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
      Includes: Interest, taxes, pencils, employees

2. Capital Expenditures—produce significant long-term biz benefits
   --Must depreciate (deduct portion each year)

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