

COLLEGE OF MICRONESIA - FSM
P.O. Box 159, Pohnpei FM 96941
COURSE OUTLINE COVER PAGE

Taxation
Course Title

AC330
**Department and
Number**

COURSE DESCRIPTION

This is a one-semester first tax course aimed at introducing students to a wide range of tax concepts and types of taxpayers. While the course mainly focuses on the taxation of business entities in both the United States and in the Federated States of Micronesia, it also covers individual taxation in the two countries - individuals as proprietors, shareholders, or partners in business entities, and as employees.

Course Prepared by:	Division of Business Administration	State	COM-FSM National Campus
	Hours per Week	No. of Week	Total Hours
Lecture	<u>3</u>	x <u>16</u>	x <u>48/16</u> = <u>3</u>
Laboratory	<u> </u>	x <u> </u>	x <u> </u> = <u> </u>
Workshop	<u> </u>	x <u> </u>	x <u> </u> = <u> </u>
			Total Semester Credits 3

Purpose of Course: Degree Requirement
Degree Elective
Certificate
Other

Prerequisite Course(s): AC220-Accounting
IIAC250-Managerial Accounting

SPENSIN JAMES (SGD)
Signature, Chairperson, Curriculum Committee

5/23/02
Date Approved

Michael Tatum (SGD)
Signature, President, COM-FSM

5/28/02
Date Approved

A: GENERAL OBJECTIVES:

This course mainly focuses on the taxation of business entities in the United States and in the Federated States of Micronesia. It also covers individual taxation in the two countries- individuals as proprietors, shareholders, or partners in business entities; as employees; or property owners. Generally, the course is expected to:

- 1) introduce students to a wide range of tax concepts and types of tax payers.
- 2) Provide students with a knowledge of the interrelationship and differences between financial accounting and tax accounting.
- 3) Give the student a better understanding of the country's revenue system.
- 4) Create an appreciation of the role of taxation in the development of FSM.
- 5) Expose the student to professional standards and ethics.

B: SPECIFIC OBJECTIVES:

By the end of the course, the student will be able to:

Unit 1: Introduction of Taxation

1. Explain the components of a tax.
2. Identify the various taxes affecting business enterprises.
3. Relate some of the history of the Federal income tax.
4. Recall the basic tax formula for individual and taxable business entities.
5. Explain the relationship between entities and their owners.
6. Apply a simplified model of tax planning.
7. Identify the economic, social, equity and political considerations that underlie the tax system.
8. Describe the role played by the IRS and the courts in the evolution of the Federal tax system.

Unit 2: The Tax Law

1. Identify the statutory, administrative, and judicial sources of the tax law and the purpose of each source.
2. Locate the tax law and explain the tax research process.
3. Communicate the results of the tax process in a client letter and a tax file memorandum.
4. Have an awareness of computer-assisted tax research.

Unit 3: Gross Income

1. Explain the concepts of gross income and realization and distinguish between the economic, accounting and tax concepts of gross income.
2. Appropriately apply the cash, accrual and hybrid methods of accounting.
3. Identify who should pay the tax on an item of income.
4. Apply the Internal Revenue Code provisions on loans made at below-market interest rates.
5. Determine the extent to which receipts can be excluded under the tax benefit rule.
6. Identify items that can be excluded from gross income under Statutory Authority (IRS code) provisions.
7. Describe the circumstances under which income must be reported from the discharge of indebtedness.
8. Describe the tax consequences of property transactions.

Unit 4: Business Deductions

1. Explain the meaning and application of the ordinary, necessary and reasonableness requirements for the deduction of business expenses.
2. Describe the cash and accrual methods of accounting for business deductions.
3. Apply a variety of Internal Revenue Code deduction disallowance provisions.
4. Explain the limitations applicable to the charitable contribution deduction for corporations.
5. Recognize and apply the alternative tax treatments for research and experimental expenditures.

6. Determine the amount of cost recovery under MACRS, and apply the 179 expensing election and the deduction limitations on listed property and automobiles when making the MACRS calculations.
7. Identify intangible assets that are eligible for amortization and calculate the amount of the deduction.
8. Determine the amount of depletion expense.

Unit 5: Losses and Loss Limitations

1. Determine the amount, classification and timing of the bad debt deduction.
2. Explain the tax treatment of worthless securities including 1224 stock.
3. Identify a casualty and determine the amount, classification and timing of casualty and theft losses.
4. Assess the impact of the net operating loss carry back and carryover provisions.
5. Discuss tax shelters and the reasons for at-risk and passive loss limitations.
6. Describe how the at-risk limitation and the passive loss rules limit deductions for losses and identify tax payers subject to these restrictions.
7. Discuss and apply the definitions of activity, material participation and rental activity under the passive loss rules.
8. Discuss the relationship between at-risk and passive activity limitations.

Unit 6: Accounting Periods and Methods

1. Explain the relevance of the accounting period concept, the different types of accounting periods and the limitations in their use.
2. Outline the procedure for changing accounting methods.
3. Determine when the installment method of accounting can be used and apply the related calculation techniques.
4. Apply the alternative methods of accounting for long-term contracts (the completed contract method and the percentage of completion method).

Unit 7: Corporations: Organization, Capital Structure, and Operating Rules

1. Identify the tax consequences of incorporating and transferring assets to controlled corporations.
2. Outline the special rules that apply when a corporation assumes a shareholder's liability.
3. Describe the tax aspects of the capital structure of a corporation.
4. Explain the tax differences between debt and equity corporations.
5. Identify the tax regulations unique to corporations.
6. Compute the corporate income tax.
7. Explain the tax rules unique to multiple corporations.
8. Describe the reporting process for corporations.

Unit 8: Corporations: Earnings & Profits and Dividend Distributions

1. Explain the role that earnings and profits play in determining the tax treatment of distributions.
2. Compute a corporation's earnings and profits.
3. Apply the rules for allocating earnings and profits to distributions.
4. Explain the tax impact of property dividends on the recipient shareholder and the corporation making the distribution.
5. Describe the nature and treatment of constructive dividends.
6. Distinguish between taxable treatment of stock redemptions.
7. Discuss the tax treatment of stock redemptions.

Unit 9: Partnership and Limited Liabilities Entities

1. Discuss governing principles and theories of partnership taxation.
2. Describe the tax effects of forming a partnership with cash and property contributions.
3. Examine the tax treatment of expenditure of a newly formed partnership and identify elections available to the partnership.

4. Calculate partnership taxable income and describe how partnership items affect a partner's income tax return.
5. Determine a partner's basis in the partnership's interest.
6. Describe the limitations in deducting partnership losses.
7. Describe the application of partnership tax law provisions to limited liability companies (LLC) and limited liability partnerships (LLPs).

Unit 10: Comparative Forms of Doing Business

1. Identify the principal legal and tax forms for conducting a business.
2. Identify techniques for avoiding double taxation, including the S corporation.
3. Describe and apply the conduit and entity concepts as they affect operations, capital changes, and distributions.
4. Analyze the effects of the disposition of a business on the owners and the entity for each of the forms for conducting a business.

Unit 11: Taxation of Individuals

1. Apply the components of the Federal income tax formula for individuals.
2. Apply the rules for arriving at personal and dependency exemptions.
3. Determine the tax liability of individuals using the proper methods.
4. Identify specific inclusions and exclusions applicable to individuals.
5. Outline filing requirements and proper filing status.
6. Determine an individual's allowable itemized deductions and credits.

Unit 12: Individuals as Employees and Proprietors

1. Distinguish between employee and self-employed status.
2. Identify the exclusions from income available to employees who receive fringe benefits.
3. Apply the rules for computing deductible expenses of employees.
4. Differentiate between accountable and non-accountable employee plans.
5. State the tax provisions applicable to proprietors.
6. Distinguish between business and hobby activities and apply the rules limiting the deduction of hobby losses.

Unit 13: FSM Taxation

1. Explain the need for a sound internal revenue system in FSM.
2. Identify taxable income.
3. Accurately compute FSM individual and business taxes.
4. Demonstrate an in-depth understanding of the country's revenue system.
5. Describe the role of taxation in the country's development.

C: COURSE CONTENT:

Introduction to Taxation of Business & Individuals

The Tax Law

Gross Income

Business Deductions

Losses and Loss Limitations

Accounting Periods and Methods

Corporations: Organization; Capital Structure; Operating Rules; Earning & Profits; Dividend Distributions

Partnerships and Limited Liability Entities

Comparative Forms of Doing Business

Individuals as Employees and Proprietors

FSM Taxation

D: TEXTBOOK:

*West Federal Taxation: An Introduction to Business Entities, 2002 Edition, by Smith, Raabe and Maloney. South-Western Publishing: Cincinnati, 2002.**

Students may be required to purchase supplemental materials, particularly on FSM taxation, if not provided by the instructor.

E: REQUIRED COURSE MATERIALS:

Calculator, Notebook, Pencil

F: METHODS OF INSTRUCTION:

Lecture, class discussions, projects, guest speakers, and various individual and group assignments.

G: EVALUATION:

Grades will be assigned based in the following percentage of total points received from projects, quizzes, homework practice sets, and exams.

90-100% = A; 80-89% = B; 70-79% = C; 60-69% = D; 59 and below = F

H: CREDIT BY EXAMINATION AVAILABLE FOR THE COURSE:

None.

I: ATTENDANCE POLICY:

The College attendance policy shall be applied.

* The dynamic nature of the subject (taxation) will necessitate textbook changes or updates every two years or so!