

Book Reviews

In each issue, *JATA* publishes reviews of textbooks and other books of interest to tax scholars. All book reviews are solicited by the associate editor. However, if you know of a book that you would like reviewed or if you are interested in reviewing a book, please contact the associate editor.

The Associate Editor is:

Jay A. Soled

Department of Accounting & Information Systems
Rutgers Business School
1 Washington Park
Newark, New Jersey 07102
Phone: (973) 353–1727
Fax: (973) 353–1283
Email: jaysoled@business.rutgers.edu

GREGORY A. CARNES and SUZANNE YOUNGBERG, *Fundamentals of Taxation for Individuals: A Practical Approach* 2024 Edition (Hoboken, NJ: John Wiley & Sons, Inc., 2023, \$119.50).

Although there are a plethora of introductory taxations texts on the market, the recently released Carnes and Youngberg text (“Carnes”) offers a balanced combination of traditional pedagogy, along with content vital to preparing for the CPA Examination. Other than an earlier “preliminary” version, this text is entirely new to the market. I was hopeful that I would find something entirely new or fresh in a somewhat crowded space; I was not disappointed.

Although many texts have traditionally offered a finite number of simulations and problems useful to CPA Examination preparation, Carnes takes it to the next level in its integration of the upcoming changes in 2024, often referred to as the *CPA Evolution*. I was impressed by the variety of sample problems provided. Stated objectives of this text include preparation for the Core—Taxation and Regulation (REG), along with preparation for the discipline area of Tax Compliance and Planning (TCP).

The general order of the text materials may be described as follows:

- Chapters 1–4: Introduction to Income Taxation
- Chapters 5–7: Income
- Chapters 8–11: Deductions
- Chapters 12–15: Property Transactions
- Chapters 16–17: Other Individual Topics
- Chapter 18: CPA Evolution Tax Core—Business Entity Topical Overview

I would have no problem utilizing this text in a one-semester undergraduate introductory taxation course; an additional half-semester would allow for greater depth of coverage, particularly in the areas of property transactions, advanced individual topics, and *CPA Evolution*. In order to cover those materials vital for such an introductory course, Chapters 1–11 may be covered in depth with, perhaps, an overview of property transactions.

So, what makes this textbook different from the many other textbooks that are currently available on the market? Simply put, the text includes a voluminous number of illustrations and diagrams, which obviate the immediate need to reference the Internal Revenue Code. Although some faculty may find this unfortunate, it may allow a student to master material more quickly and in greater depth than in some of the less detailed textbooks (which often require a *detour* into the Internal Revenue Code). Of course, the price of all this detail is the possible perception (by the student) that this textbook is far lengthier than it really is.

This multitude of illustrations, diagrams, and problems does create an additional burden for the course instructor. It behooves the instructor to determine precisely which areas will be emphasized and those which will be covered in a cursory manner. If the instructor fails to demonstrate an exact purpose or learning path, today’s undergraduate student may suffer from information overload, leading to general dissatisfaction with the course.

Conspicuously absent from the text is a detailed treatment of so-called income exclusions. Although there is a very brief discussion in Chapter 6, an in-depth discussion of exclusions is nowhere to be found in the text. Instead, such items are mentioned throughout the text in the context of whatever income item is being studied. Although I am identifying this as a shortcoming (largely because it is what I am accustomed to), it does not significantly diminish the many high points of this text.

Before covering the traditional tax topics (i.e., income, deductions, etc.), the first few chapters create a federal tax system. There is discussion of many of the general concepts covered in an introductory text, such as tax computation, professional responsibility, and research authority. Where the text excels, though, is in its discussion of dependency and filing status (found in Chapter 4). As I explain to students, dependency and filing status for tax purposes will be obvious in a majority of cases. However, students are most inquisitive about understanding the unusual situations found around the margins. Moreover, I often find that students become confused when it comes to the distinction between “qualifying child” and “qualifying relative.”

Carnes does an exceptional job in distinguishing between these two terms. The author uses a copious number of examples to ensure that the student is provided with all information necessary to make a proper determination. Moreover, the chapter provides a nice discussion and chart explaining the nuances of filing status. This may appeal to students who may become hyperfocused on those marginal situations requiring more detailed analysis.

A typical chapter is structured as follows. First, there are chapter objectives and a general introduction to those items to be studied. Often, such an introduction is in the context of a potential client situation or set of facts. Then, the learning objectives are mapped out in great detail, so that the student may find a chapter example related to the particular concept. Throughout each topic, there are example problems with detailed solutions. Students will find the illustrations and flowcharts very helpful in “walking” them through the process or calculation. Even those students who may find the topic of taxation somewhat banal may be more inclined to actually follow along with the text.

Finally, at the end of each chapter, there are an assortment of problems, which include discussion and multiple-choice questions, detailed application and computational problems, and CPA Exam simulation-type cases. Some problems also include tax form presentation. In addition, there are professional development problems, which simulate real-life client inquiries and responses. At the end of significant sections of the text, the student will find comprehensive tax return problems. To reiterate, an instructor should take the time to identify those problems on which students are expected to focus.

The overall flow of the textbook is cumulative in that the language is consistent and the introductory examples tend to follow the progression of a story. A student will derive comfort due to the familiarity and continuing stories of the “players” and will also appreciate that the chapter openers are quite relatable to him or herself and average taxpayers.

In closing, as a full-semester or longer course, I strongly recommend this book for an undergraduate level course for those students majoring in accounting. It could also be used in a business, economics, or finance elective within a general business degree program. I believe that the text is too elementary for a graduate program.

RONALD C. ZULLO

Senior Lecturer in Accounting & Taxation
Northeastern University

JAMES C. YOUNG, DAVID M. MALONEY, ANNETTE NELLEN, MARK PERSELLIN, and ANDREW D. CUCCIA, *South-Western Federal Taxation: Comprehensive Volume, 46th Ed.* (2023); Cengage Learning 274.95.

This textbook and accompanying professional tax software introduce students to federal income taxation, help prepare them for the CPA and enrolled agent exams, and advance their careers in tax accounting, financial reporting, or auditing. Utilizing this textbook, students may master today’s most current tax concepts and law. Recent updates emphasize tax law changes impacting individuals, corporations, partnerships, estates and trusts, and financial statements; this material includes tax scenarios designed to clarify concepts and help sharpen critical-thinking, writing, and research skills. Heuristic in nature, accompanying exam questions from the Becker CPA Exam Review aid in student mastery. Each textbook includes access to Intuit ProConnect tax software, Checkpoint (Student Edition) from Thomson Reuters, and CNOWv2 online tools.

Professors would assign this textbook in their introductory tax courses, such as an individual or entity-level tax course. At a cost comparable to other textbooks, this title offers an easy-to-follow approach to federal taxation with an introductory case study to illustrate and explain the learning objectives in each chapter.

The uncommon length and scope of this textbook does not lend itself to easy summarization. Instead, and as a fairer and more accurate picture, a chapter-by-chapter synopsis follows.

PART 1: INTRODUCTION AND BASIC TAX MODEL

Chapter 1: An Introduction to Taxation and Understanding the Federal Tax Law

In the first chapter, the authors introduce students to the study of taxation. This chapter provides a brief overview of our federal tax system and the primary purpose of taxation. Students are also introduced to the Internal Revenue Code and its various revisions since Congress enacted the Revenue Act of 1913. The major types of taxes are also presented in this chapter, as well as the basic tax formula. Overall, this introductory chapter sets the tone for what's to come in the next chapters as students embark on their journey of learning taxation and how it touches on every aspect of society.

Chapter 2: Working with the Tax Law

This chapter analyzes the various sources of tax law, starting with the Constitution of the United States (Article I, Sections 7, 8, and 10) and ending with secondary sources such as tax periodicals. Topics covered illustrate how tax law consists of a body of legislative, administrative, and judicial pronouncements. Students learn to identify and refine the potential tax problem and how to approach tax research and locate the relevant tax law sources applicable. Toward the end of the chapter, the authors explain how to communicate tax research and provide a sample tax research memorandum. At the conclusion of the chapter, helpful hints and other resources are provided on how to prepare for the CPA exam.

Chapter 3: Tax Formula and Tax Determination: An Overview of Property Transactions

This chapter introduces students to the tax formula and provides a descriptive framework on how to apply the federal income tax to individuals. The various components of the tax formula are explained in detail, focusing on the standard deduction, exemptions, filing status, and tax determination. Helpful appendices include Form 1040 and three schedules to Form 1040 (Schedules A, B, and C).

PART 2: GROSS INCOME

Chapter 4: Gross Income: Concepts and Inclusions

This is one of the most comprehensive chapters in the textbook. The expansive definition of gross income is explained. The difference between financial accounting income versus taxable income is explored, while identifying the general sources of income and to whom they are taxed. The special rules applicable to cash basis and accrual basis taxpayers are discussed. Students are also introduced to the intricacies pertaining to the taxation of C corporations, S corporations, partnerships, and trusts and estates. The chapter introduces students to the special rules related to certain items included in gross income, e.g., alimony and separate maintenance payments, imputed interest on below-market loans, income from annuities, Social Security benefits, unemployment compensation, original issue discount, and the like. I personally found the discussion pertaining to income earned from foreign bank and financial accounts and the reporting requirements using FinCEN Form 114, Report of Foreign Bank and Financial Accounts, to be very insightful.

Chapter 5: Gross Income: Exclusions

This chapter discusses the concepts and various judicial doctrines that affect the determination of gross income. A comparison of the difference between income exclusions and items that are not income is helpful to understand the congressional intent of such legislative magnanimity. The authors then explain the various exclusion provisions contained in I.R.C. §§ 101–140. At the end of the chapter, students are introduced to some common tax planning strategies to obtain the maximum benefit from income exclusions. For example, tax-exempt state and local government bonds are great investments for high-net-worth taxpayers whose investment income might otherwise be subject to a 37 percent regular tax rate plus a 3.8 percent rate on their net investment income.

PART 3: DEDUCTIONS AND CREDITS

Chapter 6: Deductions and Losses: In General

This chapter explains the concept of how deductions are granted by legislative grace. Specifically, a taxpayer can claim a deduction or a loss only if a specific provision in the Code allows it. The authors explain why most deductions for personal expenditures are disallowed, whereas most business-expense deductions are allowed. A concise explanation of what constitutes a business-expense deduction lays the foundation for a more expansive discussion of a wide range of other deductions. The deductibility of business and nonbusiness losses is discussed in detail, as well as some of the most common disallowance provisions. The concept of capitalization versus expensing an item completes the discussion of the deductibility of business expenditures. Lastly, particularly useful is an explanation of some of the most common deductions *for* and *from* Adjusted Gross Income. A colorful diagram summarizing the reporting and flow of the various deductions on a Form 1040 will add to the knowledge bases of students.

Chapter 7: Deductions and Losses: Certain Business Expenses and Losses

This chapter is a well-crafted summary of some of the most common deductible losses. It addresses the definition of bad debts under § 166, business versus nonbusiness bad debts, and the requirements to use the specific charge-off method. The topic of worthless securities, the small-business stock losses under §1244, and casualty losses with its various limitations are also nicely covered in this chapter. Personally, I found the authors' discussion on the research credit nicely written and easily accessible.

Chapter 8: Cost Recovery Deductions

This chapter addresses the recovery of capital doctrine by providing a cogent explanation of the cost recovery of an asset. In 1981, Congress revised the tax depreciation rules by creating the accelerated cost recovery system, which shortened the depreciable lives of most assets and allowed accelerated depreciation methods. These concepts are fully addressed in this chapter, and students are introduced to how to compute depreciation, cost recovery, amortization, and depletion deductions of tangible assets, as applicable. The amortization of intangible assets and startup expenditures is also discussed in this chapter. A useful step-by-step explanation of how a sole proprietor engaged in a business reports depreciation and amortization deductions is provided.

Chapter 9: Deductions: Employee and Self-Employed-Related Expenses

This chapter first addresses the distinction between an employee and an independent contractor. Then, it specifically addresses the various deductions available to employees and self-employed individuals. The coverage of the deductibility of expenses, such as transportation, travel, education, and other business-related expenses, may be particularly interesting to CPAs and accounting students. The tax implications of making contributions to individual retirement accounts and retirement plans for self-employed individuals is also discussed.

Chapter 10: Deductions and Losses: Certain Itemized Deductions

As a general rule, personal expenditures are not deductible. However, some personal expenditures are specifically allowed as itemized deductions. This chapter analyzes in detail the rules pertaining to the various deductible and nondeductible expenditures, such as medical expenses, taxes, interest, charitable deductions, and other itemized deductions. The authors explain how taxpayers generally elect to itemize deductions if doing so would yield a greater benefit than the standard deduction. A sample Schedule A, *Itemized Deductions*, is included to illustrate how allowable itemized deductions are reported.

Chapter 11: Investor Losses

Tax shelters provide a way to avoid or defer taxes. This chapter addresses the tax-shelter problem and the reasons for the at-risk and passive activity loss-limitation rules. Students are introduced to other ways that investors use tax deductions to minimize their taxes (e.g., borrowing to purchase investments that appreciate over time and claiming an interest expense deduction). The authors address how Congress has limited the deductibility of investor losses, including investment interest for noncorporate taxpayers.

Chapter 12: Tax Credits and Payments

This chapter discusses various refundable versus nonrefundable tax credits. Specifically, students are introduced to various business-related tax credits, as well as various tax credits that are available primarily to individual taxpayers. Traditionally, and not unexpectedly, students have expressed particular interest in education tax credits. Personally, I find the coverage on how Congress uses tax credits as a tool of federal tax policy to modify taxpayer behavior intriguing.

PART 4: PROPERTY TRANSACTIONS**Chapter 13: Property Transactions: Determination of Gain or Loss, Basis Considerations, and Nontaxable Exchanges**

This and the next chapter address the tax consequences of property transactions. I consider this chapter the building block to understanding the taxation of property transactions. It introduces students to the applicable rules used to determine realized and recognized gain/loss and characterization (e.g., ordinary or capital in nature), plus the disallowance rules. Lastly, there is an extensive discussion on the temporary nonrecognition and permanent exclusion provisions, such as like-kind exchanges, involuntary conversions, and the § 121 exclusion.

Chapter 14: Property Transactions: Capital Gains and Losses, 1231, and Recapture Provisions

This chapter provides a thorough analysis of the general taxation scheme for capital gains and losses from the sale or other disposition of property. It is a rather lengthy chapter, as it starts out with the definition of a capital asset and concludes with a discussion on avoiding potential recapture of a § 1245 gain. A useful discussion of depreciation recapture and § 1231 is of particular interest to CPAs and accounting students.

PART 5: SPECIAL TAX COMPUTATIONS AND ACCOUNTING PERIODS AND METHODS**Chapter 15: The Deduction for Qualified Business Income for Noncorporate Taxpayers**

This chapter starts with a useful in-depth discussion of the tax ramifications of operating as a sole proprietorship, partnership, C corporation, and limited liability company. An interesting summary of the impact of The Tax Cuts and Jobs Act (“TCJA”) of 2017 and the entity tax rates is also included in this chapter. Also, the authors provide a step-by-step explanation of the admittedly complex deduction for qualified business income and its various limitations. Lastly, the chapter concludes with an easy-to-follow comparison of the tax advantages of operating a business in corporate versus noncorporate form.

Chapter 16: Accounting Periods and Methods

Accountants and other tax professionals must be able to determine when gross income is recognized for tax purposes, as well as when deductions are allowable. This chapter discusses accounting periods and the specific provisions applicable to partnerships, S corporations, and personal service corporations. The rules for selecting and changing an existing accounting method are also discussed. Of particular interest to CPAs and accounting students is a concise discussion of the rules applicable to long-term contracts and accounting for inventories.

PART 6: CORPORATIONS**Chapter 17: Corporations: Introduction and Operating Rules**

This chapter can only be described as a complete guide to the income taxation of C corporations. It starts out with a step-by-step comparison of the corporate tax versus the individual income tax treatment. In addition to a necessary discussion on determining the corporate income tax liability, this chapter also provides a detailed discussion on all procedural matters that must be followed to properly file a corporate income tax return.

Chapter 18: Corporations: Organizations and Capital Structure

This chapter teaches CPAs and accounting students the tax consequences of incorporating a C corporation under §351. There is a short and succinct discussion of the basis issues relevant to shareholders and the tax ramifications of

capital and debt in the capital structure of a corporation. The chapter concludes with a comparison of the tax benefits of operating a business in the corporate form, rather than as a flow-through entity.

Chapter 19: Corporations: Distributions Not in Complete Liquidation

This chapter focuses on the tax treatment of corporate distributions from the perspectives of both shareholders and the corporation. Students learn about the important role that earnings and profits play in determining the taxation of corporate distributions and, in particular, corporate dividends. The chapter concludes with tax-minimization strategies.

Chapter 20: Corporations: Distributions in Complete Liquidation and an Overview of Reorganizations

This chapter summarizes liquidating corporate distributions. It starts by defining corporate liquidations in general and offers a nice comparison of liquidating and nonliquidating distributions. Students learn the ins and outs of the anti-stuffing rules, related-party loss limitation rules, and the built-in loss rules. More advanced coverage on the liquidation of a subsidiary and corporate reorganizations is also included in this chapter.

PART 7: FLOW-THROUGH ENTITIES

Chapter 21: Partnerships

This chapter introduces students to the complexities of Subchapter K of the Code. The statutory rules for the taxation of partners and partnerships are arguably the most complex in the Code. However, this textbook explains these rules in an easy-to-understand format. Students are first introduced to the definition of a partnership for tax purposes and walked through the various stages of the partnership life cycle from formation to liquidation and the corresponding tax ramifications. The authors also discuss other taxes to consider, including self-employment and net investment income taxes. Reporting requirements are also addressed in detail. Lastly, the authors discussed the tax reason why the partnership form of doing business may be tax-advantageous.

Chapter 22: S Corporations

In addition to touching on the rules outlined in Subchapter K of the Code, this chapter also addresses the reasons why, in some circumstances, an S corporation may be preferred as a business form. An overview of the requirements necessary to be able to elect S corporation status is of utmost importance to learning about this choice of entity, and, as such, it is provided in this chapter, as well as the tax treatment of losses. Lastly, the chapter offers tax-planning opportunities for S corporations.

PART 8: ADVANCED TAX PRACTICE CONSIDERATIONS

Chapter 23: Exempt Entities

Perhaps one of the most unvetted topics is the taxation of exempt entities. This chapter does a great job of describing the different types of tax-exempt entities and the requirements to qualify as such under the Code. It also addresses the restrictions on public charities and private foundations and the taxes imposed on the latter.

Chapter 24: Multistate Corporate Taxation

Most of the textbook focuses on federal income tax; however, this chapter was included to explain the computation of a multistate corporation's state income tax liability. This chapter introduces CPAs and accounting students to the Multistate Tax Compact, which is a "model law designed to promote uniformity in administering state income tax laws among the states." It also addresses the important concepts of allocation and apportionment of a multistate corporation's taxable income. Lastly, the chapter also explains the state tax consequences of S corporations, partnerships, and LLCs.

Chapter 25: Taxation of International Transactions

This chapter provides a concise explanation of the framework underlying the U.S. taxation of cross-border transactions. CPAs and accounting students are introduced to the concepts of sourcing of income and deductions, transfer

pricing, and computing foreign currency gain and loss. The tax ramifications of U.S. persons receiving offshore income is also introduced in this chapter, as well as an easy-to-follow discussion of the complex Sub-Part F rules. This chapter also analyzes the U.S. taxation of nonresident aliens and foreign corporations. Lastly, the reporting requirements for foreign corporations and U.S. persons who control foreign corporations or partnerships are explained.

Chapter 26: Tax Practice and Ethics

An important chapter for any tax professional who practices before the IRS, this chapter expands on the coverage offered in Chapter 1. This chapter is a well-written guide to the ins and outs of tax administration. It describes the organizational structure of the IRS and offers helpful insight on identifying the various pronouncements issued by the IRS and how they can be used in tax practice to assist taxpayers. The audit process is described in detail. This chapter offers a thorough explanation of the penalties imposed on taxpayers and return preparers for improper actions. A discussion on tax practice and ethics would be incomplete if Circular 230 were not addressed, and this chapter provides an excellent overview. The discussion on the AICPA Statements on Standards for Tax Services is of particular interest to CPAs and accounting students.

PART 9: FAMILY TAX PLANNING

Chapter 27: The Federal Gift and Estate Taxes

The Code imposes a tax on an individual's gratuitous transfer of property. This chapter addresses the federal gift, estate, and generation-skipping taxes. It explains the nature of the federal asset transfer taxes. The purpose of the unified transfer tax credit and how to compute the exclusion amount are also discussed in this chapter.

Chapter 28: Income Taxation of Trusts and Estates

This chapter provides a more in-depth discussion of the federal income taxation of trusts and estates, which is governed by Subchapter J of the Code. In the same vein, the amount of taxable income to the beneficiaries is also discussed. The authors introduce CPAs and accounting students to the proper terminology with respect to fiduciary income taxation and explain the main reasons for creating a trust. The rules for computing the taxable income of a trust are fully explored. The discussion on income tax planning possibilities for trusts and estates is likewise insightful.

In summary, this comprehensive textbook provides great coverage of the most important topics covered in an introductory tax course in a straightforward and easy-to-follow format. I personally find the accompanying exam questions from Becker CPA Exam Review essential to our CPA student's mastery of the material.

CARMEN N. PRESINAL

Part-Time Lecturer

Rutgers, The State University of New Jersey