs, and S corporations as conduits of income, while Chapter 11 discusses corporations as taxable entities in their own right. Chapter 12 builds on the preceding two chapters by exploring the tax planning implications of the choice of business entity. Chapter 13 broadens the discussion by considering the special problems of businesses operating in more than one tax jurisdiction. This chapter introduces both multistate and international tax planning strategies.

## PART FIVE

### *The Individual Taxpayer*

- 14 The Individual Tax Formula 14–3
- 15 Compensation and Retirement Planning 15–1
- 16 Investment and Personal Financial Planning 16–1
- 17 Tax Consequences of Personal Activities 17–1

**Part Five** concentrates on the tax rules and regulations unique to individuals. Chapter 14 presents the individual tax formula and acquaints students with the complexities of computing individual taxable income. Chapter 15 covers compensation and retirement planning. Chapter 16 covers investment and rental activities and introduces wealth transfer planning. Finally, Chapter 17 analyzes the tax consequences of personal activities, with particular emphasis on home ownership.

## PART SIX

### *The Tax Compliance Process*

**18** The Tax Compliance Process 18–3

Appendix A Present Value of \$1 A–2

Appendix B Present Value of Annuity of \$1 A–3

Appendix C 2019 Income Tax Rates A–4

**Part Six** consists of Chapter 18, which presents the important procedural and administrative issues confronting taxpayers. It covers the basic rules for paying tax and filing returns, as well as the penalties on taxpayers who violate the rules. Chapter 18 also describes the judicial process through which taxpayers and the IRS resolve their differences.