

FUNDAMENTALS OF FEDERAL INCOME TAXATION II
General Information and Syllabus

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University of Baltimore
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Thursday, 6:15 to 9:00 pm
Room: AL 408

Course Description:

Continuation of basic tax concepts including cash and accrual methods, capital gains and losses, 1231 transactions, recapture, original issue discount and imputed interest, below-market loans, installment sales, like kind exchanges, involuntary conversions, the at-risk rules, and passive loss rules.

Required Materials

Internal Revenue Code (“Code”)
Regulations (“Regs”)
Freeland, Lathrope, Lind and Stephens, Fundamentals of Federal Income Taxation (17th Edition) (“Freeland”)

With regard to the Code and the Regs, **you may use either the complete versions of these authorities or a selected sections version**, the latter being Lathrope, Daniel J., Selected Federal Taxation Statutes and Regulations (2015 Edition).

TWEN Site

You are required to register for this course on TWEN, and you must use your UBALT address as your TWEN e-mail address as per University Policy. You are responsible for all information posted on or disseminated from TWEN.

Class Preparation

You are responsible for the assigned reading in Freeland and the assigned sections of the Code and Regs. This course involves difficult tax rules and concepts, and thus it is very important that you prepare for class, which includes working through the assigned problems in the textbook. It is important to keep your class preparation current. Much of the course will be built on subjects previously discussed, and the various Code and Regs sections work in conjunction with one another. If you miss and/or do not prepare for one class, the next class may use terms and concepts you do not understand, which will compound the difficulty of understanding this complex area of the tax law. Moreover, as discussed below, part of your grade will be based on class participation.

Please be sure to raise any unaddressed questions you still have after class, by appointment, through e-mail: fbrown@ubalt.edu, or by phone: 410-837-4537. In addition, as we will be actively using TWEN to address and discuss issues students raise outside of class, posting your query on TWEN will serve a very useful contribution. I will be monitoring and responding to queries on TWEN on a regular basis.

Exams/Grading

There will be one time pressured, three hour exam given at the end of the semester. **The exam will be completely open book.** Ninety percent of your grade will be based on the final exam. Ten percent of your grade will be based on class participation; this will include my evaluation of your preparedness when called upon (either very prepared, prepared, or unprepared), along with your responses when you volunteer to answer questions.

Attendance Policy for J.D. Students

Class attendance is a primary obligation of each J.D. student whose right to continued enrollment in the course and to take the examination is conditioned upon a record of attendance satisfactory to the professor. A J.D. student who exceeds the maximum allowed absences may be compelled to withdraw from the course, or may be barred from sitting for the final exam. J.D. students who are forced to withdraw for exceeding the allowed absences may receive a grade of FA (failure due to excessive absence). In this course, J.D. students are allowed a maximum of two absences. Attendance will be taken at the beginning of each class.

While LL.M. and M.S. students should endeavor to attend each class, there is no attendance policy applying to these students.

Computers

Students may use laptop computers for class related purposes, as well as on the exam (with the School-provided exam software).

Class Cancellation

If I must cancel a class, notices will be sent to students via the University of Baltimore e-mail system and posted on the classroom door. If there is inclement weather, students should visit the University of Baltimore web page or call the University's Snow Closing Line at (410) 837-4201. If the University is not closed, students should presume that classes are running on the normal schedule.

Academic Integrity

LL.M. and M.S. students must adhere to the University of Baltimore's Academic Integrity Policy, which can be found at

http://www.ubalt.edu/campus-life/student-handbook.cfm#Academic_Integrity.

J.D. students must adhere to the School of Law Honor Code, which can be found at

http://law.ubalt.edu/academics/policiesandprocedures/honor_code/index.cfm.

Disability Policy

If you are a student with a documented disability who requires an academic accommodation, please contact Leslie Metzger, Director for Student Support in the Office of Academic Affairs at 410-516-5623 or via email at lmetzger@ubalt.edu.

Learning Outcomes

- Obtain knowledge and understanding of the Federal income tax rules covered in this course that generally relate to the timing and characterization of income and deductions.
- Obtain knowledge and understanding of policies underlying these rules.
- Develop proficiency in reading, analyzing, and applying Code and Regs provisions.
- Develop proficiency in Code and Regs “mechanics,” *i.e.*, working with, and applying, verbal formulas that make up the tax rules.
- Develop proficiency in problem solving.

Course Outline

- I. Fundamental Timing Principles
- II. Capital Gains and Losses
- III. Characterization under Section 1231
- IV. Recapture of Depreciation on the Sale of Depreciable Property
- V. Characterization under Section 1239
- VI. Installment Sales
- VII. Original Issue Discount and Imputed Interest

VIII. Below-Market Interest Loans

IX. Nonrecognition Provisions

X. Disallowance of Losses

XI. At-Risk Rules

XII. Passive Activity Limitations

XIII. Bad Debts and Worthless Securities

XIV. Charitable Deductions

XV. Casualty and Theft Losses

First Class Assignment

Code: 441(a)-(e), 442, 446, 451(a), 461(a), (g)

Regs: 1.446-1(a)-(c)(1), 1.451-1(a), -2, 1.61-2(d)(4), 1.461-1(a)(1), 1.263(a)-4(d)(3), (f)(1)

Freeland: pp. 547-566 (before *Cathcart*), 569 (starting with Rev. Rul. 54-465) - 573

Problems: pp. 573-574, # 1(a), (b), (e), (f), (g), # 2(a)-(c)

Syllabus

I. Fundamental Timing Principles

Code: §§ 441(a)-(e), 442, 446, 451(a), 461(a), (f), (g), (h), 448(d)(5),
267(a)(2), (b), (c), (*skim* §§ 448, 455, 456)

Regs: §§ 1.446-1(a)-(c)(1), 1.451-1(a), -2, 1.61-2(d)(4), 1.461-1(a), -4(a),
(e), (g)(3), -5(a), (b), 1.263(a)-4(d)(3), (f)(1)

Freeland: pp. 547-566 (before *Cathcart*), 569 (starting with Rev. Rul. 54-
465) - 604 (before *Section 467*)

Problems: pp. 573-574, # 1(a), (b), (e), (f), (g), # 2(a)-(c); 602, # 1, # 2(c), (d),
(e), (f), # 3; 605, # 1

II. Capital Gains and Losses

- Code: 1(h), 1222, (*skim 1201, 1202*), 1211(b), 1212(b)(1), (2)(A)(i), (*skim 1211(a), 1212(a)*), 1221(a)(1)-(4), (*skim (a)(5), (a)(6)*)
1234(a) (*skim 1234(b), (c), 1236, 1237*), 1241, 1221(a)(7), (a)(8), (b)(2), (b)(3), 1271(a)(1), (b), (*skim 1234A, 1235, 1253*), 1223(1), (2), (9), (*skim 1014(a), 1015(a)*)
- Freeland: pp. 635-683, 691 (starting with H. Statutorily Created ...) - 696 (before Section 1231 Characterization)
- Problems: p. 646-647, ## 1, 2, 3; p. 651, # 1; pp. 683, ## 1, 3; p. 666, # 1; pp. 671-672, ## 1, 2

III. Characterization Under 1231

- Code: 1231
- Freeland: pp. 696-705
- Problems: pp. 705-706, ## 1, 3

IV. Recapture of Depreciation on the Sale of Depreciable Property

A. Section 1245

- Code: 64, 1245(a), (b)(1), (2), (d), 1016(a)(2) (*skim 1041*)
- Regs: 1.1245-1(a)(1), (b), (d), -2(a)(1)-(3)(i), (7), -6(a)
- Freeland: pp. 707 (A. Introduction), 712 (starting with C. Recapture Under 1245) - 717
- Problems: pp. 717-718, ## 1, 2

B. Section 1250

- Code: 1(h)(1), (3), (6), 1250(a)(1)(A), (B)(v), (b)(1), (3), (5), (c), (d)(1), (2),

(h), (*skim 291(a)(1)*)

Freeland: pp. 718-720

Problems: p. 720, ## 1, 2

V. Characterization Under 1239

Code: 1239, 267(c), (*skim 267(b)(3), (10), (11), (12), 318(a)(3)(B)(i)*)

Freeland: pp. 707-712

Problems: pp. 712, # 1

VI. Installment Sales

Code: §§ 453 (*omit (h), (l)(2), (l)(3)*), 453A, 453B(a)-(c), (g), 1001(a)-(d)

Regs: §§ 1.453-9(a), (b), 15A.453-1(a), (b)(1)-(3)(i), (4), (5), Examples
(1)-(3), -1(c)(1), (c)(2)(i)(A), (c)(3)(i), (c)(4), 1.453-12(a), (d)
(example 1), 1.1001-1(a), (g)(1), (3), (4)

Freeland: pp. 769-792

Problems: pp. 783-785, # 1(a)-(j), (m), # 2, # 3;
790-791, # 1; 792-793, # 1

VII. Original Issue Discount and Imputed Interest

Code: §§ 1272(a) (*omit (a)(6), (a)(7)*), (d)(2), 1273(a), (b), 163(e)(1),
(e)(2), (e)(4), 1274, 1274A, 1275(a)(1), 483 (*skim 1258, 1271,*
1275(b), (c), 1276, 1277, 1278, 1281, 1282, 1283), 467(a), (b),
(*skim (c)*), (d), (e)

Regs: §§ 1.1272-1(a), (b)(1), 1.1273-1(a), (b), (c)(1), -2(a), (b), (c), (d),
1.1274-1(a), (b)(1), (c) (ex. 1, ex. 3), -2(a), (b), (c), 1.483-1(a),
(b)(1), -2(a), (b), 1.446-2(a), (b), (c), (d), (e)(1), (h)

Freeland: pp. 793-801 (before Property Transferred in Connection With
Services), 604-605 (*Section 467*)

Problem: Handout Problem 1, Part B (available on TWEN under Problems).

VIII. Below-Market Interest Loans

Code: § 7872 (*skim (g), (h)*)
Regs: §§ 1.7872-5(a), 1.7872-5T(c)(3), (*skim 1.7872-5T(b)*)
Freeland: pp. 439 (starting with *J. Simpson Dean*) - 452 (before Note)
Problems: pp. 465, ## 1, 2

IX. Nonrecognition Provisions

Code: §§ 1001(c), 1031 (*skim (f), skim (g), omit (i)*), 1223(1), 357(d)(1),
1033(a), (b)(1), (2), (g)(1), (2), (4), 121(a), (b)(1), (b)(2), (d)(5),
(*skim 1033(i), 1044, 1045*)
Regs: §§ 1.1031(a)-1, -2(a), 1.1031(b)-1(b), Example (1), -1(c),
1.1031(d)-1, -2, 1.1031(k)-1(a), (b), (c)(1), (4)(i), (f), 1.1033(b)-
1(b), 1.121-4(d)
Freeland: pp. 823-828 (before *Leslie Co.*), 835 (starting with *Three-Cornered
Exchanges*) - 855
Problems: pp. 841-843, ## 2, 5, 4; 851-852, ## 1, 2, 3, 4, 5, 6

X. Disallowance of Losses

Code: §§ 267(a)(1), (b), (c), (d), (g), 1091(a), (d), 1223(3)
Regs: §§ 1.267(d)-1(a), (c)(3), 1.1091-2
Freeland: pp. 813-821
Problems: pp. 819, ## 1, 4; 821, # 1

XI. At-Risk Rules

Code: § 465(a), (b), (c)(1), (2), (3), (d), (e)

Freeland: pp. 474 (starting with Deductions Limited to Amount at Risk) -
477

Problems: pp. 477, ## 1, 2

XII. Passive Activity Limitations

Code: § 469(a), (b), (c)(1), (2), (4), (7), (d), (e)(1), (2), (3), (f), (g), (h),
(i)(1)-(3)(A), (6), (j)(1), (2), (6), (8)

Regs: §§ 1.469-4(a)-(c), (e), (f), (g), -5T(a), (b)(2)(ii), (iii), (c), (d), (e),
(f)(2), (4), -5(f)(1)

Freeland: pp. 491-502

Problems: pp. 502-504, ## 1, 2, 3, 4, 6, 7