I. Introduction
   a. Computation – see chart
   b. Statutory Interpretation ➔ cross references, statutory definition (locally [same section] & globally [§7701 following]), common usage if no definition
   c. Tax Policy
      i. Assignment of Income Doctrine ➔ the person taxed should be the person who has real control and benefits from the income
      ii. Progressive Rate Schedule – Encouraging Productivity (Other Options: Flat Tax, Regressive Tax, Proportional Tax)
      iii. Economic Neutrality ➔ tax law should interfere as little as possible with economic decision-making
      iv. Fairness ➔ specifically, vertical equity – persons in different circumstances should be treated differently
      v. Gov’t Exclusion - §115 - Public Utility or Essential [Necessary] Governmental Function

II. Income in Kind & Imputed Income
   a. Economically Equivalent Transactions – substance over form [Old Colony Trust][§164/§275 – deduction for state and local taxes, not federal]
   b. Convenience of the Employer Doctrine – [Benaglia – absolutely essential as a matter of business necessity, focus on restraint of consumption] [§119/Kowalski – must be furnished by the employer]
   c. Expenses-Avoided Standard – Turner dissent
   d. To include deduction, expense must be included in income [Haverly]
   e. Other Expense Provisions - §107 (parsonage), §32 (fringe benefits)
   f. Imputed Income ➔ Owner-Occupied Housing; Household Services [§21, §1-61(d)(1)]

III. Compensation for Loss & Return of Capital
   a. Damage Payments
      i. Third-party payment of TP liability is income (Old Colony), UNLESS third party caused liability (Clark)
      ii. Raytheon Replacement Rule – Damages are taxed as what they replace would be taxed
      iii. Punitive damages (windfalls) are taxable (Glenshaw Glass) – “manna from heaven"
      iv. Others: After-Tax Proceeds – nontaxable, Imputed Income – nontaxable, §104(a) – exclusion for physical injuries (not emotional)
   b. Previously Deducted Losses
      i. Types of losses: NOL, loss on sale of property, casualty loss
      ii. Annual Accounting Period - §441 (Sanford & Brooks – practical revenue source, framers’ intent)
      iii. Tax-Benefit Rule (Dobson)
         1. Inclusionary Side – exclusion on TP liability is income, but not if (1) it is not in-kind, (2) the person tax-free, (3) the person who receives the income is a TP who is not in control of the person who has real control
   c. Life Insurance ➔ see chart; §104, §105, §106, §213 [policy – tax incentive for health plans, too much coverage]
      i. Havey Test for §213 – motive, doctor’s advice, relation b/t illness & treatment, proximity in time of treatment to illness
      ii. Ocha’s Alternatives to Havey Test – Direct v. Indirect Test, Doctor’s Orders, “But/For” Causation (It’s purpose), Custom or Convention, Sort Relative Benefits/Effects
   d. Annuities [Methods ➔ ROC first, front-load ROC, pro-rata ROC, back-load ROC, ROC last]
      i. Term-Certain v. Life Annuities
      ii. §72 – Pro-Rata Exclusion (exclusion ratio = investment in K/expected return)
   e. Life Insurance ➔ If proceeds are taxable, than premiums should be tax-free (and the reverse)
      i. Wage substitute – tax-like compensation, Household Service substitute – nontaxable income, Bequest substitute – tax-free gift
      ii. §101 (reality) – applicable to death benefits (otherwise §72), excludes proceeds, but not premiums

V. Realization & Recognition
   a. Eisner v. Macomber (stock dividends)[§305(a)] – realization doctrine
   b. Time Value of Money – Rule of 72
   c. Helvering v. Braun (leasehold improvements) [§109/§1019] – realization occurs when capital is separated from risks of underlying investment
   d. Like-Kind Exchanges [§1031]: real estate for real estate (always like kind), real estate for personal property (generally never like kind), personal property for personal property (§1.1031-2 same depreciation class)
      i. Involuntary Conversion - §1033 (“Similar or related in service or use”)
      ii. §1221 exclusion – principal residence ($250K limit)
      iii. Cottage Savings - §1001 “materially different” standard means “legal entitlements are different in kind or extent”
   e. Losses & Nonrecognition - §267 – related parties, §1091 – wash sales

VI. Receipts Subject to Offsetting Liabilities
   a. §661(a)(12) – loan proceeds are not taxable
   b. Discharge of indebtedness is taxable (Kirby Lumber); Insolvency Exception (§108)
   c. Gambling Losses – [Zarin][§165(d)] settlement of large gambling debt implies prior informal understanding
   d. Claim of Right Doctrine [§1341] – TP who has possession of income is taxed despite ongoing dispute
e. Nonrecourse Loans → value of mortgage included in basis, even if nonrecourse (Crane); this is true even if FMV of property is less than the loan amount (Tufts, §7701(g))

VII. Gifts
a. Econ. definition of wealth: \( Y = C + \Delta W \) (income = consumption + change in wealth)
b. §102 – donee deduction (tax the donor, not the donee)
c. §170 – charitable contributions deduction
d. §1014 – bequest, §1015 – inter vivos gift [transferred basis rule]
e. §273 – interest gifts shall not be depreciated
f. Gifts in Kind – tax the donor earlier, tax the donee later, tax neither at time of gift
g. Message of alternative basis rule → cannot shift loss deductions by making gift of depreciated property
h. Business Gifts – gift determination is the province of the fact-finder, “detached and disinterested” state of mind (Duberstein); §274 – bars business expense deduction for gifts

VIII. Marriage Settlement
a. §1041 – Nonrecognition of spousal transfers (property in kind)
b. §71 – alimony payments are income to payee [TP is given unilateral election of who should pay tax, election of divorcing parties]; §215 – alimony payments are deductible for payor
c. Child Support Payments - §71(c) says child support shall not be treated as alimony; child support payments are not deductible by the payor or included by the payee

IX. Business Expenses
a. §162 – “ordinary and necessary” (Welch v. Helvering)
   i. necessary – appropriate and helpful, but not essential
   ii. ordinary – common or typical in the business world
b. Educational Expenses
   i. Skills Maintenance - §162(a) deduction
   ii. New Skill Set - §263 non-deductible
   iii. Non-business Related - §262 personal expense
c. Tellier → public policy disallowance; Congress responded by saying §162 requires only legislative disapprovals
d. Capital Expenditures §263 – All that matters is whether the expenditure will extend the economic life of the property, no the physical life of the property (Mt. Morris Drive-In).

e. Distinction b/t §162 and §263 (Idaho Power – assets and improvements have to capitalized)
f. Mixed Business & Personal Expenses –Does the expense make someone a more valuable employee/advance the business or adjust the TP’s personal situation to allow him or her to work? (Henry Smith)
   i. Uniforms – If adaptable to personal use, not deductible (Pevsner)
   ii. Travel - §162(a)(2), §274 partial disallowance rule (50% disallowance on meals) (Old Colony substance over form)
   iii. Legal Expenses - §212 is governed by origin of the claim test; source of the expense, not the consequences (Gilmore) [Raytheon governs recipient; Gilmore governs payor]