

## Contracts

I. UCC or Common Law--“Goods” defined

II. K Formation

A. Mutual Assent (UCC differs—Conviser summary of Important Differences)

1. Offer

Revocation & Termination

Option K

CL: Independent Consideration

UCC: Firm Offer Rule by Merchant

2. Acceptance (Mailbox Rule: At mailing, except offer Limits or option K)

CL: Mirror Image

--Counteroffer a rejection, new offer

UCC: Acceptance good, even if new terms

--Additional Terms Part of K (Merchants)  
(not true for consumers)

--Unless objects within reasonable time  
(knocks out all such terms, go to UCC)

--UCC buyer's right to inspect, reject, revoke, seller cure

B. Consideration (or substitute: P-E, UCC good faith modification)

### C. No Defenses

1. Mistake
2. Capacity
3. Illegality
4. Statute of Frauds (look for issue on K essay)

### III. K Interpretation

A. Discharge by performance, impossibility, novation, accord.

#### B. UCC

1. Delivery obligations
2. Warranties
  - a. Express
  - b. Implied
    - i. Merchantability (merchant)
    - ii. Fitness for particular purpose (any seller)
3. Risk of Loss

IV. Parol Evidence Rule (look around for issue)—If integrated, no.  
--If ambiguity, course of dealing, explanation, yes.

### V. Statute of Frauds

CL: Executor from own pocket, debt of another, marriage, land, performance not within one year

UCC: Goods over \$500 (writing pretty broad), exceptions for specific item where begun performance)

### VI. Assignment of Rights, Delegation of Duties

--Depends on reliance on specific skills

--Ongoing liability of original person (if no permission)

## VII. Damages

A. Equity (specific performance)

B. Expectancy & limits (reasonable person)

Basic Rule: In position would have been in if K performed.

Beware: Fungible items vs. Single Item

C. Liquidated

1. Not easily ascertained
2. Can't be a penalty

## 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

Hobby: Costs, not more than income from it

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

Mortgage interest

### QUESTION #3

Jill is employed full-time as an accountant at a local resort and casino. Jill owns a condominium (condo) that she bought as an investment, using \$20,000 in savings

as a down payment and taking out a \$100,000 mortgage loan for the rest of the purchase price. She bought it to make money from the rental and from its appreciation. She hired Rental Management Services, Inc. (RMS) to manage the condo. RMS manages the day-to-day aspects of renting the condo. Jill made the final decisions about tenants, lease terms and repairs in excess of \$400. In 2007, Jill received a total of \$15,000 in gross rent.

Jill is a competitive cross-country skier and has won medals and cash prizes in national competitions. She competes for the love of the sport, not the money. Although she has never made a profit from winning prizes, Jill's prize money in 2007 totaled \$4,000.

You may assume that Jill's filing status is single for 2007, that her gross wage income in 2007 was \$80,000, and that she will elect to itemize her deductions. Jill paid the following expenses in 2007:

1. \$2,500 for high quality business attire. Jill prefers blue jeans but bought the clothing in response to a memo from her boss urging all employees to "dress for success" and suggesting that those employees who did so would be more successful at work and more likely to receive raises and promotions.
2. \$6,000 for tuition, books and academic fees for accounting classes at night at a local fully accredited private university. Jill had enrolled as a part-time student to earn an advanced accounting degree. She had received a memo from her boss urging all employees to "work smarter, not harder" and suggesting that those employees who earned advanced degrees in their field would be more successful at work and more likely to receive raises and promotions. The degree would improve her accounting skills but would not qualify her for any new trade or business.
3. \$20,000 for expenses related to the condo, consisting of:
  - a. mortgage payments totaling \$9,000, of which \$2,000 was repayment of the loan principal and \$7,000 was payment of interest on the loan;
  - b. \$4,800 in condo fees to the condo association (for ongoing maintenance and upkeep expenses);
  - c. \$1,200 in fees to RMS (10% of gross rental income);
  - d. \$3,000 in allowable depreciation expense;
  - e. \$1,400 in property taxes; and

f. \$600 in property insurance.

4. \$10,000 for expenses relating to the skiing activity, consisting of:

a. \$1,500 in race entry fees;

b. \$3,500 for ski passes and lift tickets;

c. \$5,000 for travel, meals, and lodging at the ski competitions in which she participated.

Fully analyze and discuss the deductibility of the expenses listed above. For each expense you identify as deductible (in whole or in part), state whether the deduction would go above or below the adjusted gross income line. Do not discuss any income items, exclusions or credits, or any potential deductions other than the listed expenses Jill paid in 2007.