

# 2016 NATIONAL INCOME TAX WORKBOOK™

Editor

*Lori B. Miller*

Associate Editor

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Assistant Editor

*Nina S. Collum*



**Land Grant University Tax Education Foundation, Inc.**

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## 2016 National Income Tax Workbook™

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Corrections for all chapters and the *2016 National Income Tax Workbook Update* (January 2017) are posted as they become available at [www.taxworkbook.com](http://www.taxworkbook.com) (user name: class2016; password: class2016).



**Our Tribute to  
Linda E. Curry  
July 15, 1949–July 13, 2016**

The quality of this book is due in no small part to the tireless work of Linda Sue (Ethridge) Curry. She was uniquely qualified for this work. She began her career by working for more than a decade on the copy desk of the *Evansville* [Indiana] *Courier*, where she honed her writing and editing skills. She then worked for the IRS for 22 years and retired as a senior tax specialist in 2005. While working for the IRS, she was an instructor for the Purdue University Income Tax Schools and began reviewing, writing chapters for, and editing this book, which is the text for those schools. Other chapter authors were amazed at how much her editing improved their writing. By example, she taught all of us who worked with her how to write concisely and clearly in language that made complex tax rules easier to understand. The book took on her style of writing, which is the reason many readers have noted that the book appears to be written by one author even though many authors contribute to it each year.

Linda's technical understanding of federal tax law matched her legendary ability to edit and write. She not only learned on the job at the IRS but also went back to school to earn a master's degree in accountancy, with an emphasis on federal taxation, from the IUPUI Kelley School of Business. She was a respected national expert on a broad range of federal income tax law. After retiring from the IRS, she continued to edit this book; write other tax publications; and teach professional education seminars for tax practitioners throughout the United States, Germany, Austria, and Russia. She became an enrolled agent and taught tax research courses at IUPUI in Indianapolis. Linda spent her career making tax law understandable for both IRS employees and taxpayers.

The second of seven children of James and Lois Ethridge, Linda was born in Detroit but grew up in Evansville, Indiana, where she was valedictorian of Central High School's class of 1967. A National Merit Scholar, she earned a bachelor's degree in education from Indiana University and later her master's degree in accounting from IUPUI.

She faced the cancer that was first diagnosed in 2010 and recurred in 2014 with the same courage and determination that she brought to everything in life. Until recently, she frequently drove to Evansville to see her mother and to Alabama to attend her 8-year-old grandson's plays and other activities. She also continued to help care for her 5-year-old granddaughter in Indianapolis. Linda's life and death were defined by her courage, determination, and selfless love for her family and friends.

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## INTRODUCTION

New tax laws enacted in 2015 and in 2016 impact individual and business taxpayers.

- The “Ethics” chapter reviews the new due diligence requirements for tax practitioners. It explains the key components of a representation letter and a conflict of interest waiver. It details the obligation to safeguard data and explains how to develop a data security plan.
- The “Related Party Issues” chapter explains loss limitations; expensing limits; and other income timing, recognition, and characterization rules that apply to transactions between related parties.
- The “Retirement Issues” chapter compares various types of retirement plans for a small business. It explains back-door and self-directed IRAs. It also discusses taxation of social security benefits and how income, life expectancy, and other factors help determine when to start taking benefits.
- The “Death of the Taxpayer” chapter explains how outdated estate plans may have unintended income tax consequences. It reviews the income tax filing requirements for an estate and discusses how to calculate the tax on the transfer of a life estate or joint tenancy property.
- The “Affordable Care Act” chapter focuses on reporting and coverage requirements for small businesses and new rules resulting from inflation adjustments and issuance of IRS guidance.
- The “Individual Issues” chapter details the tax rules applicable to Amish and Mennonite taxpayers, ministers, and household caregivers, and it explores the tax on crowdfunding and fantasy sports income.
- The domestic production activities deduction benefits taxpayers engaged in construction, agriculture, mining, and other production activities. The “Domestic Production Activities Deduction” chapter describes who can claim the deduction and how the deduction is computed.
- The “IRS Issues” chapter describes how to order a transcript, transfer the location of an audit, and detect and report identity theft.
- The “Business Issues” chapter provides updates to the tangible property regulations and looks at the applicability of those regulations for taxpayers who own rental property.
- The “Agricultural and Natural Resource Issues” chapter discusses taxation of easements and CRP payments and the new rules for bonus depreciation on trees and vines and deductions for food inventory.
- The “Penalties and Defenses” chapter explains common penalties, and more importantly, it details the defenses that a taxpayer can assert to abate or eliminate each penalty.
- The “Business Entity Issues” chapter discusses the new partnership audit regime and proposed regulations under I.R.C. § 751(b). It also includes new procedures for filing applications for tax-exempt status, and it reviews S corporation fringe benefits and the built-in gains tax.
- The “Foreign Tax Issues” chapter looks at reporting and withholding obligations that impact US taxpayers with income or assets abroad, or foreign individuals with US income or assets.
- The “New and Expiring Legislation” chapter discusses higher reporting penalties; new filing and reporting due dates; reinstated individual tax credits, and cost recovery deductions; and numerous business credits that have been reinstated, extended, modified, or made permanent.
- The “Tax Rates and Useful Tables” chapter provides a quick reference for the 2015, 2016, and 2017 tax years (to the extent that 2017 information is available).
- The “Financial Distress” chapter explains when to recognize cancellation-of-debt income, and key exclusions that in most cases defer recognition of that income. It also reviews the deduction for business bad debts and when a lender must report a discharge of indebtedness.
- As always, the “Rulings and Cases” chapter summarizes court cases, new regulations, and IRS pronouncements that have been published since the 2015 book.

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Lori B. Miller, JD, LL.M. in taxation, is an attorney in Whitefish, Montana. She is also licensed to practice in California and Washington. Her legal practice emphasizes tax law, estate planning, and business law. She was the associate editor of the *2015 National Income Tax Workbook* and is the lead editor of the *2016 National Income Tax Workbook*. She wrote the “Ethics” chapter and coauthored a number of other chapters in the book.

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Philip E. Harris is an emeritus professor in the Department of Agricultural and Applied Economics at the University of Wisconsin-Madison/Extension where he researched and taught farm tax and business planning. Phil coauthored chapters of the Farm Income Tax Workbook from 1980 through 1998, when he became the lead author and editor of that book. He was the lead author and editor of the *National Income Tax Workbook* from 2002 through 2015. Phil wrote the “Financial Distress” chapter of the *2016 National Income Tax Workbook*.

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