

# Tax Research Methodology

## Chapter Outline

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## Learning Objectives

- **Recognize the importance of a systematic approach to tax research.**
- **Delineate and elaborate on the steps of the tax research process.**
- **Appreciate the importance of gathering pertinent facts and identifying research issues.**
- **Discuss the sources of the Federal tax law.**
- **Identify how computer resources affect the conduct of tax research.**

**T**AX RESEARCH IS THE process undertaken to answer taxation questions relevant to the researcher's needs. The tax research process is a multistep process, which includes an algorithm discussed in this chapter. The tax researcher should become efficient at tax research since these professional services can be very expensive for the client, or the time spent on research can take away valuable time that could be used for other activities of the tax practitioner. Unnecessary time spent doing tax research could be used by the tax practitioner to produce additional tax revenue, or to give him or her additional personal time for other activities.



## SPOTLIGHT ON TAXATION

### The Complexity of Taxation

The complexity of the tax system (and thus tax research) can be shown in a quote related from Pam Olson, the Treasury's Assistant Secretary for Tax Policy. When speaking to a group of tax specialists, she quoted an e-mail sent to her by a tax attorney, who said:

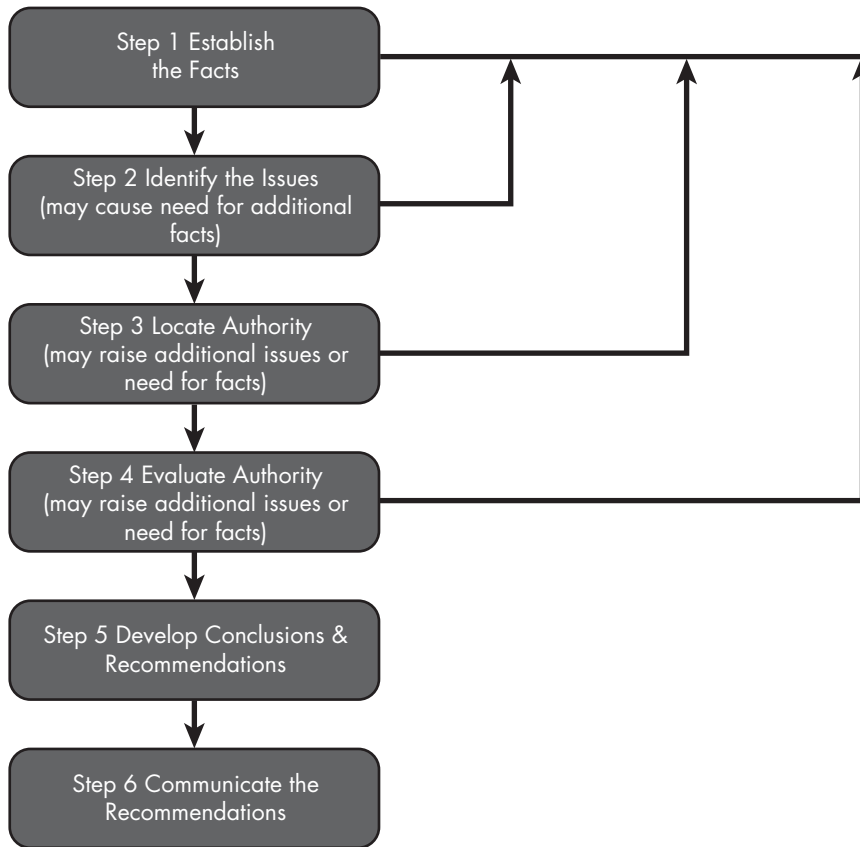
*It is difficult to predict the future of an economy in which it takes more brains to figure out the tax on our income than it does to earn it.*

The tax research process is similar to that of traditional legal research. The researcher must find authority, evaluate the usefulness of that authority, and apply the results of the research to a specific situation. One can identify two essential tax research skills. The first is the ability to use certain mechanical techniques to identify and locate the tax authorities that relate to solving a problem. The second entails a combination of reasoning and creativity and is more difficult to learn. A tax researcher must begin with native intelligence and imagination and add training and experience properly to apply the information found. Creativity is necessary to explore the relevant relationships among the circumstances and problems at hand to find a satisfying (and defensible) solution. In many cases, no legal authority will exist that is directly on point for the problem. If such a situation exists, the researcher must combine seemingly unrelated facts, ideas (including those that he or she has derived from previous research work), and legal authority to arrive at a truly novel conclusion. This creative ability of the researcher often spells the difference between success and failure in the research process.

## OUTLINE OF THE TAX RESEARCH PROCESS

As the tax problems of the client become more significant, the related tax research can become time consuming and thus expensive to the client. A moderate tax research problem often takes up to eight or ten hours of research time, and the bill for these services may approach or even exceed \$5,000. Because of the costs that are involved, the tax researcher must work as efficiently as possible to obtain the solution to the client's problem. The researcher needs a framework for the research process, so that he or she does not waste time and effort in arriving at a solution to the problem.

The tax research process can be broken down into six major steps (Exhibit 2-1). Tax researchers (especially those without a substantial amount of experience at the task) must approach the resolution of a tax problem in a structured manner, so that the analysis of the problem will be thorough and the solution complete.

**Exhibit 2-1: Steps in the Tax Research Process**

### Step 1: Establish the Facts

All tax research begins with an evaluation of the client’s factual situation. To find the solution to a problem, the researcher must understand fully all of the facts that could affect the related tax outcome. Many beginning tax researchers make the mistake of attempting to research a problem before they completely understand all of the relevant facts and circumstances.

Moreover, a tax researcher may approach the tax research process so rigidly that he or she ignores new factual questions that arise during the other steps of the research task. The tax researcher may engage in several rounds of fact gathering, including those necessitated by additional tax questions that arise as he or she is searching for or evaluating pertinent tax authority. These research “feedback loops” are not endless, although they might seem to be. The best tax researcher is one who can balance the need for efficiency against the need for thoroughness.

Significant tax facts that often influence the client’s situation include:

- the client’s tax entity, for example, individual, corporation, trust;
- the client’s family status and stability;
- the client’s past, present, and projected marginal tax rates;

- the client's place of legal domicile and citizenship;
- the client's motivation for the transaction;
- relationships among the client and other parties who are involved in the transaction;
- whether special tax rules apply to the taxpayer due to the type of business in which the taxpayer is engaged (he or she is a farmer, fisherman, or long-term contractor); and,
- whether the transaction is proposed or completed.

Fact gathering can present many practical problems for the researcher. Often, the client will (wittingly or not) omit information that is vital to a solution. He or she may not believe that the information is important or may have personal reasons for not conveying the information to the practitioner. In such cases, the researcher must persist until all of the available information is known. In some cases, facts that initially appear to be irrelevant may prove to be important as the research project progresses. The researcher, therefore, should pay attention to and record all details that the client discloses. Efficient tax research cannot be completed until the factual situation is clear; without all of the facts at hand, the researcher could make costly false starts that, when additional pertinent facts become known, must be discarded or redone, often at the client's (or, worse, at the researcher's) expense.

In gathering facts relative to a research problem, the researcher also must be aware of the nontax considerations that are pertinent to the client's situation. For example, the client may have economic constraints (such as cash flow problems) that could preclude the implementation of certain solutions. In addition, the client may have personal preferences that will not accommodate the best tax solution to the problem. For instance, assume that the client could reduce his own income and estate tax liability by making a series of gifts to his grandchildren. However, because the client does not trust the financial judgment of the grandchildren, he does not want to make any such gifts to them during his lifetime. Accordingly, the researcher must look for alternative methods by which to reduce the client's total family tax burden.

## Step 2: Identify the Issues

A combination of education, training, and experience is necessary to enable the researcher to identify successfully all of the issues with respect to a tax problem. In some situations, this step can be the most difficult element of a tax research problem.

Issues in a closed-fact tax research problem often arise from a conflict with the IRS. In such a case, one can easily ascertain the issue(s). Research of this nature usually consists of finding support for an action that the client has already taken.

In most research projects, however, the researcher must develop the list of issues. Research issues can be divided into two major categories, namely, fact issues and law issues. **Fact issues** are concerned with information having an objective reality, such as the dates of transactions, the amounts involved in an exchange, reasonableness, intent, and purpose. **Law issues** arise when the facts are well established, but it is not clear which portion of the tax law applies to the issue. The application of the law might not be clear because of an apparent conflict among code sections, because a genuine uncertainty as to the meaning of a term as used in the *Internal Revenue Code* may exist, or because there are no provisions in the law that deal directly with the transaction at hand.

When undertaking a research project where the issue may end up being challenged in court, the researcher must be sure to address all of the issues in the tax return. The legal concept of *collateral estoppel* bars relitigation on the same facts or the same issues. Therefore, the practitioner must make sure that his or her case is researched fully, and that no issues that could be resolved in the client's favor have been overlooked. If such an issue is not addressed in the original case, it may be lost forever.

In many situations, a research project may encompass several tax years. The researcher must be aware of any fact or law changes that occur during the period that might affect the results of the research project. The pertinent facts or law may be subject to changes that will cause the researcher to arrive at different conclusions and recommendations, depending on the tax year involved. Seemingly simple situations can often generate many tax research issues. In the process of identifying tax issues, the researcher might discover that additional facts are necessary to provide sufficient answers for the new questions. The taxpayer in the following example is used to illustrate the potential for complexities in merely identifying tax research issues.

**Example 2-1** The KML Medical Group of Houston would like to hire a new physician from Atlanta. However, the new physician owns a home in Georgia on which she will sustain a loss if it is sold in the current housing market. KML approached the Happy Care Hospital, the institution at which the group practices, and asked whether they would reimburse the new physician for the loss to facilitate her move to Texas. The hospital agreed to reimburse the physician this year for her \$20,000 realized loss.

A tax researcher might address or clarify at least the following issues in making recommendations concerning tax treatment of the reimbursement.

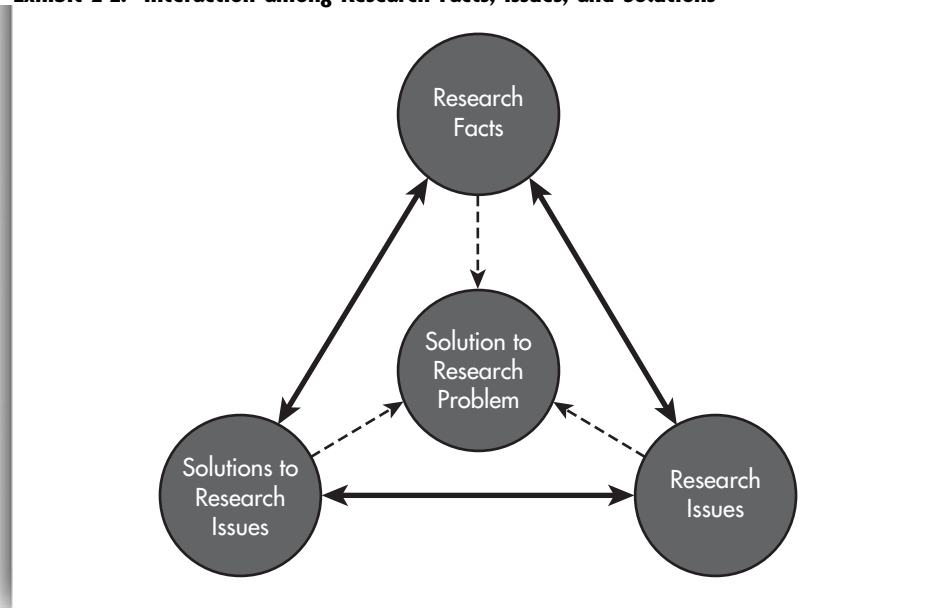
- Why did the hospital reimburse the physician?
- Is there any parent-subsidiary relationship between the hospital and the KML Medical Group?
- Do any members of the KML Medical Group have an equity or debt interest in the hospital?
- Does the reimbursement constitute gross income to the physician?
- If the reimbursement does constitute gross income to the physician, is it treated as active, passive, or investment income?
- Is the new physician classified as an employee of the hospital?
- Should the hospital report the payment to the physician on a Form 1099 or W-2?
- Should the hospital withhold any income or FICA tax on the reimbursement?
- Can the hospital deduct the reimbursement as a trade or business expense?
- Should the physician consider the reimbursement and/or the loss on the sale of her residence in computing her moving expense deduction?
- If the reimbursement is considered gross income to the physician, when should the amount be included in the physician's income?

- Is the reimbursement subject to any restrictions such as the physician's continued employment? For how long?
- Is the reimbursement to the physician considered an additional amount realized on the sale of her residence?
- Can the reimbursement be considered a gift from the hospital to the physician?

Imagine how the question concerning whether the physician's gross income (if any) was ordinary income might lead to further questions concerning her potential employee status, income tax and FICA withholding, and reporting issues.

**Tax Research as an Iterative Process** The process of tax research is iterative in the sense that, once an answer is found, it often causes a new issue to appear and thus requires the gathering of more information. In other words, the tax research process is not strictly linear. This relationship between facts, issues, and answers is illustrated in Exhibit 2-2. The tax research process requires *mechanical skills* and *critical thinking*. Mechanical techniques are gained and sharpened through both knowledge and experience. *Knowledge* is usually gained through education in universities and other formal class work. *Experience* is obtained through working in the field and dealing with real tax problems on a recurring basis. Critical thinking is the hardest skill for the researcher to develop. To some extent, it depends on native ability, but a person can be taught the elements of logical analysis and can learn to watch for common pitfalls in evaluating information. Being able to analyze and solve a problem is something the tax researcher must master if he or she is to earn a living in this field. Knowledge is useless when it cannot be applied to solve the problem at hand. The following example illustrates how both mechanical skills and critical thinking are used to solve a tax research problem.

**Exhibit 2-2: Interaction among Research Facts, Issues, and Solutions**



**Example 2-2** This year, Chris Lee, a client of your CPA firm, sold stock in Slippery Bank (a publicly traded company with a limited market) to Kolpin Corporation for \$100,000. Chris has records that show the stock was acquired ten years ago and has a basis of \$135,000. He personally owns 30 percent of Kolpin Corporation. At first glance, the tax researcher would conclude that Chris would have a capital loss of \$35,000, which would be deductible against his current-year long-term capital gains of \$50,000. This situation appears to be very straightforward. The problem could become complex, though, if someone at the CPA firm asked questions about the other owners of Kolpin. What if Chris's wife, Judy Lee, owns Kolpin stock? The researcher must back up in the research process and gather more facts to determine how many shares she owns.

Suppose Judy Lee owns 25 percent of the Kolpin stock. Now the tax practitioner (you) is faced with new facts and issues; §267 of the *Internal Revenue Code* suggests that the loss might be disallowed. By looking at §267(b)(2), you would find that losses between an individual and a corporation are disallowed if “more than 50 percent in value of the outstanding stock of which is owned directly or indirectly, by or for such individual.” You then need to know what “indirect ownership” is. Looking further in the Code, you would find in §267(c), “An individual shall be considered as owning the stock owned, directly or indirectly, by or for his family.” Finally, in §267(c)(4), you would discover, “The family of an individual shall include only his brother and sisters (whether by whole or half blood), spouse, ancestors, and lineal descendants.”

Armed with this new information, it becomes clear that Chris is a related party to Kolpin Corporation within the meaning of §267. He owns more than 50 percent of the stock, 30 percent directly and 25 percent indirectly through his wife. As a result, the \$35,000 capital loss is not allowed to Chris, and he cannot use it to offset his other capital gains.

### Step 3: Locate Authority

Once facts have been gathered and the issues defined, the tax researcher must locate legal authority that relates to the issue(s). Authority comes from many sources, including Congress, the courts, and the IRS. Since the inception of the 1913 tax law, several hundred thousand pages of such authority have been produced. To solve a given problem, the researcher must find the appropriate authority in this massive amount of information.

In general, tax authority can be classified as either primary or secondary authority. **Primary authority** is an original pronouncement that comes from statutory, administrative, and judicial sources. **Statutory sources** include the U.S. Constitution, tax treaties, and tax laws passed by Congress. Statutory authority is the basis for all tax provisions. The Constitution grants Congress the power to impose and collect taxes, and authorizes the creation of treaties with other countries. The power of Congress to implement and collect taxes is summarized in the *Internal Revenue Code*, the official title of U.S. tax law. The *Internal Revenue Code* constitutes the basis for all tax law and, therefore, the basis for arriving at solutions to all tax questions.

The other primary sources of the tax law, administrative and judicial authority, function primarily to interpret and explain the application of the provisions of the *Internal Revenue Code* and the intent of Congress. **Administrative sources** include the various rulings of the Treasury Department and the IRS. These are issued in the form of Regulations, Revenue Rulings, and other pronouncements. **Judicial**

**sources** consist of the collected rulings of the various courts on Federal tax matters. The primary sources of the tax law will be discussed in detail in Chapters 3, 4, and 5. **Secondary authority** consists of interpretations of primary authority and is an unofficial source of tax information. Examples of secondary authority include tax services, journals, textbooks and treatises, and newsletters. The distinction between primary and secondary sources of authority has become more important since the enactment of §6662, which imposes a penalty on substantial understatements of tax, except where the taxpayer has “substantial authority” for the position taken on the return. The regulations under §6662 specify the sources of “substantial authority” to include the provisions of the *Internal Revenue Code*, temporary and final Regulations, court cases, administrative pronouncements, tax treaties, and congressional intent as reflected in committee reports. This list also includes Proposed Regulations, Private Letter Rulings, Technical Advice Memoranda, Actions on Decisions, General Counsel Memoranda, Information or Press Releases, Notices, and any other similar documents published by the IRS in the *Internal Revenue Bulletin*. Treatises and articles in legal periodicals, however, are not considered substantial authority under this statute.

Secondary authority is useful when conflicting primary authority exists, when there appears to be no extant primary authority, or when the researcher needs an explanation or clarification of the primary authority. During the past fifteen years, as the support staff of government agencies and (especially) federal courts have decreased in number or otherwise become inadequate, more dependence has been placed on the secondary authorities of the tax law, even by the IRS, the Treasury Department, and the court system. The beginning researcher must be careful, though, not to rely too heavily on secondary authority, and always to read any pertinent primary authority that is referred to in the secondary sources.

Because of the vast amount of tax authority that is available, the tax researcher would have a tremendous problem in undertaking a tax research problem for a client if it were not for commercial **tax services** and treatises. Several publishers have produced coordinated sets of reference materials that organize the tax authority into a usable format, making the *Internal Revenue Code* much more accessible. These commercial tax services are useful in that they often provide simplified explanations with footnote citations, as well as examples illustrating the application of the law. These tax services may lead the tax researcher, via the footnote references, to the primary source that is pertinent to the question at hand.

Traditionally, tax services have been classified as either annotated or topical. The annotated services are organized in *Internal Revenue Code* section order, while the topical services are arranged by topic, as defined by the publisher’s editorial staff. However, the use of computers has significantly blurred the differences between the organization of commercial tax services. With hypertext linking, any of the tax services can be used from a Code or topical orientation. Exhibit 2-3 includes a listing of the current major commercial tax services. The tax services are discussed in detail in later chapters.

Court decisions are published in sets of bound volumes called *court reporters*. Examples of publishers and court reporters would include those produced by the Government Printing Office (GPO): *Tax Court of the U.S. Reports*, West Publishing Company: *Federal Reporter*, Research Institute of America (RIA): *American Federal Tax Reports*, and Commerce Clearing House: *United States Tax Cases*. Chapter 5 discusses in detail the means by which to find court cases in these (and other) reporters.



**Exhibit 2-3: Major Tax Services**

<b>Publisher</b>	<b>Title of Tax Service</b>	<b>Orientation</b>
Research Institute of America (RIA)	<i>Tax Coordinator 2d</i>	Topic
Research Institute of America (RIA)	<i>United States Tax Reporter</i>	Code
Commerce Clearing House (CCH)	<i>Standard Federal Tax Reporter</i>	Code
Commerce Clearing House (CCH)	<i>Federal Tax Service</i>	Topic
Bureau of National Affairs (BNA)	<i>Tax Management Portfolios</i>	Topic
West Group	<i>Mertens Law of Federal Income Taxation</i>	Topic

Both CCH and RIA provide “citators” as part of their tax services. A citator is a reference source that enables the researcher to follow the judicial history of court cases. The citators are discussed in detail in Chapter 8. The GPO prints many of the pronouncements of the IRS. The primary publication for IRS authority is in a set of bound volumes titled the *Cumulative Bulletin*. Chapter 4 includes a detailed discussion concerning the use of this authority.

**Tax journals** are another source of information that can be useful to the tax researcher. By reading tax journals, a tax practitioner can become aware of many current problem areas in taxation. She can also increase her awareness of recent developments in the tax law, tax compliance matters, and tax planning techniques and opportunities. Numerous journals, ranging from law reviews to *Cosmopolitan*, publish articles on current tax matters. The tax researcher typically is interested in publications devoted to scholarly and professional discussions of tax matters. Among these publications, each tax journal usually is written for a specific group of readers. Exhibit 2-4 lists several useful tax journals, their publishers, and the target readership of each.

**Exhibit 2-4: Selected Tax Journals**

<b>Journal</b>	<b>Publisher</b>	<b>Target Readership</b>
<i>Journal of Taxation</i>	Warren, Gorham & Lamont—Thomson RIA	Sophisticated tax practitioners
<i>Practical Tax Strategies</i>	Warren, Gorham & Lamont—Thomson RIA	Tax practitioners in general practice
<i>Estate Planning</i>	Warren, Gorham & Lamont—Thomson RIA	Practitioners who are interested in estate and gift tax matters
<i>The Tax Adviser</i>	American Institute of CPAs	Members of AICPA and other tax practitioners
TAXES	Commerce Clearing House	General tax practitioners

### Step 4: Evaluate Authority

After the researcher has located authority that deals with the client's problem, he or she must evaluate the usefulness of that authority. Not all tax authority carries the same precedential value. For example, the Tax Court could hold that an item should be excluded from gross income at the same time that an outstanding IRS Revenue Ruling asserts the item is taxable. The tax researcher must evaluate the two authorities and decide whether to recommend that his or her client report the disputed item.

In the process of evaluating the authority for the issue(s) under research, new issues not previously considered by the researcher may become known. If this is the case, the researcher may be required to gather additional facts, find additional pertinent authority, and evaluate the new issues. This interaction is illustrated in Exhibit 2-1.

### Step 5: Develop Conclusions and Recommendations

After several iterations of the first four steps of the tax research process, the researcher must arrive at his or her conclusions for the tax issues raised. Often, the research will not have resulted in a clear solution to the client's tax problems, perhaps because of unresolved issues of law or incomplete descriptions of the facts. In addition, the personal preferences of the client must also be considered. The "ideal" solution for tax purposes may be entirely impractical because of other factors that are integral to the tax question. In any of these cases, the tax practitioner must use professional judgment in making recommendations based on the conclusions drawn from the tax research process.



#### SPOTLIGHT ON TAXATION

##### Changing a Research Conclusion

The changing nature of a tax research conclusion can be illustrated as follows. When Congress created Roth IRAs, a procedure was set up for taxpayers to convert a regular IRA into a Roth IRA by paying the tax on the conversion over a four-year period. In spite of this, after making the conversion many taxpayers reexamined their tax situation and found that the Roth conversion was not as good a deal as originally thought. In this case, however, there was a way out. The tax law gave taxpayers a "second chance" by allowing them to "recharacterize" the Roth IRA conversion back to a regular IRA (within a certain period). Many taxpayers opted to change their converted Roth IRA back into a regular IRA.

Where unresolved issues exist, the researcher might inform the client about alternative possible outcomes of each disputed transaction and give the best recommendation for each. If the research involved an open-fact situation, the recommendation might detail several alternative courses of future action (e.g., whether to complete the deal, or how to document the intended effects of the transaction). In many cases, the researcher may find it appropriate to present his or her recommendation of the "best" solution from a tax perspective, as well as one or more alternative recommendations that may be much more workable solutions. In any case, the researcher will want to discuss with the client the pros and cons of all reasonable recommendations and the risks associated with each course of action.

## Step 6: Communicate the Recommendations

The final step in the research process is to communicate the results and recommendations of the research. The results of the research effort usually are summarized in a memorandum to the client file and in a letter to the client. Both of these items usually contain a restatement of the pertinent facts, as the researcher understands them, any assumptions the researcher made, the issues addressed, the applicable authority, and the practitioner's recommendations. An example of the structure of a simple tax research memo is shown in Exhibit 2-5. The memorandum to the file usually contains more detail than does the letter to the client.

### Exhibit 2-5: Tax Research Memo Sample Format

Raabe, Whittenburg & Sanders Certified Public Accountants San Francisco, CA	
Relevant Facts:	
Specific Issues:	
Conclusions:	
Support:	
Actions to Be Taken:	
	_____ Discuss with client. Date discussed: _____
	_____ Prepare a memo or letter to the client.
	_____ Explore other fact situations.
	_____ Other action. Describe:
Preparer:	_____
Reviewer:	_____

In any event, the researcher must temper his or her communication of the research results so that it is understandable by the intended reader. For instance, the researcher should use vastly different jargon and citation techniques in preparing an article for the *Journal of Taxation* than in preparing a client memo for a businessperson or layperson who is not sophisticated in tax matters. Chapter 11 provides additional guidelines and formats for client memoranda and other means of delivering the results of one's research. In addition, an excellent web site to help the tax researcher improve his or her written tax communication is <http://www2.gsu.edu/~accert/home.html>.

## OVERVIEW OF COMPUTERIZED TAX RESEARCH

The body of knowledge that encompasses the field of taxation grows at a phenomenal pace. Since 1975, Congress has enacted more than two dozen major tax and revenue bills that have had a significant effect on U.S. taxpayers. In addition, each year hundreds of new Treasury Regulations, court decisions, Revenue and Private Letter Rulings, Revenue Procedures, and Technical Advice Memoranda are issued.

The avalanche of tax-related information is not expected to decrease during the foreseeable future. The abundance of available information, as well as the complexity of the tax laws that have been enacted since 1975, has made it even more difficult and time consuming to conduct thorough and effective research concerning a tax-related issue.

Whenever a diligent tax professional is providing advice or other services to a client, he or she must be cognizant of the latest legislative changes and judicial decisions. Furthermore, he or she must be able to draw upon, and sort through, the vast body of established tax knowledge and to apply statutes and administrative and judicial rulings to the current tax issue.

Most tax professionals conduct a significant portion of their tax research using computer resources. The vast amount of storage available on a computer, coupled with the computer's fast retrieval of information, has made electronic tax research invaluable for the tax profession. The tax practitioner has two chief ways to find computer information for tax research purposes: (1) **online** subscription systems and (2) online free (nonsubscription) **Internet** sites.

Computerized tax online services are accessible through the Internet and several public telecommunications networks. The materials that are available with these services are contained in databases that are stored at centralized computer locations. These databases may be accessed from remote locations with the use of a variety of compatible video display terminals and keyboards. Usually, they can be accessed via compatible handheld devices and computers that the user already owns. Some popular computer subscription systems are shown in Exhibit 2-6, and examples of online free Internet sites are shown in Exhibit 2-7.

Electronic online tax research systems are relatively simple to operate. Normally, the user will have no trouble utilizing the system after he or she has devised an effective search command or query. Once the user is satisfied with the composition of his or her search query in an online system, it is transmitted over the Internet or a commercial network to a central computer, where it is processed and documents are identified that satisfy the search request. The text of the retrieved documents is then transmitted to the user and displayed for reading, printing, or saving. After the documents are received, the user must evaluate them and decide whether further research is required. As in using the tax research methodology

**Exhibit 2-6: Examples of Online Tax Resources**

<b>Name</b>	<b>Description</b>
RIA Checkpoint	A web-based computerized tax research service that contains all the RIA material on Federal, state, local, and international taxation. Checkpoint contains all RIA analytical material such as the <i>Tax Coordinator 2d</i> and the <i>United States Tax Reporter</i> . All public domain information such as the Code and Regulations, U.S. tax treaties, IRS publications and pronouncements, and court cases are available on Checkpoint.
CCH Tax Research Network	A web-based Internet system that contains all of CCH's tax services and other Federal and state legal and tax information. All government documents (IRS publications, court cases, etc.) are available on this system.
Kleinrock's	The Code, the Regulations, <i>Cumulative Bulletins</i> , Tax Court Regular decisions (since 1954), Tax Court Memo decisions and other court cases (since 1987), and all IRS publications.
Tax Analysts	The Code, the Regulations, <i>Cumulative Bulletins</i> , Court Regular decisions (since 1954). Tax Court Memo decisions and other court cases (since 1985), <i>Circular 230</i> , and all IRS publications.
LexisNexis	The largest of the commercial computer-based information systems. Besides containing all Federal and state legal and tax research material, Lexis has extensive libraries of newspapers, magazines, journals, patent records, and medical, economic, and accounting databases.
Westlaw	Offered by the major legal publisher, this system contains all Federal and state legal sources including court cases, administrative releases, and statutory information. All government documents (IRS publications, court cases, etc.) are also available on this system.
Practitioners Publishing Company	A practitioner-oriented service that also contains a good free tax newsletter. Part of Thomson Publishing.

**Exhibit 2-7: Examples of Online Free Tax-Related Internet Sites**

<b>Site Name</b>	<b>Internet Address</b>	<b>Description</b>
Tax Sites	<a href="http://taxsites.com">http://taxsites.com</a>	Indexes to other tax, accounting, and legal web sites. Links to commercial, Federal government, state, local, and international web sites.
Internal Revenue Service	<a href="http://www.irs.gov">http://www.irs.gov</a>	Taxpayers can find tax forms, instructions, publications, and other IRS information.
Ernst & Young	<a href="http://www.ey.com">http://www.ey.com</a>	A web site that contains a large amount of tax and accounting information from the staff of E&Y.
Deloitte Tax LLP	<a href="http://www.deloitte.com">http://www.deloitte.com</a>	The Deloitte Tax LLP web site contains a large amount of tax and accounting information from the staff of Deloitte Tax LLP.
Thomas	<a href="http://thomas.loc.gov">http://thomas.loc.gov</a>	Legislative information from the Library of Congress.
Will Yancey's Home Page	<a href="http://www.willyyancey.com">http://www.willyyancey.com</a>	Indexes to other tax, accounting, and legal web sites. Links to commercial, Federal government, state, local, and international web sites.

itself, electronic searching requires a combination of technical knowledge, experience, and creativity in approach.

### **Benefits of Using a Computerized Tax Service**

Historically, tax research usually began with the consultation of topical and annotated tax services or tax-related text. In most instances, the user first had to consult a topical index to locate the appropriate page or pages on which to begin his or her research. However, any time that a tax service is accessed by way of its topical index, the user is relying on someone else's judgment (i.e., the service's editors) or performance (e.g., the staff of the database or library for proper treatment of update material) as to what is important with respect to the specific topic. Moreover, the desired information may not be located, even if it exists in the proper place in the database, because the keyword for which the user is looking is not the same word that was used by the editor in the index to discuss the issue that is the subject of the search. It is also possible that, when the index was prepared, the topic of the search was ignored because it was not as important a topic as it is today.

The primary benefit of using a computerized tax service is that such a resource makes it possible for the *user* to index any significant term, that is, by using it as a search term in a query. By creating his or her own indexes, the researcher is not bound by the limitations that are imposed by a third-party editor or data processor. Once the central computer is accessed with a proper search request, the service's software will electronically scan the designated files and retrieve all of the documents that contain the word or words included in the query. Thus, the user is able to bypass the predefined list of topics that constitute the subject's index and perform his or her search directly on the documents themselves.

Another benefit of using a computerized tax research system is that the user can tailor his or her query to fit the requirements of a specific tax problem. Because the user defines the precise specifications of the query, computerized research is exceptionally flexible. Each search request can be made as specific or as broad as desired, depending on the issue to be researched. If they are properly structured, computerized search queries can result in the research process being conducted with greater speed and thoroughness, and they can reduce the amount of time spent on that phase of the research task.

Such speed and flexibility are best realized as the researcher moves among pertinent tax documents. Most of the electronic services allow this capability through **hypertext** linking. Generally, when a hypertext link is indicated, typically through a different color for the text, the user can move to the related document so indicated with a click of the mouse or keyboard. For instance, the researcher could be reading a court case that refers to §2032A. By clicking on the hypertext link character, he or she is taken directly to the text of the Code section for direct perusal of the statutory language. Similarly, links can be made to pertinent Regulations or to similar court documents in a manner that the researcher could not accomplish by hand. As the number of available tax documents becomes more voluminous, the importance of moving among the documents quickly is met only with an electronic tax research tool.

Online services are updated many times a day. A researcher generally is able to retrieve recent court decisions and administrative rulings from a computerized service almost immediately upon release by the source of the document. In addition, the computerized services include one or more of the daily tax news summaries, such as BNA's *Daily Tax Report* or Tax Analysts' *Tax Notes Today*. In this regard, a computerized tax service allows a tax researcher to stay on top of the latest news

and developments without incurring additional subscription costs for the stand-alone services.

Computerized services are particularly useful in researching case law. Every word that is contained in a case is included in the database of the computerized service. Thus, the user can save time by directly accessing only those cases that contain the key terms of his or her search. For example, all of the cases that deal with unreasonable compensation can be accessed within seconds, simply by using *unreasonable compensation* as a search request.

An additional benefit of using a computerized tax service is that certain documents no longer are available in print. For example, full printed transcripts of Actions on Decision and slip opinions normally are not published. However, these documents often may be obtained from the databases of an electronic tax service.

A computerized research service also can be used to obtain regularly published documents to which the researcher does not have access. For example, the full text of Private Letter Rulings is available on most computerized tax research databases. Thus, by using a target or filter feature in a computerized service, a tax practitioner can obtain only the ruling needed, without subscribing to an expensive loose-leaf service for the entire year.

Because of all its inherent advantages, the web-based tax service has become the standard source for current and archival tax research material.

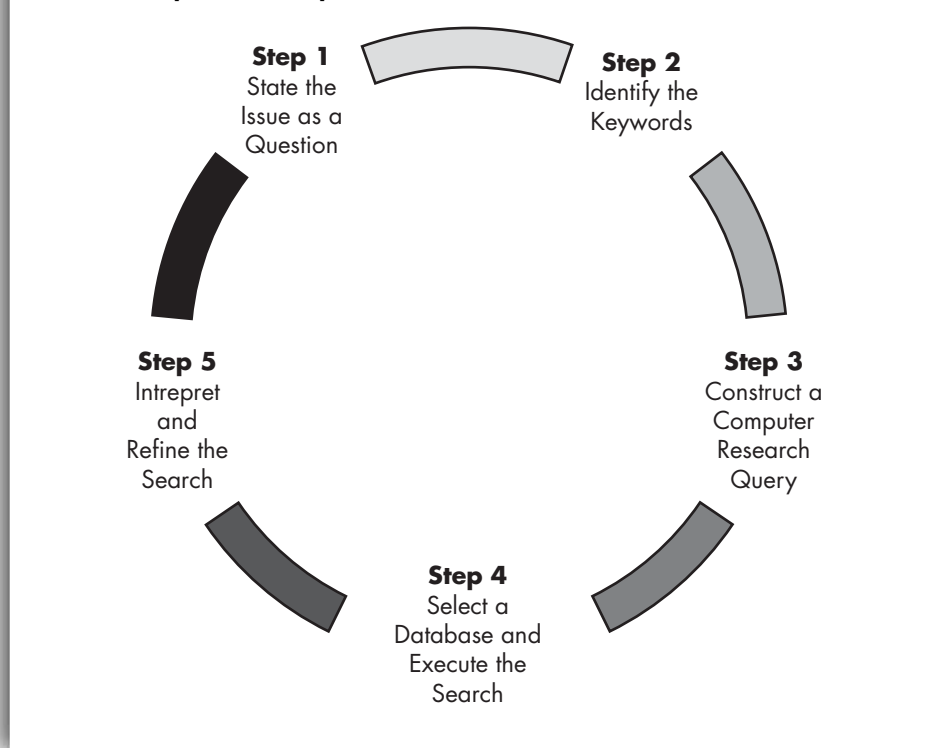
### Factors in Choosing a Computerized Tax Service

In *Computer-Assisted Legal and Tax Research* (Prentice-Hall), Thomas and Weinstein propose that a potential subscriber consider the following factors when choosing a computerized tax database.

- *Database contents:* Does the service provide specialty libraries that will be important in the researcher's work and that are unavailable elsewhere?
- *Search capabilities:* While the search commands and requirements are similar among the commercial tax services, some of the electronic services allow direct reviews of editorial information, and others encompass the Shepard's citations service.
- *Training:* Each of the services offers some level of educational training, either at the user's office or at a regional training center. The proximity, depth, and quality of such seminars may differ among services and across the country.
- *Customer support:* Other forms of contact with the user, such as to develop more sophisticated search techniques or to provide necessary repair services, should be available to the subscriber.
- *Price:* One must consider the cost of the time required to perform the research itself, as well as that of necessary equipment or special software.

### Using a Computer in Tax Research

In the first part of this chapter, we presented a model of the tax research process. In this model, steps 1 and 2 of the tax research model are (1) to establish the facts and (2) to identify the issues related to the research question(s). The next step in the research model is to locate tax authority with which to solve the research question. In most situations, the tax researcher uses a computer in step 3 of the model in order to find the required authority (or to conclude that there is no authority on

**Exhibit 2-8: Steps in the Computer Research Process**

the subject). The process of finding tax authority using a computer can be broken down into several steps, as shown in Exhibit 2-8.

### **Step 1: State the Issue as a Question**

After the tax researcher has established the facts and identified the issues that he or she needs to resolve, the issues should be stated as a question to be answered. For example, suppose the researcher has a client who is a self-employed attorney. As part of her trade or business, the attorney incurs substantial travel expenses during the year. She has learned that if she buys airline tickets in advance and extends her visit over a Saturday night, she will receive a large savings on airfare. Usually, an extra day of meals and lodging can save many hundreds of dollars in her airfare travel expenses. In the current year, she has spent \$4,000 in extra Saturday night expenses to save \$12,000 in airfare. The research question in this situation could be stated as:

*Are the additional travel costs (primarily meals and lodging) of staying over a Saturday night in order to save substantial amounts on the business airfare deductible?*

### **Step 2: Identify the Keywords**

Once the research question has been stated, the researcher must next identify the keywords to construct a proper query in the next step. In the preceding research question, the keywords would be as follows.

- meals and lodging
- travel



- Saturday
- deductible
- airfare

The researcher is looking for words that, when entered into a computer, will find tax authority that is “on point.” If the correct keywords are not identified, tax researchers cannot find the authority needed or could be led down blind alleys.

### Step 3: Construct a Computer Research Query

Computer tax research systems use a **query** in order to begin the search for the authority needed by the researcher. The construction of the query varies for each commercial computer tax research system; however, there are many similarities between the systems. All tax computer research systems recognize various types of connectors to construct a research query. Generally, computer tax services, such as **RIA Checkpoint**, have ten to fifteen search connectors available, but most tax research searches can be accomplished by using several basic connectors. The syntax of the four most useful connectors in RIA Checkpoint is shown in Exhibit 2-9.

In addition, the tax services allow the use of wildcard (universal) character(s). For example, in RIA Checkpoint, an “\*” (asterisk) at the end of a root word finds all variations of that word. Thus, the word “deduct\*” will find deduct, deducted, deduction, deductible, and so on. Other computer tax services use similar methods to construct tax research queries.

Computer tax services are continually being updated. Users should check the appropriate help menu of whichever computer tax service is being used to determine how to construct a query and to find other new features.

### Step 4: Select a Database and Execute the Search

Once the query is constructed, the researcher must log on to and choose a database to search. Each computer tax research system contains numerous databases. As an example, RIA Checkpoint contains the following databases (among many others).

- All Federal Databases
- Federal Editorial Material
- *Federal Tax Coordinator 2d* (a tax service)

**Exhibit 2-9: Selected RIA Checkpoint Search Connectors**

Connector	Example	Description
And	stock and securities	Finds documents with both the term stock and the term securities in them.
Or	stock or securities	Finds documents with either the term stock or the term securities in them.
/n	stock/15 securities	Finds documents where the term stock is within fifteen words of the term securities.
Not	stock not securities	Finds documents with the term stock, but not the term securities.

- Source Material: Cases
- Source Material: Code, Committee Reports, Regulations, Tax Treaties
- Source Material: IRS Rulings and Releases
- Source Material: Tax Court and Federal Procedural Rules
- WG&L Journals

Continuing our example of the deductibility of Saturday night expenses, we could choose to search “*All Federal Databases*” using a query such as *travel/25 Saturday*. See Exhibit 2-10. If we executed this search on RIA Checkpoint, we would find several references to the fact that the IRS has issued Private Letter Ruling 9237014 that states the extra expenses for staying over a Saturday to get a lower airfare are deductible as part of the expenses of the business trip.

### Step 5: Interpret and Refine the Search

After executing a computer tax search, often the query produces too little or too much information. If there is too little information, the search query must be broadened. For example, other keywords may be used or proximity connectors may be relaxed. On the other hand, if the query generates too much information, the search should be tightened. For example, fewer libraries or more unique keywords may be used or proximity connectors may be used or narrowed.

Each computer tax service (e.g., Lexis, Westlaw, Kleinrock’s, CCH Tax Research Network) uses its own format for conducting tax searches. However, all services (including those conducted on Google or Yahoo) use the same basic steps in executing such searches. In all computer tax systems, the researcher must state the

**Exhibit 2-10: RIA Checkpoint Query and Database Selection Screen**

The screenshot displays the RIA Checkpoint search interface. At the top, there is a navigation bar with tabs for 'Research', 'Newsstand', and 'Training and Tips'. Below this, the search area is divided into several sections:

- Search Practice Area:** A dropdown menu set to 'Federal'.
- Enter Keywords:** A text input field containing 'travel/25 Saturday'.
- Choose Sources from:** A dropdown menu set to 'All Federal'.
- Database Selection:** A list of checkboxes for various source materials:
  - Editorial Materials
    - Citator 2nd
    - Federal Tax Coordinator
    - Federal Tax Handbook
    - Return Guides
    - Tables & Rates
    - Tax Alerts/Client Letters
    - Tax Planning and Practice Guides (Special Studies)
    - United States Tax Reporter - Annotations
    - United States Tax Reporter - Explanations
  - News/Current Awareness
    - Cummings' Corporate Tax Insights
    - Federal Taxes Weekly Alert Newsletter
    - RIA Tax Watch
    - WGL Journals
  - Primary Source Materials
    - Code, Regulations, Committee Reports
    - Current Pending/Enacted Legislation
    - Federal Tax Cases
    - IRS Publications
    - IRS Rulings and Releases
    - U.S. Tax Treaties in Force
  - Legislation (Editorial Analysis and Source Material)
  - Archive Materials

At the bottom right, there are buttons for 'Search' and 'Clear All'. The interface also includes a search history section on the left and a 'Sign Off' button in the top right corner.

**Exhibit 2-11: IRS Web Site Connectors**

Boolean Connectors	<a href="http://www.irs.gov">http://www.irs.gov</a> Shortcuts
OR	Space
AND	+
NOT	-
ADJ	"enclose in quotes"

issue, select the keywords, construct a query, choose a database, execute a search, and interpret and refine the search.

**IRS Web Site Research**

The IRS maintains an excellent web site where someone interested in tax information can conduct limited tax research. While the IRS web site is not a full-service tax research resource, it does contain searchable and downloadable tax information such as tax forms, instructions, publications (e.g., Publication 17), and other IRS information. The IRS web site also has a limited search engine that uses several of the basic connectors and recognizes wildcard characters as shown in Exhibit 2-11.

The wildcards "\*" and "?" are also allowed by the IRS search engine. Using these wildcards, you can find documents that contain words that have similar spellings but are not stemmed variants. For example, air\* finds documents that contain air, airline, and airhead. Entering "?at" finds documents that contain cat and hat, while "??at" finds documents that contain that and chat. For complete information on how to do IRS web site searches, go to [http://www.irs.gov/help/search\\_help.html](http://www.irs.gov/help/search_help.html)

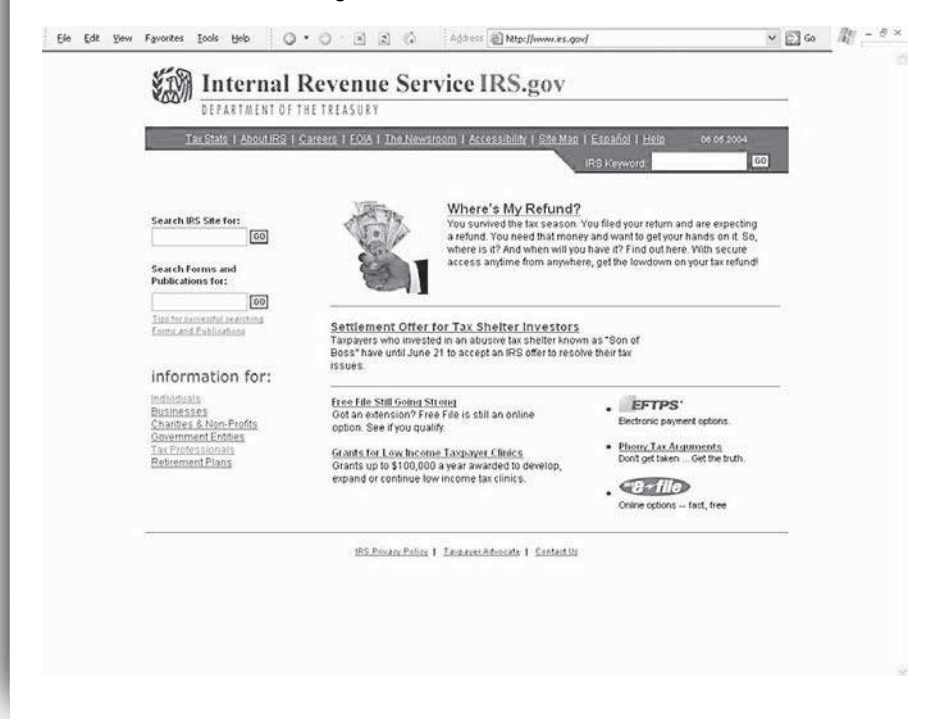
**Example 2-3** Last year, Doris's daughter and her (worthless) husband moved into her home. This year, Doris has supported both of them for the entire year. Doris would like to know if she can claim a dependency exemption for her son-in-law. Doris could go to the IRS web site (<http://www.irs.gov>) and click the search button. She could then search terms such as "son-in-law" and "dependent." See Exhibit 2-12. The IRS search engine should return several IRS publications (e.g., Pub. 501) that will inform Doris she can claim a deduction for her son-in-law.

**Tax Research on the CPA Exam**

The CPA exam is the examination that all individuals must pass if they wish to obtain a CPA license in one of the fifty states and other jurisdictions (e.g., Puerto Rico) of the United States. The exam is prepared by the American Institute of CPAs and is administered through the National Association of State Boards of Accountancy (NASBA). NASBA information can be found at the following web site: <http://www.nasba.org/>

NASBA contracts with testing centers around the United States, which actually give the exam. The CPA exam is a computer-based exam that tests accounting knowledge (e.g., financial accounting, taxation, auditing, etc.) and a set of supporting "soft" skills deemed to be important to the practice of public accountancy. The skills required for the CPA Exam include the abilities to communicate, perform research, and analyze information, as well as other higher-order skills such as judgment and understanding [The CPA Exam Alert, AICPA (January/February

Exhibit 2-12: IRS Site Search Page



2003) p. 3]. The necessary skills as defined by the Board of Examiners are as follows:

1. **Communication** is the ability to effectively elicit and/or express information through written or oral means.
2. **Research** is the ability to locate and extract relevant information from available resource material.
3. **Analysis** is the ability to organize, process, and interpret data to provide options for decision making.
4. **Judgment** is the ability to evaluate options for decision making and provide an appropriate conclusion.
5. **Understanding** is the ability to recognize and comprehend the meaning and application of a particular matter.

CPA exam candidates are required to demonstrate their ability to apply these skills in each section of the Uniform CPA Examination in the context of the content knowledge.

The CPA exam, which is fourteen hours in total, is given in four parts. These parts can be taken separately as long as all four parts are in all passed within certain time limitations. The CPA Exam parts are

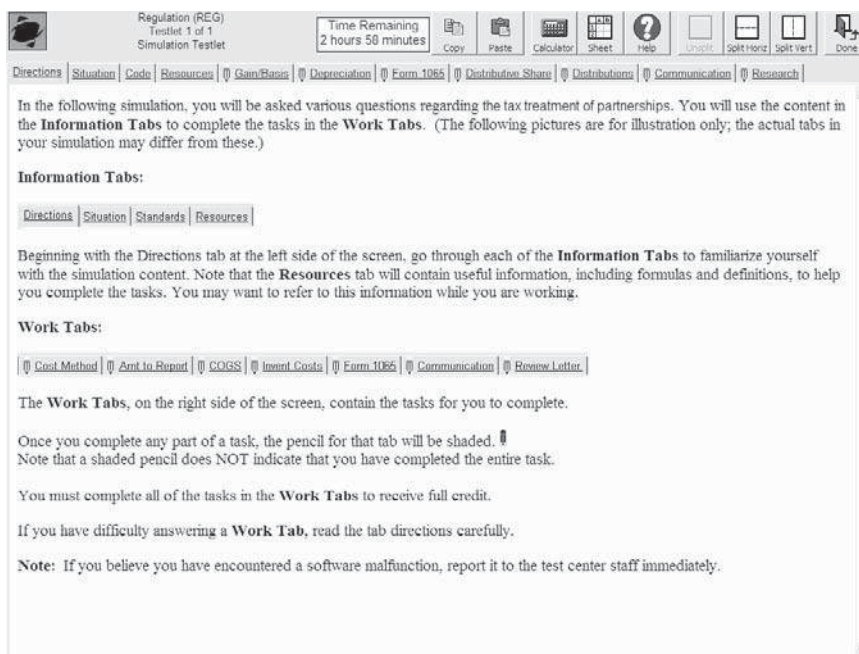
1. **Auditing and Attestation (AUD)**. This section covers knowledge of auditing procedures, generally accepted auditing standards and other standards related to attest engagements, and the skills needed to apply that knowledge. [four hours and 30 minutes exam session]

2. **Business Environment and Concepts (BEC).** This section covers knowledge of general business environment and business concepts that candidates need to know in order to understand the underlying business reasons for and accounting implications of business transactions, and the skills needed to apply that knowledge. [two hours and 30 minutes exam session]
3. **Financial Accounting and Reporting (FAR).** This section covers knowledge of generally accepted accounting principles for business enterprises, not-for-profit organizations, and governmental entities, and the skills needed to apply that knowledge. [four-hour exam session]
4. **Regulation (REG).** This section covers knowledge of Federal taxation, ethics, professional and legal responsibilities, and business law, and the skills needed to apply that knowledge. [three-hour exam session]

Currently, each part of the CPA Exam (except Business Environment and Concepts) contains two types of questions: (1) multiple choice (standard objective questions) and (2) simulations (short multipart cases). With simulations the candidates demonstrate an ability to research professional and legal databases, identify relevant authority, and draw conclusions, to solve a problem. In addition, when completing a CPA exam simulation the candidate must show the writing skills necessary to communicate the solution to the client or other interested parties.

The format of CPA Exam simulations can be demonstrated in the following computer screen shots. Exhibit 2-13 shows the general “Directions” tab, which gives information for completing a CPA Exam simulation. The tabs across the top are how the candidate navigates to the various parts of the simulation. The general information about the problem to be solved is delineated under the “Situation” tab

**Exhibit 2-13: Simulation General Instructions**



## Exhibit 2-14: The Simulation Situation

Regulation (REG)  
Testlet 1 of 1  
Simulation Testlet

Time Remaining  
2 hours 58 minutes

Copy Paste Calculator Sheet Help Unsplit Split Horiz Split Vert Done

Directions Situation Code Resources Gain/Basis Depreciation Form 1065 Distribution Share Distributions Communication Research

Miller, Smith, and Tucker decided to form a partnership to perform engineering services. All of the partners have extensive experience in the engineering field and now wish to pool their resources and client contacts to begin their own firm. The new entity, Sabre Consulting Group, LLP, began operations on January 1, year 1, and uses the calendar year for reporting purposes.

All of the partners expect to work full time for Sabre, and each contributed cash and other property to the partnership sufficient to commence operations. The partners have agreed to share all income and losses of the partnership equally. A written partnership agreement, duly executed by the partners, memorializes this agreement among the partners.

The table below shows the estimated values for assets contributed to Sabre by each partner on January 1, year 1. None of the contributed assets' costs have been previously recovered for tax purposes.

Partner	Cash contribution	Estimated FMV of non-cash property contributed	Basis in non-cash property contributed
Miller	\$15,000	\$10,000	\$10,000
Smith	10,000	15,000	15,000
Tucker	20,000	5,000	5,000
Totals	\$45,000	\$30,000	\$30,000

## Exhibit 2-15: Simulation Requirement to be Completed

Regulation (REG)  
Testlet 1 of 1  
Simulation Testlet

Time Remaining  
2 hours 59 minutes

Copy Paste Calculator Sheet Help Unsplit Split Horiz Split Vert Done

Directions Situation Code Resources Gain/Basis Depreciation Form 1065 Distribution Share Distributions Communication Research

Complete the shaded cells in the following table by entering the gain or loss, if any, recognized by each partner in year 1 on the property contributed to Sabre Consulting Group, LLP, the partner's basis in the partnership interest, and Sabre's basis in the non-cash contributed property as of January 1, year 1. Loss amounts, if any, should be recorded as negative numbers. Note: To use a formula in the spreadsheet, it must be preceded by an equal sign, e.g., = B1+B2.

B2	0.3	A	B	C	D
			Partner's gain or loss, if any, on property transferred	Partner's basis in partnership interest	Partnership's basis in non-cash property contributed
1					
2		Miller			
3		Smith			
4		Tucker			

## Exhibit 2-16: Simulation Requirements to be Completed

Regulation (REG)  
Testlet 1 of 1  
Simulation Testlet

Time Remaining  
2 hours: 55 minutes

Copy Paste Calculator Sheet Help Undo Split Horiz Split Vert Done

Directions Situation Code Resources Form 1065 Distribution Shares Distributions Communication Research

Sabre Consulting Group, LLP, is a limited liability partnership for tax purposes. Complete the income section of the year 1 IRS Form 1065 for Sabre Consulting Group, LLP using the following information:

Ordinary income from other partnerships	\$5,200
Net gain (loss) from Form 4797	2,400
Consulting fees earned	120,000

K21

Form **1065** U.S. Return of Partnership Income OMB No. 1545-0059

Department of the Treasury For calendar year 1 or tax year beginning ..... Year 1, and ending ..... year ..... **YEAR 1**  
Internal Revenue Service See separate instructions.

A Principal business activity Use the name of partnership D Employer identification number  
Engineering Sabre Consulting Group, LLP 22-0000000  
B Principal product or service label, Other- (Number, street, and room or suite no. (if a P.O. box, see page 14 of instructions.)) E Date business started  
Consulting 1210 Industry Blvd 1/1/Year 1  
C Business code number wise print City or town, state, and ZIP code F Total assets (see page 14 of the instructions.)  
841220 New York, NY 10011 \$ 440,000

G Check applicable boxes: (1)  Initial return (2)  Final return (3)  Name change (4)  Address change (5)  Amended return  
H Check accounting method: (1)  Cash (2)  Accrual (3)  Other (specify) .....  
I Number of Schedules K-1. Attach one for each person who was a partner at any time during the tax year. .... 3

Caution: Include only trade or business income and expenses on lines 1a through 22 below. See the instructions for more information.

1a	Gross receipts or sales	1a		
b	Less returns and allowances	1b		1c
2	Cost of goods sold (Schedule A, line 8)	2		
3	Gross profit. Subtract line 2 from line 1c	3		
4	Ordinary income (loss) from other partnerships, estates, and trusts (attach schedule)	4		
5	Net farm profit (loss) (attach Schedule F (form 1040))	5		

## Exhibit 2-17: Research Question and Memo

Regulation (REG)  
Testlet 1 of 1  
Simulation Testlet

Time Remaining  
2 hours: 56 minutes

Copy Paste Calculator Sheet Help Undo Split Horiz Split Vert Done

Directions Situation Code Resources Form 1065 Distribution Shares Distributions Communication Research

In addition to preparing the partnership's federal return, you prepare Smith's personal income tax return. Smith incurred a substantial amount of medical expenses in year 2 and also received a small amount of reimbursements from medical insurance coverage in year 2 for those expenses. Write a letter to Smith explaining the rules regarding the deductibility of medical expenses. In your letter you should discuss the different types of expenses that would qualify as medical expenses, the proper treatment of medical expense reimbursements received in the same year, and the percentage of adjusted gross income limitation that would reduce the net amount of medical expenses allowed as a deduction.

Type your communication in the response area below the horizontal line using the word processor provided.

**REMINDER: Your response will be graded for both technical content and writing skills. Technical content will be evaluated for information that is helpful to the intended reader and clearly relevant to the issue. Writing skills will be evaluated for development, organization, and the appropriate expression of ideas in professional correspondence. Use a standard business memo or letter format with a clear beginning, middle, and end. Do not convey information in the form of a table, bullet point list, or other abbreviated presentation.**

Spelling Undo Redo Cut Copy Paste

Mr. Smith  
232 Pine Street  
Anytown, NB

Dear Mr. Smith:

as shown in Exhibit 2-14. Generally, this should be the first screen the candidate goes after reading the “Directions” tab. Exhibits 2-15 and 2-16 show examples of the kinds of questions the candidate must answer in the simulation. Exhibit 2-15 is a table with various gain or loss questions to be answered, while Exhibit 2-16 is a Form 1065 Partnership tax return to be filled in. The research question and memo for this simulation are shown in Exhibit 2-17, which is found under the “Research” tab. This is where the candidate has to show his or her ability to answer a research question and properly document the solution in writing. Links to research sources such as the Code for candidates to use in solving the research question are in other tabs across the top of the screens. The material in this book will educate the candidate on how to effectively and efficiently complete the research simulations on the CPA Exam.

## SUMMARY

Tax research is a complex process. The researcher must complete all of the steps in the research process to arrive at a solution to or recommendation for the client’s tax problem. Moreover, the steps delineated in Exhibit 2-1 (or iterations of them) must be completed in their proper order to minimize the possibility of er-

rors in evaluating the authority, arriving at conclusions, or making recommendations. If the process is abbreviated, the researcher risks failure to properly serve the client. This could result in the payment of unnecessary taxes by the client, or in the payment of damages by the tax practitioner to the client.

## TAX TUTOR

Reinforce the tax research information covered in this chapter by completing the online tutorials located at the *Federal Tax Research* web site: <http://academic.cengage.com/taxation/raabe>

## KEY WORDS

By the time you complete this chapter, you should be comfortable discussing each of the following terms. If you need additional review of any of these items, return to the appropriate material in the chapter or consult the glossary to this text.

Administrative sources  
Collateral estoppel  
Fact issues  
Hypertext  
Internal Revenue Code  
Internet  
Judicial sources  
Law issues

Online  
Primary authority  
Query  
RIA Checkpoint  
Secondary authority  
Statutory sources  
Tax journals  
Tax services



## DISCUSSION QUESTIONS

1. What is the purpose of tax research?
2. What are the basic steps in conducting tax research? Briefly discuss each step in the tax research process.
3. What are the two chief tax research skills, as identified in this text? Explain the importance of each basic skill.
4. The tax researcher must find the facts as the first step in tax research. Give examples of the kind of information that a tax practitioner might want to obtain.
5. What are some of the potential pitfalls in the first step of the tax research process?
6. In each of the following independent situations, indicate whether the item generally would be a tax (T) or a nontax (NT) consideration in solving a tax research or tax planning problem.
  - a. The taxpayer would like to set up a private foundation to reduce her annual income tax liability.
  - b. The taxpayer has a very poor cash flow because of prior investments; therefore, he has a limited ability to make “tax-advantaged” investments.
  - c. The taxpayer wants to transfer as much of her property to her grandchildren as possible. However, she does not want any of the property to fall into the hands of the grandchildren’s mother (her daughter-in-law).
  - d. The taxpayer lived through the Great Depression of the 1930s and does not like investments with any risk, such as owning stocks or bonds.
  - e. The taxpayer likes to maintain highly liquid investments, such as money market funds and certificates of deposit in insured banks and savings and loan institutions.
  - f. The taxpayer hates to pay Federal taxes. He will take any legal action to avoid paying any Federal income, estate, or gift taxes.
7. Identify and briefly describe the two major types of tax research issues.
8. What is *collateral estoppel*? How does it affect tax research and planning?
9. Tax law provisions tend to change over time. Explain how this might affect tax research and planning.
10. In the tax research process, the researcher has an obligation to the client to evaluate authority. Do the precedents in all tax authority carry the same value? Explain.
11. Primary tax authority can be classified as statutory, administrative, or judicial. Briefly describe each.
12. Classify each of the following items as a primary (P) or secondary (S) tax research authority.
  - a. The *Internal Revenue Code*
  - b. A Tax Court case
  - c. A textbook on corporate taxation

- d. Treasury Regulations
  - e. An IRS Revenue Ruling
  - f. An article in *Journal of Taxation*
  - g. *Taxes on Parade* (a newsletter)
  - h. A Supreme Court decision on a tax matter
13. Classify each of the following items as a primary (P) or secondary (S) tax research authority.
- a. A U.S. District Court Case
  - b. An IRS Revenue Procedure
  - c. Code §162
  - d. *The Daily Tax Report* newsletter
  - e. An article on recent tax rulings on inventory valuation in *Practical Tax Strategies*
  - f. The U.S./Australia Income Tax Treaty
  - g. A discussion on earnings and profits in the RIA Tax Coordinator 2d Tax Service
  - h. A partnership tax treatise
14. Briefly characterize and distinguish between annotated tax services and topical tax services.
15. Classify each of the following commercial tax services as either an annotated service (A) or a topical service (T).
- a. CCH's *Standard Federal Tax Reporter*
  - b. RIA's *Tax Coordinator*
  - c. BNA's *Tax Management Portfolios*
  - d. *Mertens Law of Federal Income Taxation*
  - e. CCH's *Federal Tax Service*
16. What is a court reporter? Name three organizations that produce court reporters.
17. Who publishes each of the following court reporters?
- a. *United States Tax Cases*
  - b. *Federal Reporter*
  - c. *American Federal Tax reports*
  - d. *Tax Court of the U.S. Reports*
18. What kind of information can be found in a citator?
19. Name the primary bound publication where IRS pronouncements can be found.
20. Tax practitioners use the term "tax service" all the time. What is a tax service?
21. What is the target readership of each of the following tax journals?
- a. *TAXES*
  - b. *Journal of Taxation*
  - c. *Practical Tax Strategies*
  - d. *The Tax Adviser*
  - e. *Estate Planning*

22. Specific items of tax authority have different “values” in helping the tax researcher to solve his or her problem. Explain this statement and describe how it applies to the tax research process.
23. Step 5 in the tax research process is concerned with reaching a conclusion or making a recommendation. If one has not found a clear answer to a tax research problem, how is a conclusion or recommendation to be reached?
24. The final step in the research process typically involves a memorandum to the client file and/or a letter to the client communicating the results of the research. List the items that should be found in the body of both of these documents.
25. It has been said that the tax research process is more circular than linear. Do you agree with this statement? Explain your answer.
26. What is deemed to be substantial authority under the §6662 Regulations? Why is this important?
27. Describe an online tax research system. What are the two advantages of such a system over a standard printed tax service?
28. Give the web address of three free online Internet sites where someone could find information on various aspects of taxation.
29. What is computerized tax research, and why is it necessary for the tax professional to be able to use computerized techniques to conduct tax research?
30. Briefly describe what is contained in each of the following tax services.
  - a. RIA CheckPoint
  - b. CCH Tax Research Network
  - c. LexisNexis
  - d. Westlaw
31. What are the disadvantages of using a computerized tax service?
32. List four benefits of using a computerized service to conduct your tax research.
33. What are the major steps in developing an effective computerized tax research query?
34. If you were researching an issue and the computer informed you that it had located 1,000 pertinent documents, what would you do to reduce the number of retrieved documents to a more reasonable number?
35. What are the search connectors discussed in the text used by RIA Checkpoint? Describe how each operates.
36. For the following RIA Checkpoint databases state if they generally contain primary or secondary authority: (1) *Federal Tax Coordinator 2d*, (2) Source Material Cases, (3) Source Material IRS Rulings and Releases, and (4) WG&L Journals.
37. What is the Internet address of the Internal Revenue Service’s server?
38. What are the connectors used by the IRS web site search engine?

39. What are the two “wildcards” used by the IRS web site search engine? Explain how each operates.
40. Where can someone find additional information on searching techniques available for use on the IRS web site?
41. The computerized Uniform CPA exam has four parts. Identify them and briefly state what is covered in each part.
42. The Uniform CPA exam has a stated set of “supporting skills” that it tests. What are these skills? Do you think they should be tested on the Uniform CPA exam?

## EXERCISES

43. Use your university’s tax library (or other library assigned by your instructor) to discover the breadth of tax journal offerings. List any five tax journals and the publisher of each.
44. The purpose of this exercise is for you to locate publications that frequently are used in tax research. Give the call number and location (i.e., floor, room, stack, etc.) in your library, and the major color of the binding of the publication, for each of the following references. If a publication is not available, state that it is not.
  - a. RIA’s *United States Tax Reporter*
  - b. CCH’s *Standard Federal Tax Reporter*
  - c. BNA’s *Tax Management Portfolios*
  - d. *Mertens Law of Federal Income Taxation*
  - e. RIA’s *Tax Coordinator 2d*
45. Find out whether each of the following court reporters is available in your library. Give the call number and location (i.e., floor, room, stack, etc.) for each reference. If a reporter is not available, state that it is not.
  - a. *American Federal Tax Reports*
  - b. *United States Tax Cases*
  - c. *Tax Court of the U.S. Reports*
  - d. *Federal Reporter*
46. Determine if each of the following tax journals is available in your library. What is the most current issue in your library? List the author(s) and title of any two articles from the most recent issue.
  - a. *Journal of Taxation*
  - b. *Practical Tax Strategies*
  - c. *Journal of International Taxation*
  - d. *The Tax Adviser*
  - e. *TAXES*
47. Is the *Internal Revenue Code* found in separate volumes in each of the following tax services? If so, in how many volumes?
  - a. CCH’s *Standard Federal Tax Reporter*
  - b. BNA’s *Tax Management Portfolios*
  - c. RIA’s *Tax Coordinator 2d*

48. Find a copy of the *Cumulative Bulletin* in your university's library. By looking in a volume, list three different tax research sources published in a *Cumulative Bulletin*.
49. Locate a copy of the *American Federal Tax Reports* in your library. List two courts that have decisions published in this court reporter.
50. Locate a copy of CCH's *United States Tax Cases* in your library. List two courts that have decisions published in this court reporter.
51. In your university's library, locate the CCH and RIA citators. How many volumes does each contain?
52. Determine if your campus has any of the following online tax research services available for student use. If a service is available on your campus, describe how you would gain access to that system for research projects in your tax classes. If a service is not available on your campus, state where you might be able to find it.
  - a. Kleinrock's
  - b. Lexis
  - c. RIA Checkpoint
  - d. Westlaw
  - e. CCH Tax Research Network
53. Go to the IRS web page (<http://www.irs.gov>) and print out a copy of the most recent Instructions for Form 3903 of Form 1040.
54. Go to the IRS web page (<http://www.irs.gov>) and print out a copy of the most recent Instructions for Form 4952 of Form 1040. You may first need to download the Adobe Acrobat Reader software to be able to view or print the form. The software is provided free of charge by Adobe through a link on the IRS page.
55. Go to the IRS web page (<http://www.irs.gov>). What IRS publication number addresses tax rules that apply to personnel in the armed forces? Print the first page of the IRS publication to hand in.
56. Go to the IRS web page (<http://www.irs.gov>). What IRS publication number addresses tax rules for pension and annuity income? Print the first page of the IRS publication to hand in.
57. Go to the IRS web page (<http://www.irs.gov>). Find information on abusive tax shelters. Give an example of an abusive tax shelter listed by the IRS.
58. Go to the IRS web page (<http://www.irs.gov>). Find a copy of Form 1040-PR, the Puerto Rico individual tax return. Print out and turn in page 1 of the 1040-PR Form.
59. Go to the IRS web page (<http://www.irs.gov>). Find a copy of Form 1040-C (PDF) U.S. Departing Alien Income Tax Return. Print out and turn in page 1 of the 1040-C Form.
60. Go to <http://taxsites.com> and give the complete web address for each of the following sites:
  - a. The California Franchise Tax Board
  - b. The New York Department of Taxation and Finance
  - c. The American Institute of CPAs (AICPA)

61. Go to <http://www.willyancey.com> and give the complete web address for each of the following sites:
  - a. The Hawaii Department of Taxation
  - b. The Vermont Department of Taxes
  - c. The American Taxation Association
62. Go to the Practitioners Publishing Co. web site (<http://www.ppc.thomson.com>) and locate the most recent Practitioners *Tax Action Bulletin*. Print out a copy of the bulletin.
63. Go to the IRS web page (<http://www.irs.gov>) and find the most recent IRS Publication 1542, Per Diem Rates. What is the maximum per diem rate for lodging and meals and incidental expenses (M&IE) for each of the following towns?
  - a. Miami, Florida
  - b. Palm Springs, California
  - c. San Antonio, Texas
64. Go to the IRS web page (<http://www.irs.gov>) and find the most recent IRS Publication 1542, Per Diem Rates. What is the maximum per diem rate for lodging and meals and incidental expenses (M&IE) for each of the following towns?
  - a. Buffalo, New York
  - b. Honolulu, Hawaii
  - c. Spokane, Washington
65. Locate and print out the web site home page of each of the following CPA firms.
  - a. Ernst and Young LLP
  - b. Deloitte Tax LLP
  - c. BDO Seidman LLP
  - d. PricewaterhouseCoopers LLP
66. Locate the web site home page of each of the following CPA firms. Give the city location of the firm's main (home) office.
  - a. KPMG LLP
  - b. Grant Thornton LLP
  - c. CBiz LLP
  - d. Moss Adams LLP
67. Jennifer owns 200 acres of land on which she grows flowers for sale to local nurseries. Her adjusted basis in the land is \$30,000. She receives condemnation proceeds of \$20,000 from the state for ten acres of her land on which a new freeway will be built. The state also pays her \$30,000 for the harmful effects that the increased auto exhausts might have on her flowers. List as many tax research issues as you can to determine the tax consequences of these transactions. Do not attempt to answer any of the questions you raise. Simply identify the research issues.
68. Joey parked his car on the top of a hill when he went to watch the X games in San Diego. He did not properly set his brakes or curb the wheels when he parked the car. When he returned from the games, he found his car had rolled down the hill, smashed into Nick's house, and injured Nick, who was watching

- TV in his den. Joey does not have car insurance. List as many tax research issues as you can to determine the tax consequences of this accident. Do not attempt to answer any of the questions you raise. Simply identify the research issues.
69. John and Marsha are married and filed a joint return for the past year. During that year, Marsha was employed as an assistant cashier at a local bank and, as such, was able to embezzle \$75,000, none of which was reported on their joint return. Before the defalcation was discovered, Marsha disappeared and has not been seen or heard from since. List as many tax research issues as you can to determine the tax consequences of this crime. Do not attempt to answer any of the questions you raise. Simply identify the research issues.
70. In the current year, Dave receives stock worth \$125,000 from his employer. The stock is restricted and cannot be sold by Dave for seven years. Dave estimates the stock will be worth \$300,000 after the seven years. List as many tax research issues as you can to determine the tax consequences of this transaction. Do not attempt to answer any of the questions you raise. Simply identify the research issues.
71. On December 1, 20X1, Ericka receives \$18,000 for three months' rent (December, January, and February) of an office building. List as many tax research issues as you can to determine the tax consequences of this transaction. Do not attempt to answer any of the questions you raise. Simply identify the research issues.
72. Formulate a search query to determine whether your client is required to include in gross income the proceeds from a redemption of a tax-exempt bond, purchased in 1988 and called by the school district this year. Redemption proceeds were \$90,000, and the 1988 purchase price on the secondary market was \$76,000. Give an example of a computer search query using only the following RIA Checkpoint connectors: "and," "or," "/n," and "not."
73. Formulate a search query to determine the provisions of the United States' treaty with Germany relative to fellowship income received by a business student during a summer internship with the German Department of Price Controls. Give an example of a computer search query using only the following RIA Checkpoint connectors: "and," "or," "/n," and "not."
74. Formulate a search query to determine whether your client is required to capitalize fringe benefits and general overhead that is attributable to employees who are building an addition to your client's factory during a "slack time" at work. Give an example of a computer search query using only the following RIA Checkpoint connectors: "and," "or," "/n," and "not."
75. Formulate a search query to determine whether your client can retroactively elect to change its accounting method. Give an example of a computer search query using only the following RIA Checkpoint connectors: "and," "or," "/n," and "not."
76. Formulate a search query to find all of the cases in which the word *constructive* occurs within ten words of the word *dividend*. Give an example of a computer query using only the following RIA Checkpoint connectors: "and," "or," "/n," and "not."

77. Go the AICPA web site ([www.aicpa.org](http://www.aicpa.org)) and “drill-down” to the Uniform CPA exam simulation section. Find an example of a tax simulation situation. What is the subject of the simulation that you located? Print out the web page showing the simulation to turn in.
78. Go the AICPA web site ([www.aicpa.org](http://www.aicpa.org)) and “drill-down” to the Uniform CPA exam simulation section. Find an example of a nontax simulation situation (e.g., financial accounting or auditing). What is the subject of the simulation that you located? Print out the web page showing the simulation to turn in.

## RESEARCH CASES

79. Sam Manuel has been employed on a full-time basis as an electrical engineer for the past three years. Prior to obtaining full-time employment, he was self-employed as an inventor of complex electronic components. During this period of self-employment, most of his projects produced little income, although several produced a significant amount of revenue.
- Due to the large expenditures necessary and the failure of the majority of the products to produce a profit, Sam was forced to seek full-time employment. After obtaining full-time employment, he continued to work long hours to perfect several of his inventions. He continued to enjoy relatively little success with most of his products, but certain projects were successfully marketed and generated a profit. For the past two years, Sam’s invention activity has generated a net loss.
- List as many possible tax research issues as you can to determine whether the losses may be deducted.
  - After completing your list of tax research issues, list the keywords you might use to construct a computer tax research query.
80. Matthew Broadway was a partner in the law firm of Johnson and Smith, a partnership of twenty partners, for the past ten years. Without the knowledge or consent of the other partners, Matthew worked on a highly complicated acquisition and merger project for six months, at all times using the resources of the law firm. Several months later, the firm for which Matthew provided the professional services made out a check for \$300,000 to the firm of Johnson and Smith. Matthew insisted that the fee should rightly be his, while the firm disputed his claim. Because of the dispute, the fee was held in escrow until the following year when the dispute was settled.
- The dispute was settled with Matthew agreeing to withdraw from the partnership. Included as part of the withdrawal agreement was a clause that specified he would receive \$45,000 of the \$300,000 fee, with the law firm retaining the remainder. Six months later, Matthew received a total payment of \$125,000, which included the \$45,000 fee, from Johnson and Smith.
- List as many possible tax research issues as you can to determine the tax treatment of the \$125,000 payment received by Matthew.
  - After completing your list of tax research issues, list the keywords you might use to construct a computer tax research query.
81. Juanita Sharp purchased a large parcel of property for \$120,000. A short time after purchasing the property, Sharp submitted plans for the division of the



- parcel into six lots and the construction of three single-family residences on three of the lots. The city permits required that the property be divided into six lots and that street improvements and water and sewer access be provided. Sharp spent \$22,000 for the street, water, and sewer improvements. As a result of the improvements, the value of each of the three vacant lots increased by \$1,000, based on an appraisal completed subsequent to the completion of the improvements. The costs of constructing the three single-family residences totaled \$200,000.
- a. List as many possible tax research issues as you can to determine how the original purchase price of \$120,000, the \$22,000 cost of the improvements, and the \$200,000 cost of the construction of the homes should be allocated to the basis of each of the lots for purposes of determining gain or loss on the sale of the lots.
  - b. After completing your list of tax research issues, list the keywords you might use to construct a computer tax research query.
82. Tom and Donna were divorced three years ago. At the time of their divorce, they owned a highly appreciated residence. Tom remained half-owner of the house, but moved out and allowed Donna to continue living in the house. In the current year, Tom and Donna sold the house for \$300,000. Last year, Tom purchased a new house for \$190,000.
- a. List as many possible tax research issues as you can to determine tax treatment(s) available to Tom on the sale and purchase of the residence.
  - b. After completing your list of tax research issues, list the keywords you might use to construct a computer tax research query.
83. Vincent Vineyard, MD, is a very successful physician in Temecula, California. He earns approximately \$800,000 per year from his medical practice. His two children have graduated from college and he and his wife are now “empty-nesters.” Vincent, Jr., is an officer in the Navy and his daughter Valerie is an engineer in Texas. Vinny has had an interest in wine and grape growing for many years. Now, with more time to devote to other activities, Vinny recently started a winery with an initial investment of \$1,000,000. Since the winery is new, he expects it to be eight to ten years before the winery makes a profit. Vinny would like your advice as to any potential tax problems he might have with his new winery investment.
- a. What additional information might you want in this situation?
  - b. Where might that information come from?
  - c. Are all the given facts pertinent? Which (if any) are irrelevant?
  - d. What is the primary research question you would try to answer?
  - e. Are there any additional research question(s) you want to address?
84. Ned Naive operated several franchised stores, and at the home office’s suggestion, consolidated its payroll and accounting functions with Andy the Accountant. Andy is not a CPA. Last year, Andy began embezzling taxpayer’s escrowed tax withholdings and failed to remit required amounts for the four quarters. The IRS assessed Ned penalties for failing to make the proper withholding deposits during the year.
- a. What additional information might you want in this situation?
  - b. Where might that information come from?
  - c. Are all the given facts pertinent? Which (if any) are irrelevant?
  - d. Where might that information come from?

- e. What is the primary research question you would try to answer?  
 f. Are there any additional research question(s) you want to address?
85. Dr. Diego Dissolution is recently divorced and has some questions regarding payments he is making to his ex-wife (Mrs. D.). Diego is forty-five years old and has a successful dental practice. Mrs. D. was divorced from her first husband six years ago. Diego is paying \$12,000 per month to Mrs. D. He wants to know if the tax payments on the \$12,000 per month are deductible.
- What additional information might you want in this situation?
  - Where might that information come from?
  - Are all the given facts pertinent? Which (if any) are irrelevant?
  - Where might that information come from?
  - What is the primary research question you would try to answer?
  - Are there any additional research question(s) you want to address?
86. Phred Phortunate won his state lotto two years ago. His lotto ticket was worth \$10,000,000, which was payable in twenty annual installments of \$500,000 each. Phred paid \$1.00 for the winning ticket. The lotto in Phred's state does not allow winners to receive their payout in a lump-sum. Phred wanted all of his money now, so he assigned his future lotto winnings to a Happy Finance Company for a discounted price of \$4,500,000. Assignment of lotto winnings is permitted by Phred's state lotto. Phred filed his tax return and reported the assignment of the lotto winnings as a capital gain (\$4.5M-\$1.00) taxable at a 15 percent rate.
- List as many possible tax research issues as you can to determine whether Phred correctly reported his lotto winnings.
  - After completing your list of tax research issues, list the keywords you might use to construct a computer tax research query.
87. The Mucho Oro Indian Tribe operates a casino on its reservation in Arizona. The casino is very profitable and therefore the tribe has excess money to invest. The tribe is approached by an entrepreneur who wants to build an outlet mall next to the casino. The entrepreneur would like to operate the outlet mall as an S corporation. Both he and the tribe would be shareholders in the new S corporation.
- List as many possible tax research issues as you can to determine whether this plan of organization would be allowed under the current tax law.
  - After completing your list of tax research issues, list the keywords you might use to construct a computer tax research query.
88. Your client, Barney Green, and his wife, Edith, attended a three-day program in Honolulu, entitled "Financial, Tax, and Investment Planning for Investors." The Greens went to Hawaii several days early so that they could adjust to the jet lag and be ready for the seminar. The \$3,000 cost of the trip included the following expenses.

First-class airfare	\$1,200
Hotel (seven days)	800
Program fee	300
Meals and other expenses	700

The Greens have records to substantiate all of the above expenditures in a manner that is acceptable under §274.

- a. List as many possible tax research issues as you can to determine whether the Greens can deduct any or all of the \$3,000 of expenditures on their current-year tax return.
  - b. After completing your list of tax research issues, list the keywords you might use to construct a computer tax research query.
  - c. Execute a computer search using your query. For simplicity, select the IRS Taxpayer Information Publications (TIPS) database from whichever computer tax service you use. Summarize your findings.
89. Ban Vallew has a son, Katt, by a previous marriage, who is in the custody of his ex-wife. Katt Vallew has a history of emotional disturbance. He has been sent to a psychiatrist for several years for this problem. This year he has become so disturbed, manifesting violence at home and school, that he had to be sent to a special school in Arizona for problem children. This school is very expensive (\$2,000 per month), the cost of which Ban pays for. Ban would like to determine whether he is entitled to the medical expenses deduction (over 7.5% of adjusted gross income) for the cost of sending his son to this special school.
- a. List as many possible tax research issues as you can to determine tax treatment(s) available to Ban on the payments to the special school.
  - b. After completing your list of tax research issues, list the keywords you might use to construct a computer tax research query.
  - c. Execute a computer search using your query. For simplicity, select the IRS Taxpayer Information Publications (TIPS) database from whichever computer tax service you use. Summarize your findings.
90. Linda Larue suffered from arthritis. Her chiropractor advised her that she needed to swim daily to alleviate her pain and other symptoms. Consequently, Linda and her husband, Philo, purchased for \$100,000 a new home that had a swimming pool, after selling their old home for \$85,000. If the Larues had constructed a pool at their former residence, it would have cost \$15,000 to build, and it would have increased the value of their home by \$8,000.
- a. List as many possible tax research issues as you can to determine whether the Larues can deduct any of their current-year expenditures for Linda's arthritis.
  - b. After completing your list of tax research issues, list the keywords you might use to construct a computer tax research query.
  - c. Execute a computer search using your query. For simplicity, select the IRS Revenue Rulings database from whichever computer tax service you use. Summarize your findings.
91. Gwen Gullible was married to Darrell Devious. They were divorced two years ago. Three years ago (the year before their divorce), Darrell received a \$250,000 retirement plan distribution, of which \$50,000 was rolled over into an IRA. At the time, Gwen was aware of the retirement funds and the rollover. The distribution was used to pay off the couple's mortgage, purchase a car, and for living expenses. Darrell prepared the couple's joint return, and Gwen asked him about the tax ramifications of the retirement distributions. He told her he had consulted a CPA and was advised that the retirement plan proceeds used to pay off a mortgage were not taxable income. Gwen accepted that explanation and signed the return. In fact, Darrell had not consulted a CPA.

One year ago (after the divorce), Gwen received a letter from the IRS saying they had not received the tax return for the last full year of marriage. On advice from a CPA, Gwen immediately filed the return (she had a copy of the unfiled return). The Internal Revenue Service notified Gwen that no estimated payments on the retirement distribution had been paid by Darrell, and that she owed \$60,000 in tax, plus penalties and interest.

- a. List as many possible tax research issues as you can to determine whether Gwen is liable for the tax, interest, and penalties.
- b. After completing your list of tax research issues, list the keywords you might use to construct a computer tax research query.
- c. Execute a computer search using your query. For simplicity, select the IRS Revenue Rulings database from the computer tax service you use. Summarize your findings.