

CHAPTER 1

FEDERAL INCOME TAXATION - AN OVERVIEW

2022 Edition	Topic	Status
Questions		
1	Adam Smith's system requirements	Unchanged
2	How well income tax and employment taxes meet Adam Smith's requirements	Unchanged
3	Proportional, regressive, or proportional tax	Unchanged
4	Proportional, regressive, or proportional tax	Unchanged
5	Federal income tax as a revenue producer	Unchanged
6	Collection of income taxes	Unchanged
7	Sales tax versus excise tax	Unchanged
8	Collection of sales and excise taxes	Unchanged
9	Real property versus personal property taxes	Unchanged
10	Gift tax	Unchanged
11	Estate tax	Unchanged
12	Valuation of gift and estate assets	Unchanged
13	Payment of gift and estate taxes	Unchanged
14	Primary sources of tax law	Unchanged
15	Supreme Court cases	Unchanged
16	Federal income tax base	Unchanged
17	Exclusion	Unchanged
18	Deferral versus exclusion	Unchanged
19	Gross income versus income	Unchanged
20	Deductibility of expenses	Unchanged
21	Expense versus loss	Unchanged

2022 Edition	Topic	Status
22	Transaction loss versus annual loss	Unchanged
23	Legislative grace concept	Unchanged
24	Inflation effects on taxes	Unchanged
25	Pay-as-you-go collection of taxes	Unchanged
26	Tax credits	Unchanged
27	Tax credit versus deduction	Unchanged
28	Tax credit versus deduction	Unchanged
29	Statute of limitations	Unchanged
30	Auditing returns	Unchanged
31	IRS examinations	Unchanged
32	30-day letters	Unchanged
33	90-day letters	Unchanged
34	Individual versus corporate taxable income	Unchanged
35	Deductions for and from AGI	Unchanged
36	Standard deduction	Unchanged
37	Why study taxes?	Unchanged
38	Goal of tax planning	Unchanged
39	Tax planning-who benefits	Unchanged
Problems		
40	What is a tax?	Unchanged
41	Definition of a tax - five scenarios	Unchanged
42	Calculation of tax and tax rates (marginal, average, effective)	Unchanged
43	Calculation of tax - comparing entities	Unchanged

2022 Edition	Topic	Status
44	Social Security calculation/tax rate (marginal, average, effective)	Unchanged
45	Progressive, proportional, regressive taxes	Unchanged
46-CT	Progressive, proportional, regressive taxes	Unchanged
47	Social Security tax calculation	Unchanged
48	Social Security tax calculation	Unchanged
49	Social Security tax calculation/payment by employer	Unchanged
50	Self-employment tax calculation	Unchanged
51	Social security/self-employment tax	Unchanged
52	Classification of income items	Unchanged
53	Classification of income items	Unchanged
54	What is deductible?	Unchanged
55	Classification of deduction items	Unchanged
56	Calculation of taxable income/tax liability	Unchanged
57	Calculation of taxable income/tax liability	Unchanged
58-COMM	Effect of deduction FOR/FROM adjusted gross income	Unchanged
59-COMM	Tax planning	Unchanged
60	Gift versus Income	Unchanged
61-CT	Tax planning	Date updates only
62	Tax planning	Date updates only
63	Tax planning	Date updates only
64-CT	Tax planning - income splitting	Unchanged

2022 Edition	Topic	Status
65	Evasion versus avoidance	Date updates only
66	Evasion versus avoidance	Date updates only
67-IID	Prepaid taxes	Date updates only
68-IID	Student loan interest	Unchanged
69-IID	Gift versus sale of stock	Unchanged
70-IID	Income splitting	Unchanged
71	INTERNET	Unchanged
72	INTERNET	Unchanged
73	Research Problem	Unchanged
74	Research Problem	Unchanged
75	Spreadsheet Problem	Unchanged
76-DC-CT	Value-added Tax	Unchanged
77-DC-CT	How inflation adjustments preserve after tax income	Date updates only
78-TPC- COMM	Actions an owner can take to reduce taxes	Unchanged
79-EDC-CT	Statements on Standards for Tax Services (SSTS) to situations in problem 67	Unchanged

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DISCUSSION QUESTIONS

1. Briefly state Adam Smith's four requirements for a good tax system.
 - a. **Equality - A tax should be imposed based on the taxpayer's ability to pay.**
 - b. **Certainty - The taxpayer should be able to determine the amount of tax and how to make the required payment.**
 - c. **Convenience - The tax should be levied as close as possible to the time the taxpayer receives the amount subject to tax.**
 - d. **Economy - The cost of taxpayer compliance and administering the tax system should be small in relation to the revenue generated.**
2. Based on the discussion in the chapter, evaluate how well each of these taxes meets Adam Smith's four requirements:
 - a. Income tax

Adam Smith's four criteria for evaluating a tax are Equality, Certainty, Convenience, and Economy. The aspects of the income tax that promote each of the individual criteria are:

Equality - Progressive tax rates; the use of a standard deduction and exemption amounts have the effect of exempting low-income taxpayers from the tax; indexing of tax rates, and standard deduction and exemption amounts that are adjusted for inflation.

Certainty - The use of an annual accounting period and the consistent use of the same tax return due date.

Convenience - The use of a pay as you go system of collecting taxes is more convenient than collecting all taxes at one date. Taxpayers determine their own tax due in privacy.

Economy - The cost of running the IRS is a small percentage of the total tax collected.

Factors in the tax system that dilute Adam Smith's requirements:

Equality - Income exclusions and special deductions allow taxpayers with high incomes to pay taxes equivalent to those with lower incomes. The use of tax planning by higher income taxpayers also negates some of the equality of the system.

Certainty - The complexity of many of the tax law provisions and numerous changes in the tax law from year to year make an accurate calculation of tax liability less certain.

Convenience - Some would contend that determining the amount of tax to be withheld is difficult for many people, making the pay as you go system less convenient.

Economy - There are significant costs of record-keeping and compliance that are borne by the taxpayers, making the tax less economical.

b. Employment taxes

The aspects of employment taxes that promote compliance with each of the four requirements:

Certainty - The taxes are due as income is earned. Since total income to be earned by the employee is unknown during the year, the total tax will only be known once the year is complete.

Convenience - Taxes are collected by employers and paid by the employer to the government.

Economy - No annual reporting is required by the individual; however, the employer must incur the reporting costs. Costs of compliance are minimal.

Aspects that dilute the requirements:

Equality - The tax is not progressive; the tax consumes more of low-income taxpayer's income than a higher income taxpayer's income.

Economy - The cost of reporting is proportionately higher for smaller businesses.