Understanding Federal Income Taxation
Carolina Academic Press Understanding Series

Understanding Administrative Law, Sixth Edition
William Fox, Jr.

Understanding Alternative Dispute Resolution
Kristen M. Blankley and Maureen A. Weston

Understanding Animal Law
Adam Karp

Understanding Antitrust and Its Economic Implications, Seventh Edition
E. Thomas Sullivan and Jeffrey Harrison

Understanding Bankruptcy, Third Edition
Jeffrey Ferriell and Edward Janger

Understanding California Community Property Law
Jo Carrillo

Understanding Capital Punishment Law, Fourth Edition
Linda E. Carter, Ellen S. Kreitzberg, and Scott W. Howe

Understanding Civil Procedure, Sixth Edition
Gene R. Shreve, Peter Raven-Hansen, and Charles Gardner Geyh

Understanding Civil Procedure: The California Edition
Walter W. Heiser, Gene R. Shreve, Peter Raven-Hansen, and Charles Geyh

Understanding Civil Rights Litigation, Second Edition
Howard M. Wasserman

Understanding Conflict of Laws, Fourth Edition
William Richman, William Reynolds, and Chris Whytock

Understanding Constitutional Law, Fourth Edition
John Attanasio and Joel Goldstein

Understanding Contracts, Fourth Edition
Jeffrey Ferriell

Understanding Copyright Law, Seventh Edition
Marshall Leaffer

Understanding Corporate Law, Fifth Edition
Arthur Pinto and Douglas M. Branson

Understanding Corporate Taxation, Third Edition
Leandra Lederman and Michelle Kwon

Understanding Criminal Law, Eighth Edition
Joshua Dressler

Understanding Criminal Procedure: Vol. 1: Investigation, Seventh Edition
Joshua Dressler, Alan C. Michaels, and Ric Simmons

Joshua Dressler and Alan C. Michaels

Understanding Disability Law, Third Edition
Mark C. Weber

Understanding Election Law and Voting Rights
Michael R. Dimino, Bradley A. Smith, and Michael E. Solimine

Understanding Employee Benefits Law
Kathryn Moore

Understanding Employment Discrimination Law, Second Edition
Thomas Haggard

Understanding Employment Law, Third Edition
Paul M. Secunda, Richard Bales, and Jeffrey M. Hirsch

Understanding Environmental Law, Third Edition
Philip Weinberg and Kevin Reilly

Understanding Estate and Gift Taxation, Second Edition
Brant J. Hellwig and Robert T. Danforth

Understanding Evidence, Fifth Edition
Paul C. Giannelli

Understanding Family Law, Fourth Edition
John Gregory, Peter N. Swisher, and Robin Wilson

Understanding Federal and California Evidence
Paul C. Giannelli

Understanding Federal Courts and Jurisdiction, Second Edition
Linda Mullenix, Martin H. Redish, and Georgene Vairo

Understanding Federal Income Taxation, Sixth Edition
J. Martin Burke and Michael K. Friel
Understanding Federal Income Taxation

SIXTH EDITION

J. Martin Burke
Professor of Law Emeritus
University of Montana School of Law

Michael K. Friel
Professor of Law Emeritus
The University of Florida College of Law

Carolina Academic Press
Durham, North Carolina
To Jackie and Jonathan  
and My Mother and Father  
— MKF

To My Mother and Father  
and My Eleven Brothers and Sisters  
— JMB
Contents

Preface xxiii
Acknowledgments xxv

Chapter 1 • Introduction to Federal Income Tax 3
§ 1.01 A Brief History of Federal Income Tax 3
§ 1.02 Resolution of Tax Issues through the Judicial Process 4
[A] Trial Courts 4
[1] The Tax Court 5
[B] Appellate Courts 6
[C] Selection of Forum 6
§ 1.03 Computation of Tax Liability 6
[A] Basic Questions Addressed by an Income Tax System 6
[B] Evaluating Tax Liability 7
[1] Gross Income 8
[3] Deductions 10
[a] Itemize or Elect Standard Deduction 13
[b] Standard Deduction 13
[c] Itemized Deductions 13
[d] Miscellaneous Itemized Deductions 14
[e] Personal Exemptions: No Deduction 14
[f] Section 199A: The Qualified Business Income Pass-through Deduction 14
[g] Calculating Taxable Income 15
[7] Credits 15
§ 1.04 Conclusion 16

Chapter 2 • Gross Income Concepts and Limitations 17
§ 2.01 The Search for a Definition of Income 17
§ 2.02 Income Realized in Any Form 20
§ 2.03 Realization, Imputed Income and Bargain Purchases 21
### CONTENTS

- **Chapter 3 • The Effect of an Obligation to Repay**
  - § 3.01 Loans
  - § 3.02 Claim of Right
  - § 3.03 Illegal Income
  - § 3.04 Deposits

- **Chapter 4 • Gains Derived from Dealings in Property**
  - § 4.01 Computing Gain Derived from Dealings in Property
  - § 4.02 Tax Cost Basis
  - § 4.03 Impact of Liabilities
    - [A] Impact on Basis
    - [B] Impact on Amount Realized
  - § 4.04 Basis of Property Acquired in Taxable Exchanges

- **Chapter 5 • Gifts, Bequests and Inheritance**
  - § 5.01 Exclusion of Gifts from Income
    - [A] The Nature of a Gift
      - [1] Employer-Employee “Gifts”
    - [B] The Nature of a Bequest or Inheritance
    - [C] Statutory Limitations on the Exclusion — Section 102(b)
  - § 5.02 Basis of Property Received by Gift, Bequest or Inheritance
    - [A] Gifts of Appreciated Property
    - [B] Gifts of Property — Basis in Excess of Fair Market Value
    - [C] Basis of Property Received by Bequest or Inheritance
  - § 5.03 Part-Gift, Part-Sale

- **Chapter 6 • Sale of a Principal Residence**
  - § 6.01 Ownership and Use Requirements
  - § 6.02 Amount Excludable
  - § 6.03 Exclusion for Taxpayers Failing to Meet Certain Requirements
  - § 6.04 Limitation on Exclusion for Depreciation Claimed
  - § 6.05 Principal Residence
  - § 6.06 Conclusion

- **Chapter 7 • Scholarships and Prizes**
  - § 7.01 Prizes and Awards
    - [A] Prizes and Awards Generally Taxable
    - [B] Employee Achievement Awards Exempt
  - § 7.02 Qualified Scholarships
    - [A] Limitation of Exclusion
    - [B] Scholarships as Compensation
Chapter 10 • Compensation for Personal Physical Injury and Physical Sickness

§ 10.01 Introduction

§ 10.02 Damages

[A] Business or Property Damages

[B] Exclusion for Damages Received on Account of Personal Physical Injuries or Physical Sickness

[C] Supreme Court Limitations on Section 104(a)(2)

[1] What is a “Personal Injury”? 121

[2] When Are Damages Received “on Account of” a Personal Injury? 122

[D] Restricting the Exclusion to Physical Injury or Physical Sickness

[1] Distinction between Physical and Non-Physical Injuries 123

[2] Personal Physical Injury or Physical Sickness 125


[4] Recoveries by Individuals Other than Individuals Suffering Personal Physical Injury or Physical Sickness 128

[E] The Current Regulations and the Definition of “Damages” 129

[F] Punitive Damages 130

[G] Allocation of Awards 131

[H] Periodic Payments 132

§ 10.03 Payment under Accident and Health Insurance Policies 133

§ 10.04 Previously Deducted Medical Expenses 135

§ 10.05 Workers’ Compensation 136

§ 10.06 Certain Disability Pensions 137

Chapter 11 • Fringe Benefits

§ 11.01 Meals and Lodging

[A] The Treatment of Meals and Lodging Prior to 1954 139

[B] Section 119—Meals or Lodging Furnished for the Convenience of the Employer 140

§ 11.02 Fringe Benefits and Section 132

[A] No-Additional-Cost Service 143

[B] Qualified Employee Discount 146

[C] Working Condition Fringe 149

[D] De Minimis Fringe Benefits 151

[E] Qualified Transportation Fringe 151

[F] On-Premises Gyms and Other Athletic Facilities 152

§ 11.03 Valuation 153

Chapter 12 • Business and Profit Seeking Expenses

§ 12.01 Business Deductions—Section 162 155
CONTENTS

[A] The Expense Must be “Ordinary and Necessary” 156
  [1] Is the Expense “Ordinary”? 156
  [2] Is the Expense “Necessary”? 160
[B] “Carrying on a Trade or Business” 165
  [1] What Constitutes a “Trade or Business”? 165
  [3] Section 195 and the Amortization of Certain Pre-Operational or Start-Up Expenditures 168

§ 12.02 Deduction of Expenses for the Production of Income — Section 212 171
§ 12.03 Disallowance of and Limitations on the Deduction of Certain Expenses Related to Business and the Production of Income 173
  [A] Employee Business Expenses 173
  [B] Clothing Expenses Incurred by Self-Employed Taxpayers and Employees 174
  [C] Deductions for Attorney Fees and Other Costs Related to Taxable Personal Injury Settlements 175
  [D] Entertainment Expenses 177
  [E] Expenses Raising Public Policy Considerations 178

Chapter 13 • Deduction for Qualified Business Income: Section 199A 181
§ 13.01 Overview of Section 199A 181
  [A] Qualified Business Income 182
  [B] Threshold Amount and Limitations 182
§ 13.02 The Section 199A Deduction Formula 183
  [A] Definition of Combined Qualified Business Income Amount and Related Terms 183
  [B] Computing a Taxpayer’s Combined Qualified Business Income Amount 185
  [C] Calculation of the Section 199A Deduction 185

Chapter 14 • Capital Expenditures 193
§ 14.01 Deductible Expense or Capital Expenditure? 193
§ 14.02 Defining Capital Expenditures — INDOPCO 194
§ 14.03 Administrative Guidance: The Capital Expenditures Regulations 197
  [A] Amounts Paid to Acquire or Produce Tangible Property 197
  [B] Amounts Paid to Improve Tangible Property 200
    [1] Improvements: Historic Rules 200
    [2] Improvements 203
    [3] Amounts Paid to Acquire or Create Intangibles 207
§ 14.04 Miscellaneous Items 210
  [A] Expansion Costs 210
  [B] Business Downsizing Costs 211
[C] Employee Training Costs 212
[D] Advertising Expenses 212
§ 14.05 Purchase or Lease 213

Chapter 15 • Depreciation 215
§ 15.01 Depreciation 215
[A] Depreciable Property 215
[B] Recovery Period—The Useful Life Concept 217
   [1] Historical Development 217
      Cost Recovery System (MACRS) 218
[C] Depreciation Methods 220
[D] Conventions 222
§ 15.02 Computing the Depreciation Deduction 224
§ 15.03 Additional First Year Depreciation or Bonus
      Depreciation—§ 168(k) 226
§ 15.04 Amortization of Intangibles—Section 197 229
§ 15.05 Relationship between Basis and Depreciation 229
§ 15.06 Section 179—Expensing Tangible Personal Property 230
§ 15.07 The Relationship of Debt to Depreciation 233

Chapter 16 • Losses and Bad Debts 241
§ 16.01 Losses 241
[A] The Business or Profit Requirement for Individuals 242
   [1] Personal Losses Not Deductible 242
   [2] Conversion of Personal Use Property to Income
      Producing Property 243
[B] When Is a Loss Sustained? 244
   [1] Worthless Securities 246
   [2] Theft Losses 246
[C] Amount of the Deduction 247
   [1] Reimbursement 247
   [2] Post-Conversion Losses 248
[D] Disallowed Losses 248
§ 16.02 Bad Debts 249
[A] Bona Fide Debt Requirement 249
[B] Worthlessness 249
[C] Business or Nonbusiness Debts 250
[D] Amount Deductible 252
[E] Guarantees 253
§ 16.03 Bad Debts and Losses: The Interplay between
      Sections 166 and 165 253

Chapter 17 • Travel Expenses and Business Meals 255
§ 17.01 Commuting 255
§ 17.02 Other Transportation Expenses 258
CONTENTS

§ 17.03 Expenses for Meals and Lodging While in Travel Status 259
§ 17.04 Away from Home 261
§ 17.05 Travel Expenses of Spouse 265
§ 17.06 Reimbursed Employee Expenses 265
§ 17.07 Business-Related Meals 266
§ 17.08 Limitation on Deduction for Meals 269
§ 17.09 Substantiation Requirements 270
§ 17.10 Relationship to Section 212 271

Chapter 18 • Educational Expenses 273
§ 18.01 Categorization of Educational Expenses 273
§ 18.02 The Skills-Maintenance or Requirement-of-Applicable-Law Tests of Regulation 1.162-5(a) 275
§ 18.03 The Minimum Educational Requirements and New Trade or Business Tests 277
§ 18.04 Travel Expenses 279
§ 18.05 Education Tax Incentives 280
  [A] Education Credits 280
  [B] Education Deductions 282
  [C] Education Exclusions from Income 282

Chapter 19 • Dual Use Property: Home Offices, Vacation Homes, and Passenger Automobiles 285
§ 19.01 Home Office Deductions 285
  [A] General Background — Bodzin v. Commissioner 287
  [B] Enactment of Section 280A 289
  [C] Principal Place of Business 289
  [D] Convenience of Employer 290
  [E] Limitation on Amount of Deduction 291
§ 19.02 Vacation Home Deductions 293
§ 19.03 Passenger Automobiles 296
§ 19.04 Conclusion 300

Chapter 20 • The Interest Deduction 301
§ 20.01 What Constitutes Interest? 301
§ 20.02 Deduction of Interest Incurred in a Trade or Business or in the Production of Income 302
§ 20.03 Deduction of Personal Interest 303
  [A] Qualified Residence Interest 306
  [B] Interest on Education Loans 309
§ 20.04 Investment Interest 309
  [A] The § 163(d) Limitation on Investment Interest 310
  [B] The § 163(j) Limitation on Business Interest 312
§ 20.05 Timing Issues and Limitations 313
  [A] Allocation of Prepaid Interest 313
  [B] Capitalization of Interest 315
[C] Payment Issues

Chapter 21 • The Deduction for Taxes 319
§ 21.01 Historical Background 319
§ 21.02 Taxes Deductible under Section 164 319
§ 21.03 Aggregate Limitation of $10,000 on Section 164 Deduction 321
§ 21.04 Party Eligible to Claim the Deduction 322
§ 21.05 Special Problems Associated with the Deduction of Real Property Taxes and Assessments 323
  [A] Real Property Assessments 323
  [B] Apportionment of Real Property Taxes Between Buyer and Seller 324
§ 21.06 Public Policy Considerations 326

Chapter 22 • Casualty Losses 329
§ 22.01 Definitional Questions 331
  [A] Casualty Losses 331
  [B] Theft Losses 335
§ 22.02 Timing of the Loss 335
§ 22.03 Amount of the Loss 336
§ 22.04 Insurance Coverage 339

Chapter 23 • Medical Expenses 341
§ 23.01 Deductibility of Medical Expenses 342
  [A] Medicine and Drugs 342
  [B] Counseling Costs 343
  [C] Capital Expenditures 344
  [D] Meals and Lodging 345
  [E] Illegal Operations or Treatment 346
  [F] Qualified Long-Term Care 346
  [G] Transportation Expenses 347
§ 23.02 Medical versus Personal Expenses 347

Chapter 24 • Charitable Deductions 349
§ 24.01 In General 349
§ 24.02 Requirements for Charitable Deductions 349
  [B] What Is a “Contribution” or “Gift”? 353
  [C] Actual Payment Required 356
  [D] Limitation on Charitable Deductions 357
§ 24.03 Contribution of Services 359
§ 24.04 Contribution of Appreciated Property 360
§ 24.05 Contributions of Partial Interests in Property 363
§ 24.06 Bargain Sale to Charity 366
§ 24.07 Substantiation 367

Chapter 25 • Limitations on Deductions 369
CONTENTS

§ 25.01  Section 267: Losses between Related Parties 369
[A]  Section 267(a)(1) Loss Rule 369
[B]  The Section 267(a)(2) Matching Requirement 373
[C]  Other Matching Rules—Section 404(a)(5) and Section 83 374
§ 25.02  Section 265: Expenses Related to Tax-Exempt Income 375
[A]  Section 265(a)(1) General Rule 375
[B]  Section 265(a)(2): Tax-Exempt Interest 377
[C]  Allocation 379
§ 25.03  Section 1091: Wash Sales 379
§ 25.04  Judicial Limitations on Interest Deductions 381

Chapter 26  •  Cash Method Accounting 385
§ 26.01  Income under the Cash Method 385
[A]  In General 385
[B]  Constructive Receipt 386
  [1]  Specific Factors Affecting Application of Constructive Receipt Doctrine 386
    [a]  Distance 387
    [b]  Knowledge 388
    [c]  Contractual Arrangements 389
    [d]  Forfeitures or Other Penalties 389
    [e]  Relationship of the Taxpayer to the Payor 389
  [2]  Specific Exceptions to Constructive Receipt Rules 391
[C]  Cash Equivalency Doctrine 391
[D]  Economic Benefit Doctrine 394
[E]  Non-Qualified Deferred Compensation Arrangements 397
[F]  Section 409A and Revenue Ruling 60-31 399
[G]  Lottery Prizes 401
[H]  Prepayments 401
§ 26.02  Deductions under the Cash Method 401
[A]  In General 401
[B]  Cash Method Prepayments 404

Chapter 27  •  Accrual Method Accounting 407
§ 27.01  The All Events Test 407
§ 27.02  Accrual of Income 408
[A]  General Rules 408
[B]  Income Prior to Receipt: Accrual Issues 409
[C]  Receipt Prior to Earning: Prepayments 412
§ 27.03  Deductions under the Accrual Method 415
[A]  General Rules 415
[B]  Premature Accruals 418
[C]  The Economic Performance Test: Section 461(h) 419
[D]  The Recurring Item Exception and the 3½ Month Exception to the Economic Performance Test 421
[E] Safe Harbor Method of Accounting for Ratable Service Contracts 423
[F] Capitalization 423
[G] Contested Liabilities 424
§ 27.04 Choice of Accounting Methods 425

Chapter 28 • Annual Accounting 427
§ 28.01 Restoring Amounts Received under a Claim of Right 427
[A] Appearance of a Right 429
[B] No Unrestricted Right 430
§ 28.02 The Tax Benefit Rule 432
[A] The “Fundamental Inconsistency” Test 434
[B] Erroneous Original Deduction 435
§ 28.03 Net Operating Losses 436

Chapter 29 • Capital Gains and Losses 441
§ 29.01 Historical Overview 441
[A] Preferential Treatment for Long-Term Capital Gain 442
[B] Limitation on the Deduction of Capital Losses 445
[C] Justification for Preferential Capital Gain Treatment 446
§ 29.02 Current Law: Section 1(h) 447
[B] The Components of Net Capital Gain: 28-Percent Rate Gain; Unrecaptured Section 1250 Gain; and Adjusted Net Capital Gain
[1] 28-Percent Rate Gain: Collectibles Gain and Section 1202 Gain 449
[2] Unrecaptured Section 1250 Gain — 25 Percent Rate 450
[C] Attribution of Capital Losses Included in the Computation of Net Capital Gain 454
§ 29.03 The Section 1211(b) Limitation on the Deduction of Capital Losses 456
§ 29.04 Definition of Capital Asset 460
[A] Section 1221(a)(1): Inventory, Stock in Trade and Property Held Primarily for Sale to Customers in the Ordinary Course of the Taxpayer’s Trade or Business 462
[B] Section 1221(a)(2): Property Used in the Taxpayer’s Trade or Business 463
[C] Section 1221(a)(3): Patents, Inventions, Copyrights, Literary, Musical, or Artistic Compositions, Etc. 464
[D] Section 1221(a)(4): Accounts Receivable for Services Rendered or Inventory-Type Assets Sold 464
<table>
<thead>
<tr>
<th>Section</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>§ 38.06</td>
<td>Contingent Payment Sales</td>
<td>594</td>
</tr>
<tr>
<td>§ 38.07</td>
<td>Dispositions of Installment Obligations</td>
<td>596</td>
</tr>
<tr>
<td>§ 38.08</td>
<td>Second Dispositions by Related Persons</td>
<td>597</td>
</tr>
<tr>
<td>§ 38.09</td>
<td>Sales of Depreciable Property to Related Persons</td>
<td>600</td>
</tr>
<tr>
<td>§ 38.10</td>
<td>Special Rules for Nondealers</td>
<td>601</td>
</tr>
<tr>
<td>§ 38.11</td>
<td>Installment Obligations and Like-Kind Exchanges</td>
<td>603</td>
</tr>
</tbody>
</table>

Chapter 39 • Sale of a Business and Sale-Leasebacks 605

§ 39.01 Sale of a Sole Proprietorship 605

[A] The Standard of *Williams v. McGowan* 605

[B] Goodwill, Going Concern Value and Covenants Not to Compete 606

[1] Goodwill 606


[3] Covenant Not to Compete 607

[C] Tax Consequences of Allocation of Purchase Price 608

[1] Historic Allocation Strategies 608

[2] Section 197—Amortization of Business Intangibles 609

§ 39.02 Valuing Goodwill, Going Concern Value, and Covenants Not to Compete 612

§ 39.03 Sale-Leaseback 617

[A] Sale-Leaseback Characterized as Financing Arrangement 618

[B] Sale-Leaseback Characterized as a Like-Kind Exchange 619

Chapter 40 • An Introduction to Original Issue Discount 621

§ 40.01 Original Issue Discount: Introduction 621

§ 40.02 OID: Debt Instruments Issued for Cash 624

[A] Determining the Amount of OID 626

[B] Current Inclusion of OID 628

[C] Deduction of OID 629

[D] Gain or Loss on Sale, Exchange or Retirement 630

[E] Market Discount 631

§ 40.03 Sales and Exchanges of Property and Section 467 Rental Agreements 632

Chapter 41 • Limitations on Tax Shelters 633

§ 41.01 The At Risk Rules—Section 465 633

[A] General Background 633

[B] Operation of the At Risk Rules 634

[1] Activities Subject to the at Risk Rules 636


[3] Qualified Nonrecourse Financing 636

[4] Adjustments to the Amount at Risk 637

§ 41.02 Section 469—Limitation on Passive Activity Losses and Credits 639

[A] Background 639
[B] Section 469 — In General 641
[C] Passive Activities 642
  [1] Material Participation 642
  [2] Rental Activities 644
[D] Scope of Passive Activities 645
[E] Treatment of Losses and Credits 646
[F] Portfolio Income and Expenses 647
[G] Exception for Active Participation in Rental Real Estate 648
[H] Disposition of Taxpayer’s Entire Interest in Passive Activity 648
§ 41.03 Section 461(l) — Excess Business Loss Allowance 650

Chapter 42 • The Alternative Minimum Tax 653
§ 42.01 Mechanics 653
§ 42.02 Determining Alternative Minimum Taxable Income 656
  [A] Section 56 and 58 Adjustments 658
    [1] Depreciation 658
    [2] Limitation on Standard Deduction and State and Local Taxes 658
  [B] Section 57 Preferences 658
§ 42.03 Determining Tax Liability 659
§ 42.04 Credits Allowed 660

Appendix A • Note on Miscellaneous Exclusions 661

Appendix B • Additional Accounting Considerations 667
  Table of Cases 673
  Table of Statutes 679
  Table of Agency Decisions 695
  Index 697
Preface

As experienced tax professors, we know that students encountering the complexities of the tax code for the first time are often frustrated by its difficulties and look to their casebooks or to supplemental material for an adequate overview of the principles and policies underlying federal income tax law and for a detailed explanation of the interpretation and application of pertinent provisions of the Internal Revenue Code. Thus, such overviews and explanations have been principal features of the authors’ casebook, *Taxation of Individual Income*. This book in turn adapts material from *Taxation of Individual Income* for those students using other casebooks who seek such supplemental material to assist them in their study. We have specifically designed this book to supplement other casebooks used in traditional courses in federal individual income taxation.

This book consists of forty-two chapters with each chapter addressing a basic topic in individual income taxation, e.g., the taxation of personal injury awards, the interest deduction, installment sales. Because the provisions of the Internal Revenue Code are necessarily at the heart of tax study, we have included in each chapter a part or all of the Code section(s) pertinent to the specific topic. Likewise, the chapters contain summaries of leading cases and relevant administrative rulings as well as numerous examples explaining the application of the law.

For students in law schools or business programs, we suggest that, before turning to this book, students first read the cases and other materials assigned by their professors. With that reading as background, students should then read the corresponding materials in this book to acquire a broader overview of the area including the development of the law related to a specific topic.

While this book is designed primarily for students, we recognize that it may also prove valuable to the general practitioner. Before representing a client in a property transaction, the attorney may be well advised to read the chapter(s) relevant to the representation. Not only will this book provide the attorney with helpful overviews of the tax law related to a client matter, it will also serve as a tool for locating cases and other relevant authority.

In sum, we have written this book as a basic guide for students studying the tax law for the first time and for general practitioners handling transactions with an individual income tax dimension. A word of caution: neither this guide nor any casebook or supplemental material should be viewed as a substitute for careful reading of the Internal Revenue Code. Lawyers and accountants must ultimately base
their decisions on the Code and the judicial and administrative interpretations of the Code. Our hope is that this book will aid in the study of the Code and the application of its provisions.
Acknowledgments

Since the Fifth Edition of this book was published in 2016, Congress has made numerous changes to the Internal Revenue Code. These changes, combined with new court and administrative materials, have necessitated a new edition. As in the past, we have used the preparation of this new edition as an opportunity to take advantage of the helpful suggestions from our tax colleagues throughout the nation. We are most grateful to them. We are also indebted to Elisabeth Ebben and Jennifer Hill of Carolina Academic Press. Their assistance and support in the preparation of the manuscript for the Sixth Edition were indispensable, and for that we are most appreciative.