

Understanding Federal Income Taxation

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SIXTH EDITION

J. Martin Burke

PROFESSOR OF LAW EMERITUS
UNIVERSITY OF MONTANA SCHOOL OF LAW

Michael K. Friel

PROFESSOR OF LAW EMERITUS
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To Jackie and Jonathan
and My Mother and Father
— MKF

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

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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.

