INCOME TAX ACCOUNTING
University of Houston Law Center
Spring 2017

Instructor:

Mark Hoose
mshoose1@gmail.com
626-319-0714

Spring 2017 Class Schedule

Classes will be held weekly from 7:30 pm – 9:30 pm. To the extent it is necessary to cancel a class, an announcement will be sent out via email to all students in the class.

Jan. 19, 2017	First class
Jan. 26, 2017	
Feb. 2, 2017	
Feb. 9, 2017	
Feb. 16, 2017	
Feb. 23, 2017	
Mar. 2, 2017	
Mar. 9, 2017	
Mar. 16, 2017	***No class – Spring Break***
Mar. 23, 2017	
Mar. 30, 2017	
Apr. 6, 2017	
Apr. 13, 2017	
Apr. 20, 2017	
April 27, 2017	Last class

Class Format & Final Exam

Each class will be a mixed format of a lecture covering fundamental principles as well as a (hopefully interactive) discussion based on various fact patterns of the topics outlined in the syllabus.

The final exam for the class will be on **Saturday, May 6, 2017 from 9-11 a.m.** It will be a two (2) hour, open book exam. A student who does not complete a final exam will not be eligible to pass the course.

Course Materials and Additional Resources

The reading and reference materials for this course are listed in the attached syllabus. Please note that some items are marked as required reading while other items are denoted as optional reading material. An optional, additional resource is the WG&L treatise *Federal Tax Accounting* by Stephen F. Gertzman.

Attendance Policy

The Law Center has a minimum 80% attendance policy for students. Any student who attends fewer than the minimum percentage of classes may be dropped from the class.

Syllabus:

I. Introduction and Overview

II. Methods of Accounting

A. Definition of "Method of Accounting"
B. Requirements governing methods of accounting
C. Discretion in choosing methods of accounting

Required Reading
IRC §446, §448
Treas. Reg. §1.446-1
Hallmark Cards, Inc. v. Commissioner, 90 T.C. 26 (1988). *(skim)*

Optional Material
Underhill v. Commissioner, 45 T.C. 489 (1966).
Tate & Lyle, Inc. v. Commissioner, 103 T.C. 656 (1994).

III. Cash Method

A. General principles of inclusion
B. Constructive receipt
C. Cash equivalency
D. Economic benefit
E. Eligibility for the cash method
F. General principles of deduction

Required Reading
IRC §448, §451(a)
Treas. Reg. §1.451-1(a), §1.451-2
Treas. Reg. §1.448-1 *(skim)*, §1.448-1T *(skim)*

Optional Material
Rev. Rul. 60-31, 1960-1 C.B. 174
Cowden v. Commissioner, 289 F.2d 20 (5th Cir. 1961)
Warren Jones Co. v. Commissioner, 524 F.2d 788 (9th Cir. 1975)
Sproull v. Commissioner, 16 T.C. 244 (1951)

IV. Accrual Method - Income Recognition

A. Introduction
B. Is it income?

Required Reading
IRC §61
Treas. Reg. §1.61 *(skim)*
Commissioner v. Indianapolis Power and Light Co., 493 U.S. 203 (1990)
North American Oil Consolidated v. Burnet, 286 U.S. 417 (1932)

Optional Material
Highland Farms Inc. and Subsidiary v. Commissioner, 106 TC 237
Erickson Post-Acquisition Inc. v. Commissioner, T.C. Memo 2003-218 (July 22, 2003)
Karns Prime & Fancy Foods v. Commissioner, 494 F.3d 404 (July 20, 2007)
Westpac Pacific Food v. Commissioner, 451 F.3d 970 (2006)

Pittsburgh Milk Co. v. Commissioner, 26 TC 707 (1956)
The Seven-Up Company v. Commissioner, 14 T.C. 965 (May 31, 1950)
Freedom Newspapers, Inc. v. Commissioner, T.C. Memo 1977-429 (1977)
Smarthealth Inc. v. Commissioner, T.C. Memo 2001-145 (June 20, 2001)

C. General principles of inclusion

Required Reading
IRC §451(a), §448(d)(5)
Treas. Reg. §1.451-1(a)
Rev. Rul. 74-607, 1974-2 C.B. 149
Hallmark Cards, Inc. v. Commissioner, 90 T.C. 26 (1988).
Rameau A. Johnson, et al. v. Commissioner, 184 F.3d 786 (8th Cir. 1999). *(skim)*
North American Oil Consolidated v. Burnet, 286 U.S. 417 (1932) (*skim*)

Optional Material
Spring City Foundry Co. v. United States, 292 U.S. 182.
Continental Tie & Lumber Co. v. United States, 286 U.S. 290 (1932).

D. Advance payments

Required Reading
IRC §451(a), §448(d)(5)
Treas. Reg. §1.451-1(a), §1.451-5
Schlude v. Commissioner, 372 U.S. 128 (1963) *(skim)*
Artnell v. Commissioner, 400 F.2d 981 (7th Cir. 1968) *(skim)*

Optional Material
Rev. Rul. 2003-10, 2003-1 C.B. 288
Rev. Rul. 79-292, 1979-2 C.B. 287
Rev. Rul. 74-607, 1974-2 C.B. 149
Rev. Proc. 2004-34, 2004-22 I.R.B. 991
Automobile Club of Michigan v. Commissioner, 353 U.S. 180 (1957)
American Automobile Association v. United States, 367 U.S. 687 (1961)
Tampa Bay Devil Rays, Ltd v. Commissioner, TC Memo 2002-248
Boise-Cascade Corp. v. United States, 530 F.2d 1367 (Ct. Cl. 1976)

V. Accrual Method - Deductions

A. General principles of deduction
B. The all-events test
C. Economic performance
D. Exceptions

Required Reading

IRC §461(a), (h) and (f)
Treas. Reg. §1.446-1, §1.461-1, §1.461-4 and §1.461-5
Rev. Rul. 2007-3
United States v. General Dynamics Corp., 481 U.S. 239 (1987) (*skim)*

Optional Material

Rev. Rul. 98-39, 1998-2 C.B. 198
United States v. Hughes Properties, Inc., 476 U.S. 593 (1986)
Ford Motor Co. v. Commissioner, 71 F.3d 209 (1995)
Burnham Corp. v. Commissioner, 878 F.2d 86 (2nd Cir. 1989)

VI. Special Rules Relating to Deductions

A. Capital expense v. ordinary expense
B. Capitalization of tangible property
C. Capitalization of intangible property
D. Miscellaneous deduction principles

Required Reading

IRC §263(a); §263A(a) – (c), (g); skim §195
Treas. Reg. §1.162-4; §1.263(a)-1; skim §1.263(a)-2 and -3; skim §1.263A-1
Treas. Reg. §1.263(a)-4 and -5 *(skim)*

Optional Material

Rev. Rul. 2001-4, 2001-3 I.R.B. 295
Rev. Rul. 94-12, 1994-1 C.B. 36
Rev. Rul. 81-150, 1981-1 C.B. 119
Rev. Proc. 2004-23, 2004-16 I.R.B. 785
Commissioner v. Idaho Power Co., 418 U.S. 1 (1974)
INDOPCO, Inc. v. Commissioner, 503 U.S. 79 (1992)
PNC Bankcorp v. Commissioner, 212 F.3d 822 (3d Cir. 2000)
Wells Fargo & Company v. Commissioner, 224 F.3d 874 (8th Cir. 2001)

VII. Specialized Methods of Accounting & Certain Elective Treatments

A. Depreciation and amortization

Required Reading
IRC §167, §168, §197
Treas. Reg. §1.167(a)-1 through -10 *(skim)*
Rev. Proc. 87-56 (*skim)*
Whiteco Industries Inc. v. Commissioner, 65 T.C. 664 (1975) *(skim)*

Optional Material
Rev. Rul. 89-25, 1989-1 C.B. 79
Rev. Rul. 76-238, 1976-1 C.B.55
Arkla, Inc. v. United States, 765 F.2d 487 (5th Cir. 1985)
Hospital Corporation of America v. Commissioner, 109 T.C. 21 (1997)
Sears Oil Co. v. Commissioner, 359 F.2d 191 (2d Cir. 1966)

B. Treatment of long-term contracts
C. Installment method
D. Certain costs with optional capitalization

Required Reading
IRC §460
IRC §453 (except (h)); skim §453A, skim §453B(a) and (b)
IRC §195
IRC §174

Optional Material
Treas. Reg. §1.460-6
Treas Reg §15a.453-1(a), (b) and (d)
Treas. Reg. §1.195-1T
Treas. Reg. §1.174-1, -2

VIII. Inventories

A. General principles
B. Inventory costing
C. Write-down of ending inventory

Required Reading
IRC §471
Treas. Reg. §1.61-3(a), skim §1.471-1 through -4

Optional Material
Rev. Proc. 2001-10, 2001-2 I.R.B. 272
Rev. Proc. 2002-28, 2002-18 I.R.B. 815
J.P. Sheahan Associates, Inc. v. Commissioner, TC Memo 1992-239
Galedridge Construction, Inc. v. Commissioner, TC Memo 1997-485
Smith v. Commissioner, TC Memo 2000-353

D. Dollar-value LIFO
E. Pooling
F. Conformity

<u>Required Reading</u>
IRC §472
Treas. Reg. §1.472-1 through -8 *(skim)*

<u>Optional Material</u>
Rev. Rul. 79-188, 1979-1 C.B. 191
Rev. Rul. 86-149, 1986-2 C.B. 67

IX. Change of Accounting Method and Accounting Periods

A. Change of Accounting Method

a. Definition
b. Correction of error distinguished
c. Procedures for change
d. Section 481 adjustment

<u>Required Reading</u>
IRC §446(e), §481(a) and (c)
Treas. Reg. §1.446-1(e), §1.481-1
Rev. Proc. 97-27, 1997-1 C.B. 680 (*skim)*
Rev. Proc. 2006-29 (skim)

<u>Optional Material</u>
Rev. Rul. 79-188, 1979-1 C.B. 191
Rev. Rul. 86-149, 1986-2 C.B. 67
Rev. Rul. 90-38, 1990-1 C.B. 57
<u>Diebold Inc. v. US</u>, 891 F.2d 1579 (Fed. Cir. 1990)
<u>National Bank of Fort Benning v. US</u>, 79-2 USTC 9627
<u>Decision, Inc. v. Commissioner</u>, 47 T.C. 58 (1966)

B. Accounting Periods

a. General rules for taxable years
b. Required taxable years for certain entities
c. Election of taxable year other than required taxable year
d. Adoption and change of taxable year
e. Short period returns

<u>Required Reading</u>
IRC §441 (except (h)), §442, §443, §706(b), §1378 (*skim)*
Treas. Reg. §1.441-1, §1.442-1(a) through (c), §1.706-1, §1.1378-1 *(skim)*

<u>Optional Material</u>
<u>Burnet v. Sanford & Brooks Co.,</u> 282 U.S. 359 (1931)

X. IRS Focus on Accounting Methods Issues