Gleim CPA Review

Updates to Tax Compliance and Planning

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NOTE: Sections with changes are indicated by a vertical bar in the left margin. Text that should be deleted is displayed with a line through it. New text is shown with blue underlined font.

The revisions included in this PDF primarily reflect tax laws that became effective January 1, 2024. These tax laws are testable on the CPA Exam beginning July 1, 2024. All Gleim outlines, questions, and simulations have been updated accordingly.

This update does not include outline sections or questions in which the only changes were to update tax years. Please note that these need to be updated by you for your book. Our online materials already reflect all tax year updates. As of the date of this update, the IRS has not yet released all of the 2024 tax forms. Please check www.gleim.com/taxforms for any updates. The IRS forms will be updated online as they are released.

Study Unit 1 – Compliance and Planning: Individuals

Page 15, Subunit 1.1, under Income and Compensation Earned Outside the U.S.:

For U.S. citizens, up to $~~120,000~~126,500 (in calendar year ~~2023~~2024) of foreign-earned income can be excluded from gross income.

[. . .]

Example 1-2 Foreign-Earned Income Exclusion: Resident for Entire Year

Brad is a U.S. citizen who is a resident of Italy for the entirety of this year. He was paid $150,000 for services rendered by him this year. Assume the foreign-earned income exclusion is $~~120,000~~126,500 this year. How much of the foreign-earned income does Brad have to recognize in gross income?

Cash from services	$150,000
Less: Foreign-earned income exclusion	~~120,000~~126,500
Recognized foreign-earned income	$ ~~30,000~~23,500

Example 1-3 Foreign-Earned Income Exclusion: Resident for Less Than 1

Brad is a U.S. citizen who is a resident of Italy for 320 days this year. He was paid $150,000 for services rendered by him this year. Assuming the foreign-earned income exclusion is $~~120,000~~126,500, how much of the foreign-earned income does Brad have to recognize in gross income?

Cash from services	$150,000
Foreign-earned income exclusion ($~~120,000~~126,500 × 320/365)	~~105,205~~110,904
Recognized foreign-earned income ($150,000 – $~~105,205~~110,904)	$ ~~44,795~~39,096

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Pages 18-19, Subunit 1.2, under Standard Deduction:

The ~~2023~~2024 standard deduction depends on filing status.

- For single or married filing separately: $~~13,850~~14,600
- For married filing jointly: $~~27,700~~29,200
- For head of household: $~~20,800~~21,900
- If the taxpayer is blind or older than 65, the standard deduction increases by
  - $~~1,500~~1,550 for married filing jointly and married filing separately
  - $~~1,850~~1,950 for head of household and single status
- If the taxpayer is a dependent of another taxpayer, the standard deduction is limited to the greater of $~~1,250~~1,300 or earned income plus $~~400~~450, but not to exceed the standard deduction for single filing status. This limited standard deduction is important to the discussion of Kiddie Tax in Subunit 3.

Example 1-6 Standard Deduction for a Single Taxpayer

Claire, a single taxpayer, files an income tax return in ~~2023~~2024. Compute her standard deduction if she is 67 years old on December 31, ~~2023~~2024.

Single status standard deduction	$~~13,850~~14,600
Older than 65 standard deduction increase	~~1,850~~1,950
Total standard deduction ~~($13,850 + $1,850)~~	**$~~15,700~~16,550**

Example 1-7 Standard Deduction for a Dependent

Continuing with the information from Example 1-6, Claire has a dependent son, Will. Compute Will's standard deduction if he has $700 of earned income.

Standard deduction		$~~1,250~~1,300
Earned income ($700 + $~~400~~450)		$~~1,100~~1,150
Will's standard deduction	**$~~1,250~~1,300**	> $~~1,100~~1,150

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Itemized Deductions

Itemized deductions are ~~utilized less often than the standard deduction. The amount of taxpayers who itemize deductions has decreased from 31% to 14% since the Tax Cuts and Jobs Act (TCJA). There are hundreds of potential deductions a taxpayer can itemize, but some popular~~subtractions from a taxpayer's adjusted gross income (AGI) that reduce the amount of income that is taxed. Most taxpayers have a choice of taking a standard deduction or itemizing deductions. ~~e~~Examples of itemized deductions include

- Medical expenses in excess of 7.5% of AGI
- State and local property taxes and income or sales taxes (limited to a total of $10,000)
- Charitable contributions
- Mortgage interest
- Disaster losses pursuant to a federally declared disaster

Itemized deductions only benefit the taxpayer when, in total, they exceed the standard deduction. Some taxpayers find themselves in a situation where their itemized deductions are consistently near the amount of their standard deduction, giving them little or no tax benefit. For effective tax planning, the cash-basis taxpayer can bunch itemized deductions into 1 year to exceed the standard deduction. Then, in the non-bunched year, the taxpayer can still use the standard deduction. This is an effective tax planning strategy if itemized deductions are close to the standard deduction each year.

Example 1-8 Tax Planning Strategy Bunching Itemized Deductions

Mr. and Mrs. Tucker are a married couple filing jointly. They project that they will incur $~~28,500~~30,000 of itemized deductions in both ~~2022~~2023 and ~~2023~~2024. Suppose their standard deduction is $~~25,900~~27,700 in ~~2022~~2023 and $~~27,700~~29,200 in ~~2023~~2024. Compute the effect of a bunching strategy on the Tuckers' taxable income if Mr. and Mrs. Tucker can shift $3,000 of charitable donations (which are deductible as itemized deductions) from ~~2023~~2024 to ~~2022~~2023.

~~2022~~2023 standard deduction	$~~25,900~~27,700
~~2023~~2024 standard deduction	$~~27,700~~29,200
Total deductions (no bunching; itemize in both years) ($~~28,500~~30,000 + $~~28,500~~30,000)	**$~~57,000~~60,000**
Bunched itemized deductions in ~~2022~~2023 ($~~28,500~~30,000 + $3,000)	$~~31,500~~33,000
New ~~2023~~2024 itemized deductions ($~~28,500~~30,000 – $3,000)	$~~25,500~~27,000
Total deductions (with bunching; itemize in ~~2022~~2023 and use standard deduction in ~~2023~~2024) ($~~31,500~~33,000 + $~~27,700~~29,200)	**$~~59,200~~62,200**
Total effect of bunching on taxable income ($~~59,200~~62,200 – $~~57,000~~60,000)	**$2,200 increase in deduction (reduction in TI) by bunching**

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Pages 21-22, Subunit 1.3, under Alternative Minimum Tax (AMT) and Alternative Minimum Taxable Income (AMTI): Delete Example 1-11.

AMT Exemption and Tax Computation

Individuals are subject to AMT on their AMTI in excess of an exemption, based on filing status.

- AMT exemption for ~~2023~~2024:
  - Single and head of household (HOH) = $~~81,300~~85,700
  - Married filing jointly (MFJ) and surviving spouse = $~~126,500~~133,300
  - At higher AMT levels, the exemption will begin to phase out.

Taxable excess = AMTI − AMT exemption

AMT is any excess of the tentative minimum tax over regular income tax for the year.

- Tentative minimum tax is 26% on the first $~~220,700~~232,600 (~~2023~~2024) of taxable excess and 28% on any additional taxable excess.

- Regular income tax is calculated by identifying the appropriate taxable income bracket and adding a fixed dollar value to a given percentage of the income amount over the minimum value of the bracket. This will be based on the relevant year's tax tables.

Example 1-10 AMT

Derek's taxable income on his single return was $238,000, and his AMTI before exemption was $242,000. Derek's AMT is calculated as follows.

AMT Components	Computations
AMTI	$242,000
AMTI exemption	Single = $~~81,300~~85,700
Taxable excess	$242,000 – $~~81,300~~85,700 = $~~160,700~~156,300
Tentative minimum tax	$~~160,700~~156,300 × .26 = $~~41,782~~40,638
Regular income tax*	$~~52,832~~39,110.50 + .~~35~~32 × ($238,000 – $~~231,250~~191,950) = $~~55,195~~53,846.50 rounded
AMT	**$0** ($~~41,782~~40,638 < $~~55,195~~53,846.50)

*Regular income tax calculated based on ~~2023~~2024 tax table rates for an individual.

Derek's tax liability will be $~~55,195~~53,847 since his regular income tax is higher than his tentative minimum tax.

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Pages 23-24, Subunit 1.3:

Tax on Child's Investment and Other Unearned Income

The Kiddie Tax discourages parents from shifting income to their dependent children, who generally have lower marginal tax rates. For tax year ~~2023~~2024, a dependent child's gross unearned income over $~~2,500~~2,600, but not to exceed the child's taxable income, is net unearned income and is taxed at the parents' marginal tax rate. Any of the child's taxable income in excess of the net unearned income is taxed at the child's tax rate, which is lower than the parents' rate. Examples of unearned income for children include

[. . .]

Example 1-12 Income Subject to the Kiddie Tax – No Earned Income

Julie is a 15-year-old dependent child who has received $5,500 of dividends on common stock that she received as a gift from her grandparents. How much of her income will be subject to the Kiddie Tax?

Unearned income	$5,500
Standard deduction (not taxed)	(~~1,250~~1,300)
Amount taxed at Julie's rate	(~~1,250~~1,300)
Child's net unearned income (subject to the Kiddie Tax)	$~~3,000~~2,900

Example 1-13 Kiddie Tax – With Earned Income

Ricardo is a 14-year-old dependent child who earned $2,000 working part-time and received $3,300 in interest on corporate bonds. How much tax is due on Ricardo's income, assuming Ricardo's marginal tax rate is 10% and his parents' marginal tax rate is 35%?

	Income	Tax Rate	Tax
Unearned income	$3,300		
Earned income	2,000		
Standard deduction (not taxed) ($2,000 + $~~400~~450)	(~~2,400~~2,450)		
Taxable income	$~~2,900~~2,850		
Net unearned income [lesser of taxable income or (Gross unearned income – $~~2,500~~2,600)]	~~800~~700		
Kiddie Tax (net unearned income taxed at parents' rate)	~~800~~700	35%	$~~280~~245
Regular tax ($~~2,900~~2,850 taxable income – $~~800~~ 700 net unearned income)	~~2,100~~2,150	10%	~~210~~215
Total tax			**$~~490~~460**

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Page 27, Subunit 1.3, under Property Donations, Charitable Contribution Deduction Limitations, Example 1-16:

Example 1-16 Charitable Contribution Deduction Amount of Noncash

Jenna has AGI of $20,000 and is looking to donate one of her noncash assets to a church. She has stock with a FMV of $1,000 that she purchased 2 years ago for $600. She has land with a FMV of $1,500 that she purchased 3 months ago for $1,450. She also owns an antique with a FMV of $1,600 that she purchased 5 years ago for $1,200. She also has clothing in good condition with a FMV of $1,100, which she purchased 2 years ago for $2,000. Which asset should Jenna donate so that she creates the greatest tax savings?

Property	Form of Property	Nature of Deduction	Deductible Amount
Stock held for investment more than 1 year	Capital gain property	FMV	$1,000
Land held for investment less than 1 year	Ordinary income property	Lower of FMV or adjusted basis	$1,450
Antique	Tangible personal property	Lower of FMV or adjusted basis	$1,200
Used clothing	Tangible personal property	Lower of FMV or adjusted basis	$1,100

Jenna should donate the land because the $1,450 tax deduction would provide the greatest tax

Page 30, Subunit 1.4, under Flexible Spending Accounts (FSAs):

An FSA is a tax-exempt account set up ~~by a taxpayer~~ with a U.S. financial institution by an employer for employees. The goal of an FSA is for the employee (taxpayer) to save money on a pre-tax basis to use exclusively for medical expenses expected in the current year.

The amount contributed to an FSA depends on the nature of the taxpayer's coverage.

- For ~~2023~~2024, the taxpayer may contribute up to $~~3,050~~3,200 for a Health Care FSA or a Limited Expense Health Care FSA.
- For ~~2023~~2024, under a Dependent Care FSA, the taxpayer may contribute up to $5,000 per household or $2,500 if married filing separately.

Example 1-20 Determining Gross Income with Contributions to an FSA

Denny decides to ~~open~~contribute to a Health Care FSA in January 2023. He earns $1,400 in each paycheck and contributes $65 per paycheck to the FSA. Assuming Denny has no other benefits, how much gross income does Denny have each paycheck?

Gross income = $1,400 – $65 = **$1,345**

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Page 31, Subunit 1.4, under Health Savings Accounts (HSAs):

The amount contributed to an HSA depends on the nature of the taxpayer's coverage, along with his or her age.

- For ~~2023~~2024, the taxpayer or his or her employer can contribute up to $~~3,850~~4,150 for self-only coverage or $~~7,750~~8,300 for family coverage. For those ~~over~~age 55 ~~years old~~or older at the end of the tax year, an additional $1,000 catch-up contribution is added regardless of the coverage plan.

HSA contributions for ~~2023~~2024 may include contributions made until April 15, ~~2024~~2025.

Example 1-21 Determining Allowable Contribution to an HSA

Jennifer is a 58-year-old woman who decides to open an HSA in January ~~2023~~2024. Provided that Jennifer has self-only coverage, how much can Jennifer contribute to the HSA for ~~2023~~2024?

Total maximum contribution = $~~3,850~~4,150 + $1,000 = **$~~4,850~~5,150**

NOTE: FSAs and HSAs are more beneficial than simply paying cash due to the tax savings potential. Both FSAs and HSAs are tax-deductible, meaning that any contributions to these accounts lower the taxpayer's taxable income. This will save the taxpayer money in the long run.

Example 1-22 Comparison of After-Tax Cost of Medical Expenses with and without an HSA

William contributes $2,000 to an HSA and uses it to pay $2,000 of medical expenses this year. Martin is not eligible for an HSA or FSA, so he pays $2,000 cash for his medical expenses this year. Both taxpayers face a 24% marginal tax rate. How much higher is the after-tax cost of Martin's medical expenses than William's medical expenses?

After-tax cost of William's medical expenses = Before-tax cost = $2,000

After-tax cost of Martin's medical expenses:

Before-tax cost	$2,000
After-~~T~~tax cost ~~@~~[$2,000 ÷ (1 − 24%)]	~~480~~$2,632
~~After-tax cost~~	~~$2,480~~

Martin's medical expenses cost ($~~2,480~~2,632 – $2,000) = **$~~480~~632 more**. In other words, Martin has to earn $~~2,480~~2,632 before tax to retain $2,000 of after-tax income with which to pay his medical expenses. Since William's HSA contributions are not subject to tax, William only has to earn $2,000 to pay his medical expenses.

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Page 34, Subunit 1.5, Examples 1-23 and 1-24:

Example 1-23 Quarterly Estimated Payment Using Safe Harbor AGI >

Yusuf is determining how to make his quarterly payments in ~~2024~~2025. He expects ~~H~~his employer ~~withheld~~to withhold $30,000 from his ~~2023~~2025 salary, and his ~~2023~~2024 AGI is $185,000. Given that his ~~2023~~2024 total tax is $51,000, using the safe harbor estimate to avoid an underpayment penalty, how much ~~2024~~2025 tax must Yusuf pay by each quarterly estimated payment deadline?

2024 tax paid	$51,000
Percent needed for safe harbor	110%
Total tax needed for safe harbor ($51,000 × 1.1)	$56,100
Amount to be withheld by employer	$30,000
Estimated annual payment ($56,100 – $30,000)	$26,100
2025 ~~Q~~quarterly payments ($26,100 ÷ 4)	**$6,525**

NOTE: The 90% of current-year liability safe harbor cannot be ascertained because the ~~2024~~2025 liability is not given in this example. Thus, the 110% of prior-year tax threshold was utilized.

Example 1-24 Quarterly Estimated Payment Using Safe Harbor AGI <

Using the data from Example 1-23, how much ~~2024~~2025 tax must Yusuf pay by each quarterly estimated payment deadline if his ~~2023~~2024 AGI is $148,000?

~~2023~~2024 tax paid	$51,000
Percent needed for safe harbor	100%
Total tax needed for safe harbor ($51,000 × 1)	$51,000
Amount to be withheld by employer	$30,000
Estimated annual payment ($51,000 – $30,000)	$21,000
2025 ~~Q~~quarterly payments ($21,000 ÷ 4)	**$5,250**

NOTE: The 90% of current-year liability safe harbor cannot be ascertained because the ~~2024~~2025 liability is not given in this example. Thus, the 100% of prior-year tax threshold was utilized.

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Page 35, Subunit 1.5:

Underpayment Penalties

If a taxpayer incurs an underpayment penalty, the following rules apply:

- Underpayment penalties are between 5% and 25% of the underpaid amount.
- Interest is also accrued for the underpayment. This is based on the federal short-term rate plus 3% for individual taxpayers.
  - In Q1 ~~2023~~2024, the rates were ~~7~~8% for individual underpayments and ~~9~~10% for large corporation underpayments.
- A Form 2210 (for individuals) or Form 2220 (for corporations) must be filled out to determine
  - Whether the taxpayer is subject to the penalty for underpayment and
  - The amount of the underpayment penalty for the applicable period.

Example 1-25 Determining Applicability and Amount of Underpayment Penalty

Paige owes $25,000 in taxes for ~~2023~~2024. She paid $20,000 through withholding. Is Paige subject to an underpayment penalty? What is the amount of the underpayment penalty?

The amount of taxes owed is greater than $1,000, and Paige did not pay at least 90% of the current-year owed tax ($20,000 ÷ $25,000 = 80%). Paige underpaid her taxes by $5,000. **Therefore, Paige is subject to an underpayment penalty.** In Q1 ~~2023~~2024, the underpayment penalty is assessed at an **~~7~~8% rate** for individuals. The total amount of the underpayment penalty for Paige is $5,000 × .~~07~~08 = **$~~350~~400**.

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Pages 36-37, Subunit 1.5, under Other Tax Planning Scenarios for Individuals: Also delete Example 1-27 and table.

Example 1-26 Planning Capital Gain Income and Expenses to Minimize Tax Liability

Jill, a single taxpayer, has taxable income for the current year in the amount of $44,000, which includes rental income of $24,000. Jill plans to sell a plot of land she has held as an investment for 3 years. Her basis in the land is $20,000. A buyer has offered to purchase the land for $36,000 if the sale can be completed before the end of the current tax year.

Separately, Jill's residential rental properties need significant upgrades within the next 1 to 3 years to remain rentable. The upgrades needed include new carpet and kitchen appliances. The cost and useful life of each of the assets are as follows.

Asset	Cost	Useful Life
Carpet	$8,000	7 years
Kitchen appliances	$10,000	7 years

With the sale of land, her taxable income will increase by $16,000 to $60,000 and the capital gain of $16,000 ($36,000 – $20,000) will be taxed at the 15% rate. However, as a tax planning strategy, Jill can upgrade the rental properties this tax year to avoid the capital gain tax on the sale of $2,400 ($16,000 × 15%) as follows:

The carpet and kitchen appliances both qualify as Sec. 179 expenses. Thus, by acquiring the carpet and the kitchen appliances this year, her taxable income is reduced to $42,000, which is calculated as $44,000 original taxable income + $16,000 capital gain – $18,000 additional Sec. 179 depreciation expense. Because Jill's taxable income is lower than $~~44,626~~47,026 (the lowest capital gains tax bracket for ~~2023~~2024), the tax rate on the capital gain is $0.

Tax practitioners should also consider changes in legislation that affect taxable income and tax liabilities as they relate to planning for the taxpayer. An example ~~related to~~is the effect of the legislated annual decreases in the allowable bonus depreciation deduction rates between 2024 and 2027 ~~follows~~.

The bonus depreciation rate is phased down in subsequent years as follows:

- 60% -- property placed in service after December 31, 2023, and before January 1, 2025
- 40% -- property placed in service after December 31, 2024, and before January 1, 2026
- 20% -- property placed in service after December 31, 2025, and before January 1, 2027
- 0% -- property placed in service after December 31, 2026

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Page 38, Subunit 1.1, Question 1:

1. Scott is a U.S. citizen who was a resident of France for 325 days in the current year. Scott was paid $215,000 for services rendered this year. Assume the foreign-earned income exclusion is $~~120,000~~126,500. How much of the foreign-earned income must Scott recognize in gross income?

A. $~~95,000~~88,500

B. $~~106,849~~112,637

C. $~~108,151~~102,363

D. $215,000

✔ **Answer (C) is correct.**
Required: The amount of foreign-earned income recognized in gross income.
Discussion: The amount of foreign-earned income Scott must recognize in his gross income is equal to the amount received for his services minus the foreign-earned income exclusion. The amount is prorated because Scott does not meet the residency or presence requirements [$215,000 – ($~~120,000~~126,500 × 325 ÷ 365) = $~~108,151~~102,363].

✖ **Answer (A) is incorrect.** The foreign-earned income exclusion of $~~120,000~~126,500 must be prorated because Scott does not meet the residency or presence requirements. To qualify for the full exclusion, the taxpayer needs to be a resident of at least one foreign country for the entire taxable year or be present in at least one foreign country for 330 days during a consecutive 12-month period.

✖ **Answer (B) is incorrect.** The foreign-earned income exclusion is $~~106,849~~112,637. The question is asking the amount of foreign-earned income included in gross income.

✖ **Answer (D) is incorrect.** Even though Scott does not meet the residency or presence requirements for being in a foreign country, he can still exclude an amount prorated for the days he classifies as a resident.

Pages 42 and 44, Subunit 1.3, Questions 8-9 and 12:

8. Chris, age 5, has $3,900 of interest income and **no** earned income in ~~2023~~2024. Assuming the current applicable standard deduction is $~~1,250~~1,300, how much of Chris's income will be subject to the Kiddie Tax?

A. $0

B. $~~1,400~~1,300

C. $~~2,650~~2,600

D. $3,900

✔ **Answer (B) is correct.**
Required: The dependent's unearned income subject to parents' marginal rate.
Discussion: Net unearned income of a dependent child is taxed to the dependent at the higher marginal rate of the child's parent. Net unearned income is unearned income minus the sum of

1. $~~1,250~~1,300 (first $~~1,250~~1,300 clause)
2. Greater of (a) $~~1,250~~1,300 of the standard deduction or $~~1,250~~1,300 of itemized deductions or (b) the amount of allowable deductions directly connected with the production of unearned income
3. Chris's net unearned income is $~~1,400~~1,300 [$3,900 unearned income – ($~~1,250~~1,300 + $~~1,250~~1,300 std. ded.)]

✖ **Answer (A) is incorrect.** Chris's net unearned income will be subject to the Kiddie Tax.

✖ **Answer (C) is incorrect.** Chris's unearned income is reduced by an additional $~~1,250~~1,300 of the standard deduction, to arrive at the net unearned income.

✖ **Answer (D) is incorrect.** Only Chris's net unearned income will be subject to the Kiddie Tax.

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9. Kendall, a single taxpayer, has a regular taxable income of $87,000. She correctly excluded from her gross income the exercise of incentive stock options (ISOs). Using these stock options, Kendall paid $6,100 for stock with a market value of $26,000. The alternative minimum tax (AMT) exemption for a single taxpayer is $~~81,300~~85,700. What is Kendall's alternative minimum taxable income (AMTI) after the exemption?

   A. $~~25,600~~21,200

   B. $106,900

   C. $~~31,700~~27,300

   D. $~~5,700~~1,300

✔ **Answer (A) is correct.**
Required: The taxpayer's alternative minimum taxable income after exemption.
Discussion: To compute AMTI, the taxpayer starts with regular taxable income and adds and subtracts various adjustments and preference items. AMT preference items are items of income that are treated differently for regular tax purposes and AMT purposes. Preference items are excluded from ordinary taxable income but are included in AMTI. Therefore, AMT preference items are added to taxable income when computing AMTI. An ISO is an example of an AMT adjustment. The bargain element (FMV of stock received – Amount paid) of ISOs must be included in AMTI in the year of exercise. To calculate Kendall's AMTI of $106,900, add the bargain element of Kendall's exercised ISOs of $19,900 ($26,000 – $6,100) to her regular taxable income of $87,000.

Individuals are subject to AMT on their AMTI in excess of an exemption based on filing status. The ~~2023~~2024 exemption is $~~126,500~~133,300 for married filing jointly and surviving spouse and $~~81,300~~85,700 for single and head of household. Because Kendall is single, the AMTI after the exemption is $~~25,600~~21,200 ($106,900 – $~~81,300~~85,700).

✖ **Answer (B) is incorrect.** The amount of $106,900 is Kendall's AMTI before the AMT exemption.

✖ **Answer (C) is incorrect.** Only the bargain element of the ISOs is included in AMTI, not the market value of the stock.

✖ **Answer (D) is incorrect.** The bargain element of the ISOs must be added to taxable income before subtracting out the AMT exemption.

12. Jeysson is a 16-year-old dependent child who earned $5,200 working part-time and received $4,200 in interest and dividends on stock investments. Jeysson's marginal tax rate is $10%. His parents' marginal tax rate is 35%. How much tax is due on Jeysson's income?

   A. $~~170~~160

   B. $~~210~~215

   C. $~~595~~560

   D. $~~805~~775

✔ **Answer (D) is correct.**
Required: The amount of the child's unearned income taxed at the parents' tax rate.
Discussion: The Kiddie Tax discourages parents from shifting income to their dependent children, who generally have lower marginal tax rates. For tax year ~~2023~~2024, a dependent child's gross unearned income over $~~2,500~~2,600 (but not to exceed the child's taxable income) is net unearned income and is taxed at the parents' marginal tax rate. Any of the child's taxable income in excess of the net unearned income is taxed at the child's tax rate, which is lower than the parents' rate. Jeysson's tax obligation for ~~2023~~2024 is $~~805~~775.

Unearned income	$ 4,200	
Earned income	5,200	
Standard deduction	$(~~5,600~~5,650)	($5,200 + $~~400~~450)
Equals taxable income	$~~3,800~~3,750	
Net unearned income	~~1,700~~1,600	[lesser of $~~3,800~~3,750 or ($4,200 – $~~2,500~~2,600)]
Kiddie Tax (parents' rate)	~~595~~560	($~~1,700~~1,600 × 35%)
Regular tax (child's rate)	$~~210~~215	[($~~3,800~~3,750 – $~~1,700~~1,600) × 10%]
Total tax	$~~805~~775	

✖ **Answer (A) is incorrect.** The unearned income over $~~2,500~~2,600 times the child's tax rate equals $170. Unearned income over $~~2,500~~2,600 is taxed at the parents' marginal tax rate.

✖ **Answer (B) is incorrect.** The tax on the portion of Jeysson's income that is taxed at the child's tax rate is $~~210~~215. It does not include the portion of Jeysson's income taxed at the parents' tax rate (Kiddie Tax).

✖ **Answer (C) is incorrect.** The tax on the portion of Jeysson's income that is taxed at the parents' tax rate is $~~595~~560. It does not include the portion of Jeysson's income taxed at the child's tax rate.

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Pages 44-45, Subunit 1.4, Questions 13-14:

13. Roger is a 56 year old man who opened an HSA in January ~~2023~~2024. Roger is single, and only has self-coverage. How much can Roger contribute to his HSA plan in ~~2023~~2024?

    A. $~~3,050~~3,200

    B. $~~3,850~~4,150

    C. $~~4,850~~5,150

    D. $5,000

✔ **Answer (C) is correct.**
Required: The allowable contribution to an HSA for a single taxpayer in 2023.
Discussion: A taxpayer can contribute up to $~~3,850~~4,150 for self-only coverage or $~~7,750~~8,300 for family coverage. For those over 55 years old, an additional $1,000 catch-up contribution is added regardless of the coverage plan.

✖ **Answer (A) is incorrect.** The maximum amount a taxpayer can contribute for a Health Care Flexible Spending Account (FSA) in ~~2023~~2024 is $~~3,050~~3,200.

✖ **Answer (B) is incorrect.** Because Roger is over 55 years old, an additional $1,000 catch-up contribution is added.

✖ **Answer (D) is incorrect.** The maximum contribution allowed per household for a Dependent Care FSA in ~~2023~~2024 is $5,000.

14. There are distinct differences between Flexible Savings Accounts (FSAs) and Health Savings Accounts (HSAs). Identify the false statement below.

    A. Both contributions to FSAs and HSAs are tax-deductible and lower the taxpayer's taxable income.

    B. HSAs have higher contribution limits than FSAs, as well as the $1,000 catch-up contribution for taxpayers over age 55.

    C. FSAs are set up and owned by the employer and can be lost through job changes.

    D. Both FSAs and HSAs are used to save money on a pre-tax basis to be used for future medical expenses.

✔ **Answer (D) is correct.**
Required: The false statement regarding FSAs and HSAs.
Discussion: Although the goals of both an FSA and an HSA are to save money on a pre-tax basis to use exclusively for medical expenses, an FSA is for medical expenses expected in the current year, and an HSA is for future medical expenses.

✖ **Answer (A) is incorrect.** FSAs and HSAs are more beneficial than simply paying cash due to the tax savings potential. Both FSAs and HSAs are tax-deductible, meaning that any contributions to these accounts lower the taxpayer's taxable income.

✖ **Answer (B) is incorrect.** The annual limit in ~~2023~~2024 for an individual for an HSA is $~~3,850~~4,150, which is higher than the FSA allowed contribution of $~~3,050~~3,200.

✖ **Answer (C) is incorrect.** FSAs are owned by the employer and can be lost through job changes, whereas HSAs are owned by the individual and carry over through job changes.

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Study Unit 2 – Compliance and Planning: Special Topics

Page 51, Subunit 2.1, under Net Operating Loss (NOL) – Individuals, Example 2-1:

Example 2-1 NOL

For ~~2022~~2024, Sally realized a $30,000 net loss ($200,000 sales – $230,000 expenses) from operating a sole proprietorship without regard to dispositions of property other than inventory. Other than this, the income tax return showed gross income of $10,000 ($4,500 of wages, $1,000 interest on personal savings, and a $4,500 long-term capital gain on business property). The excess of deductions over income was $~~33,850~~34,600 ($10,000 gross income – $30,000 loss from business operations – $~~13,850~~14,600 standard deduction).

To compute Sally's NOL, add back the $~~12,850~~13,600 excess of nonbusiness deductions over nonbusiness income ($~~13,850~~14,600 standard deduction – $1,000 interest). Thus, Sally's NOL for the current tax year is $21,000 [$(~~33,850~~34,600) "negative taxable income" + $~~12,850~~13,600].

Page 61, Subunit 2.1, under Excess Business Loss:

Excess business losses are calculated as the sum of all deductions from trades or businesses minus gross income or gains from trades or businesses plus a $~~289,000~~305,000 ($~~578,000~~610,000 MFJ) floor that is indexed annually for inflation.

Example 2-10 Excess Business Loss

Joan, a single taxpayer, has $989,000 of deductions related to her business and $400,000 of gross income. Her excess business loss is calculated as $~~300,000~~284,000 [$989,000 deductions – ($400,000 gross income + $~~289,000~~305,000 floor)]. The $~~300,000~~284,000 excess business loss is treated as an NOL and thus limited to 80% of the future year's taxable income.

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Page 63, Subunit 2.2:

The gift tax liability can be calculated as follows:

GIFT AMOUNT
FMV on date of gift, for
All gifts in the calendar year
- Exclusions
Annual exclusion
$~~17,000~~18,000 per donee
Paid (directly) on behalf of another for
Medical care
Education tuition
- Deductions
Marital
Charitable
= TAXABLE GIFTS FOR CURRENT YEAR
+ Taxable gifts for prior years
= TAXABLE GIFTS TO DATE
× Tax rate
= TENTATIVE GIFT TAX
- (Prior year's gifts × Current tax rates)
- Applicable credit amount
= GIFT TAX LIABILITY

Gift tax rates currently range from 18% to 40%.

Example 2-12 Gift Tax Liability

Jessica, a single taxpayer, gives Richard a cash gift of $~~37,000~~38,000 in the current-year. Jessica has given taxable gifts to date in the amount of $26,000,000 (not including the current-year gift). Assuming a flat gift tax rate of 40%, Jessica's gift tax on the gift to Richard is calculated as follows:

	FMV of gift on date for all gifts in the calendar year	$~~37,000~~38,000
–	Exclusions	(~~17,000~~18,000)
–	Deductions	0
	Taxable gifts for current year	$ 20,000
+	Taxable gifts for prior years	26,000,000
	Taxable gifts to date	$26,020,000
×	Tax rate	40%
	Tentative gift tax	$10,408,000
–	Prior year's gifts × Current tax rates	(10,400,000)
	Current gift tax liability	**$ 8,000**

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Page 64, Subunit 2.2, under Gifting Ownership of Noncash Property to an Individual -- Basis, Example 2-13:

Example 2-13 Basis of a Gift of Land

Amanda made a gift to her daughter of a piece of land with a FMV of $~~97,000~~98,000, and she is subject to the maximum gift tax rate of 40%. The land had a basis to Amanda of $~~62,000~~63,000. Amanda's taxable gift is $80,000 ($~~97,000~~98,000 FMV – $~~17,000~~18,000 annual exclusion), and she paid a gift tax of $32,000 ($80,000 × 40%). The basis of the land to the daughter is carryover basis of $~~62,000~~63,000 plus the gift tax attributable to the appreciation.

$$\$\cancel{62{,}000}\,63{,}000 + \left(\frac{\$35{,}000 \text{ increase in value}}{\$80{,}000 \text{ taxable gift}} \times \$32{,}000\right) = \$\cancel{76{,}000}\,77{,}000$$

Pages 66-67, Subunit 2.3:

Annual Exclusion

The first $~~17,000~~18,000 of gifts of present interest to each donee is excluded from taxable gift amounts. The annual exclusion is indexed to reflect inflation.

- A **present interest** in property includes an unrestricted right to the immediate possession or enjoyment of property or the income from property (such as a life estate or a term for years).
- A gift of **future interest** is a gift that is limited so that its use, possession, or enjoyment will begin at some point in the future and, therefore, does **not qualify** for the annual exclusion.

If the donor is married, both the donor and the donor's spouse may separately give gifts valued up to $~~17,000~~18,000 each (for a total of $~~34,000~~36,000) to the same person without making a taxable gift.

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Page 67, Subunit 2.3:

Marital Deduction

The marital deduction is an estate tax provision that eliminates the gift tax and estate tax on assets transferred to a surviving spouse (who is a U.S. citizen).

- The amount of a gift transfer to a spouse is deducted in computing taxable gifts. Donor and donee must be married at the time of the gift, and the donee must be a U.S. citizen for the **unlimited** amount.
    - If the donor's spouse is not a United States citizen, the martial deduction for gifts is limited to an annual exclusion for gifts made to him or her in ~~2023~~2024 is $~~175,000~~185,000.
- The deduction may not exceed the amount includible as taxable gifts.

Example 2-16 Marital Deduction

Sid gave his wife Mary a diamond ring valued at $20,000 and cash gifts of $30,000 during ~~2023~~2024. Sid is entitled to an $~~17,000~~18,000 exclusion with respect to the gifts to Mary. The marital deduction allows Sid to exclude an additional $~~33,000~~32,000 ($20,000 + $30,000 – $~~17,000~~18,000) in computing taxable gifts.

Page 67, Subunit 2.3:

Charitable Deduction

The FMV of property donated to a qualified charitable organization is deductible. Like the marital deduction, the amount of the deduction is the amount of the gift reduced by the $~~17,000~~18,000 exclusion with respect to the donee.

Page 68, Subunit 2.3, under Gift Splitting, Example 2-17:

Example 2-17 Gift Splitting

Harold and his wife Helen agreed to split the gifts they made during ~~2023~~2024. Harold gave his nephew George $23,000, and Helen gave her niece Gina $20,000. Although each gift is more than the annual exclusion ($~~17,000~~18,000), by gift splitting, they will be treated as having made these gifts without making a taxable gift. Harold's gift to George is treated as one-half ($11,500) from Harold and one-half ($11,500) from Helen. Helen's gift to Gina is also treated as one-half ($10,000) from Helen and one-half ($10,000) from Harold. In each case, because one-half of the split gift is less than the annual exclusion, it is not a taxable gift. However, each of them must file a gift tax return.

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Pages 68-70, Subunit 2.3, under Unified Transfer Tax System:

For ~~2023~~2024, the annual gift tax exclusion is $~~17,000~~18,000 ($~~34,000~~36,000 married filing jointly), and the unified tax credit exclusion (lifetime) is $~~12.92~~13.61 million ($~~25.84~~27.22 million married filing jointly).

- Individuals who reached the ~~2022~~2023 unified tax credit exclusion of $~~12.06~~12.92 million ($~~24.12~~25.84 million married filing jointly) now have an additional $0.~~86~~69 million ($~~1.72~~1.38 million married filing jointly) exclusion available for ~~2023~~2024.
  - Individuals who have not topped out will also have an additional $0.~~86~~69 million ($~~1.72~~1.38 million married filing jointly) exclusion available for ~~2023~~2024.
- For tax year~~s 2024 and~~ 2025, the unified tax credit exclusion amount~~s~~ ~~are~~is expected to increase due to adjustment~~s~~ in the amount of the exclusion for inflation. However, the exclusion amount anticipated for tax year 2026 is roughly half the 2025 exclusion amount due to certain provisions of the Tax Cuts and Jobs Act of 2017 expiring in 2026.
  - Therefore, tax planning for ~~2024 and~~the 2025 tax year~~s~~ associated with the unified tax credit exclusion must include calculating the income tax impact of making certain cash and noncash property transfers prior to tax year 2026 versus making the same transfers in 2026 and beyond.
- The gift tax exclusion affects the unified tax credit exclusion.
  - The use of the gift tax exclusion in prior years and in the current year equates to reducing the amount of the unified tax credit exclusion.

Example 2-18 Gift in Excess of the Annual Exclusion

The donor gave $~~25,000~~26,000 to her 25-year-old daughter. The first $~~17,000~~18,000 of the gift is not subject to the gift tax because of the annual exclusion. The remaining $8,000 is a taxable gift and subject to the unified tax credit exclusion, affecting gift tax liability.

[. . .]

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Example 2-19 Unified Credit

In ~~2023~~2024, a donor gives $10,000 to the donor's niece, pays $19,000 of a friend's college tuition directly to the educational institution, and gives $35,000 each to the donor's son and daughter. The donor has never given a taxable gift before. The application of the gift tax and the unified credit are applied as follows:

1. **Apply the educational exclusion.** Payment of $19,000 tuition expenses is not subject to the gift tax. Therefore, the gift of college tuition of the friend is not a taxable gift.
2. **Apply the annual exclusion.** For ~~2023~~2024, the first $~~17,000~~18,000 given to someone is not a taxable gift as it falls under the annual exclusion. Therefore, the entire $10,000 gift to the donor's niece, the first $~~17,000~~18,000 of the $35,000 gift to the donor's son and the first $~~17,000~~18,000 of the $35,000 gift to the donor's daughter are not taxable gifts.
3. **Apply the unified credit.** The donor's total taxable gifts in ~~2023~~2024 equal $~~36,000~~34,000 ($~~18,000~~17,000 to the donor's son and $~~18,000~~17,000 to the donor's daughter). This $~~36,000~~34,000 will be subtracted from the unified tax credit exclusion of $~~12,920,000~~13,610,000, and the unified tax credit exclusion that is carried forward to ~~2024~~2025 is $~~12,884,000~~13,576,000. The actual unified tax credit applied against the gift tax on $~~36,000~~34,000 in ~~2023~~2024 is $~~7,320~~6,880 [$3,800 tax on the first $20,000 + ($~~16,000~~14,000 × 22%)].

Although the donor is not required to pay any gift tax for ~~2023~~2024, the donor is required to file Form 709, *United States Gift (and Generation-Skipping Transfer) Tax Return*.

Example 2-20 Gifting Ownership of Noncash Property

In ~~2023~~2024, Mary is a single woman in her mid-70s with an estate with a FMV of $36 million. Mary has previously reached the lifetime unified credit exclusion of $~~12.92~~13.61 million (for ~~2023~~2024). Mary plans on giving a home with a current FMV of $300,000 and an adjusted basis of $0 to her adult granddaughter Savannah. Savannah is single and 20 years old with an AGI of $40,000. If Mary bequeaths the house to Savannah in her will, estate tax on the total estate will be calculated at a rate of 39.85%, as follows:

{[($36,000,000 – $1,000,000) × 40%] + $345,800} ÷ $36,000,000 = 39.85% (rounded)

The estate tax, therefore, is $119,550 ($300,000 × 39.85%).

As a tax planning strategy, Mary could gift the house to Savannah in ~~2023~~2024. The gift tax paid on the gift would then total $~~113,200~~112,800, or ($300,000 – $~~17,000~~18,000 annual exclusion) × 40%.

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Page 71, Subunit 2.3:

Gift Tax Return

Generally, a donor is **required to file a gift tax return**, Form 709, *United States Gift (and Generation-Skipping Transfer) Tax Return*, for any gift(s), if any of the following apply:

- Gifts were given to at least one person (other than the decedent's spouse) that were more than the $~~17,000~~18,000 annual exclusion for the year.

[. . .]

A United States donee must report information on gifts from foreign persons if the aggregate of such gifts from all foreign persons exceeds $~~17,000~~18,000.

Page 73, Subunit 2.1, Question 4:

4. What is the amount of the net operating loss for ~~2023~~2024 based on the following information?

Total income:	
Interest on nonbusiness savings	$ 850
Net long-term capital gain on sale of business property	2,000
Salary	1,000
Total deductions:	
Net loss from business ($86,000 sales – $92,000 expenses)	$6,000
Net nonbusiness short-term capital loss on sale of stock	1,000
Standard deduction	~~13,850~~14,600

A. $0

B. $2,150

C. $3,000

D. $~~17,000~~17,750

✔ **Answer (C) is correct.**
Required: The taxpayer's net operating loss.
Discussion: A net operating loss is defined as the excess of allowable deductions (as modified) over gross income [Sec. 172(c)]. An NOL generally includes only items that represent business income or loss. Personal casualty losses and wage or salary income are included as business items. Nonbusiness income in excess of nonbusiness deductions must be included. Interest and dividends are not business income.

Net loss from business	$(6,000)
Capital gain on business property	2,000
Salary	1,000
Net operating loss	$(3,000)

The nonbusiness capital loss cannot be offset against the business-related capital gain. The nonbusiness deductions (the standard deduction) exceed the nonbusiness income (interest), and both items are excluded from the NOL calculation.

✖ **Answer (A) is incorrect.** A net operating loss is present. Business loss exceeds business income.

✖ **Answer (B) is incorrect.** The nonbusiness interest income does not reduce the amount of the net operating loss since nonbusiness deductions exceed nonbusiness income. ~~Salaries are business income.~~

✖ **Answer (D) is incorrect.** The nonbusiness interest income, nonbusiness loss on the sale of stock, and standard deduction are not included in the NOL calculation.

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Page 75, Subunit 2.2, Questions 8 and 10:

8. Jimmy Johnson made several gifts during ~~2023~~2024. He gave his niece $13,000 as a graduation gift, he paid $~~19,000~~20,000 college tuition for his nephew, and he gave his daughter $~~34,000~~36,000 as a wedding gift. Jimmy is not married. What are the total taxable gifts to be reported?

   A. $66,000

   B. $~~17,000~~18,000

   C. $~~53,000~~56,000

   D. $~~36,000~~38,000

✔ **Answer (B) is correct.**
Required: The total amount of taxable gifts to be reported.
Discussion: "Taxable gifts" means the total amount of gifts made during the calendar year reduced by the charitable and marital deductions. The first $~~17,000~~18,000 of gifts of present interests made to each donee during the year is excluded. The amounts paid for the graduation gift and college tuition qualify for exclusion from gift taxation. The $~~34,000~~36,000 wedding gift is taxable, but this amount is reduced by the $~~17,000~~18,000 exclusion. Thus, Jimmy must report $~~17,000~~18,000 of taxable gifts.

✖ **Answer (A) is incorrect.** The graduation gift and college tuition payments are excluded. The $~~34,000~~36,000 wedding gift is reduced by the $~~17,000~~18,000 annual exclusion.

✖ **Answer (C) is incorrect.** The college tuition payment is excluded. The $~~34,000~~36,000 wedding gift is reduced by the $~~17,000~~18,000 annual exclusion.

✖ **Answer (D) is incorrect.** The entire college tuition payment is excluded. The $~~34,000~~36,000 wedding gift is reduced by the $~~17,000~~18,000 annual exclusion.

10. Ralph gave his aunt an antique clock during tax year ~~2023~~2024. He had purchased the clock for $~~18,000~~19,000 in ~~2018~~2019. The fair market value at the date of the transfer was $~~24,000~~25,000. What amount should be recorded as the value of this gift?

   A. $18,000

   B. $7,000

   C. $24,000

   D. $1,000

✔ **Answer (C) is correct.**
Required: The amount of gifts given when the FMV and basis differ.
Discussion: Regulation 25.2512-1 states that the amount of a gift made in property is the fair market value of the property at the date of the gift. Therefore, the value of the gift is $~~24,000~~25,000.

✖ **Answer (A) is incorrect.** The adjusted basis of the gift, not the FMV, is $~~18,000~~19,000.

✖ **Answer (B) is incorrect.** The annual exclusion reduces the taxable gift, not the value.

✖ **Answer (D) is incorrect.** The annual exclusion is not deducted from the adjusted basis..

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Pages 76-77, Subunit 2.3, Questions 11-15:

11. In ~~2023~~2024, Sayer, who is single, gave an outright gift of $53,000 to a friend, Johnson, who needed the money to pay medical expenses. In filing the ~~2023~~2024 gift tax return, Sayer was entitled to a maximum exclusion of

A. $0

B. $3,000

C. $~~17,000~~18,000

D. $53,000

✔ **Answer (C) is correct.**
Required: The maximum exclusion for a gift used to pay medical expenses.
Discussion: An unlimited exclusion is available for amounts paid on behalf of the donee as medical care. The transfer for medical care must be made directly to the person who provides it (not the donee). Therefore, this unlimited exclusion is not available for Sayer. However, the annual exclusion of $~~17,000~~18,000 is allowed.

✖ **Answer (A) is incorrect.** Sayer may take an exclusion.

✖ **Answer (B) is incorrect.** Sayer may exclude the maximum amount.

✖ **Answer (D) is incorrect.** The maximum exclusion is $~~17,000~~18,000 per year per donee.

12. Jan, an unmarried individual, gave the following outright gifts in ~~2023~~2024:

Donee	Amount	Use by Donee
Jones	$20,000	Down payment on house
Craig	~~18,000~~19,000	College tuition
Kande	8,000	Vacation trip

Jan's ~~2023~~2024 exclusions for gift tax purposes should total

A. $~~43,000~~45,000

B. $~~42,000~~44,000

C. $~~34,000~~36,000

D. $~~17,000~~18,000

✔ **Answer (B) is correct.**
Required: The total exclusions for gifts to individuals during the year.
Discussion: The unlimited exclusion for amounts paid for qualified tuition and medical expenses on behalf of the donee is allowed only when paid directly to the provider. The annual exclusion of up to $~~17,000~~18,000 of gifts of present interest to each donee is available. Since the $~~18,000~~19,000 for Craig's tuition was not paid directly to the college, only $~~17,000~~18,000 is excluded. Jan's ~~2023~~2024 exclusion is for the value of gifts of $~~17,000~~18,000 to Jones, $~~17,000~~18,000 to Craig, and $8,000 to Kande.

✖ **Answer (A) is incorrect.** Jan did not pay the tuition directly to the college.

✖ **Answer (C) is incorrect.** The gift to Kande is excluded in full in that it is less than the annual exclusion amount.

✖ **Answer (D) is incorrect.** The annual exclusion is the maximum amount excludable of gifts to each done.

13. In ~~2023~~2024, Blum, who is single, gave an outright gift of $50,000 to a friend, Gould, who needed the money to pay medical expenses. In filing the ~~2023~~2024 gift tax return, Blum was entitled to a maximum exclusion of

A. $20,000

B. $~~17,000~~18,000

C. $50,000

D. $0

✔ **Answer (B) is correct.**
Required: The maximum exclusion for a gift used to pay medical expenses.
Discussion: The first $~~17,000~~18,000 of gifts of present interest to each donee is excluded. In addition, an unlimited exclusion is available for amounts paid on behalf of the donee as medical care. The transfer for medical care must be made directly to the person who provides it (not the donee). Therefore, this exclusion is not available for Blum.

✖ **Answer (A) is incorrect.** The maximum exclusion is $~~17,000~~18,000 per year.

✖ **Answer (C) is incorrect.** The maximum exclusion is $~~17,000~~18,000 per year when, as here, the medical expense exclusion does not apply because the gift was not paid directly to the medical provider.

✖ **Answer (D) is incorrect.** Blum may claim the maximum exclusion.

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14. Mary made the following gifts in the current year:

Gift	Donee	Value
Cash	Son	$~~19,000~~20,000
6-month certificate of deposit	Daughter	8,000
Antique furniture	Sister	~~28,000~~29,000
Stocks in trust		
Life estate	Brother	~~83,000~~84,000
Remainder	Daughter	21,000

Mary's taxable gifts for the current year total

A. $~~151,000~~154,000

B. $108,000

C. $100,000

D. $79,000

✔ **Answer (C) is correct.**
Required: The donor's current-year taxable gifts.
Discussion: "Taxable gifts" means the total amount of gifts made during the calendar year reduced by the charitable and marital deductions [Sec. 2503(a)]. The first $~~16,000~~18,000 of gifts of present interests made to each donee during the year is excluded [Sec. 2503(b)].

Mary transferred $~~159,000~~162,000 of property by gift during the year. The only gift not subject to the exclusion is the gift of the trust remainder because it is a future interest. The exclusion for the gift to Daughter is limited to the $8,000 certificate of deposit.

Total amount of gifts	$~~159,000~~162,000
Less exclusions:	
Son	(~~17,000~~18,000)
Daughter	(8,000)
Sister	(~~17,000~~18,000)
Brother	(~~17,000~~18,000)
Taxable gifts	$100,000

✘ **Answer (A) is incorrect.** An exclusion is deducted for the son, the sister, and the brother.

✘ **Answer (B) is incorrect.** An exclusion is allowed for the gift to the daughter.

✘ **Answer (D) is incorrect.** The $21,000 trust remainder is a taxable gift. It is not subject to any exclusion from the gift tax because it is a future interest.

15. An individual taxpayer makes the following gifts during the year: a residence to his married son; a life estate in a trust to his older daughter; and a remainder interest in the trust for his younger daughter. In addition, the taxpayer makes a cash contribution to a qualified charity. Which of the gifts qualifies for neither a deduction nor an exclusion in determining the taxpayer's gift tax for the year?

A. The residence.

B. The remainder interest in trust.

C. The life estate in trust.

D. The cash contribution.

✔ **Answer (B) is correct.**
Required: The gift that is neither deducted nor excluded for gift tax purposes.
Discussion: Gifts of future interests in property, such as the remainder interest in trust given to the younger daughter, do not qualify for the annual exclusion, nor are such gifts a deduction for gift tax.

✘ **Answer (A) is incorrect.** The annual exclusion for gift tax purposes is $~~17,000~~18,000 per donee in ~~2023~~2024. Based on the information given, the gift of the residence to the son qualifies.

✘ **Answer (C) is incorrect.** The ~~2023~~2024 $~~17,000~~18,000 annual exclusion applies to gifts of present interest. A present interest in property includes an unrestricted right to the immediate possession or enjoyment of the property or the income from the property, such as the life estate in a trust given to the taxpayer's older daughter.

✘ **Answer (D) is incorrect.** Charitable contributions made to qualified organizations are deducted to arrive at taxable gifts for the year.

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Study Unit 3 – Personal Financial Planning

Pages 81-82, Subunit 3.1, under Traditional IRA, Disadvantages of a Traditional IRA and Premature Distributions (Example 3-1):

Disadvantages of a Traditional IRA

- Deduction limits for high earners
- Funding limits: $~~6,500~~7,000 per person per year ($1,000 additional catch-up age 50+) for ~~2023~~2024
- Uncertainty of ordinary income tax rates at distribution
- No investment in life insurance or collectibles (jewelry, cars, stamps, etc.)
- 10% penalty on withdrawing earnings prior to age 59 1/2
- 6% excise tax applies to excess contributions
- Required minimum distributions (RMDs) yearly once the account holder attains the age of ~~72~~73 ~~(73 if account holder reaches age 72 after December 31, 2022)~~
- No loan ability

[. . .]

Example 3-1 Contributions to a Traditional IRA

Keith, who is single and under age 50, had $52,000 in taxable compensation for the year. Keith does not participate in an employer-sponsored retirement plan. Keith may contribute the full limit of $~~6,500~~7,000 to his traditional IRA in ~~2023~~2024. Contributions made by April 15 of the following year to his IRA will be an above-the-line deduction on his current-year return. The contribution will grow tax-deferred, and Keith will pay taxes on the distributions at his income tax rate at the time of distribution.

Page 83, Subunit 3.1, under Roth IRA, Disadvantages of a Roth IRA:

Disadvantages of a Roth IRA

- Post-tax contributions, no immediate tax benefit
- Income limits on ability to invest
- Funding limits: $~~6,500~~7,000 per person per year ($1,000 additional catch-up age 50+) for ~~2023~~2024
- No investment in life insurance or collectibles (jewelry, cars, stamps, etc.)
- 10% penalty on withdrawing **earnings** prior to age 59 1/2 or account is held for less than 5 years
- 6% excise tax applies to excess contributions

Example 3-3 Maximum Contributions to a Traditional IRA with Catch-Up

Allison, a 51-year-old individual, contributed the maximum amount of $~~7,500~~8,000 ($~~6,500~~7,000 + $1,000 catch-up) to her Roth IRA for ~~2023~~2024. Because Roth IRAs are funded with after-tax dollars, Allison will pay taxes on this contribution at her current tax rate. However, the investment will grow tax-free, and Allison will not pay taxes on the earnings she withdraws after retirement age of 59 1/2 (because she would have held the account for more than 5 years at that point).

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Page 84, Subunit 3.1, under SEP IRA:

Advantages of a SEP IRA

- ✓ High contribution limits (lesser of 25% of compensation or $~~66,000~~69,000, no catch-up)

[. . .]

Disadvantages of a SEP IRA

[. . .]

- ⊘ RMDs yearly once the account holder attains the age of ~~72~~73 ~~(73 if account holder reaches age 72 after Dec. 31, 2022)~~

Page 85, Subunit 3.1, under SIMPLE Plan:

Disadvantages of a SIMPLE IRA Plan

- ⊘ Funding limits: $~~15,500~~16,000 per person per year ($3,500 additional catch-up age 50+)
- ⊘ Employer contributions are mandatory
- ⊘ A 25% tax applies to withdrawals within the first 2 years of the employee's involvement in the plan
- ⊘ An excise tax of 25% applies for failure to take an RMD by the due date
  - This may be reduced to 10% if the RMD is timely corrected within 2 years.
- ⊘ RMDs yearly once the account holder attains the age of ~~72~~73 ~~(73 if account holder reaches age 72 after December 31, 2022)~~
- ⊘ Not available as Roth accounts

Example 3-6 Ideal Setting for a SIMPLE IRA Plan

Linda owns a profitable small business with 10 employees, all of whom have worked for Linda for more than 3 years. Linda wants a low-cost, easy-to-manage retirement plan for her employees in which the employee can contribute to the plan, and Linda can match 1.5% of their contribution. A SIMPLE plan meets these qualifications.

Example 3-7 SIMPLE Plan Required Minimum Distribution Penalty

Charles retired ~~3 years ago~~ at age ~~72~~73. His required minimum distribution for the current year is $2,000. Charles elects to only withdraw $1,500 from his SIMPLE IRA account. Failure to meet the required minimum distribution can result in a 25% penalty (excise tax) for the year on the amount not distributed as required. The amount not distributed as required is $500 ($2,000 – $1,500). Therefore, the excise tax Charles may have to pay for the year is $125 ($500 × 25%).

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Page 86, Subunit 3.1, under Keogh Plan:

Advantages of a Keogh Plan

- ✓ High contribution limits (lesser of 25% of compensation or $~~66,000~~69,000, no catch-up)

[. . .]

Disadvantages of a Keogh Plan

[. . .]

- ⊘ RMDs yearly once the account holder attains the age of ~~72~~73 ~~(73 if account holder reaches age 72 after December 31, 2022)~~

Page 87, Subunit 3.1, under 401(k) and 403(b) – Traditional:

Participants in a 401(k) can choose to have employers contribute part of their before-tax compensation to the plan rather than receive the compensation in cash. Plans may permit employers to make matching contributions ~~up to 3% of an employee's compensation or fixed nonelective contributions of 2% of compensation~~. A 401(k) traditional account is funded with pre-tax dollars, and the withdrawals are taxed at the income tax rates at the time of withdrawal. A 401(k) Roth account is funded with after-tax dollars, and withdrawals are not taxed.

Advantages of a Traditional 401(k) and 403(b)

- ✓ Individual limits $~~22,500~~23,000 + $7,500 catch-up
- ✓ Employer match + Employee limits, combined $~~66,000~~69,000 + $7,500 catch-up

[. . .]

Disadvantages of a Traditional 401(k) and 403(b)

[. . .]

- ⊘ RMDs yearly once the account holder attains the age of ~~72~~73 ~~(73 if account holder reaches age 72 after December 31, 2022)~~

Example 3-8 Maximum Employee Contribution to 401(k) with Catch-Up

In ~~2023~~2024, Joe (single, age 51) expects to have earned compensation of $135,000. Joe wants to defer the maximum amount possible to his 401(k) plan. Joe can make $~~22,500~~23,000 in basic contributions and $7,500 in catch-up contributions (because he is over age 50) in ~~2023~~2024. The amounts would be withheld from his earned income (elective deferral) throughout the tax year.

Page 88, Subunit 3.1, under Defined Profit-Sharing Plan (DPSP):

Advantages of a DPSP

- ✓ Employer-funded contributions
- ✓ High contribution limits (lesser of 100% of compensation or $~~66,000~~69,000 + $7,500 catch-up)

[. . .]

Disadvantages of a DPSP

[. . .]

- ⊘ RMDs yearly once the account holder attains the age of ~~72~~73 ~~(73 if account holder reaches age 72 after December 31, 2022)~~

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Page 89, Subunit 3.1, under Pension Plan:

The annual benefit is capped at $~~265,000~~275,000.

[. . .]

Disadvantages of a Pension Plan

- ~~No employee contributions~~
- No control over investment
- Company failure/bankruptcy may lead to reduction in benefit
- Not all pensions are transferable if one changes employer
- Uncertainty of ordinary income tax rates at distribution
- 10% penalty on withdrawing earnings prior to age 59 1/2
- RMDs yearly once the account holder attains the age of ~~72~~73 ~~(73 if account holder reaches age 72 after December 31, 2022)~~
- No loan ability

Page 90, Subunit 3.1, under Qualified Annuity, Disadvantages of a Qualified Annuity:

- RMDs yearly once the account holder attains the age of ~~72~~73 ~~(73 if account holder reaches age 72 after December 31, 2022)~~

Pages 92-93, Subunit 3.1, Qualified Retirement Plans Decision Table:

Qualified Retirement Plans Decision Table - ~~2023~~2024

Plan	Contri-bution Tax Treatment	Tax-Deferred Growth	Invest-ment Selection	Distri-bution	Income Limit	Funding Limit (~~2023~~2024)	Admin Cost	Early With-drawal	RMDs	Loans	Future Tax Concerns	Fund Contri-bution
Traditional IRA	Pre-tax, deductible	Yes	High	Current income tax	None	$~~6,500~~7,000 + $1,000 catch-up	Low	Current income taxed + 10% penalty	Yes	No	Yes	Employee
Roth IRA	After-tax	Yes	High	Tax-free	Yes	$~~6,500~~7,000 + $1,000 catch-up	Low	No tax for distribution of contributions	No	No	No	Employee
SEP IRA	Pre-tax, deductible	Yes	High	Current income tax	None	25% income or $~~66,000~~ 69,000	Low	Current income taxed + 10% penalty	Yes	No	Yes	Employer
SIMPLE	Pre-tax, deductible	Yes	High	Current income tax	None	$~~15,500~~ 16,000 + $3,500 catch-up	Low	Current income taxed + 25% penalty	Yes	No	Yes	Employee + Employer
Keogh Plan	Pre-tax, deductible	Yes	High	Current income tax	None	25% income or $~~66,000~~ 69,000	High	Current income taxed + 10% penalty	Yes	No	Yes	Employer
401(k)	Pre-tax, deductible	Yes	Medium	Current income tax	None	$~~22,500~~ 23,000 + $7,500 catch-up + $~~43,500~~ 46,000 employer contribution	Medium	Current income taxed + 10% penalty	~~Yes~~No	Yes	Yes	Employee + Employer

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Plan	Contribution Tax Treatment	Tax-Deferred Growth	Investment Selection	Distribution	Income Limit	Funding Limit (~~2023~~2024)	Admin Cost	Early Withdrawal	RMDs	Loans	Future Tax Concerns	Fund Contribution
Roth 401(k)	After-tax	Yes	Medium	Tax-free	None	$~~22,500~~ 23,000 + $7,500 catch-up + $~~43,500~~ 46,000 employer contribution	Medium	No tax for distribution of contributions	Yes	Yes	No	Employee + Employer
403(b)	Pre-tax, deductible	Yes	Medium	Current income tax	None	$~~22,500~~ 23,000 + $7,500 catch-up + $~~43,500~~ 46,000 employer contribution	Medium	Current income taxed + 10% penalty	Yes	Yes	Yes	Employee + Employer
DPSP	Pre-tax, deductible	Yes	None	Current income tax	None	100% income or $~~66,000~~ 69,000 + $7,500 catch-up	High	Current income taxed + 10% penalty	Yes	No	Yes	Employer
Defined Benefit Pension Plan	Pre-tax, deductible	Yes	None	Current income tax	None	$~~265,000~~ 275,000 (max benefit)	High	Current income taxed + 10% penalty	Yes	No	Yes	Employee + Employer
Qualified Annuity	Pre-tax, deductible	Yes	Low	Current income tax	None	None	High	Surrender charges + Current income taxed + 10% penalty	Yes	No	Yes	Employer + Individual

Pages 94-95, Subunit 3.2, under Return on Investment (ROI):

Example 3-10 ROI of a 401(k) with Employer Match without Tax Considerations

~~A 50-year-old individual invests 6% of their salary to a 401(k) with a match of 6% from their employer. The individual makes $100,000 per year and retires at age 70~~ An individual invested 6% of his or her $100,000 annual salary to a 401(k) with an employer match of 6% for 20 years and retired at age 70. The total investment by the employee into the 401(k) is $120,000 ($100,000 × 6% × 20 years). The total investment~~s~~ by both the employer and employee in the 401(k) ~~are~~is $240,000 ($120,000 employee + $120,000 employer). With an approximate 5.25% annual growth rate, the balance of the 401(k) at retirement is $~~407,439~~416,628*.

ROI without tax consideration = [($407,439 – $120,000) ÷ $120,000] × 100 = ~~239.53~~247.19%

* Amount may vary based on rounding to a specific decimal point.

In Example 3-10, the money has yet to be taxed. However, ROI on this investment depends on the current income tax rates. Further, ROI will fluctuate depending on whether the distribution is taken in one lump sum or as fixed distributions over a period. A **lump sum** distribution is a one-time distribution of all funds.

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Example 3-11 ROI of a 401(k) Lump Sum Distribution with Tax Considerations

Continuing the example of the individual in Example 3-10, assume that, at retirement, a lump sum distribution is taken in the amount of $~~407,439~~416,628. Further, the associated income tax is $122,232. The amount of the distribution net of tax is $~~285,207~~294,396 ($~~407,439~~416,628 – $122,232), and ROI is calculated as follows:

ROI = [($~~285,207~~294,396 – $120,000) ÷ $120,000] × 100 = ~~137.67~~145.33%

[. . .]

Example 3-13 ROI of a 403(b) without Employer Contribution

~~A 50-year-old individual invests 6% of their salary to a 403(b). The individual makes $100,000 per year and retires at age 70~~An individual invested 6% of his or her $100,000 annual salary to a 403(b) for 20 years and retired at age 70. Total investment by the individual is $120,000. Assuming an annual growth rate of 5.25%, the balance of the 403(b) at retirement is $203,729.

ROI without tax consideration = [($~~203,729~~208,318 – $120,000) ÷ $120,000] × 100 = ~~69.77~~73.60%

Assume income tax is $61,119. The amount of the distribution net of tax is $~~142,610~~147,199 ($~~203,729~~208,318 – $61,119).

Lump sum ROI = [($~~142,610~~147,199 – $120,000) ÷ $120,000] × 100 = ~~18.84~~22.67%

~~Now, consider fixed ROI of $4,000 per month with an annual growth rate resulting in a total payout of $229,471. Assume the income tax is $68,841. The total payout net of tax is $160,630 ($229,471 – $68,841).~~

~~Fixed ROI = [($160,630 – $120,000) ÷ $120,000] × 100 = 33.86%~~

Example 3-14 ROI of a Roth IRA

A 50-year-old individual invests the maximum allowable each year into a Roth IRA, starting in ~~2023~~2024. The individual makes $100,000 per year and retires at age 70. For this example, assume the maximum contribution limit stays at $~~6,500~~7,000 + $1,000 catch-up. The principal amount invested equals $~~150,000~~160,000 ($~~7,500~~8,000 × 20 years). Assuming an annual growth rate of 5.00%, the balance of the Roth IRA is $~~247,995~~277,757 after 20 years.

ROI without tax consideration = [($~~247,995~~277,757 – $~~150,000~~160,000) ÷ $~~150,000~~160,000] × 100 = ~~65.33~~73.60%

However, with Roth IRAs, the contributions are made after tax. Therefore, the tax on the income must be considered for a more accurate ROI. Assuming a 25% average income tax rate during the 20 working years, the total income invested before tax is $~~200,000~~213,340 rounded [$~~150,000~~160,000 net income ÷ (~~1~~100% – 25% tax rate)].

ROI = [($~~247,995~~277,757 – $~~200,000~~213,340) ÷ $~~200,000~~213,340] × 100 = ~~24.00~~30.19%

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Page 102, Subunit 3.1, Question 1:

1. Which of the following scenarios best describes a traditional IRA?

   A. Clara contributes to her IRA. She can contribute 25% of her compensation annually and her contributions are tax deductible.

   B. Larry's only source of income is his rental income from his property. Larry contributes to a retirement plan that is tax deductible but has a $~~6,500~~7,000 funding limit per year.

   C. Patricia earns income from self-employment and contributes up to $~~6,500~~7,000 per year. There is a 10% penalty if she withdraws before she is 59.5 years old.

   D. Wallace contributes to his IRA. He can contribute 15% of his compensation, but his contributions are not tax deductible.

✔ **Answer (C) is correct.**
Required: The scenario that best describes a traditional IRA.
Discussion: Taxpayers can open and make contributions to a traditional IRA if the taxpayer receives taxable compensation. Compensation is defined as earned income and includes wages and salaries, commissions, self-employment income, and alimony and separate maintenance payments. In ~~2023~~2024, the funding limit is $~~6,500~~7,000 per year with a $1,000 additional catch-up for taxpayers age 50 or older. There is a 10% penalty on amounts withdrawn before the taxpayer turns 59.5 years old unless certain exceptions are met.

✖ **Answer (A) is incorrect.** This best describes a SEP IRA. In ~~2023~~2024, SEP IRAs have a contribution limit of the lesser of $~~66,000~~69,000 or 25% of compensation. There is no catch-up contribution. SEP plans provide a simplified method for employers to make contributions to their own retirement (if self-employed) and directly to an employee's retirement through a traditional IRA. Contributions to a SEP IRA are with pre-tax dollars, and growth is tax deferred. Thus, this does not describe a traditional IRA.

✖ **Answer (B) is incorrect.** Taxpayers can open and make contributions to a traditional IRA if the taxpayer receives taxable compensation. Compensation does not include earnings and profits from property such as rental income, interest income, dividend income (or pension and annuity income), or a share of S corporation income. Thus, this does not describe a traditional IRA.

✖ **Answer (D) is incorrect.** In ~~2023~~2024, the limit for the traditional IRA is $~~6,500~~7,000 per person per year, not 15% of the taxpayer's compensation. In addition, the traditional IRA is tax deductible.

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Page 105, Subunit 3.2, Question 4:

4. Ashley invests 5% of her salary in her 401(k) plan at 51 years old and plans to retire at 71 years old. For 20 years, her employer also matches 5% of her salary. If Ashley makes an annual salary of $175,000 and the current value of her 401(k) at retirement is $525,500, what is Ashley's return on investment (ROI)?

   A. 50.14%

   B. 200.29%

   C. 300.29%

   D. ~~66.67~~66.70%

✔ **Answer (B) is correct.**
Required: The ROI in a taxpayer's 401(k).
Discussion: ROI is a measure of the performance of an investment often used to evaluate profitability and compare the efficiency of different investments. ROI is the measure of the amount of return relative to the cost of an investment. Because Ashley has been earning the salary for 20 years (71 years – 51 years), the cost of the investment for Ashley is $175,000 (5% × $175,000 × 20 years). Thus, the ROI is 200.29% {[($525,500 – $175,000) ÷ $175,000] × 100}.

✖ **Answer (A) is incorrect.** The amount of 50.14% incorrectly includes the employer's contribution in the cost of the investment.

✖ **Answer (C) is incorrect.** When calculating ROI, the cost of the investment must be subtracted from the current value of the investment before dividing by the cost of the investment. The percentage of 300.29% is obtained as follows: [($~~525,000~~525,500 ÷ $175,000) × 100].

✖ **Answer (D) is incorrect.** When calculating ROI, the current value of the investment less the cost of the investment is divided by the cost, not current value of the investment. The percentage of ~~66.67~~66.70% is obtained as follows: [($~~525,000~~525,500 – $175,000 ÷ $~~525,000~~525,500) × 100].

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Study Unit 6 – Planning: C Corporations

Page 209, Subunit 6.2, under Timing of Income and Expense Items, Example 6-5:

Example 6-5 Tax Planning of Income and Expenses in Consideration of Changing Tax Rates

Key business tax provisions in the federal government's budget for Year 2 include a proposal to increase the U.S. corporate income tax rate from 21% to 28%. At the end of December Year 1, ABC, Inc., plans to purchase equipment at a cost of $87,500, which is expected to increase revenue in Year 2 by $1 million. The equipment qualifies for a Sec. 179 deduction in both Year 1 and Year 2. In Scenario 1, ABC purchases the equipment in December Year 1. In Scenario 2, ABC purchases the equipment in January Year 2. Provide an analysis of the difference in income tax liability between Scenario 1 and Scenario 2.

Equipment	$ 87,500
Sec. 179 deduction rate	100%
Sec. 179 deduction expense	$ 87,500

Scenario 1	Year 1	Year 2	Total Income Tax
Taxable income before ~~bonus depreciation~~Sec. 179	$5,000,000	$6,000,000	
Minus: Sec. 179 deduction expense	(87,500)		
Taxable income	$4,912,500	$6,000,000	
Income tax rate	21%	28%	
Income tax	$1,031,625	$1,680,000	**$2,711,625**

Scenario 2	Year 1	Year 2	Total Income Tax
Taxable income before ~~bonus depreciation~~Sec. 179	$5,000,000	$6,000,000	
Minus: ~~Bonus depreciation~~Sec. 179 deduction expense		(87,500)	
Taxable income	$5,000,000	$5,912,500	
Income tax rate	21%	28%	
Income tax	$1,050,000	$1,655,500	**$2,705,500**
Scenario 2 income tax savings			**$6,125**

Study Unit 8 – Compliance and Planning: Partnerships

Page 256, Subunit 8.1, under Types of Partnership Interest:

Types of Partnership Interest

- **Capital interest.** ~~A partner who must manage the partnership and is personally liable for partnership debts but who has the right to receive net assets in the event of liquidation~~An interest that would give the holder a share of the proceeds if the partnership's assets were sold at FMV, and the proceeds were distributed in a complete liquidation of the partnership.
- **Profits interest.** An interest that would give the holder a share of future income and losses of the partnership.

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Pages 257-258, Subunit 8.1, under Contributed Property:

Cash contributed
+ Adjusted basis (AB) of property contributed
+ Any gain recognized on contributed property or services
+ Share of partnership liabilities
- Partner's liability assumed by partnership
= Basis in ~~stock of issuing corporation~~partnership interest

[. . .]

Example 8-2 Gain -- Liability Assumed by the Partnership

Albert, a single recent college graduate and newly licensed CPA, has worked for a tax accounting firm for 4 months. He expects to have earned total taxable income of $17,000 in ~~2023~~2024. In November ~~2023~~2024, Albert is approached with the opportunity to become a general partner in a tax accounting firm (doing business in the form of a partnership) where all partners would agree to guarantee the partnership's debt allocated by their respective ownership percentages. He is considering acquiring a 20% interest in the partnership by contributing a parcel of land he has held for 5 years and $10,000 in cash. Currently, the land has a fair market value of $50,000, an adjusted basis to Albert of $20,000, and is subject to a mortgage of $70,000. If Albert contributes the property to the partnership, he must recognize a long-term capital gain to the extent the partnership assumes the liability. If Albert becomes a 20% partner, he will be relieved of 80% of the mortgage debt. Thus, 80% of his $70,000 mortgage, or $56,000, is a benefit to Albert because the other partners are assuming part of the mortgage obligation. Therefore, Albert will have a capital gain in the amount of $26,000 ($56,000 benefit – $10,000 cash – $20,000 AB of property).

Cash contributed	$ 10,000
+ AB of property contributed	20,000
+ Any gain recognized on contributed property or services	26,000
+ Share of partnership liabilities	14,000
– Partner's liability assumed by partnership	(70,000)
= **Basis in partnership interest**	**$ 0**

From a tax planning perspective, Albert should time the contribution to the partnership to occur when he is the lowest capital tax bracket. For ~~2023~~2024, single taxpayers with total taxable income less than $~~44,625~~47,025 are in the 0% bracket for capital gains. Therefore, Albert's taxable income is projected to be $43,000 in ~~2023~~2024 ($17,000 wages from the tax accounting firm + $26,000 long term capital gain). From a tax planning perspective, if Albert decides to acquire the partnership interest, he should complete the acquisition before the end of ~~2023~~2024. This assumes the partnership will be lucrative and that Albert will be in a higher earnings bracket in ~~2024~~2025.

Page 274, Subunit 8.3, under Loans Made (or Guaranteed) by Partner to Partnership:

This rule **does not apply to**

- Guarantees that do not exceed the lesser of 5 years or one-third of the term of the liability.
- A **de minimis exception**~~,~~. ~~when a~~
  - A partner or related person who is a 10% or less partner during any year when (s)he ~~is a partner and~~ guarantees the interest on a partnership loan that is qualified nonrecourse financing.

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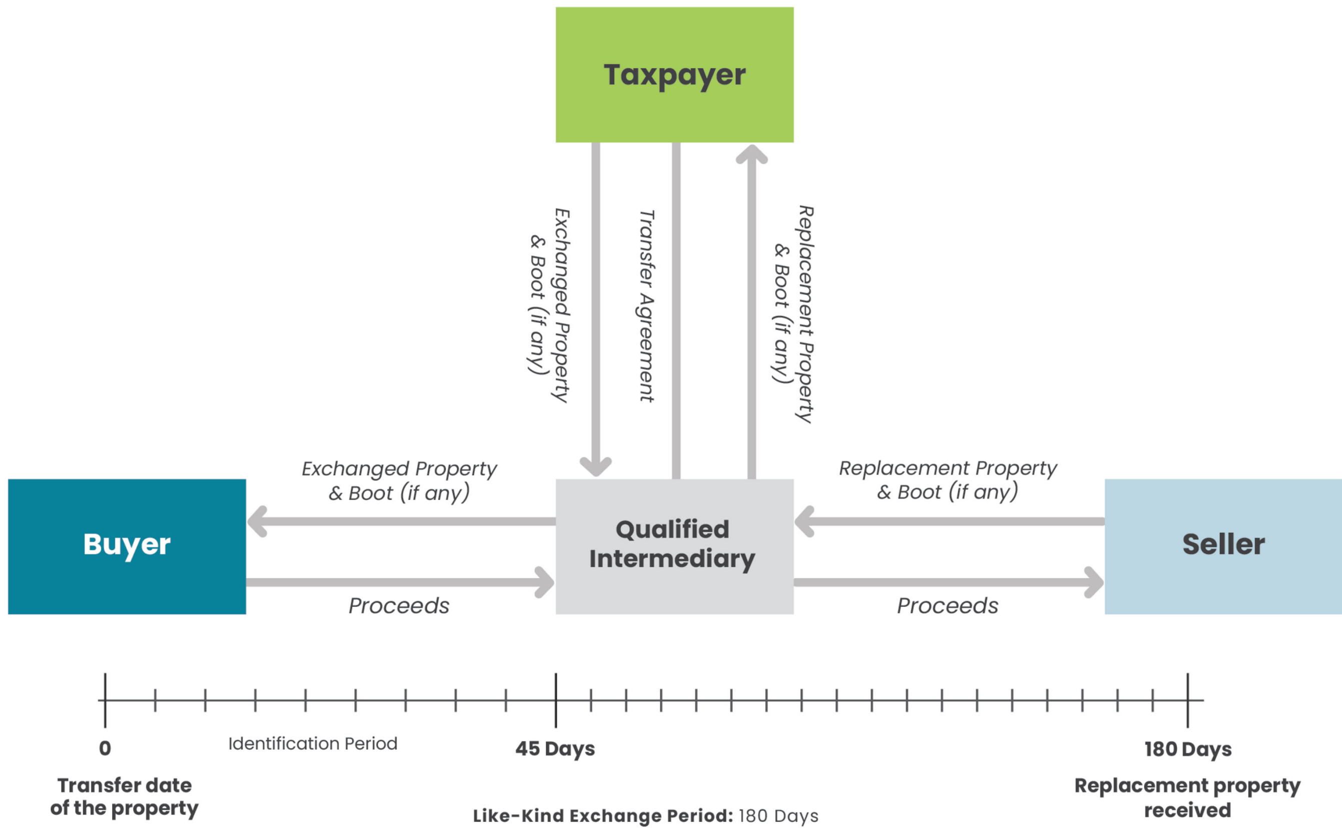
Study Unit 9 – Disposition of Assets

Page 297, Subunit 9.1, under Like-Kind Exchanges – Qualified Exchange Accommodation Agreement: Figure 9-1 was updated for clarity. The figure is reproduced below without changes indicated.



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