

Federal Income Tax Bare-Bones Outline

I. The “Income” Cluster of Issues—FOLLOW THE ASSET

A. Income—Accretion to wealth, whatever source derived.

1. Yes: Money, Property (FMV), Discharge of Debt
2. Exclusions
 - a. Life Insurance Proceeds
 - b. Inheritance (Stepped up Basis)
 - c. Gifts (Carry over basis of Giver)
 - d. Sale of Principal residence (\$250,000 per person)

B. Realized---access to it.

1. Time (which year)
2. Amount

C. Recognized (by IRS)—generally, for property, not recognized until there is a triggering even (sale or exchange)

1. Gifts: when sell, gain = sale price – cost basis
2. Inheritance: when sell, gain = sale price – stepped up basis
3. Like-Kind exchange: Not a triggering event.

II. Litigation Issues

A. Damages

1. Not income: Physical Injury, sickness compensation
2. Income
 - a. Non-physical injuries (libel, defamation, employ discrim)
 - b. Punitives
 - c. Recovery of \$ previously deducted

B. Divorce—beware parties' designation, IRS can disagree

1. Spousal Maintenance
 - a. Income for recipient
 - b. Deduction (above line) for payor
2. Child support not income for recipient

III. Deductions:

A. Above the Line (to get to AGI)

1. Ordinary & Necessary Biz Expenses--in year paid
 - a. Common/accepted in biz
 - b. Relate to producing this year's income
2. Capital Expenditures—produce significant long-term biz benefits
 - Must depreciate (deduct portion each year)
3. Biz Interest, Taxes

B. Below the Line (to get to Taxable Income).

Charitable Contributions