

Professor Davis G. Yee
Fall 2016
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FEDERAL TAX ACCOUNTING AND TAX TIMING ISSUES

Syllabus

COURSE DESCRIPTION:

An examination of the concepts and principles underlying the annual accounting system of the federal income tax, including: the cash receipts and disbursements method of accounting, the accrual method of accounting, inventory accounting, carryovers, the claim of right doctrine, the tax benefit rule, deferred payment sales, original issue discount, and other time value of money issues. This course will emphasize rigorous analysis of the Internal Revenue Code and Treasury Regulations. It will be assumed that students are generally familiar with the issues covered in a basic Federal Income Taxation course.

REQUIRED COURSE MATERIALS:

Page references are to Stephen F. Gertzman, Federal Tax Accounting (2016 Student Edition).

EXAMINATION AND GRADING:

Your grade will be based on an anonymously graded midterm examination and final examination. Each examination will be that will be between one and two hours long. The midterm examination counts for 30% of your grade and can be “checked out” during the following dates: November 3, 2016 and November 5, 2016. The final exam counts for the remaining 70% of your grade and can be “checked out” during the following dates: December 5, 2016 and December 10, 2016. For the exam, you will be allowed to use the course materials and anything prepared by you (including class notes). A simple calculator may be used.

ZOOM SESSIONS:

Zoom sessions are from 6:00-7:00 p.m. Pacific Time on Wednesdays. The last Zoom session will be on Wednesday, November 30, 2016. Prof. Yee can be reached by email to arrange a phone conversation at other times.

HOURS OF WORK PER WEEK:

This is a 2-credit hour class. The Zoom sessions are one hour in length per week, and your attendance for these sessions is optional. Aside from the Zoom sessions, you should plan on spending a total of six hours per week, about 1 hour to

watch (and re-watch, if necessary) the modules and the remaining five hours or so on reading and doing the problems.

WEEK 1

Learning Outcomes:

General understanding of the concept of tax accounting (as opposed to other types of accounting).
Understanding of the policies that underlie the promulgation of tax accounting rules.
Knowledge of the concept of a taxable year.
Knowledge of the requirements governing all methods of tax accounting.

- A. Tax Accounting—What is It?
Read pp. 1-1 through 1-10
Watch Module 1 Introduction and Game Pieces
- B. Annual Accounting System and Introduction to the Taxable Year
Read pp. 12-3 through 12-5
Read *Burnet v. Sanford & Brooks Co.*, 282 U.S. 359 (1931)
Read pp. 10-3 through 10-8
Read I.R.C. §§ 441 and 7701(a)(23) and (a)(24)
Watch Module 2 Game Board
- C. Tax Policy Considerations
Read pp. 1-10 through 1-15
Watch Module 3 Why is this Game so Darn Complicated?
- D. Methods of Accounting
Read I.R.C. § 446(a) and (b)
Read pp. 2-2 through 2-44
Watch Module 4 Requirements Governing All Methods of Accounting

Zoom Session: October 19, 2016, a Wednesday

WEEK 2

Learning Outcomes:

Knowledge and understanding of the general rules of the cash receipts and disbursement method.
Recognize and differentiate the various doctrines for reporting income under the cash method.
Knowledge of the rules for reporting items of expense under the cash method.
Knowledge of the issues under the cash method regarding the deductibility of prepayments.

- A. The Cash Receipts and Disbursements Method: In General
Read pp. 2-69 through 2-71; pp. 3-2 through 3-5; pp. 3-63 through 3-76; pp. 3-86 through 3-87
Read I.R.C. § 446(a) and (c); I.R.C. § 448
Watch Module 5 What Should be My Method of Play?
- B. Cash Method: Reporting Items of Income
Read Treas. Reg. § 1.446-1(c)(1)(i)
Read pp. 3-13 through 3-14; pp. 3-18 through 3-25
Read *Cowden v. Commissioner*, 289 F.2d 20 (5th Cir. 1961)
Read *Warren Jones Co. v. Commissioner*, 524 F.2d 788 (9th Cir. 1975)
Read Treas. Reg. § 1.61-2(d)(1)

- Watch Module 6 Cash Equivalence
- Read pp. 3-25 through 3-34
- Read *Pulsifer v. Commissioner*, 64 T.C. 245 (1975)
- Read Treas. Reg. § 1.451-2
- Watch Module 7 Economic Benefit and Constructive Receipt Doctrines
- Do Problem One
- Watch Module 8 Solution to Problem One
- C. Cash Method: Reporting Items of Expense
- Read pp. 3-42 through 3-48
- Read *Commissioner v. Bradley*, 56 F.2d 728 (6th Cir. 1932)
- Watch Module 9 Reporting Items of Expense
- Do Problem Two
- Watch Module 10 Solution to Problem Two
- D. Cash Method: Prepayments
- Read pp. 3-55 through 3-61
- Read *Commissioner v. Boylston Market Ass'n*, 131 F.2d 966 (1st Cir. 1942)
- Read *Zaninovich v. Commissioner*, 616 F.2d 429 (9th Cir. 1980)
- Watch Module 11 Prepayments

Zoom Session: October 26, 2016, a Wednesday

WEEK 3

Learning Outcomes:

- Knowledge and understanding of the all events test of the accrual method.
- Ability to recognize the differences between the accrual method and cash method.
- Knowledge of the general rule for reporting income under the accrual method.
- Application of that general rule to items of doubtful collectability.
- Application of that general rule to advance payments for services and for goods.

- A. Accrual Methods: In General
- Read pp. 4-3 through 4-7
- Read I.R.C. § 446(a), (c)(2)
- Read Treas. Reg. § 1.446-1(c)(1)(ii)
- Watch Module 12 What is the Accrual Method and the All Events Test?
- B. Accrual Methods: Reporting Items of Income
- Read pp. 4-11 through 4-14; pp. 4-24 through 4-26
- Read I.R.C. § 451(a)
- Read Treas. Reg. § 1.451-1(a)
- Read *Continental Tie & Lumber Co. v. United States*, 286 U.S. 290 (1932)
- Watch Module 13 Fixed Right to Receive and Determination of the Amount
- Read pp. 4-28 through 4-39
- Read *Spring City Foundry Co. v. Commissioner*, 292 U.S. 182 (1934)
- Read I.R.C. § 448(d)(5)
- Watch Module 14 Items of Doubtful Collectability
- Do Problem Three
- Watch Module 15 Solution to Problem Three
- Read p. 4-40; pp. 4-42 through 4-45; pp. 4-50 through 4-65

Read Schlude v. Commissioner, 372 U.S. 128 (1963)
Read Treas. Reg. § 1.451-5
Watch Module 16 Advance Payments for Services and for Goods
Do Problem Four
Watch Module 17 Solution to Problem Four

Zoom Session: November 2, 2016, a Wednesday

MIDTERM EXAM available to “checked out” during the following dates: November 3, 2016 and November 5, 2016.

WEEK 4

Learning Outcomes:

Knowledge of the general rule for reporting items of expense under the accrual method.
Application of that general rule to contested liabilities.
Understanding of the third prong of the all-events test for reporting items of expense.

C. Accrual Methods: Reporting Items of Expense

Read pp. 4-65 through 4-72; pp. 4-100 through 4-101; and pp. 4-139 through 4-143

Read I.R.C. § 461(a)

Read Treas. Reg. § 1.461-1(a)(2)(i) & (ii)

Read United States v. Hughes Properties, Inc., 476 U.S. 593 (1986)

Read Mooney Aircraft, Inc. v. United States, 420 F.2d 400 (5th Cir. 1969)

Watch Module 18 All Events Test for Deduction

Read pp. 4-90 through 4-99

Read I.R.C. § 461(f)

Read Treas. Reg. § 1.461-2

Read Dixie Pine Products Co. v. Commissioner, 320 U.S. 516 (1944)

Watch Module 19 Contested Liabilities

D. Accrual Methods: Economic Performance

Read pp. 4-108 through 4-117; pp. 4-120 through 4-128; pp. 4-131 through 4-138

Read I.R.C. § 461(h)

Read Treas. Reg. §§ 1.461-4 and 1.461-5

Watch Module 20 Economic Performance

Zoom Session: November 9, 2016, a Wednesday

WEEK 5

Learning Outcomes:

Understanding of when inventory tax accounting must be used.

Understanding the purposes of inventory tax accounting.

Knowledge and understanding of the federal tax code provisions regarding inventory accounting.

Understanding the different cost flow assumptions for inventory, such as FIFO and LIFO.

Understanding the different objectives of financial accounting versus tax accounting of inventory.

Knowledge and understanding of the installment method of reporting income.

Understanding the installment method rules as they apply to related-party transactions.

Understanding of when and how to elect out of the installment method of reporting income.

A. Inventories

Read p. 6-12 and pp. 6-30 through 6-31

Read Treas. Reg. § 1.446-1(c)(2)(i)

Read *Wilkinson-Beane, Inc. v. Commissioner*, 420 F.2d 352 (1st Cir. 1970)

Watch Module 21 Must I Use Inventory Accounting?

Read pp. 6-3 through 6-10

Skim Schedule C to Form 1040

Watch Module 22 What is the Purpose of Inventory Accounting?

Read pp. 6-12 through 6-15; pp. 6-16 through 6-18; and pp. 6-76 through 6-78

Read I.R.C. §§ 471 and 263A

Watch Module 23 Statutory Provisions for Inventory

Read pp. 6-130 through 6-131; pp. 7-3 through 7-6

Read I.R.C. § 472

Watch Module 24 Cost Flow Assumptions

Do Problem Five

Watch Module 25 Solution to Problem Five

Read pp. 6-14 through 6-15; pp. 6-144 through 6-145; and pp. 6-158 through 6-159

Read I.R.C. § 446(b)

Read *Thor Power Tool Co. v. Commissioner*, 439 U.S. 522 (1979)

Watch Module 26 What Does the Son of Odin Have to Say About Inventory?

B. Installment Method

Read p. 5-6; pp. 5-10 through 5-11; and pp. 5-28 through 5-29

Read I.R.C. § 453(a), (b)(2), and (l)

Watch Module 27 Why Have Installment Method and Who Can Use It?

Read pp. 5-41 through 5-44; and pp. 5-55 through 5-58

Read I.R.C. § 453(a) through (b)(1) and (f)(3)

Skim Treas. Reg. § 15a.453-1

Skim Form 6252

Watch Module 28 How Do I Use the Installment Method?

Read pp. 5-72 through 5-78

Read I.R.C. § 453(e) through (g)

Watch Module 29 Related-Party Rules

Read pp. 5-88 through 5-90

Read I.R.C. § 453(d)

Skim Form 8949 and Form 4797

Watch Module 30 Electing Out of the Installment Method

Zoom Session: November 16, 2016, a Wednesday

WEEK 6

Learning Outcomes:

Familiarity with the “time value of money” concept known as Original Issue Discount or OID.

Familiarity with the four federal tax provisions regarding OID.

Knowledge and understanding of what constitutes a “change in accounting method.”

Knowledge of how to change one’s method of accounting for tax purposes.

Calculate the adjustment amount under section 481(a) and the limitation under section 481(b)(1).

- A. Time Value of Money
 - Read p. 11-3 and pp. 11-10 through 11-12
 - Watch Module 31A Introduction to O.I.D.
 - Do Problem Six
 - Watch Module 31B Solution to Problem Six
 - Read pp. 11-12 through 11-16
 - Read I.R.C. § 1271
 - Watch Module 32 Amounts Received for Debt Instrument
 - Skim pp. 11-17 through 11-23
 - Read I.R.C. § 1272
 - Watch Module 33 Current Inclusion of O.I.D.
 - Read pp. 11-26 through 11-27; p. 11-32
 - Read I.R.C. § 1273
 - Watch Module 34 Amount of O.I.D.
 - Read pp. 11-37 through 11-41
 - Read I.R.C. § 1274
 - Watch Module 35 Issue Price in Certain Cases Involving Property
 - Do Problem Seven
 - Watch Module 36 Solution to Problem Seven
- B. Changes in Method of Accounting
 - Read pp. 8-3 through 8-12
 - Read I.R.C. § 446(e)
 - Skim Form 3115
 - Skim Revenue Procedure 2015-13
 - Watch Module 37 Introduction to Change in Method of Accounting
 - Read pp. 8-12 through 8-24; and pp. 8-48 through 8-50
 - Read I.R.C. § 481
 - Watch Module 38 Section 481 Adjustment and Cut-Off Method
 - Do Problem Eight
 - Watch Module 39 Solution to Problem Eight
 - Do Problem Nine
 - Watch Module 40 Solution to Problem Nine

Zoom Session: November 23, 2016, a Wednesday

WEEK 7

Learning Outcomes:

Knowledge of the different types of taxable years (calendar, fiscal, and 52-53 week).
Knowledge of the type of taxable year that a particular taxpayer may adopt.
Understanding of the requirements for changing one's taxable year.
Knowledge of some of the various exceptions to the annual accounting system, such as carryovers, claim-of-right (both judicial doctrine and section 1341), and the tax benefit rule (both judicial doctrine and section 111).

- A. Change in Accounting Periods
 - Review I.R.C. § 441 from Week 1
 - Read I.R.C. §§ 644, 706, 1378

Read pp. 10-12 through 10-18; p. 10-21; p. 10-26 through 10-29
Watch Module 41 Selection and Adoption of Taxable Year for Particular Taxpayers

Read I.R.C. § 442

Read p. 10-31; pp. 10-38 through 10-41

Skim Form 1128

Watch Module 42 Change in Taxable Year

B. Exceptions to the Annual Accounting System

Read pp. 12-3 through 12-5

Review *Burnet v. Sanford & Brooks Co.*, 282 U.S. 359 (1931) from Week 1

Read I.R.C. § 172

Watch Module 43 Carryovers

Read pp. 12-14 through 12-17

Read *North American Oil Consolidated v. Burnet*, 286 U.S. 417 (1932)

Watch Module 44 Claim of Right: Judicial Doctrine

Read pp. 12-34 through 12-38

Read I.R.C. § 1341

Read *Zadoff v. United States*, 638 F. Supp. 1240 (S.D.N.Y. 1986)

Watch Module 45 Claim of Right: Statutory Relief

Do Problem Ten

Watch Module 46 Solution to Problem Ten

Read pp. 12-53 through 12-57

Read *Hillsboro National Bank v. Commissioner*, 460 U.S. 370 (1983)

Watch Module 47 Tax Benefit Rule: Judicial Doctrine

Read pp. 12-67 through 12-69; and pp. 12-72 through 12-74

Read I.R.C. § 111

Watch Module 48 Tax Benefit Rule: The Statute

Zoom Session: November 30, 2016, a Wednesday

ONLINE FINAL EXAM available to be “checked out” during the following dates: December 5, 2016 and December 10, 2016.