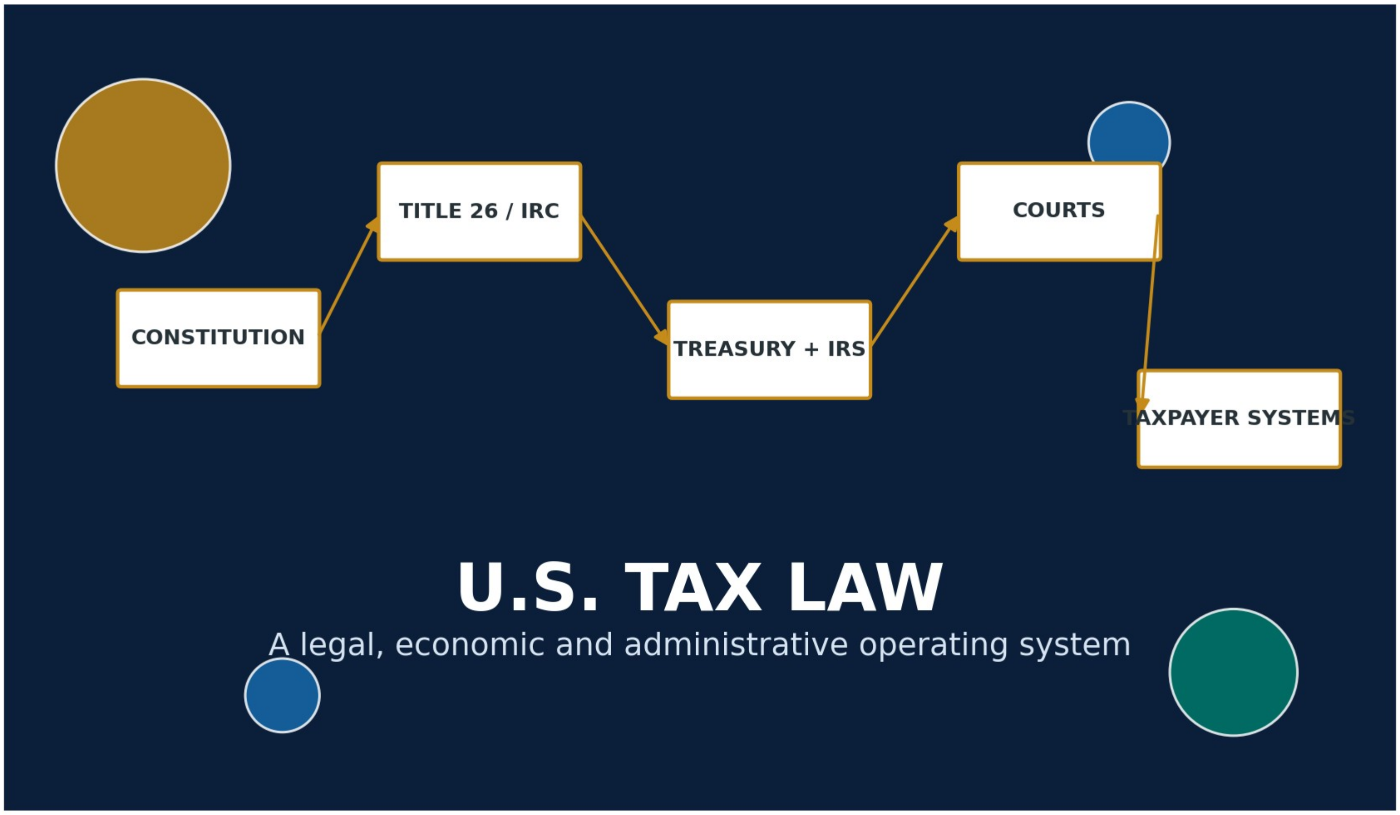

U.S. TAX LAW 2026

A Comprehensive Legal, Economic and Administrative Guide

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Current through July 18, 2026

Professional-use warning This guide is a high-level educational and research reference, not legal, accounting, investment, or tax advice. Tax results turn on facts, elections, documentation, entity classification, state law, treaty position, and rapidly changing guidance. Verify current forms and instructions before filing and engage licensed advisers for material transactions.

How to Use This Guide

U.S. tax law is best understood as an operating system. A transaction first has an economic form, then a legal form, then a tax classification, then a reporting pathway, and finally an audit and collection risk. This guide therefore moves from authority and computation to transaction-specific regimes, multijurisdictional overlays, controversy, and implementation systems.

Reader	Primary route through the guide	Immediate output
Individual taxpayer	Chapters 2–4, 10, 17 and Appendix A	Annual tax calendar, source-document file, withholding and estimated-tax model
Investor	Chapters 4–5, 11, 14 and 18	Tax-lot policy, basis ledger, entity/tax-advantaged account allocation
Startup founder	Chapters 6–10, 16 and 20	Formation tax memo, equity calendar, payroll controls, multistate matrix
International business	Chapters 12–13, 16–18	Residency/source analysis, reporting inventory, transfer-pricing file
Media or nonprofit operator	Chapters 6, 10, 15–17 and 20	Entity choice, revenue classification, UBIT/political-activity controls

Research date and legislative frame

The guide reflects federal law and administrative materials available through July 18, 2026. It incorporates Public Law 119-21, enacted July 4, 2025, and 2026 inflation adjustments. Temporary provisions are labeled. State and local figures are snapshots and should be confirmed against the state's current return instructions, because effective dates, local overlays, and apportionment rules change independently.

Source note: Principal official sources include Title 26, Treasury Regulations, IRS Revenue Procedure 2025-32, IRS 2026 inflation-adjustment releases, Notice 2026-10 as modified by Announcement 2026-11, Social Security Administration wage-base releases, FinCEN FBAR materials, state departments of revenue, and official court opinions.

Executive map

Layer	Core question	Typical authority	Operational evidence
Jurisdiction	Which government can tax?	Constitution; federal statute; state constitution/statute; Due Process and Commerce Clauses	Residence, domicile, payroll, property, customers, transaction location
Tax base	What amount is taxed?	IRC and regulations; state conformity and modifications	Books, ledgers, basis schedules, appraisals, allocation workpapers
Character	What type of income, deduction, gain or loss?	Code definitions, judicial doctrines, elections	Contracts, holding periods, business purpose, use of property
Timing	In which year?	Accounting methods, realization, constructive receipt, economic performance	Invoices, payment records, closing documents, elections
Rate/credit	What rate and offsets apply?	Rate schedules, credit statutes, treaties	Status, income limits, tax paid, qualified expenditures
Procedure	How is liability reported, challenged and collected?	Subtitle F, rules of court, IRS procedure	Returns, notices, protest, petition, claim, collection file

Contents

1. Taxing Power, Sources of Law and Institutional Roles

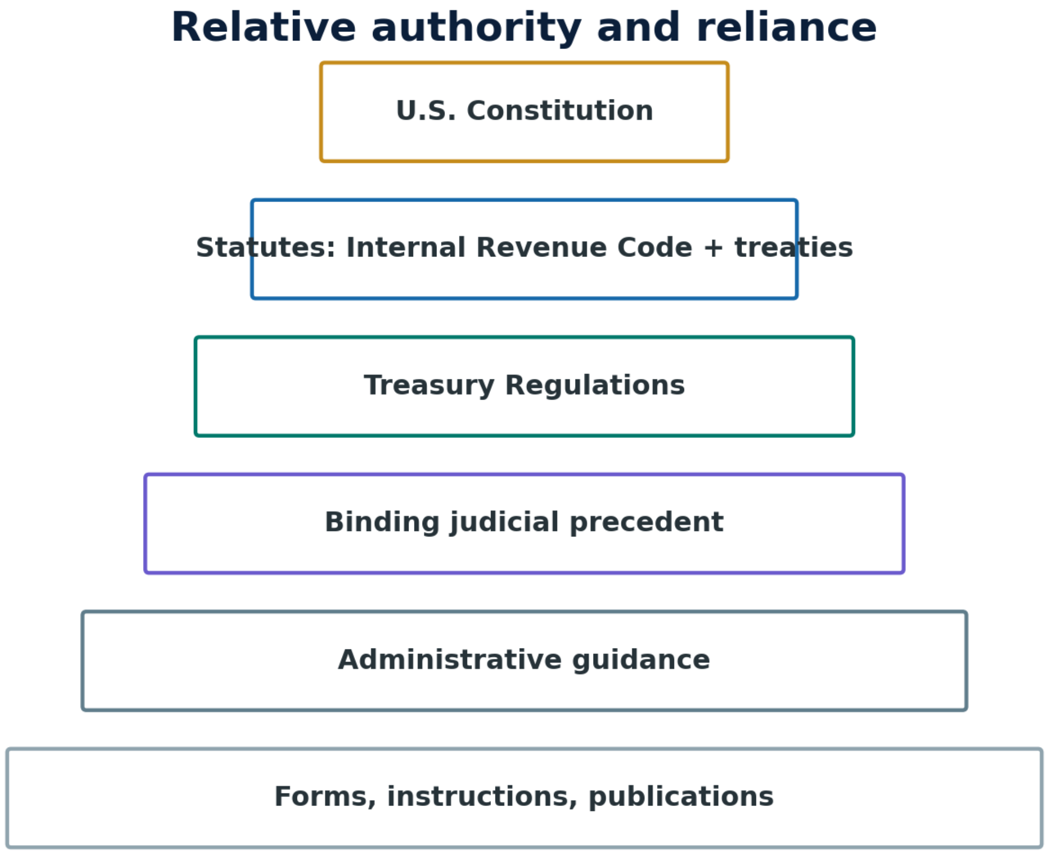

Figure 1 — Practical hierarchy of federal tax authority. Position in the hierarchy and jurisdiction determine reliance.

1.1 Federal, state, county and municipal taxing authority

The United States has no single national tax collector for all taxes. The federal government taxes under powers granted by the Constitution; each state exercises its own sovereign taxing power subject to federal constitutional limits; counties, cities, school districts and special districts generally tax only under authority delegated by their state. The same economic activity may therefore produce federal income tax, federal payroll tax, state income or franchise tax, local business tax, sales and use tax, property tax and excise tax without constituting impermissible double taxation.

Level	Principal taxes	Legal and economic function	Typical administrator
Federal	Individual and corporate income; employment; estate, gift and GST; excise; customs	National revenue, redistribution, social insurance, trade and policy incentives	IRS, Treasury, Customs and Border Protection, Alcohol and Tobacco Tax and Trade Bureau
State	Individual/corporate income; franchise; gross receipts; sales/use; excise; unemployment	Taxes residence, business presence, consumption and state-provided market access	State department of revenue/taxation, workforce agency
County	Real and personal property; local sales add-ons; hotel/occupancy; recording/transfer	Finances schools, courts, public safety, infrastructure and local services	County assessor, trustee/treasurer, clerk
Municipality/special district	Local sales; business license; income/payroll in some cities; utility and tourism taxes	Funds city services and allocates local externalities	City finance/revenue department or district

Key distinction Incorporation, foreign qualification, tax registration, nexus and domicile are different concepts. A Delaware certificate creates a corporation; it does not confine the corporation's tax exposure to Delaware.

1.2 Constitutional architecture

Provision	Tax significance
Article I, §8, cl. 1	Congress may lay and collect taxes, duties, imposts and excises; duties, imposts and excises must be uniform throughout the United States.
Article I, §2 and §9	Direct taxes historically required apportionment among states; this constraint produced constitutional disputes over income taxation.
Sixteenth Amendment	Authorizes taxes on incomes, from whatever source derived, without apportionment among the states and without regard to a census.
Commerce Clause and dormant Commerce Clause	Limits state taxes that discriminate against or unduly burden interstate commerce. Complete Auto and Wayfair frame modern nexus and fair-apportionment analysis.
Due Process Clause	Requires a minimum connection between the taxing jurisdiction, the taxpayer and the taxed value.
Supremacy Clause	Federal statutes and valid treaties can preempt inconsistent state law; federal immunity principles can limit state taxation.

Governing authorities U.S. Const. art. I, §§ 2, 8, 9; U.S. Const. amend. XVI; Complete Auto Transit, Inc. v. Brady, 430 U.S. 274 (1977); South Dakota v. Wayfair, Inc., 585 U.S. 162 (2018).

1.3 The Internal Revenue Code within Title 26

The Internal Revenue Code of 1986, as amended, is generally codified as Title 26 of the United States Code. In ordinary professional usage, "the Code," "IRC," and "Title 26" refer to the same operative statutory body, although positive-law codification terminology should be handled carefully in formal litigation. Congress changes the Code through public laws; the Office of the Law Revision Counsel incorporates amendments into the U.S. Code.

Structural unit	Example	Function
Subtitle	Subtitle A — Income Taxes	Largest division by tax system
Chapter	Chapter 1 — Normal Taxes and Surtaxes	Major regime within a subtitle
Subchapter	Subchapter B — Computation of Taxable Income	Organizes a doctrinal field
Part	Part I — Definition of Gross Income, Adjusted Gross Income, Taxable Income, etc.	Groups closely related rules
Section	§61 — Gross income defined	Primary statutory command
Subsection / paragraph / subparagraph / clause	§61(a)(1); §469(c)(7)(B)(ii)	Increasingly specific rule elements

Citation method "IRC § 162(a)" means section 162, subsection (a). Regulations are cited as "Treas. Reg. § 1.162-1." The "1" before the decimal ordinarily identifies income-tax regulations under Subtitle A.

1.4 Sources of federal tax law and reliance

Authority	Who creates it	Weight / practical use
Constitution	People and states through amendment; courts interpret	Supreme law; invalidates conflicting tax law.
Statute / Code	Congress; President signs or vetoes	Controlling text. Effective dates, transition rules and uncodified provisions matter.
Tax treaty	President with Senate consent; treaty partners	Federal law; may alter source, withholding, permanent-establishment and residency results. Saving clauses preserve U.S. taxation of citizens/residents in many cases.
Treasury Regulations	Treasury under delegated rulemaking authority	Legislative regulations can carry force of law; interpretive regulations remain highly important. After Loper Bright, courts exercise independent statutory judgment rather than Chevron deference.
Supreme Court / controlling appellate precedent	Article III courts	Binding within the applicable hierarchy. Tax Court follows the controlling circuit under Golsen.
Revenue Ruling	IRS National Office	Published IRS position on stated facts; useful but below regulations and controlling precedent.
Revenue Procedure	IRS National Office	Procedural rules, safe harbors, annual inflation adjustments and methods.
Notice / Announcement	Treasury or IRS	Interim guidance, transition relief or administrative information; reliance depends on content.
Private Letter Ruling / TAM	IRS National Office	Applies to requesting taxpayer or examination; generally not precedent under §6110(k)(3), though reasoning is informative.
Forms, instructions and publications	IRS	Essential compliance guidance but not substitutes for statute/regulations. Errors in a publication do not necessarily bind the government.

Governing authorities IRC §§ 7805, 6110(k)(3); Mayo Foundation v. United States, 562 U.S. 44 (2011); Loper Bright Enterprises v. Raimondo, 603 U.S. 369 (2024); Golsen v. Commissioner, 54 T.C. 742 (1970), aff'd, 445 F.2d 985 (10th Cir. 1971).

1.5 Institutional roles and litigation forums

Institution	Core role	Critical procedural point
Congress	Defines tax base, rates, credits, penalties, procedure and spending-linked tax incentives	Committee reports can illuminate context but cannot replace enacted text.
Treasury	Develops tax policy, regulations, treaties and broad administrative guidance	Rulemaking must comply with statutory authority and administrative law.
IRS	Administers returns, guidance, examinations, assessments, collection and criminal investigation	The IRS does not create taxes independently; it applies enacted law.
IRS Independent Office of Appeals	Administrative settlement based on hazards of litigation	Designed to be independent from compliance functions; protest deadlines matter.
U.S. Tax Court	Prepayment forum for deficiencies; also certain collection, partnership and whistleblower matters	A timely petition after a notice of deficiency generally prevents assessment while the case is pending.

Institution	Core role	Critical procedural point
Federal district court	Refund suits and some statutory actions; jury trial may be available	Full-payment rule generally applies under Flora, subject to divisible-tax doctrine.
Court of Federal Claims	Nationwide refund forum without jury	Full payment and timely administrative refund claim generally required.
Courts of appeals	Review Tax Court, district court and CFC judgments	Circuit law can produce geographic differences.
Supreme Court	Resolves federal questions and conflicts	Rare review; decisions reshape doctrine nationally.

2. Individual Income-Tax Architecture

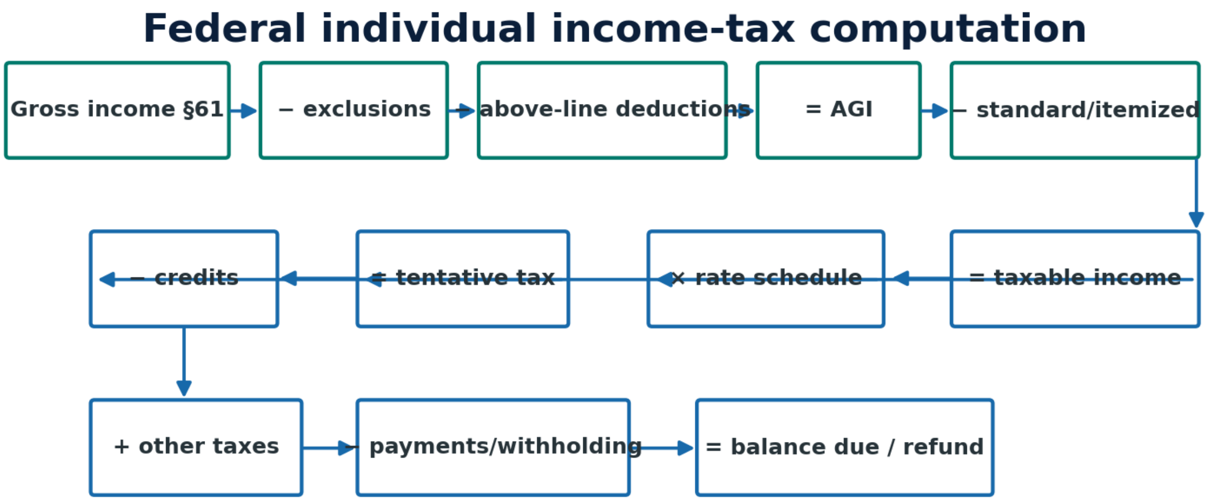

Figure 2 — Simplified Form 1040 computational waterfall. Separate schedules and parallel taxes can modify each stage.

2.1 Core definitions

Term	Meaning	Why it matters
Gross income	All income from whatever source derived unless a specific exclusion applies. §61 is deliberately broad.	Starting point for wages, business income, interest, rents, gains and other accessions to wealth.
Adjusted gross income (AGI)	Gross income minus deductions listed in §62 and related provisions.	Controls phaseouts, medical deductions, charitable limits, NIIT and many credits.
Above-the-line deduction	A deduction taken in arriving at AGI, whether or not the taxpayer itemizes.	Often more valuable operationally because it affects AGI-linked limits.
Taxable income	AGI minus standard or itemized deductions and any other permitted deduction in the taxable-income computation.	Rate schedule applies here, subject to preferential-rate worksheets and AMT.
Standard deduction	Statutory amount based primarily on filing status, with additions for age/blindness and restrictions for dependents/nonresidents.	Alternative to itemizing.
Itemized deductions	Permitted personal deductions, principally medical, SALT, interest, charitable gifts and casualty/theft in specified circumstances.	Taken only when allowed itemized total exceeds or strategically replaces the standard deduction.
Personal exemption	Historically a deduction per taxpayer/dependent. For 2026, the exemption amount remains zero under current law.	Dependency still matters for credits, status and other rules.

Term	Meaning	Why it matters
Credit	Dollar-for-dollar reduction of tax. Refundable credits can exceed pre-credit tax; nonrefundable credits generally cannot.	Credits usually have larger marginal impact than deductions of equal face amount.
Marginal rate	Rate imposed on the next dollar within a bracket.	Relevant to timing and deduction decisions.
Effective rate	Total tax divided by the selected income measure.	Useful for economic comparison but not a statutory rate.

Governing authorities IRC §§ 1, 61–63, 151, 21–25A, 31–36B. Commissioner v. Glenshaw Glass Co., 348 U.S. 426 (1955), describes gross income as undeniable accessions to wealth, clearly realized, over which taxpayers have complete dominion.

2.2 Filing status

Status	Core test	Common consequence / risk
Single	Unmarried or considered unmarried and no qualifying status	Single brackets and standard deduction.
Married filing jointly	Married at year-end and spouses elect joint return	Wider brackets, joint and several liability, access to many benefits.
Married filing separately	Married but separate returns	Often disallows or constrains credits/deductions; community-property rules may apply.
Head of household	Unmarried/considered unmarried; pays over half home cost for qualifying person	More favorable brackets and standard deduction than single; factual documentation essential.
Qualifying surviving spouse	Eligible widow(er) with dependent child, generally for two years after death year	Joint-return rate structure without remarriage, subject to tests.

2.3 2026 rate schedule and standard deduction

Rate	Single taxable income	Married filing jointly taxable income
10%	$0–$12,400	$0–$24,800
12%	$12,401–$50,400	$24,801–$100,800
22%	$50,401–$105,700	$100,801–$211,400
24%	$105,701–$201,775	$211,401–$403,550
32%	$201,776–$256,225	$403,551–$512,450
35%	$256,226–$640,600	$512,451–$768,700
37%	Over $640,600	Over $768,700

2026 filing status	Standard deduction
Single / married filing separately	$16,100
Head of household	$24,150
Married filing jointly / qualifying surviving spouse	$32,200

Source note: IRS, Revenue Procedure 2025-32 and IR-2025-103, tax year 2026. Brackets apply to taxable income, not gross income. Additional standard deductions and dependency limitations are not shown.

2.4 Numerical example: federal individual tax

Example — married couple A married couple filing jointly has $240,000 wages, $8,000 taxable interest, $12,000 Schedule C profit, and $15,000 deductible retirement/HSA or other above-the-line amounts. Gross income is $260,000; AGI is $245,000. Assume the $32,200 standard deduction and no special deductions: taxable income is $212,800. The first $211,400 is taxed through the 22% bracket and $1,400 at 24%. Payroll/self-employment tax, credits, NIIT, AMT and state taxes must be computed separately. The example demonstrates why “tax bracket” is not a rate on all income.

2.5 Parallel tax systems

The regular income-tax calculation does not capture every federal liability. Self-employment tax, Additional Medicare Tax, net investment income tax, alternative minimum tax, household-employment tax, early-distribution additional taxes and excess-contribution excises can appear on separate schedules. The correct workflow reconciles income-tax character with payroll and excise classifications rather than assuming one rate schedule controls the return.

3. Income, Deductions and Credits

3.1 Tax treatment of common receipts

Item	General federal treatment	Key exceptions / reporting
Wages, bonuses, tips	Ordinary income; wage withholding; FICA generally applies	Qualified fringe benefits excluded by statute. 2025–2028 qualified-tip deduction may be available, but tips remain income and generally remain subject to payroll tax.
Self-employment income	Net profit is ordinary income; self-employment tax generally applies	Deduct ordinary and necessary business expenses; one-half of SE tax generally deductible in arriving at AGI.
Interest	Ordinary income when received or accrued under method	Municipal-bond interest may be federally excluded; market discount, OID and tax-exempt private-activity bonds require special analysis.
Dividends	Ordinary dividends are income; qualified dividends may use 0/15/20% rates	Holding-period, issuer and hedging tests apply; REIT and MLP distributions differ.
Rents / royalties	Schedule E or business schedule; depreciation and passive rules may apply	Services can convert rental activity toward business treatment; royalties vary by underlying right and activity.
Pensions / annuities	Taxable except recovery of after-tax basis; rollovers can defer	RMD, early-distribution, withholding and beneficiary rules apply.
Social Security	0%, up to 50%, or up to 85% included depending on provisional income	Included amount is not a flat 85% tax rate.
Unemployment compensation	Generally ordinary income for federal purposes	State treatment varies.
Alimony	For instruments executed after 2018, generally neither deductible by payor nor taxable to recipient	Pre-2019 instruments and later modifications require instrument-specific review.
Cancellation of debt	Generally income to extent debt is discharged	Bankruptcy, insolvency, qualified farm/real-property business and other exclusions may apply, often reducing tax attributes on Form 982.
Scholarships	Qualified tuition and required fees/books may be excluded for degree candidates	Room, board, stipends and compensation for services are generally taxable absent a specific rule.
Gambling	Winnings are gross income	Losses generally itemized only to extent winnings, subject to current statutory rules and professional-gambler doctrine.
Digital assets	Property, not currency, for general federal income-tax purposes	Sale, exchange, spending, mining/staking, airdrops and compensation can trigger income/gain; basis and wallet records are critical.

Governing authorities IRC §§ 61, 74, 85, 86, 102, 104, 108, 117, 127, 165(d), 280A, 451; Rev. Rul. 2019-24; Notice 2014-21. Specific digital-asset guidance continues to evolve.

3.2 Personal deductions

Deduction	Core rule	Planning and documentation
Charitable contributions	Deduction for qualified gifts to eligible organizations, subject to substantiation and percentage limits	Retain contemporaneous acknowledgment; obtain qualified appraisal and Form 8283 for applicable property; avoid private benefit.

Deduction	Core rule	Planning and documentation
Mortgage interest	Qualified residence interest subject to acquisition-debt, tracing and home-equity-use rules	Loan proceeds—not collateral alone—determine interest character. Refinance and mixed-use tracing matter.
State and local tax (SALT)	Itemized deduction for specified state/local income or sales and property taxes, subject to annual cap and high-income rules	2026 cap is indexed under 2025 legislation; verify final Schedule A instructions. Entity-level pass-through tax elections may operate under separate state regimes.
Medical expenses	Unreimbursed qualified expenses deductible only above 7.5% of AGI, if itemizing	Time elective care and reimbursements; coordinate FSA/HSA rules; no double benefit.
Casualty and theft	Personal losses generally restricted to federally declared disasters and statutory exceptions	Business/investment property follows different rules; insurance recovery and basis limit loss.
Business expenses	§162 allows ordinary and necessary trade/business expenses; §212 covers certain income-production expenses but miscellaneous itemized deduction rules matter	Substantiate amount, date, place, business purpose and participants. Capital expenditures are not currently deductible unless a recovery rule applies.

3.3 Major credits and temporary 2025–2028 deductions

Provision	2026-oriented summary	Critical limitations
Child Tax Credit	Up to $2,200 per qualifying child under current post-2025 law; refundable portion and phaseouts require annual instructions	Age, relationship, residence, support, SSN and income tests.
Earned Income Tax Credit	Refundable; 2026 maximum $8,231 for taxpayers with 3+ qualifying children	Earned income, AGI, investment-income, residency, SSN and child tests; due-diligence penalties for preparers.
American Opportunity Credit	Up to $2,500 per eligible student; partly refundable	First four years, half-time enrollment, qualified expenses, income phaseout and no double use.
Lifetime Learning Credit	20% of up to $10,000 qualified expenses per return	Nonrefundable; income phaseout; broader course eligibility.
Senior deduction	2025–2028 additional $6,000 per eligible age-65 individual ($12,000 if both spouses qualify)	Phases out above $75,000 MAGI single / $150,000 joint; married taxpayers generally must file jointly.
Qualified tips deduction	2025–2028 up to $25,000 of qualified tips	Specified occupations, reporting, SSN, MAGI phaseout and SSTB exclusions; does not eliminate payroll tax.
Qualified overtime deduction	2025–2028 up to $12,500 ($25,000 joint) for overtime premium element	Only FLSA-required premium portion; reporting and MAGI phaseout.
Qualified passenger-vehicle loan interest	2025–2028 up to $10,000	Original-use, U.S.-final-assembly, secured loan, personal-use vehicle, VIN and MAGI limits.

Source note: IRS Working Families Tax Cuts pages updated through July 2026; Revenue Procedure 2025-32. Temporary deductions require Schedule 1-A or successor instructions and detailed eligibility review.

3.4 Lawful planning versus prohibited duplication

- Bunch discretionary itemized deductions into selected years only when the payment and substantiation rules are satisfied.
- Coordinate education credits with §529 distributions, scholarships and employer educational assistance; one dollar of expense cannot support multiple tax benefits.
- Use accountable-plan reimbursements for employees rather than treating legitimate business costs as unreimbursed personal expenses.
- Perform year-end withholding and estimated-tax projections before realizing gains or exercising equity compensation.
- Document exclusions and basis. The taxpayer generally bears the practical burden of proving that a receipt is excluded or that basis exceeds zero.

4. Capital Markets and Investment Taxation

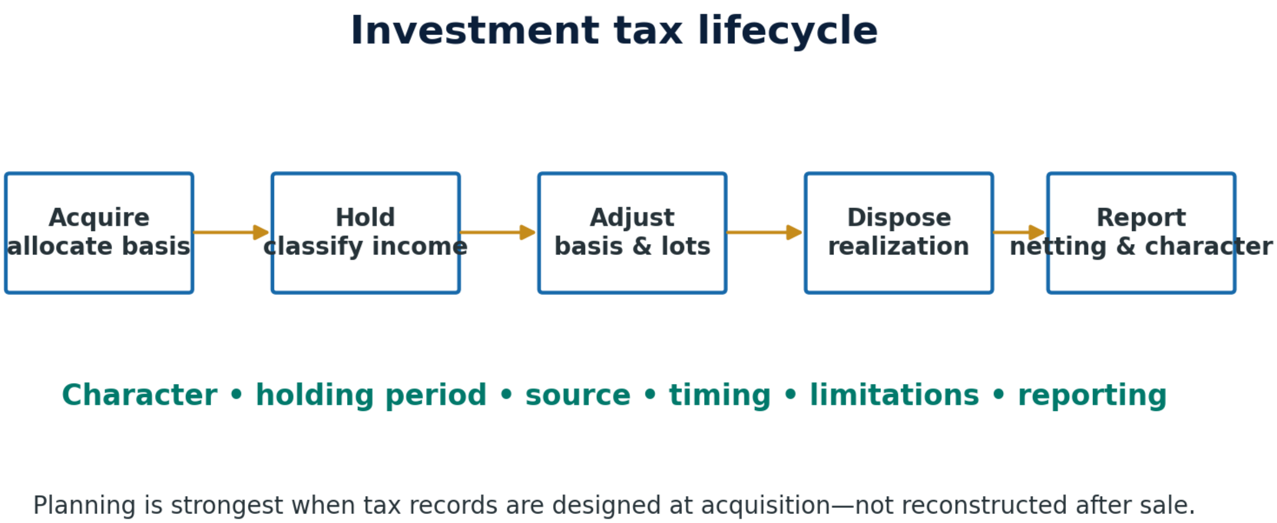

Figure 3 — Investment tax results are built from acquisition data, not merely sale proceeds.

4.1 Ordinary income, capital gain and qualified dividends

Character determines rate, netting, loss limitations, source and reporting. Capital gain generally arises from sale or exchange of a capital asset, but the Code excludes inventory, depreciable business property, accounts receivable and specified intellectual property from the default definition. Short-term gain comes from property held one year or less and is taxed at ordinary rates. Net long-term capital gain generally receives preferential rates, while special rates may apply to collectibles, unrecaptured §1250 gain and qualified small business stock.

2026 long-term capital-gain rate	Single taxable income	Married filing jointly taxable income
0%	$0–$49,450	$0–$98,900
15%	$49,451–$545,500	$98,901–$613,700
20%	Over $545,500	Over $613,700

Qualified dividends use the long-term capital-gain rate schedule if issuer, holding-period and risk-of-loss requirements are met. They remain dividend income, not capital gains, and can affect net investment income tax and foreign tax credit calculations.

Governing authorities IRC §§ 1(h), 1221–1223, 1231, 1245, 1250. Revenue Procedure 2025-32 provides 2026 preferential-rate thresholds.

4.2 Basis, holding period and loss controls

Concept	Rule	Operational control
Cost basis	Generally acquisition cost plus capitalized commissions and adjustments	Import broker records; reconcile transfers; preserve inherited/gift basis documents.

Concept	Rule	Operational control
Adjusted basis	Basis increases or decreases for reinvestments, returns of capital, depreciation, improvements, partnership allocations and other items	Maintain asset-level rollforward.
Specific identification	Taxpayer may identify securities sold if broker and timing rules are met	Adopt written lot-selection policy before trade settlement.
Wash sale §1091	Loss disallowed when substantially identical stock/securities are acquired within 30 days before or after loss sale	Monitor all taxable and IRA accounts; disallowed loss generally adds to replacement basis, except IRA acquisitions can cause permanent loss.
Capital-loss netting	Short- and long-term categories net; individuals generally deduct only $3,000 net capital loss annually against ordinary income	Carryforward ledger should distinguish character and source.
Holding period	Usually begins day after acquisition and includes sale date; tacking rules can apply	Options, gifts, conversions and distributions need specialized tracking.
Constructive sale §1259	Certain hedges against appreciated positions trigger deemed sale	Review short sales, forwards and offsetting notional principal contracts.
Straddle §1092	Loss deferral, capitalization and holding-period rules apply to offsetting positions	Identify positions across brokers and entities; mixed-straddle elections are deadline-sensitive.

4.3 Net Investment Income Tax

IRC §1411 generally imposes 3.8% on the lesser of net investment income or the excess of modified AGI over $200,000 for single/head-of-household taxpayers and $250,000 for married filing jointly. Investment income includes interest, dividends, annuities, royalties, rents and net gain, plus income from passive activities and trading businesses, reduced by properly allocable deductions. Wages and active trade/business income are generally outside NII, though they may raise MAGI and expose other investment income to the tax.

Example — NIIT A joint filer has $270,000 MAGI, including $35,000 net investment income. Excess MAGI is $20,000; NIIT is 3.8% × $20,000 = $760. The remaining $15,000 of NII is not subject to §1411 because the tax uses the lesser amount.

4.4 Options, futures and Section 1256

Instrument / rule	Typical federal treatment	Primary trap
Purchased call/put	Premium capitalized into basis or proceeds depending on exercise, lapse or sale	Holding period and straddle rules may alter result.
Written option	Premium generally deferred until lapse, closing or exercise	Covered calls may suspend stock holding period and affect qualified dividends.
Employee stock option	Governed by §§83, 421–424 and compensation rules, not ordinary investor-option rules	Exercise can create compensation, AMT, withholding and basis differences.
Regulated futures / broad-based index options	Often §1256 contracts: annual mark-to-market; 60% long-term / 40% short-term capital treatment	Not every option or crypto derivative qualifies; exchange and contract definition control.
Mixed straddle	Special elections can integrate or modify §1256 and non-§1256 positions	Election mechanics, identification and interest-charge rules are complex.

4.5 Funds and alternative investments

Vehicle	Investor tax profile	Practical implication
Mutual fund	Regulated investment company passes through dividends and capital-gain distributions; taxable distributions may arise without investor sale	Purchase before record date can create a "buying the dividend" tax cost.
ETF	Typically RIC; in-kind redemption mechanism can reduce portfolio-level gain distributions, but investor sale remains taxable	Do not assume all ETFs are tax-efficient; fixed-income, commodity and derivative ETFs differ.
REIT	Generally deducts qualifying dividends paid and must satisfy asset/income/distribution tests; ordinary REIT dividends are usually not qualified dividends	§199A deduction may apply to qualified REIT dividends; return-of-capital distributions reduce basis.
Master limited partnership	Publicly traded partnership generally issues Schedule K-1 and allocates income, deductions and liabilities	UBTI can affect IRAs; state filings, basis and §751 ordinary income complicate exit.
Hedge/private-equity fund	Usually partnership; investors receive K-1/K-2/K-3 with character and source passing through	Unrelated business taxable income, ECI, PFIC/CFC exposure and state filings matter for different investor classes.
Carried interest	Partnership profits interest; §1061 generally requires more than three years for specified long-term capital gain treatment	Exceptions and recharacterization depend on activity, asset and holding period; wage conversion is not automatic.
Commodity pool / gold trust	May produce §1256, partnership, grantor-trust or collectibles treatment	Legal wrapper controls more than marketing label.

4.6 Practical asset examples

Asset and facts	Simplified result	Tax-planning focus
Stock: buy for $100,000; sell after 18 months for $145,000	$45,000 long-term capital gain; preferential rate plus possible 3.8% NIIT	Lot selection, charitable gifting, loss harvesting, estimated tax.
Bond: $100,000 corporate bond at par; $5,000 coupon	$5,000 ordinary interest; later sale gain/loss may be capital, modified by OID/market discount rules	Taxable-equivalent yield, accrual rules, premium amortization.
Rental real estate: $600,000 purchase allocated $450,000 building; rent exceeds cash costs	Building generally depreciated over 27.5 years residential or 39 years nonresidential; passive limits may suspend loss	Allocation, cost segregation, participation, debt tracing, recapture.
Physical gold: buy $50,000; sell after two years for $80,000	$30,000 long-term collectibles gain, maximum 28% rate, plus possible NIIT	Storage/insurance basis, dealer reporting, estate planning.
Bitcoin: buy 1 BTC for $40,000; later spend it when worth $65,000	$25,000 capital gain if held for investment; spending is a disposition	Wallet-level basis, transaction fees, holding period, information reporting.

Tax-loss harvesting is a process, not a trade A defensible process defines target exposure, loss threshold, replacement security, wash-sale controls, lot identification and re-entry timing. Economic risk and transaction costs must be weighed against current tax savings and future lower basis.

5. Retirement, Health and Education Accounts

5.1 Comparative architecture

Account	Contribution treatment	Growth / distributions	2026 key limit or feature
Traditional IRA	Deductible if eligible; nondeductible basis tracked on Form 8606	Tax deferred; distributions ordinary to extent not basis; RMD rules apply	$7,500 contribution; $1,100 age-50 catch-up.
Roth IRA	No deduction; income eligibility limits direct contribution	Qualified distributions tax free; no lifetime owner RMD	$7,500 plus catch-up; phaseout $153,000–$168,000 single/HOH and $242,000–$252,000 joint.
401(k), 403(b), governmental 457(b), TSP	Pre-tax or designated Roth salary deferral; employer contributions	Tax deferred or Roth-qualified; plan distribution and RMD rules	$24,500 elective deferral; $8,000 age-50 catch-up; special $11,250 age 60–63 catch-up; total defined-contribution limit $72,000 excluding catch-up.
SEP IRA	Employer contribution, including self-employed employer	Tax deferred; IRA distribution rules	Employer contribution formula subject to compensation and annual defined-contribution limits.
SIMPLE IRA	Employee deferral plus required employer contribution	Tax deferred; special early-distribution rule during initial period	$17,000 basic deferral, subject to statutory variations and catch-up.
HSA	Above-line deduction or pre-tax payroll contribution if eligible	Tax-free for qualified medical expenses; portable; can invest	$4,400 self-only / $8,750 family; $1,000 age-55 catch-up.
§529 plan	No federal deduction; possible state benefit	Tax-free for qualified education distributions and specified rollovers subject to limits	State plan and beneficiary records; avoid double use with credits.
Trump Account §530A	After-tax and specified employer/government contributions under 2025 legislation	Generally restricted before age 18; later IRA-like framework subject to regulations	Contributions began no earlier than July 4, 2026; annual authorized contribution framework requires current guidance.

Source note: IRS IR-2025-111 for 2026 retirement limits; Revenue Procedure 2025-19 for HSA/HDHP limits; IRS Working Families Tax Cuts materials for §530A accounts. Verify plan-specific documents and SECURE Act changes.

5.2 Tax-location strategy

Asset location asks which investments belong in taxable, tax-deferred and tax-free accounts. High-turnover ordinary-income assets often benefit from shelter; long-term appreciated assets can use preferential rates, charitable giving and basis step-up in taxable accounts; Roth space is scarce and can be reserved for high expected-return assets if risk is acceptable. The conclusion changes when state tax, UBTI, foreign tax credits, liquidity, creditor protection and estate objectives are included.

5.3 Prohibited transactions and account integrity

- IRAs cannot be used for prohibited transactions with disqualified persons; a transaction can disqualify the account rather than merely tax one item.
- Borrowing, pledging IRA assets, self-dealing, personal use of IRA-owned property and inadequate valuation are high-risk.
- HSA eligibility requires qualifying HDHP coverage and absence of disqualifying coverage; Medicare enrollment affects contribution eligibility.
- Keep Forms 8606, rollover confirmations, beneficiary designations, plan statements and qualified-expense receipts indefinitely as part of basis and distribution proof.

6. Business Entity Taxation

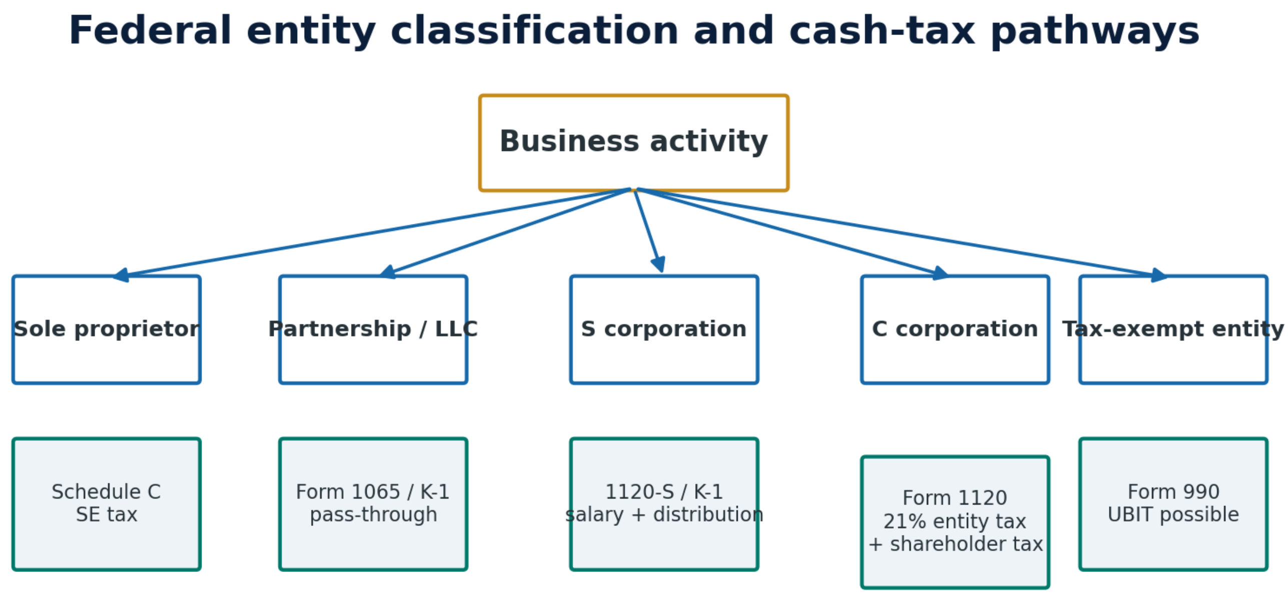

Figure 4 — State-law entity form and federal tax classification overlap, but are not identical.

6.1 Entity classification and elections

Federal tax classification does not always follow the state-law label. A domestic single-member LLC is disregarded by default; a domestic multi-member LLC is a partnership by default; an eligible entity may elect corporate classification on Form 8832; a qualifying corporation or eligible entity may elect S status on Form 2553. A state-law corporation is generally classified as a corporation without a check-the-box election. Elections can trigger deemed liquidation or contribution transactions and are constrained by change-of-classification rules.

Form	Default federal classification	Tax return	Owner-level pattern
Sole proprietorship / disregarded LLC	Owner and business treated as one for income tax	Schedule C/E/F with Form 1040	Ordinary income; self-employment tax depends on activity.
Partnership / multi-member LLC	Pass-through partnership	Form 1065; Schedules K-1	Items retain character; owners track outside basis and at-risk/passive limits.
S corporation	Pass-through corporation after valid election	Form 1120-S; Schedules K-1	Wages for services plus distributions; basis and AAA matter.
C corporation	Separate taxable entity	Form 1120	21% federal corporate tax; shareholder tax on dividends or stock dispositions.
Tax-exempt corporation/trust	Exempt if recognized and operated within statute	Form 990 series; Form 990-T for UBIT	No owners; private inurement prohibited; excise and UBIT regimes possible.

6.2 Pass-through versus double taxation

Example — simplified comparison Assume $1,000,000 pre-owner-compensation profit. A C corporation pays $210,000 federal tax at 21%, leaving $790,000. If all is distributed as a qualified dividend to a 20% capital-gain-rate shareholder subject to 3.8% NIIT, shareholder tax is approximately $188,020, for combined federal tax near $398,020. A pass-through may impose one owner-level income tax, but self-employment/payroll tax, §199A, state taxes, retained cash, basis, capital needs, fringe benefits, QSBS and exit strategy can reverse the simplistic comparison.

6.3 Core business-tax regimes

Regime	Core rule	Risk / planning
Self-employment tax	Generally 12.4% Social Security up to wage base plus 2.9% Medicare, with additional Medicare tax at higher earned income levels	Classification of partner/LLC member activity and limited-partner exception is fact-sensitive.
Payroll tax	Employee/employer FICA, withholding and unemployment taxes	Responsible persons can face trust-fund recovery penalty for withheld taxes.
Reasonable compensation	S-corp shareholder-employees and C-corp owner-employees must receive supportable compensation	Too low in S corp risks wage reclassification; too high in C corp can create disguised dividend.
Qualified business income §199A	Deduction generally up to 20% of qualified pass-through income, subject to taxable-income, wage/property and SSTB limits	Post-2025 law made structure permanent and added a minimum-deduction framework; aggregate, loss carryover and entity reporting matter.
Accumulated earnings tax	Penalty tax on unreasonable accumulation of earnings to avoid shareholder tax	Document working-capital, acquisition, debt and expansion needs.
Personal holding company tax	Penalty regime for closely held corporations with specified passive income	Monitor ownership concentration and adjusted ordinary gross income.
Corporate AMT	15% minimum tax on adjusted financial statement income for applicable large corporations	Book-tax adjustments, aggregation and foreign-parent rules require enterprise systems.
BEAT	Minimum-tax-style regime for certain large corporations making base-eroding payments to foreign related parties	Gross receipts, base-erosion percentage and modified taxable income drive exposure.

6.4 Method for choosing an entity

24. Define the business model: labor, IP, inventory, real estate, regulated activity, outside capital and expected exit.
25. Model federal income, payroll/self-employment, state, local and owner-level taxes over at least five years.
26. Test eligibility constraints: S-corp shareholders, QSBS business/assets, VC preferred stock, tax-exempt or foreign investors.
27. Model distributions and retained earnings. Entity tax can be lower while cash extraction is more expensive.
28. Identify non-tax goals: liability, governance, securities issuance, employee equity, continuity and investor norms.
29. Create an election and filing calendar before formation or conversion; retroactive relief is not a substitute for controls.

7. Delaware C Corporation and Founder Tax

7.1 Formation and start-up expenditures

A Delaware C corporation is a state-law corporation and separate federal taxpayer. It receives an EIN, adopts a tax year and accounting method, records capitalization, and generally files Form 1120. Organizational expenditures under §248 and start-up expenditures under §195 may qualify for limited immediate deductions with the balance amortized over 180 months, subject to phaseout once expenditures exceed statutory thresholds. Stock-issuance costs generally reduce capital and are not ordinary deductions.

Formation item	Typical treatment	Control
Legal fees for charter/bylaws/organizational meetings	Potential §248 organizational expenditure	Separate from financing, IP and operating legal fees.
Pre-opening market research, training, travel and advertising	Potential §195 start-up expenditure if business becomes active	Record date active trade/business begins; abandoned ventures may differ.
Stock issuance, placement and investor legal fees	Capital transaction; generally not deductible as §162 expense	Allocate mixed invoices contemporaneously.
Founder-contributed IP/property	Usually §351 nonrecognition if transferors control immediately after exchange	Valuation, liabilities, services/property distinction and basis records.
Services for stock	Compensation under §83, not tax-free property contribution	Payroll withholding, valuation and deduction timing.

7.2 Founder stock, restricted stock and §83(b)

Restricted founder stock is generally taxed under §83 when substantially vested, based on fair market value minus amount paid. A timely §83(b) election—filed within 30 days after transfer—elects current inclusion at transfer and starts the capital-gain holding period, but forfeiture later does not restore tax paid beyond limited rules. The election is powerful when value is low and vesting risk is acceptable; it is dangerous when valuation is high, cash tax is large or forfeiture is likely.

Founder example Founder buys 4,000,000 restricted shares for $0.0001 each when fair market value equals price. A timely §83(b) election reports zero compensation. Four years later the stock is fully vested and worth $8 million: vesting itself generally produces no compensation tax because §83(b) moved the inclusion date. A later qualifying sale may produce capital gain. Without the election, value at each vesting date generally becomes compensation and basis.

Hard deadline The 30-day §83(b) deadline is statutory and operationally unforgiving. Use board-approved grant documents, proof of transfer/payment, signed election, tracked delivery, company copy and tax-return attachment procedures.

7.3 Stock options, RSUs and §409A

Award	Grant/exercise/vesting treatment	Key risks
Incentive stock option (ISO)	Generally no regular tax at grant/exercise; exercise spread is AMT adjustment; qualifying disposition may yield capital gain	$100,000 annual vesting limit, employee/status rules, holding periods, AMT liquidity and disqualifying dispositions.
Nonqualified stock option (NSO/NQSO)	Generally no tax at grant if compliant; ordinary compensation at exercise on spread; employer withholding/deduction	Exercise valuation, payroll, tender offers, expiration and §409A.
Restricted stock unit (RSU)	Usually ordinary compensation at settlement following vesting; no §83(b) because no property transferred at grant	Deferred settlement, payroll withholding, liquidity and §409A documentary compliance.
Restricted stock award	§83 at vesting unless timely §83(b) election	Forfeiture, dividends, voting rights and valuation.

Award	Grant/exercise/vesting treatment	Key risks
Profits interest	Partnership concept, not corporate stock	Requires partnership structure and safe-harbor analysis; cannot be issued by C corporation.

Section 409A regulates nonqualified deferred compensation. For private-company common-stock options, an exercise price below fair market value can create deferred compensation and severe penalties. A defensible independent valuation is a process and safe-harbor tool, not an IRS "approval." Material events can make a valuation stale before its nominal 12-month period ends.

7.4 Qualified Small Business Stock — §1202

QSBS can exclude gain on qualifying original-issue C-corporation stock if shareholder, issuer, active-business, gross-asset and holding-period requirements are met. For stock acquired after July 4, 2025, Public Law 119-21 introduced a tiered exclusion: generally 50% after three years, 75% after four years and 100% after five years; increased the per-issuer dollar cap to $15 million for applicable stock; and raised the gross-asset threshold to $75 million, with future indexing. Stock and effective-date details require transaction-specific review.

QSBS requirement	Operational evidence
Domestic C corporation; original issuance	Certificate, purchase agreement, stock ledger, issuance consideration and transfer history.
Gross assets within applicable threshold before and immediately after issuance	GAAP/tax balance sheets, financing closing statement and property FMV support.
Qualified active business for substantially all holding period	Revenue/activity records; asset-use tests; excluded-business screening.
Five-year or applicable tiered holding period	Exact issue date; exchanges, gifts and §1045 rollovers.
Shareholder limitation and gain cap	Taxpayer acquisition history, prior exclusions and basis.
Redemption restrictions	Cap table and company/shareholder repurchase history around issuance.

QSBS governance At each financing, update a QSBS file rather than reconstructing eligibility at exit. Board materials should identify gross assets, use of proceeds, active business, redemptions and any conversion or reorganization.

7.5 §1244 stock and losses

Section 1244 can convert a limited amount of loss on qualifying small-business stock from capital to ordinary loss for an original holder. Requirements include domestic small-business corporation status at issuance, money/property received, gross-receipts tests and recordkeeping. It is not a substitute for QSBS: §1202 addresses gain; §1244 addresses loss.

7.6 SAFEs, convertible notes and preferred stock

Instrument	Tax question	Recommended documentation
SAFE	Is it stock, prepaid forward, option-like contract or debt for the relevant provision? Classification may differ across Code sections.	Board authorization, economics, conversion mechanics, capitalization treatment, tax memo for QSBS and reporting.
Convertible note	Debt versus equity; OID; interest accrual; conversion under §§351/354/368 or satisfaction of debt	Principal, interest, maturity, subordination, conversion price, lender intent and cap table.
Preferred stock	Debt/equity characterization, dividends, redemption premium, §305 deemed distributions and participation rights	Certificate of designation, liquidation preference, conversion, redemption and dividend terms.
Dividend	Corporate E&P determines dividend treatment; excess distribution reduces basis then creates gain	Annual E&P study; Form 1099-DIV.

Instrument	Tax question	Recommended documentation
Stock redemption	May be sale/exchange or dividend depending on ownership reduction and attribution	Before/after cap table, family/entity attribution, waiver and business purpose.

7.7 Exit, acquisition and dissolution

Transaction	High-level tax result	Decision point
Asset sale	Corporation recognizes asset-level gain; shareholder taxed when proceeds distributed	Potential double tax, depreciation recapture, allocation under §1060, successor liabilities.
Stock sale	Shareholders recognize gain; corporation generally does not	Buyer loses basis step-up unless election/structure available; QSBS may favor founders.
Tax-free reorganization	Nonrecognition possible under §368 if statutory and judicial requirements met	Continuity of interest/business enterprise, plan, boot and step-transaction doctrine.
§338 election	Certain qualified stock purchases treated as asset acquisition for tax	Buyer step-up versus seller deemed-asset tax; election price adjustment.
Liquidation	Corporation recognizes gain/loss on distributed assets under §336; shareholder generally recognizes under §331	Wind-up, creditor payments, final returns, state dissolution and information reporting.

8. Partnership and LLC Taxation

8.1 The entity and aggregate hybrid

A partnership generally does not pay federal income tax as an entity. It computes taxable income and separately stated items on Form 1065, then furnishes Schedule K-1 to partners. The regime alternates between entity treatment—partnership owns assets and makes elections—and aggregate treatment—partners are taxed on distributive shares whether or not cash is distributed. State-law LLC status does not alter this default when the LLC is taxed as a partnership.

Concept	Definition	Why errors occur
Book capital account	Partner's economic equity under the partnership agreement and tax-accounting rules	It is not cash, outside basis or liquidation value in every circumstance.
Tax capital account	Capital measured using tax basis under current return reporting	Can be negative; differs from §704(b) book capital after revaluations and §704(c) layers.
Outside basis	Partner's adjusted basis in partnership interest	Limits loss, determines distribution gain/loss and sale gain/loss.
Inside basis	Partnership's basis in its assets	Controls partnership depreciation and asset-sale gain; not automatically equal to aggregate outside basis.
At-risk amount	Economic investment exposed to loss under §465	Separately limits losses after basis.
Passive activity position	Participation classification under §469	Can suspend otherwise basis-allowable losses.
Qualified nonrecourse financing	Special at-risk treatment for qualifying real-estate debt	Debt terms and activity matter.

8.2 Loss limitation sequence

30. Compute the partner's allocable tax items under the agreement and §704.
31. Apply outside-basis limitation under §704(d). Disallowed losses carry forward.
32. Apply at-risk limitation under §465.
33. Apply passive activity limitation under §469.
34. Apply excess-business-loss and other taxpayer-level rules where relevant.
35. Preserve each carryforward in a separate rollforward; Schedule K-1 alone does not compute these limits.

8.3 Allocations and substantial economic effect

Partnership allocations generally follow the partnership agreement if they have substantial economic effect; otherwise items are allocated according to partners' interests in the partnership. Economic-effect rules focus on capital accounts, liquidation economics and deficit obligations or alternate tests. "Substantiality" rejects allocations that alter tax results without a meaningful possibility of changing partners' pre-tax economics. Target allocations can be valid but require careful modeling and regulatory compliance.

8.4 Contributed property and §704(c)

Example — built-in gain A contributes land worth $1,000,000 with $200,000 tax basis; B contributes $1,000,000 cash. The $800,000 pre-contribution built-in gain is generally allocated back to A under §704(c) when the gain is recognized. The traditional, curative and remedial methods handle ceiling-rule distortions differently. The economics, book capital and tax basis therefore must be modeled in separate ledgers.

Rule	Core effect
§721 contribution	Generally no gain/loss when property is contributed for partnership interest; services and investment-company exceptions require analysis.

Rule	Core effect
§752 liabilities	Increases/decreases in partner shares of liabilities are treated as contributions/distributions of money for basis purposes.
Disguised sale §707	Contribution plus related distribution can be treated as taxable sale; two-year presumption and exceptions apply.
Guaranteed payment §707(c)	Payment determined without regard to partnership income, generally ordinary income to recipient and deduction/capitalization to partnership.
§731 distribution	Cash above outside basis generally creates gain; property distributions usually carry basis subject to allocation rules.
§751 hot assets	Sale or distribution involving unrealized receivables and inventory can create ordinary income rather than capital gain.
§754 election	Permits/causes inside-basis adjustments under §§734(b) and 743(b) after distributions/transfers; can be beneficial but adds permanent tracking.

8.5 Sale of partnership interest

A partner generally recognizes capital gain or loss equal to amount realized—including debt relief—minus outside basis. Section 751 recharacterizes the portion attributable to unrealized receivables, inventory and specified recapture items as ordinary. Buyers inherit outside basis equal to purchase price but receive no automatic share of inside-basis step-up unless a §754 election or mandatory adjustment applies. Purchase agreements should allocate tax information obligations and collect a “hot asset” estimate before closing.

8.6 Partnership compliance checklist

- Execute an agreement that states economics, tax allocations, tax representative authority, transfer restrictions and §754 policy.
- Maintain four distinct schedules: §704(b) book capital, tax capital, outside basis and at-risk basis.
- Reconcile liabilities by category—recourse, nonrecourse and qualified nonrecourse—and document guarantees.
- Issue K-1/K-2/K-3 packages early enough for owner filing; explain state-source income and withholding.
- Model distributions before payment to identify §731 gain, disproportionate-distribution and disguised-sale risk.
- For carried interests, track holding periods and §1061 recharacterization at fund, asset and owner levels.

9. S Corporation Taxation

9.1 Eligibility and election integrity

Requirement	General rule	Failure mode
Domestic eligible corporation	Must be a qualifying domestic corporation or eligible LLC electing corporate/S status	Ineligible entity or late election.
Shareholder number	No more than 100, with family aggregation rules	Unmonitored transfers or option-like instruments.
Eligible shareholders	Generally individuals, estates and specified trusts; no nonresident alien shareholder	Foreign ownership or defective trust election.
One class of stock	Identical rights to distribution and liquidation proceeds; voting differences permitted	Side agreements, debt recharacterization or disproportionate economics.
Consent	All required shareholders timely consent	Missing spouse/community-property owner or transfer-period shareholder.
Tax year	Generally calendar year absent business-purpose or permitted election	Improper year-end or termination-year allocation errors.

9.2 Salary, distributions and basis

An S corporation is not a legal mechanism for eliminating payroll tax on owner labor. A shareholder-employee who performs substantial services must receive reasonable compensation before nonwage distributions. Wages are deductible by the corporation and subject to withholding/FICA; distributions generally are not payroll wages, but are tax-free only to the extent of stock basis and can be dividends if accumulated C-corporation earnings and profits exist.

Example — owner-operator An S corporation earns $300,000 before owner compensation. Comparable duties support $150,000 wages. Paying only $30,000 wages and $270,000 distribution invites reclassification, employment-tax assessment and penalties. A defensible study considers duties, hours, experience, local market compensation, profit attributable to capital/employees and consistency.

Stock basis generally increases by capital contributions and pass-through income, and decreases by distributions and deductible/nondeductible losses. Debt basis generally arises only from bona fide indebtedness running directly from the corporation to the shareholder. A guarantee alone generally does not create basis before payment or economic outlay.

9.3 Built-in gains and termination risks

Issue	Effect
Built-in gains tax §1374	An S corporation formerly taxed as C corporation may owe entity-level tax on recognized built-in gain during the recognition period.
Excess passive investment income	A former C corporation with accumulated E&P can face tax and possible termination after repeated years above the threshold.
Ineligible shareholder	Transfer can terminate the election on the transfer date.
Second class of stock	Nonidentical distribution/liquidation rights can terminate status, notwithstanding form.
Revocation or cessation	Creates short S and C years and allocation/election decisions.
Inadvertent termination relief	IRS relief may be available, but requires prompt correction, reasonable cause and requested representations.

9.4 When an S corporation fits

S status can fit an owner-operated domestic business distributing most cash and not needing institutional preferred equity, foreign shareholders or multiple economic classes. It is often a poor fit for venture-backed startups, retained-capital models, businesses seeking QSBS, complex international ownership and real estate intended for tax-free in-kind distributions. The optimal model compares payroll savings with administrative cost, state S taxes, QBI effects, benefit plans, reasonable compensation and exit treatment.

10. Employment, Operations and Tax Accounting

10.1 Employee versus independent contractor

Classification turns on the common-law right to control and statutory frameworks, not the contract label or issuance of Form 1099. Behavioral control, financial control and the relationship's nature are evaluated together. Misclassification can produce income-tax withholding, FICA, unemployment, benefits, wage-and-hour and state-law exposure. Section 530 relief and voluntary programs are narrow and fact-dependent.

Indicator	Employee tendency	Independent-contractor tendency
Instructions / methods	Business controls how, when and where work is performed	Worker controls methods and sequence subject to deliverable.
Investment / expenses	Business provides tools and bears recurring costs	Worker has meaningful investment and unreimbursed business costs.
Profit or loss	Compensation primarily time/rate based	Managerial skill affects profit/loss.
Permanency	Indefinite, integral relationship	Project-based, market-facing independent business.
Benefits / integration	Benefits, policies, exclusive integration	No benefits; services offered to multiple clients.

10.2 Information reporting and payroll

Form / tax	Purpose	Operational deadline/control
Form W-4	Employee withholding certificate	Obtain at hire and changes; use current withholding tables.
Form I-9	Employment eligibility; not a tax form	Separate compliance and retention system.
Form W-2 / W-3	Annual wages and withholding to employee/SSA	Generally due January 31; reconcile to Forms 941 and general ledger.
Form 1099-NEC	Nonemployee compensation	Generally due January 31; collect Form W-9 before payment.
Form 941	Quarterly federal withholding and FICA return	Deposit frequency is separate from return deadline.
Form 940 / FUTA	Annual federal unemployment tax	6% on first $7,000 wages, generally reduced to 0.6% with full state credit; credit-reduction states can increase cost.
State payroll returns	Withholding and unemployment	Registration follows work location and state rules, not incorporation state alone.

For 2026, the Social Security wage base is $184,500. Employee and employer generally each pay 6.2% Social Security up to the wage base and 1.45% Medicare without a wage cap. Employees may owe an additional 0.9% Medicare tax above statutory thresholds; employers withhold it based on wages paid without matching it.

10.3 Fringe benefits and accountable plans

Compensation includes cash and property unless an exclusion applies. Common exclusions cover qualifying health coverage, certain retirement contributions, de minimis fringes, working-condition fringes, qualified transportation within limits and dependent-care assistance. Owner-employees can face special rules. Under an accountable plan, expenses must have business connection, be timely substantiated and excess advances returned; compliant reimbursements are generally excluded from wages and deductible by the employer.

10.4 Travel, meals, home office and vehicles

Expense	Rule of thumb	Documentation
Business travel	Transportation, lodging and incidentals while away from tax home overnight for business	Business purpose, itinerary, receipts, allocation of personal days.
Meals	Generally 50% deductible if ordinary/necessary, not lavish and taxpayer/employee present; exceptions exist	Amount, date/place, attendees and business discussion.
Entertainment	Generally nondeductible even when business-related; separately stated food may qualify	Vendor invoice separating food from entertainment.
Home office	Exclusive and regular use plus principal-place/meeting/storage tests; employees generally cannot use self-employed deduction	Floor plan, photos, square footage, expense allocation and business use.
Vehicle — actual cost	Business percentage of depreciation/lease, fuel, repairs, insurance and other costs	Contemporaneous mileage log plus receipts.
Vehicle — standard mileage	2026: 72.5¢/mile Jan. 1–June 30; revised to 76¢/mile on/after July 1. Medical/moving 20.5¢ then 23.5¢; charity remains 14¢	Date-sensitive mileage log; election and fleet limits; parking/tolls separate where allowed.

Source note: IRS Notice 2026-10, modified by Announcement 2026-11 effective July 1, 2026; SSA 2026 wage-base announcement. Unreimbursed employee expenses generally remain nondeductible except specified categories.

10.5 Depreciation, §179 and bonus depreciation

Regime	2026 framework	Planning issue
MACRS	Statutory recovery periods/methods by property class	Placed-in-service date, listed property, real-property components and conventions.
§179	2026 maximum $2,560,000; phaseout starts at $4,090,000; taxable-income limit applies	Entity/owner limits, SUV cap and recapture.
Bonus depreciation	100% for qualifying property acquired/produced after Jan. 19, 2025 under 2025 legislation, subject to detailed transition rules	Contract date, binding acquisition, eligible property, state decoupling and election out.
De minimis safe harbor	Current deduction for qualifying amounts under capitalization regulations and accounting policy	Written policy timing and applicable financial statement threshold.
Repairs regulations	Deduct repairs; capitalize betterments, restorations and adaptations	Unit of property, routine-maintenance safe harbor and partial dispositions.

10.6 Inventory, COGS, NOLs, interest and research

Topic	Core framework
Inventory and COGS	Inventory accounting separates capitalized product cost from period expenses. Small-business exceptions and §471(c)/§263A rules depend on gross receipts and method consistency.
Net operating losses	Post-2017 NOLs generally carry forward indefinitely but are subject to taxable-income percentage limitations; specified farming/disaster rules and acquisition limitations can apply.
Business interest §163(j)	Deduction generally limited to business interest income + 30% of adjusted taxable income + floor-plan financing interest. For years after 2024, 2025 legislation restored EBITDA-style ATI and changed related rules.

Topic	Core framework
Research expenditures	New §174A generally permits current deduction for domestic research expenditures after 2024, with optional capitalization; foreign research generally remains subject to 15-year treatment. Transition procedures apply to prior domestic balances.
Research credit §41	Incremental credit based on qualified research, wages, supplies and contract research; documentation must connect activities, uncertainty, process of experimentation and technological basis.
Cash method	Generally recognizes income when actually/constructively received and deductions when paid, subject to exceptions. Often available to individuals and qualifying small businesses.
Accrual method	Income when all-events test and applicable financial-statement rules are met; deductions when liability fixed, determinable and economic performance occurs.

10.7 Tax accounting versus GAAP

Dimension	Financial accounting (GAAP)	Tax accounting
Objective	Decision-useful financial statements for investors/creditors	Compute taxable income and comply with revenue law.
Materiality	Financial-statement materiality	Tax-law thresholds, elections and return positions.
Recognition	Revenue/expense standards and estimates	Statutory realization, all-events, economic-performance and capitalization rules.
Depreciation	Useful life and impairment	MACRS, §179, bonus, recapture.
Uncertain positions	ASC 740 recognition/measurement and disclosure	Substantial-authority, reasonable-basis and penalty standards; privilege/work-product considerations.
Deferred tax	Records future tax effects of temporary differences	Tax return reports current liability; deferred tax is book accounting, not a separate tax.

11. Real Estate Taxation

11.1 Rental income and depreciation

Rental receipts, advance rent, tenant-paid owner expenses and certain lease-cancellation payments are generally income. Security deposits intended to be returned are not income when received; amounts applied to rent or damages may become income. Land is not depreciable. Residential rental buildings generally use 27.5-year straight-line MACRS; nonresidential real property generally uses 39 years, with specialized treatment for qualified improvement property, components and cost segregation.

Example — residential rental Purchase price is $700,000. A defensible allocation assigns $175,000 to land and $525,000 to building. Ignoring partial-year convention, annual building depreciation is approximately $19,091 ($525,000 ÷ 27.5). A $20,000 cash profit can therefore become about $909 taxable rental profit before other adjustments. The depreciation reduces basis and may produce recapture on sale.

11.2 Passive activity, at-risk and real-estate-professional rules

Rule	Effect
Passive rental default	Rental activities are generally passive regardless of participation, unless an exception applies.
$25,000 active-participation allowance	Limited special allowance for qualifying individuals; phases out with MAGI and is subject to ownership/participation tests.
Real-estate-professional status	Taxpayer must satisfy more-than-half and 750-hour personal-service tests; each rental must also be nonpassive through material participation unless a grouping election applies.
Material participation	Seven regulatory tests evaluate regular, continuous and substantial involvement; investor-type hours and spouse participation require care.
At-risk limitation	Loss limited to amounts economically at risk; nonrecourse debt often excluded except qualified nonrecourse real-estate financing.
Disposition	Suspended passive losses may be released on fully taxable disposition of entire interest to unrelated person, subject to ordering rules.

11.3 §1031 exchanges and installment sales

Section 1031 now generally applies only to exchanges of real property held for investment or productive use in a trade/business. The taxpayer must identify replacement property within 45 days and receive it within 180 days or return due date with extensions, whichever is earlier. A qualified intermediary and avoidance of actual/constructive receipt are central. Related-party, partnership-interest, vacation-home and dealer-property issues require specialized analysis.

An installment sale generally recognizes gain as principal payments are received using gross-profit percentage, but depreciation recapture and certain dealer/property rules can accelerate income. Interest or imputed interest is separately ordinary. Installment treatment defers tax; it does not change total nominal gain and introduces buyer-credit and future-rate risk.

11.4 Sale, recapture, opportunity zones and principal residence

Provision	Core result
§1245 recapture	Gain attributable to depreciation on personal property/components generally ordinary to extent prior depreciation.
Unrecaptured §1250 gain	Certain real-property depreciation gain taxed at maximum 25% individual rate; corporate §291 rules can add ordinary recapture.

Provision	Core result
§121 principal residence	Up to $250,000 gain exclusion ($500,000 qualifying joint) generally after ownership/use tests; nonqualified use and depreciation after 1997 reduce benefit.
Qualified Opportunity Zones	Post-2025 law redesigned QOZ incentives and rural enhancements; investor must use current effective-date and designation rules rather than legacy summaries.
Inherited basis	Property generally receives date-of-death fair-market-value basis under §1014, subject to exceptions; income in respect of a decedent does not.
Property taxes / mortgage interest	Business/rental items generally allocated to activity; personal amounts are itemized only within statutory limits and tracing rules.

11.5 Ownership structure comparison

Holder	Advantages	Disadvantages / exit risk
Individual / disregarded LLC	Simple; one tax layer; §121 and basis rules can apply; LLC may provide state-law liability segregation	Self-employment characterization for service-heavy activity; estate and management issues.
Partnership LLC	Flexible allocations, debt basis, contributions/distributions and §754 step-up	Complex K-1s, §704(c), hot assets, state filings and partner disputes.
S corporation	Payroll structure for active service business	Property distributions can trigger gain; debt-basis limits; generally unattractive for appreciating real estate.
C corporation	Centralized ownership, employee benefits and retained earnings	Potential double tax, no shareholder-level §121, appreciated-property distributions taxable.
REIT / fund structure	Scalable capital and specialized investor access	Qualification, distribution, securities, governance and administrative cost.

Practical principle Appreciating real estate is commonly held in a partnership-taxed LLC because it preserves pass-through economics and flexible basis planning. That is a starting hypothesis, not a universal answer: lender, investor, foreign-owner, state-tax, estate and operating facts can change the result.

12. International Taxation of Individuals

12.1 Status determines the tax base

Person	General federal income-tax position	Primary tests / forms
U.S. citizen	Worldwide income regardless of residence	Form 1040; foreign tax credit, FEIE and international information returns as applicable.
Lawful permanent resident	Generally resident from first day of U.S. residence until status ends under tax rules	Green-card test; treaty tie-breaker positions can trigger special reporting and expatriation consequences.
Resident alien under substantial presence	Worldwide income for resident period	At least 31 current-year days plus 183 weighted-day formula; exceptions and closer-connection rules.
Dual-status alien	Resident for part of year, nonresident for part	Split-year return mechanics; standard deduction and treaty complications.
Nonresident alien	Generally taxed on U.S.-source FDAP gross income and ECI net income	Form 1040-NR; Forms W-8; treaty and source analysis.
Treaty resident of other country	Treaty may assign residence for covered purposes	Form 8833 disclosure may be required; saving clause often preserves U.S. citizen/resident taxation.

12.2 Substantial presence test

An individual generally satisfies the substantial presence test with at least 31 U.S. days in the current year and 183 weighted days: all current-year days, one-third of prior-year days and one-sixth of second-prior-year days. Exempt individuals, medical-condition days, transit days and closer-connection exceptions can exclude days if procedural requirements are met. Immigration status and tax residence are related but not identical.

Example — day count A visitor spends 120 days in the United States in each of 2024, 2025 and 2026. Weighted 2026 count is 120 + 40 + 20 = 180, so the 183-day threshold is not met. Three additional 2026 days would generally meet it, assuming no excluded days or treaty position.

12.3 Worldwide income, source and categories

Category	Resident/citizen	Nonresident alien
Wages / services	Worldwide wages included; source generally where services performed	U.S.-performed services generally ECI; treaty dependent-services article may exempt limited presence.
Interest	Worldwide interest, subject to FTC	U.S.-source portfolio interest and bank-deposit exceptions may apply; otherwise FDAP withholding.
Dividends	Worldwide dividends	U.S.-corporation dividends generally U.S.-source FDAP, often 30% statutory withholding reduced by treaty.
Rents / royalties	Worldwide, with FTC/source analysis	Generally U.S.-source when property used in U.S.; gross FDAP or election/net ECI treatment for real property.
Capital gains	Worldwide; residence and sourcing rules	Generally foreign-source for NRA except U.S. presence and special rules; FIRPTA treats U.S. real-property gain as ECI.
Business profit	Worldwide; foreign branch and entity rules	Taxed net as ECI when effectively connected with U.S. trade/business; treaty permanent establishment can limit tax.

12.4 ECI, FDAP and withholding

Effectively connected income is taxed on a net basis at graduated rates after allowable deductions. Fixed, determinable, annual or periodical income—interest, dividends, rents, royalties and similar passive income—is generally taxed to nonresident aliens at 30% of gross U.S.-source amount unless the Code or a treaty provides a lower rate or exemption. Withholding agents bear documentation and deposit duties; Forms W-8BEN, W-8BEN-E, W-8ECI and W-8IMY classify beneficial owners and intermediaries.

12.5 Foreign tax credit and foreign earned income exclusion

The foreign tax credit under §§901 and 904 generally mitigates double income taxation but is limited by category and foreign-source taxable income. Timing, compulsory-payment, legal-liability, treaty and redetermination rules matter. The foreign earned income exclusion under §911 can exclude up to $132,900 for 2026 for a qualifying individual with a foreign tax home who meets bona fide residence or physical-presence tests; housing exclusion/deduction rules are separate. Excluded income still affects the rate on nonexcluded income, and the election can reduce foreign tax credit efficiency.

Planning choice A high-tax-country employee may prefer foreign tax credits over the FEIE because credits can offset U.S. tax while preserving retirement/credit computations. A low-tax-country employee may benefit more from FEIE. Model both, including state conformity and revocation consequences.

12.6 Foreign account and asset reporting

Form	Who / what it reports	Illustrative trigger and risk
FBAR — FinCEN Form 114	U.S. persons with financial interest in/signature authority over foreign financial accounts	Aggregate maximum value over $10,000 at any time; April 15 due date with automatic extension to Oct. 15. Willful penalties can be severe.
Form 8938 — FATCA	Specified persons' specified foreign financial assets	Threshold varies by residence and filing status; filed with income-tax return; not a substitute for FBAR.
Form 5471	U.S. persons connected to specified foreign corporations	Category-based filing; extensive financial, E&P, Subpart F/GILTI and transaction schedules.
Form 8865	U.S. persons connected to specified foreign partnerships	Control, transfers and ownership changes; K-2/K-3 coordination.
Form 8858	Foreign disregarded entities and foreign branches	Owner/filing category and branch information.
Form 3520 / 3520-A	Foreign trusts and large foreign gifts/bequests; annual foreign-trust return	Separate deadlines and penalty regimes; substitute Form 3520-A may be needed.
Form 8621	PFIC ownership and elections	Excess-distribution regime, QEF or mark-to-market; statute of limitations can remain open for reporting failures.
Form 8854	Expatriation and annual deferred-compensation/trust reporting	Certification of five-year compliance and covered-expatriate analysis.

No "foreign account" de minimis by form assumption FBAR and Form 8938 have different statutes, asset definitions, thresholds and filing destinations. A taxpayer can owe both reports for the same account and additional entity forms for the underlying company or trust.

12.7 Expatriation tax

Certain U.S. citizens relinquishing citizenship and long-term residents ending status are "covered expatriates" based on net worth, average tax liability or failure to certify five years of compliance, subject to exceptions. Section 877A generally imposes a mark-to-market exit tax on worldwide property above an indexed exclusion, with special rules for deferred compensation, specified tax-deferred accounts and nongrantor trusts. Gifts/bequests from covered expatriates can trigger §2801 tax for U.S. recipients. Planning must begin years before expatriation.

13. International Business Taxation

13.1 Source, residence and entity choice

International business taxation asks four threshold questions: who owns the income; where the taxpayer is resident; where each item is sourced; and whether a business presence creates ECI or a treaty permanent establishment. Legal ownership can be overridden by transfer-pricing, agency, beneficial-ownership, anti-hybrid, branch and substance doctrines. A foreign subsidiary, branch, disregarded entity and distributor can produce different timing, credit, withholding and compliance results despite similar commercial operations.

13.2 Controlled foreign corporations, Subpart F and GILTI/NCTI

Regime	Core purpose	Operating implication
CFC	Foreign corporation more than 50% owned, by vote or value, by U.S. shareholders under detailed attribution rules	U.S. shareholders may have current inclusions and Form 5471 duties without dividends.
Subpart F	Current inclusion of specified mobile/passive and related-party income	High-tax exception, same-country and manufacturing rules depend on facts and elections.
GILTI / post-2025 net CFC tested income framework	Current inclusion based on tested income with §250 deduction and deemed-paid-credit mechanics for corporate shareholders	2025 legislation altered rates, terminology and computations for post-2025 years; individual §962 election and entity choice require annual modeling.
Previously taxed earnings and profits	Prevents second U.S. tax when previously included CFC earnings are distributed, subject to basis and ordering rules	Maintain annual PTEP groups and foreign-currency pools.
§956 investment in U.S. property	Can create inclusion for certain U.S. shareholders from CFC investment in U.S. property	Guarantees, pledges, loans and cash pooling require review.

13.3 FDII/FDDEI, BEAT, CAMT and foreign tax credits

Section 250 provides a deduction for qualifying foreign-derived income of domestic corporations and for specified CFC inclusions; Public Law 119-21 amended rates and computation for post-2025 years, including changes to deduction-eligible income and expense allocation. BEAT imposes additional tax on certain large corporations with base-eroding related-party payments. CAMT applies to certain very large corporations based on adjusted financial statement income. These systems interact with the regular corporate tax, expense allocation and FTC limitations; they cannot be modeled independently.

Foreign-tax-credit issue	Why it matters
Separate limitation categories	Passive, general, branch, GILTI/NCTI and treaty categories prevent cross-crediting across income baskets.
Source and expense allocation	Interest, R&D, stewardship and other expenses reduce foreign-source taxable income and FTC capacity.
Deemed-paid credits	Corporate shareholders can claim credits associated with inclusions/distributions only under detailed ownership and inclusion rules.
Foreign tax redeterminations	Refunds, audits and rate changes can require amended U.S. reporting and interest.
Creditable tax standard	A foreign levy must meet U.S. regulatory requirements; label “income tax” is not sufficient.
Treaty resourcing	Some treaties re-source income to relieve double taxation, subject to limitation-on-benefits and other provisions.

13.4 Transfer pricing

Section 482 authorizes allocation of income and deductions among controlled taxpayers to reflect arm's-length results. The regulations apply methods tailored to tangible property, services, loans, cost sharing and intangibles. The best method depends on comparability, data and reliability. Documentation is both analytical and defensive: penalties can apply even when tax is ultimately negotiated.

36. Identify controlled transactions and legal entities; reconcile to general ledger and intercompany agreements.
37. Perform functional analysis: functions, assets, risks, decision-making and control of risk.
38. Select tested party and method; document comparables, adjustments and rejected methods.
39. Price prospectively through invoices and true-up policy rather than year-end unsupported journals.
40. Coordinate customs value, withholding, VAT/GST, state tax and financial reporting.
41. Maintain local documentation, country-by-country reporting and master-file obligations where applicable.

13.5 Branch taxation and treaty permanent establishment

A foreign corporation operating directly in the United States may owe net-basis tax on ECI and branch profits tax intended to approximate dividend withholding. A treaty may require a permanent establishment before business profits are taxed, often through a fixed place, dependent agent or project threshold. Treaty entitlement is constrained by residence, beneficial ownership, limitation-on-benefits and anti-conduit rules. Digital operations and remote personnel can create domestic-law nexus even when treaty PE remains contested.

13.6 Anti-treaty-shopping and hybrid structures

Rule / doctrine	Target
Limitation on benefits	Entities that claim treaty benefits without sufficient ownership/base erosion or active business connection.
Principal purpose test in applicable treaties/instruments	Arrangements where obtaining treaty benefit was a principal purpose and benefit is inconsistent with treaty object/purpose.
Anti-conduit regulations	Intermediate entities inserted to reduce withholding on financing or licensing flows.
Beneficial ownership	Nominees or agents lacking control over income.
Hybrid mismatch rules §§245A(e), 267A and related provisions	Deduction/no-inclusion or double-deduction results from inconsistent entity/instrument treatment.
Economic substance §7701(o)	Transactions lacking meaningful non-tax economic change and substantial non-tax purpose.

International minimum file An internationally active business should maintain: ownership chart; entity classification elections; treaty residency forms; intercompany agreements; transfer-pricing study; withholding matrix; permanent-establishment analysis; CFC/PTEP/FTC rollforwards; and a form-by-form filing calendar.

14. Estate, Gift and Generation-Skipping Transfer Taxation

14.1 Unified transfer-tax structure

The federal gift and estate taxes are unified through a lifetime basic exclusion and rate schedule; the generation-skipping transfer tax is a separate overlay with its own exemption allocation. The 2026 basic exclusion is $15,000,000 per individual. The 2026 annual gift-tax exclusion remains $19,000 per donee; qualifying gifts to a noncitizen spouse can use a special annual exclusion of $194,000. Transfers above annual exclusions generally use lifetime exemption and require Form 709 even when no current tax is due.

Concept	Function
Gross estate	Includes property interests owned or controlled at death, specified transfers, life insurance incidents of ownership and other statutory inclusions.
Taxable estate	Gross estate less deductions for expenses, debts, charitable transfers, marital transfers and other items.
Gift tax	Taxes completed transfers for less than adequate consideration; donor generally pays.
Annual exclusion	Excludes present-interest gifts up to annual amount per donee; gift-splitting can require return.
Marital deduction	Generally unlimited for transfers to U.S.-citizen spouse; QDOT rules limit transfers to noncitizen spouse.
Portability	Surviving spouse may use deceased spouse's unused exclusion if timely elected on estate return; does not port GST exemption.
Basis step-up §1014	Inherited property generally basis at date-of-death FMV; gift property generally carries donor basis subject to dual-basis loss rule.
GST tax	Targets transfers to skip persons; direct skips, taxable distributions and taxable terminations use inclusion-ratio system.

Source note: IRS Revenue Procedure 2025-32 for 2026 exclusion amounts. State estate/inheritance taxes, valuation changes and future legislation remain separate.

14.2 Trust and entity tools

Vehicle	Core tax/legal function	Principal risk
Revocable living trust	Probate management and incapacity planning; grantor remains income-tax owner; assets generally included in estate	Does not itself reduce federal estate tax.
Irrevocable grantor trust	Removes selected property from estate if structured properly while grantor may pay income tax	Retained powers, reciprocal trust, valuation and administration.
GRAT	Grantor transfers appreciation above §7520 hurdle to remainder beneficiaries with retained annuity	Mortality, valuation, administration and legislative risk.
Family limited partnership / LLC	Centralizes management and fractional ownership; may support valuation discounts	§2036 retained enjoyment/control, nonbusiness assets, weak formalities and appraisal.
Charitable remainder trust	Split-interest trust pays noncharitable beneficiary then charity; can defer recognition and generate charitable deduction	Payout, actuarial, UBTI, self-dealing and private-benefit rules.
ILIT	Owns life insurance outside insured's estate if incidents of ownership and transfer timing handled	Three-year rule for transferred policies, Crummey administration, premium funding.

Vehicle	Core tax/legal function	Principal risk
QDOT	Allows marital deduction for qualifying transfer to non-U.S.-citizen spouse under security and distribution rules	Trustee, bond/withholding and principal-distribution estate tax.
Dynasty / GST trust	Uses GST exemption for multigenerational transfer subject to state perpetuities/trust law	Allocation errors, inclusion ratio, state income tax nexus and administration.

14.3 Citizenship and situs differences

Transferor / spouse	Estate tax	Gift tax
U.S. citizen or domiciliary	Worldwide assets; basic exclusion; marital deduction for citizen spouse; portability if elected	Worldwide gifts; annual/lifetime exclusions; unlimited marital deduction to citizen spouse.
U.S. person with noncitizen spouse	Worldwide estate; marital deduction generally requires QDOT for noncitizen spouse	No unlimited marital deduction; special indexed annual exclusion ($194,000 for 2026) for qualifying present-interest gifts.
Nonresident noncitizen (NRNC)	Generally U.S.-situs assets only; statutory estate exemption effectively $60,000 absent treaty; stock of U.S. corporations generally U.S.-situs	Generally U.S.-situs tangible property; U.S.-corporation stock and many intangibles generally not subject to U.S. gift tax, though estate treatment differs.
Treaty-country resident	Estate/gift treaty may provide domicile rules, prorated credits, situs overrides and nondiscrimination	Treaty scope and saving clause vary; return disclosure needed.

Cross-border trap A nonresident foreign investor can own U.S. corporate stock free of U.S. gift tax but subject to U.S. estate tax at death. U.S. real estate is generally exposed to both. Income-tax and transfer-tax holding structures must be designed together.

14.4 Estate-planning workflow

42. Inventory assets, ownership, basis, liquidity, beneficiary designations, citizenship/domicile and state connections.
43. Project estate tax at federal and state levels under multiple growth and law scenarios.
44. Protect basis step-up where income-tax savings exceed estate-tax savings; do not reflexively gift low-basis assets.
45. Use annual exclusion only for present interests and document delivery, Crummey powers and valuations.
46. Coordinate revocable documents, powers of attorney, health directives, business succession and digital assets.
47. File Form 709 consistently to disclose valuations, elect gift splitting and allocate GST exemption.
48. At death, obtain appraisals, file portability return when strategically valuable, and create basis-information packages for beneficiaries.

15. Nonprofit and Tax-Exempt Organizations

15.1 Section 501(c)(3) architecture

A §501(c)(3) organization must be organized and operated exclusively for charitable, educational, religious, scientific, literary or other specified purposes; no part of net earnings may inure to private shareholders or individuals; lobbying must remain within permitted limits; and participation or intervention in political campaigns for or against candidates is prohibited. Exemption is a continuing operating condition, not a formation label.

Classification	Funding/operations	Key tax regime
Public charity	Broad public support, governmental/church/school/hospital status, or supporting organization	More favorable contribution limits and fewer private-foundation excises; public-support testing.
Private foundation	Typically funded/controlled by limited donors	Self-dealing, minimum distributions, excess business holdings, jeopardizing investments and taxable expenditures.
Private operating foundation	Directly conducts exempt programs and satisfies income/assets/endowment/support tests	Hybrid treatment; annual qualification analysis.
Religious organization / church	Churches may be automatically exempt without Form 1023, though recognition can be useful	Special audit procedures; employment and unrelated-business issues remain.
501(c)(4) social-welfare organization	Primarily promotes social welfare; political activity can be permitted within limits	Contributions generally not charitable deductions; donor and campaign rules differ.
Fiscal sponsorship	Existing charity receives funds and controls project for exempt purpose	Sponsor must retain discretion/control; conduit arrangements risk exemption and deductibility.

15.2 UBIT, private benefit, lobbying and politics

Rule	Practical boundary
Unrelated business taxable income	Income from regularly carried-on trade/business not substantially related to exempt purpose, minus connected deductions; exceptions include many dividends, interest and royalties, but debt-financed income can be taxable.
Silo rule §512(a)(6)	Losses from one unrelated trade/business generally cannot freely offset another; track activities separately.
Private inurement	Insiders may not receive organization's net earnings; excess-benefit transactions can trigger §4958 excises and correction.
Private benefit	Benefits to noninsiders must be incidental quantitatively and qualitatively to exempt purpose.
Lobbying	Public charities may use insubstantial-part test or §501(h) expenditure election; private foundations face stricter taxable-expenditure rules.
Campaign intervention	§501(c)(3) organizations may not support/oppose candidates. Nonpartisan voter education must be structured and executed neutrally.
Commerciality	Scale, pricing, marketing, competition and charitable access can show an activity operates like a commercial business rather than exempt program.

15.3 Nonprofit versus for-profit structures

Activity	Nonprofit advantages	For-profit advantages / hybrid approach
Church / ministry	Donations, mission lock, possible property/sales exemptions	For-profit subsidiaries can isolate commercial media, publishing or real estate.
School / educational institution	Deductible gifts, grants, tax-exempt bonds in qualified cases	Equity finance and founder ownership; educational claims do not alone create exemption.
News organization	Donations/grants for public-interest journalism; mission protection	Subscriptions, ads, licensing, investor capital and editorial entrepreneurship; nonprofit must avoid private benefit and campaign intervention.
Research institution	Grant eligibility, charitable knowledge dissemination	Commercial IP, contract research and equity incentives; joint ventures need arm's-length terms.
Social enterprise	Exempt mission and charitable financing when operational test met	Benefit corporation/LLC allows profit distribution and broad capital; dual-entity model can allocate exempt and commercial activities.

15.4 Media organization control system

- Classify every revenue stream: contribution, membership, subscription, advertising, sponsorship, royalty, event fee, program service or investment income.
- Use written sponsorship packages distinguishing acknowledgment from advertising.
- Adopt editorial independence, conflict-of-interest, donor acceptance, campaign activity, lobbying and document-retention policies.
- Price transactions with founders, directors and related for-profit entities at fair market value; document board approval without conflicted voting.
- Track restricted contributions and grant deliverables separately from unrestricted operating funds.
- Review UBIT by activity and state charitable-solicitation registration before campaigns.

16. State and Local Taxation

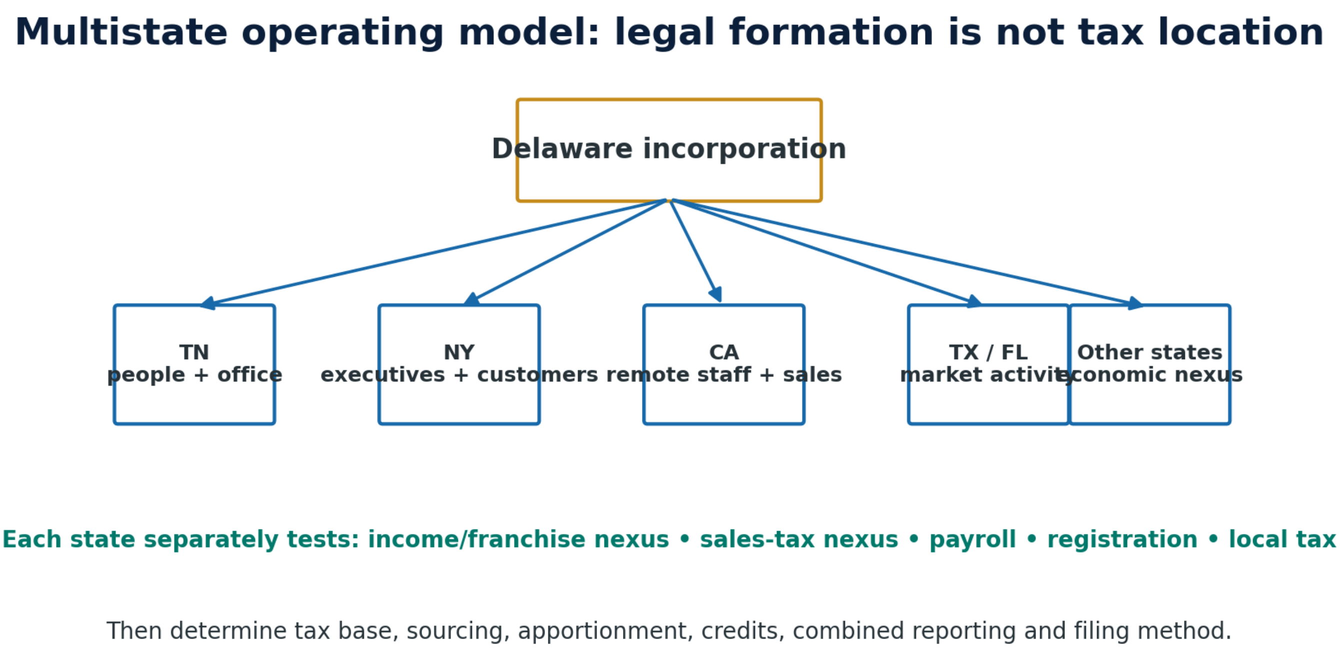

Figure 5 — A Delaware charter is one node in a multistate tax system; people, property, customers and transactions create other nodes.

16.1 State tax systems are separate sovereign computations

States usually begin with a federal income measure and then make their own additions, subtractions, rates, apportionment and credits. "Federal conformity" may be rolling, fixed-date or selective. A federal deduction can therefore be delayed, modified or denied by a state. Income/franchise, sales/use, payroll/unemployment, property, gross-receipts and local taxes require separate nexus and filing analyses.

Tax type	Tax base	Common multistate issue
Individual income tax	Resident worldwide income and nonresident state-source income	Domicile, statutory residence, remote work, convenience rules, credits for taxes paid to other states.
Corporate income/franchise	State-apportioned income, net worth/capital or privilege base	Economic nexus, P.L. 86-272, apportionment, unitary combined reporting.
Gross receipts / margin	Gross receipts or modified margin without ordinary net-income deductions	Low margins can still owe tax; sourcing rules differ from income tax.
Sales and use tax	Taxable sales/uses of goods and enumerated services	Economic nexus, marketplace facilitator, product taxability, exemption certificates.
Property tax	Locally assessed real and tangible personal property	Situs, valuation, abatements, rendition and appeal deadlines.
Payroll/unemployment	Wages for services in state and employer experience rating	Employee work location, reciprocal agreements, remote work and registration.
Transfer/recording/local business taxes	Real estate, instruments, occupancy, payroll or business receipts	City/county overlays often do not appear on state income return.

16.2 Domicile and statutory residency

Domicile is the taxpayer's permanent home—the place intended to remain or return to—and changes only with physical presence plus intent to abandon the old domicile and establish a new one. Statutory residency is a separate mechanical rule, commonly based on maintaining a permanent place of abode and exceeding a day threshold. A taxpayer can be domiciled in one state yet treated as a resident of another. Contemporary evidence—homes, family, business, time, possessions, licenses, voter registration and community ties—matters more than a declaration alone.

New York example A Tennessee domiciliary who maintains a Manhattan apartment and spends more than 183 days in New York can become a New York statutory resident even without abandoning Tennessee domicile, subject to detailed abode/day-count rules. New York may tax worldwide income, with credits only where allowed.

16.3 Major-state snapshot — verify current instructions

State	Individuals	Business taxes	Sales/property/local notes
New York	Graduated state rates up to 10.9%; New York City residents face separate 3.078%–3.876% personal income tax	Corporate franchise tax; top business income base generally 7.25% for larger taxpayers; MTA surcharge and NYC business taxes can apply	4% state sales tax plus local; aggressive domicile/statutory-residence audits; convenience-of-employer rule affects remote workers.
California	Graduated rates up to 12.3% plus 1% mental-health tax on taxable income over $1 million	C corporation 8.84%; S corporation 1.5%; $800 minimum franchise tax generally applies subject to exceptions	7.25% base sales/use tax plus district rates; worldwide resident tax; market sourcing and unitary/combined reporting.
Tennessee	No broad individual income tax on wages or investment income	6.5% excise tax on net earnings; 0.25% franchise tax on applicable base; business tax may apply	7% state sales tax plus local; local property tax; tax registration follows actual activity.
Texas	No individual income tax	Franchise/margin tax; 2026–2027 no-tax-due threshold $2.65 million; rates generally 0.375% retail/wholesale and 0.75% others	6.25% state sales tax plus local up to combined cap; significant local property tax.
Florida	No individual income tax	Corporate income tax generally 5.5%	6% state sales tax plus discretionary surtax; documentary stamp and property taxes relevant.
Delaware	Graduated individual income tax for residents and Delaware-source income for nonresidents	8.7% corporate income tax; annual corporation franchise tax; gross receipts tax	No general sales tax; incorporation alone creates franchise obligations but not necessarily income-tax apportionment elsewhere.

Source note: State tax rates are 2026-oriented snapshots from official state agencies and enacted-law summaries available through July 18, 2026. Local rates, thresholds, entity type, temporary provisions and apportionment can change the result.

16.4 Nexus, P.L. 86-272, economic nexus and remote work

Concept	Rule
Due-process nexus	Requires purposeful connection and fair relation between taxpayer/activity and state.
Commerce Clause nexus	After Wayfair, physical presence is not required for sales tax; economic and virtual contacts can be substantial nexus.
P.L. 86-272	Limits state net-income tax on interstate sellers of tangible personal property whose in-state activity is limited to protected solicitation; it does not protect services, digital products, franchise/gross-receipts taxes or activities beyond solicitation.
Economic nexus	States impose receipts/transaction thresholds for sales tax and sometimes income/franchise taxes.

Concept	Rule
Remote employee	Can create payroll registration, income-tax nexus, unemployment, workers' compensation and sometimes sales-tax presence.
Marketplace facilitator	Marketplace may collect sales tax, but seller still needs threshold, exemption, inventory, direct-sales and income-tax review.
Foreign qualification	Corporate-law registration to transact business; not identical to tax nexus. Tax can be due without qualification and qualification can occur with limited tax base.

16.5 Apportionment and combined reporting

Apportionment divides a multistate business tax base among states. Modern states often use single-sales-factor formulas and market sourcing for services/intangibles, but definitions of receipts, throwback/throwout, sourcing hierarchy and special-industry rules vary. Combined reporting treats members of a unitary business as one group to reduce income shifting; group membership, water's-edge elections, intercompany eliminations and tax attributes require separate modeling.

Example — Delaware corporation operating in Tennessee A corporation incorporated in Delaware, managed and staffed in Memphis, with customers nationwide generally owes Delaware annual franchise tax and registered-agent costs. Tennessee activity can require foreign qualification, excise/franchise tax, business tax, payroll/unemployment and sales tax. Delaware incorporation does not shift Tennessee operating income to Delaware. Sales to New York or California customers and remote staff can create additional filing obligations based on each state's nexus and sourcing rules.

16.6 Multistate launch checklist

49. Map legal entities, offices, employees, contractors, inventory, data centers, trade shows, affiliates and customer locations.
50. Create separate nexus matrices for income/franchise, sales/use, payroll/unemployment, property and local taxes.
51. Test P.L. 86-272 only for net-income tax and document protected/unprotected activities.
52. Determine product and service taxability, marketplace collection and exemption-certificate process.
53. Choose receipts sourcing and apportionment methodology; reconcile state sales to federal revenue.
54. Review combined/unitary group, intercompany agreements and transfer pricing.
55. Register before payroll or taxable sales where required; calendar annual reports separately from tax returns.
56. For relocation, build a domicile evidence file and day-count system before the move, not after audit.

17. Administration, Examination, Collection and Litigation

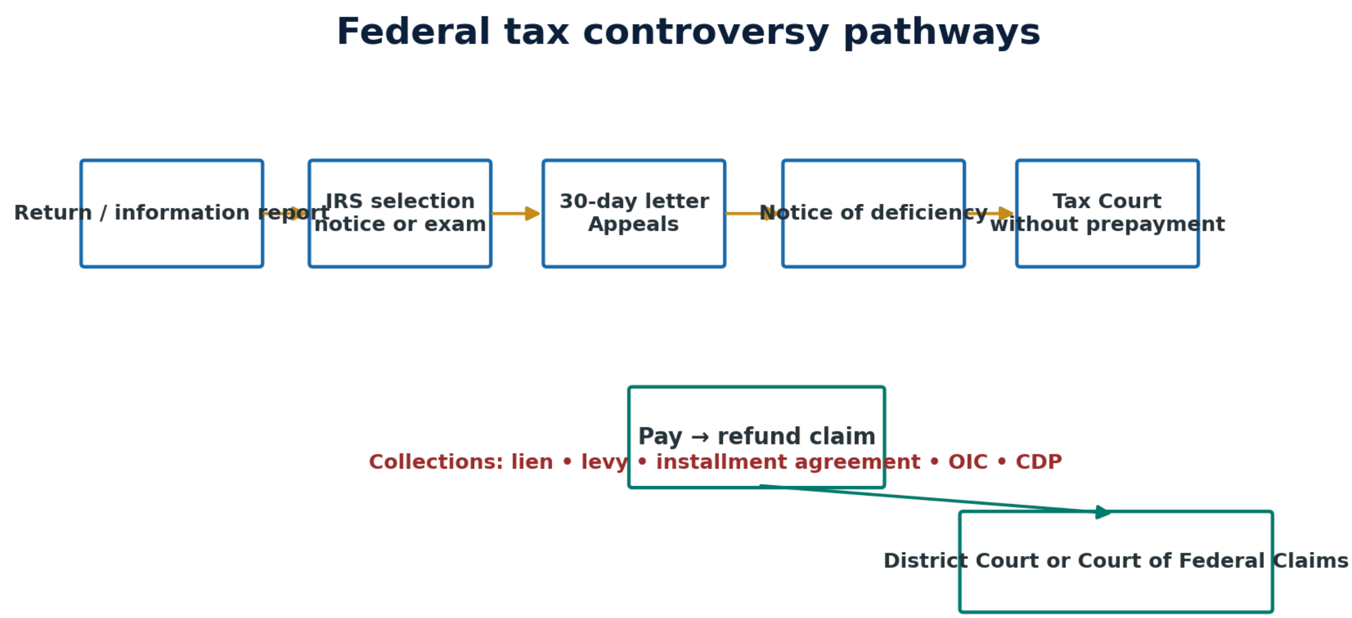

Figure 6 — Deficiency and refund litigation follow different payment and deadline pathways.

17.1 Identification numbers, returns and core deadlines

Item	Purpose	General timing
SSN	Individual identification and benefit/credit eligibility	Assigned by SSA; protect against identity theft.
ITIN	Federal tax processing number for persons ineligible for SSN	Form W-7 with qualifying documents/exception; not work authorization.
EIN	Business, trust, estate and plan taxpayer identifier	Obtain after legal formation and before payroll/banking/returns.
Form 1040 / 1040-NR	Individual resident/nonresident income-tax return	Generally April 15; extension to October 15 extends filing, not payment.
Form 1120	C corporation return	Generally 15th day of fourth month after year-end, with special rule for June 30 years.
Form 1120-S / 1065	S corporation / partnership return	Generally 15th day of third month after year-end.
Form 990	Exempt-organization annual return	Generally 15th day of fifth month after year-end; some organizations excepted.
Form 709	Gift and GST tax return	Generally aligned with donor's individual filing deadline.
Form 706	Estate tax return and portability election	Generally nine months after death; extension available.
FBAR	Foreign account report filed with FinCEN	April 15 with automatic extension to October 15.
Estimated taxes	Prepay tax during year	Individuals generally Apr. 15, Jun. 15, Sep. 15, Jan. 15; corporations use separate schedule.

Extension principle An extension to file generally does not extend the time to pay. A valid extension also does not cure late information returns or elections with separate deadlines.

17.2 Recordkeeping and statutes of limitation

Records must substantiate income, deductions, credits, basis, elections and filing positions for as long as material. The general assessment period is three years after filing, but it can extend to six years for substantial omissions and remain open indefinitely for fraudulent returns, failure to file and certain international information-reporting failures. Refund claims generally require filing within three years after return filing or two years after payment, with recovery limited by lookback rules.

Record	Recommended retention logic
Filed returns, elections and proof of filing	Permanent.
Basis in investments, real estate, business and partnership interests	Life of asset plus limitation period after disposition; inherited/gift source documents permanent.
Payroll and employment tax	At least statutory period, commonly four years or longer under state law.
Expense substantiation	At least limitation period; longer if tied to asset basis, NOL, credit carryforward or capitalization.
International forms and ownership charts	Permanent copies plus annual supporting schedules because nonfiling can hold limitation period open.
Entity governance and contracts	Permanent for formation, equity, reorganizations, related-party pricing and liquidation.
Electronic data	Preserve readable exports and metadata; do not rely solely on vendor access.

17.3 Notices, examinations and summonses

Stage	What happens	Taxpayer response
Automated notice	Matching, math error, balance due or missing return	Verify tax year, deadline and account transcript; respond with focused evidence; do not assume notice is correct.
Correspondence examination	Narrow issues handled by mail/portal	Create indexed response tied to each requested element; preserve privilege.
Office examination	Interview at IRS office, generally limited issues	Prepare books, witness and authority; control scope and factual record.
Field examination	Revenue agent reviews business or complex individual records	Use audit plan, information-document-request log, privilege protocol and issue timeline.
Summons	IRS compels testimony/books/records subject to statutory limits	Evaluate enforceability, privilege, possession/control and response deadline; do not destroy or alter records.
Revenue agent report / 30-day letter	Proposed adjustments and opportunity for Appeals protest	Develop factual/legal protest and hazards-of-litigation analysis.
Notice of deficiency — 90-day letter	Formal pre-assessment notice for deficiency taxes	Petition Tax Court within 90 days, or 150 days if addressed outside U.S.; deadline is jurisdictionally critical under current case law nuances and statute.

17.4 Assessment and collection

Assessment records the liability. After notice and demand, the federal tax lien arises by law and attaches broadly to taxpayer property/rights; a Notice of Federal Tax Lien provides public notice and priority effects. Levy is seizure of property after required notices and waiting periods. Collection alternatives depend on financial disclosure, compliance and collection statute.

Remedy	Use	Key condition
Installment agreement	Pay over time	Current filing/payment compliance; fees and interest continue.
Offer in compromise — doubt as to collectibility	Settle based on reasonable collection potential	Full financial disclosure; equity, income and allowable expenses; future compliance.
Offer — doubt as to liability	Settle genuine liability dispute	Evidence and legal analysis; distinct from inability to pay.
Currently not collectible	Temporary suspension where collection causes hardship	Lien may remain; financial condition reviewed later.
Collection Due Process	Independent review after lien/levy notice; judicial review in Tax Court	Timely request preserves stronger rights; underlying liability contest limited if prior opportunity.
Innocent-spouse relief	Relief from joint liability under §6015	Knowledge, allocation, equity and filing deadlines vary by subsection.
Penalty abatement	Reasonable cause, statutory exception, administrative waiver or first-time abatement	Contemporaneous facts, compliance history and reliance analysis.

17.5 Choosing a forum

Forum	Payment before suit	Jury	Typical strategic feature
IRS Appeals	No	No	Administrative settlement using litigation hazards; fastest/least formal when record is developed.
U.S. Tax Court	Generally no for deficiency	No	Specialized prepayment forum; nationwide trial sessions; small-case procedure for qualifying amounts has no precedential appeal.
Federal district court	Generally full payment after refund claim	Potentially yes	Local Article III forum; jury can be valuable for fact narratives.
Court of Federal Claims	Generally full payment after refund claim	No	Nationwide refund forum with tax expertise; appeal to Federal Circuit.

Governing authorities IRC §§ 6212–6213, 6321–6331, 6330, 6501, 6511, 7122, 7422; Flora v. United States, 362 U.S. 145 (1960); United States v. Boyle, 469 U.S. 241 (1985).

17.6 Burden of proof and penalties

The taxpayer generally bears the burden to prove entitlement to deductions and overcome presumptive correctness, though §7491 can shift factual burden when substantiation, cooperation and other conditions are satisfied. The government bears burdens for fraud and specified penalty-production requirements. Return positions should be evaluated under negligence, substantial-understatement, reportable-transaction and preparer standards, with disclosure where appropriate.

Misconduct	Civil / criminal distinction
Negligence / substantial understatement	Accuracy-related penalty generally 20%, subject to statutory defenses and reasonable cause.

Misconduct	Civil / criminal distinction
Valuation misstatement	20% or 40% depending on severity and transaction; qualified appraisal and professional reliance matter.
Civil fraud	75% penalty on underpayment attributable to fraud; clear and convincing evidence; unlimited assessment period.
Failure to file/pay/deposit	Percentage penalties with distinct bases and caps; payroll deposits treated strictly.
Tax evasion §7201	Felony requiring tax due, affirmative act and willfulness.
Willful failure to file/pay §7203	Misdemeanor generally based on legal duty, failure and willfulness; repeated pattern and concealment elevate risk.
False return §7206	Felony for willfully signing materially false return under penalties of perjury; tax deficiency is not always required.

Governing authorities Cheek v. United States, 498 U.S. 192 (1991) (willfulness); Spies v. United States, 317 U.S. 492 (1943) (affirmative act for evasion); IRC §§ 6662, 6663, 6694, 7201, 7203, 7206, 7491.

18. Tax Planning and Anti-Abuse Doctrines

18.1 The boundary

Tax avoidance is arranging affairs within the law to reduce tax. Tax evasion is willful violation—concealing income, fabricating deductions, keeping double books, using nominees to hide ownership or lying to the government. Between them lies aggressive planning: technically arguable structures with weak economics, disclosure, authority or documentation. Professional planning begins with economic goals and treats tax as one design constraint, not the sole purpose.

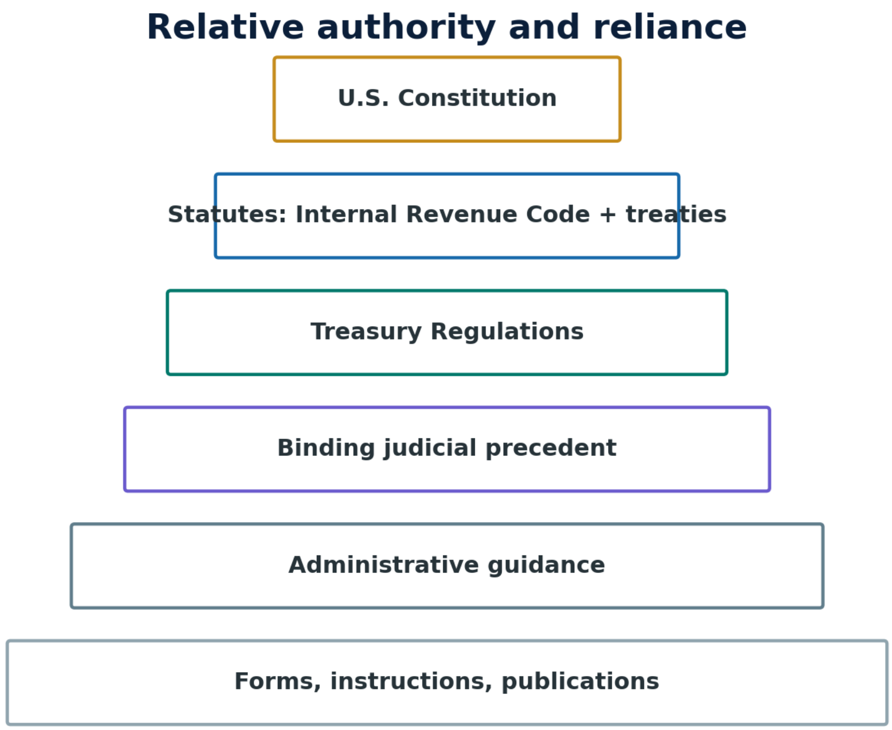

Figure 7 — A planning opinion must survive higher authority and fact-specific judicial doctrine.

18.2 Major doctrines

Doctrine	Question the court asks	Classic authority / example
Substance over form	What actually happened economically, beyond labels?	Commissioner v. Court Holding Co.; ownership and negotiation can defeat formal re-routing.
Step transaction	Should formally separate steps be integrated?	End-result, interdependence and binding-commitment formulations.
Business purpose	Was there a substantial non-tax reason for the structure?	Gregory v. Helvering.
Sham transaction	Did the transaction have practical economic reality?	Knetsch v. United States.
Economic substance §7701(o)	Did transaction meaningfully change economic position apart from tax, and did taxpayer have substantial non-tax purpose?	Codified conjunctive test where doctrine is relevant; strict-liability penalty framework can apply.
Assignment of income	Who earned or controlled the income-producing property?	Lucas v. Earl; Helvering v. Horst.
Constructive receipt	Was income made available without substantial restriction?	Cash-method timing; cannot turn away available income merely to defer tax.

Doctrine	Question the court asks	Classic authority / example
Claim of right	Was income received under claim of right without restriction?	North American Oil; later repayment may invoke deduction or §1341.
Debt versus equity	Does an instrument represent genuine debtor-creditor relationship or risk capital?	Multi-factor analysis; labels and related-party terms not decisive.
Arm's-length standard	Would unrelated parties agree to price and terms?	§482 regulations and transfer-pricing methods.

18.3 Planning review protocol

57. State the commercial objective in non-tax terms and identify decision-maker evidence.
58. Draw every legal entity, contract, cash flow, asset transfer and timing step.
59. Compute tax under proposed and baseline structures, including federal, state, foreign and owner-level effects.
60. Identify statutory qualifications, elections, anti-abuse rules and reporting/disclosure forms.
61. Test substance-over-form, step transaction, economic substance, assignment of income, debt/equity and valuation.
62. Obtain independent valuation or transfer-pricing work where price is material.
63. Adopt and execute documents before the transaction; after-the-fact minutes cannot create historical intent.
64. Reconcile return reporting to books, bank movements, cap table and third-party information forms.
65. Reassess when facts change. A valid structure can fail through inconsistent operation.

Red flags Circular money movements; promoters promising "IRS-approved" structures; deductions disconnected from economic loss; backdated documents; nominees; unverifiable appraisals; personal expenses through entities; undisclosed foreign accounts; and opinions that assume away the central facts.

18.4 Professional reliance

Reliance on an adviser can support reasonable cause only when the adviser is competent and independent, receives complete facts, and provides substantive advice on a matter requiring professional judgment. Reliance generally does not excuse nondelegable filing deadlines under Boyle, and a promoter's opinion is inherently suspect. Privilege is narrower for accountants than attorneys and can be waived through return disclosure or third-party circulation; design the communication protocol before controversy.

19. Step-by-Step Learning Roadmap

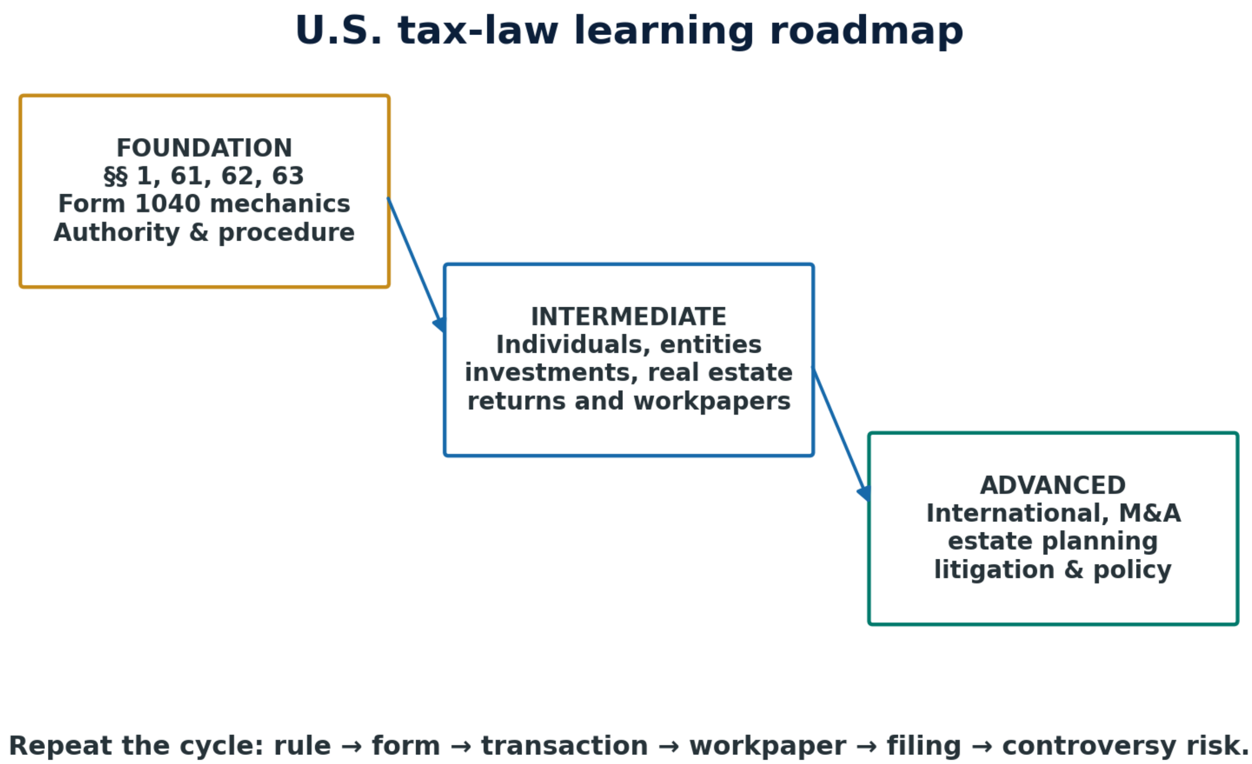

Figure 8 — Competence develops by repeatedly connecting Code, forms, transactions, workpapers and procedure.

19.1 Foundation — mechanics, authority and forms

Module	Learn	Primary Code / regulations	Official/practical materials
Authority	Constitution, Code structure, regulations, rulings, cases and effective dates	IRC §§ 1, 7805; Treas. Reg. framework	Title 26 on U.S. Code; Internal Revenue Bulletin; Saltzman & Book, IRS Practice and Procedure.
Gross income and exclusions	Realization, accession to wealth, basis recovery, gifts and damages	§§ 61, 72, 1001–1016; Reg. §§1.61-1, 1.1001-1	IRS Publication 17; Glenshaw Glass; Duberstein; Crane; Tufts.
Deductions	AGI, standard/itemized, business versus personal, capitalization	§§ 62, 63, 162, 165, 170, 212, 213, 262, 263	Forms 1040, Schedules 1/A/C; Welch; INDOPCO.
Credits and payments	Refundable/nonrefundable credits, withholding and estimated tax	§§ 21–25A, 31–36B, 6654	Form 1040 instructions; Publications 505, 596, 970.
Procedure basics	Return, assessment, limitation, deficiency, refund	§§ 6001, 6011, 6211–6213, 6501, 6511	Publications 1, 5, 556; Taxpayer Bill of Rights.

66. Complete a sample Form 1040 by hand from W-2, 1099-INT, 1099-DIV and a simple Schedule C.
67. For every line, identify the Code section, form instruction, evidence and limitation.
68. Create a one-page tax computation that reconciles gross income to AGI, taxable income, regular tax, credits, other taxes and payments.
69. Read one judicial opinion per week using issue–rule–facts–analysis–holding format.
70. Practice searching the current Code, e-CFR and Internal Revenue Bulletin instead of relying on summaries.

19.2 Intermediate — transactions and entity systems

Module	Key provisions	Practice project
Investments	§§ 1(h), 1091, 1211–1212, 1221–1231, 1256, 1259, 1411	Build tax-lot and capital-gain netting model including wash sales and NIIT.
Retirement / HSA	§§ 219, 223, 401–409A, 408, 408A, 529	Compare contribution, distribution, RMD and beneficiary outcomes.
Partnerships	Subchapter K: §§ 701–777; Reg. §§1.704-1, 1.704-3, 1.752-1	Prepare outside-basis, capital, §704(c), liability and distribution schedules.
S corporations	§§ 1361–1379	Model wages, distributions, stock/debt basis, AAA and built-in gain.
C corporations / founders	§§ 83, 1202, 1244, 195, 248, 351, 301–336, 409A	Create founder-equity tax calendar and acquisition exit comparison.
Real estate	§§ 121, 167–168, 469, 1031, 453, 1245, 1250	Build acquisition allocation, depreciation, passive-loss and sale waterfall.
Employment and accounting	§§ 162, 274, 3121, 3401, 446–451, 461, 471, 163(j), 174A	Reconcile payroll returns; write capitalization/accounting-method memo.
State tax	Wayfair; P.L. 86-272; state statutes/regulations	Prepare 50-state nexus questionnaire and priority matrix.

19.3 Advanced — cross-border, M&A, estates and litigation

Module	Core provisions / authorities	Professional references
International individual	§§ 2(d), 7701(b), 861–865, 871–879, 901–911, 877A	Bittker & Lokken; IRS International Practice Units; treaty technical explanations.
International corporate	§§ 245A, 250, 267A, 367, 482, 884, 951–965, 1441–1446, 59A	BNA Tax Management Portfolios; OECD Guidelines where relevant; Form 5471/1118 instructions.
M&A/reorganizations	§§ 302, 304, 338, 351, 354–368, 382, 1060	Ginsburg, Levin & Rocap, Mergers, Acquisitions, and Buyouts; regulations and private rulings used cautiously.
Estate/gift/GST	§§ 1014, 2001–2801, regulations under §§2036, 2041, 2511, 2701–2704	Bittker & Lokken; Zaritsky; Form 706/709 instructions and valuation standards.
Tax controversy	Subtitle F; Tax Court Rules; Federal Rules of Civil Procedure/Evidence	Saltzman & Book; IRS IRM; court opinions; Department of Justice Tax Division Manual.
Tax policy / financial reporting	§59A, §55 CAMT rules, ASC 740	Joint Committee on Taxation explanations; Treasury Greenbook; FASB Accounting Standards Codification.

19.4 Essential judicial decisions

Case	Principle to learn
Commissioner v. Glenshaw Glass Co.	Breadth of gross income.
Commissioner v. Duberstein	Gift versus income is fact-intensive and turns on transferor intent.
Welch v. Helvering	Ordinary and necessary business expenses; reputation-restoring payments.
INDOPCO, Inc. v. Commissioner	Future benefits and capitalization.

Case	Principle to learn
Gregory v. Helvering	Statutory form cannot rescue transaction outside intended reorganization/business purpose.
Commissioner v. Court Holding Co.	Substance of sale and assignment of transaction.
Knetsch v. United States	Sham transaction lacking economic substance.
Frank Lyon Co. v. United States	Respect for genuine multiparty transaction with economic substance.
Crane v. Commissioner / Commissioner v. Tufts	Liabilities in basis and amount realized.
Cottage Savings Ass’n v. Commissioner	Realization through materially different legal entitlements.
South Dakota v. Wayfair, Inc.	Physical presence not required for sales-tax nexus.
Mayo Foundation / Loper Bright	Administrative-law review of tax regulations and end of Chevron mandatory deference.
Flora v. United States	Full-payment rule for refund suits.
Cheek v. United States / Spies v. United States	Criminal tax willfulness and affirmative evasion acts.
Bob Jones University v. United States	Public policy limits on charitable exemption.

19.5 Method of professional study

For each topic, read in this order: current statute and effective date; regulations; form and instructions; published guidance; controlling judicial authority; secondary treatise; then transaction documents and workpapers. Reverse this order only for issue spotting, never for final authority. Maintain a research log showing query, source, date, proposition, jurisdiction, effective date and unresolved uncertainty.

20. Implementation Plans and Compliance Systems

20.1 Universal tax control architecture

Control layer	Minimum system	Evidence
Governance	Named tax owner; adviser responsibility matrix; board/audit escalation thresholds	Policy, engagement letters, approvals.
Entity master	Legal name, EIN, elections, tax year, jurisdictions, owners, officers and registered agents	Entity chart, formation/election files.
Tax calendar	Returns, payments, elections, information reports, licenses and annual reports	Deadline owner, reviewer, proof of filing/payment.
Source data	Standard chart of accounts and tax-sensitive transaction codes	GL mapping, bank feeds, payroll and broker exports.
Subledgers	Basis, fixed assets, equity awards, NOL/credits, E&P, partnership capital and foreign tax pools	Annual rollforwards tied to returns.
Documentation	Contracts, invoices, receipts, appraisals, minutes, business purpose and elections	Indexed electronic repository with retention rules.
Review	Quarterly provision/projection; year-end close; return reconciliation; notice response	Signed checklist, open-items list, variance report.
Security	Role-based access, encryption, backups and vendor controls	Access logs, incident response, identity-protection procedures.

20.2 Individual taxpayer implementation plan

71. Create annual household tax profile: filing status, dependents, residency, jobs, businesses, investments, property, foreign assets and major life events.
72. Reconcile each W-2 and 1099 to actual receipts; investigate duplicates and incorrect forms before filing.
73. Maintain digital folders by income, deductions, credits, estimated payments, state residency and notices.
74. Run midyear and November projections; update Form W-4 and estimated taxes using safe-harbor and cash-flow objectives.
75. Keep lifetime basis files for property, investments, nondeductible IRAs, HSAs, equity compensation, gifts and inheritances.
76. Use an account transcript after filing to confirm processing and payment application; retain signed return and e-file acceptance.

20.3 Investor implementation plan

77. Adopt written tax-lot policy and import all broker/wallet data monthly.
78. Reconcile dividends, interest, OID, partnership K-1s, foreign taxes and withholding to statements and cash.
79. Run wash-sale controls across spouse, IRA, managed accounts and automated reinvestments.
80. Model realization, charitable gifting, estimated tax, NIIT and state sourcing before large exits.
81. For private funds, track outside basis, capital commitments, state-source income, UBTI/ECI, PFIC/CFC and §1061 data.
82. Preserve purchase agreements, subscription documents, QSBS representations and transfer records.

20.4 Startup founder and Delaware C-corporation plan

Time	Action
Before formation	Model C versus S/LLC; choose capitalization; identify §351 property, IP ownership, state of operation and QSBS strategy.
Formation week	File charter; obtain EIN; execute board approvals, stock purchase, IP assignment; receive payment; open stock ledger and cap table.
Within 30 days of restricted stock transfer	File §83(b) election with proof; deliver company copy; preserve fair-market-value evidence.

Time	Action
Before option grants	Adopt equity plan; obtain current §409A valuation; set grant date/exercise price through valid board action.
Before employees/contractors	Register payroll in work states; classify workers; collect W-4/I-9/W-9; implement accountable plan.
Each financing	Allocate legal costs; update gross-asset/QSBS file; classify SAFE/note; review state securities and tax nexus.
Quarterly	Close books; reconcile cap table/payroll/sales tax; estimate federal/state tax; update nexus and R&D records.
Exit planning — 12+ months	Compare stock/asset sale, QSBS, §338, reorganization, option exercise, state residency and charitable/estate strategies.

20.5 LLC and partnership plan

- Operating agreement must align economics, §704(b) capital, tax allocations, distributions, tax representative and transfer/§754 decisions.
- Maintain partner-by-partner outside basis and liability allocation independent of return software.
- Preclear contributions/distributions for §704(c), disguised sale, hot assets and withholding.
- Issue K-1 estimates and state-source schedules before owners' estimated-tax deadlines.
- For service partnerships, document guaranteed payments, partner capacity and self-employment-tax position.

20.6 News and media business plan

Revenue stream	Tax control
Advertising / sponsorship	Contract language; sales-tax treatment; 1099/payment processing; nonprofit acknowledgment versus advertising.
Subscriptions / memberships	Revenue recognition; digital-product sales tax; refundable/deferred revenue; contribution component if nonprofit.
Donations / grants	Charitable status, restriction tracking, donor acknowledgment, public-support and lobbying/campaign limits.
Events / conferences	Admissions tax, sales tax, venue payroll, speaker classification, meals/entertainment allocation.
Licensing / syndication	Royalty sourcing, withholding, IP ownership, transfer pricing and treaty documentation.
Journalists / creators	Employee/contractor classification, expense reimbursement, equipment, home office and multistate remote work.
Political content	Editorial activity separated from prohibited campaign intervention for §501(c)(3); ad-disclaimer and state campaign rules reviewed separately.

20.7 Internationally active business plan

83. Create real-time legal-entity and ownership chart, including disregarded entities, branches and trusts.
84. Classify every cross-border payment for source, character, withholding, treaty, VAT/GST and transfer pricing.
85. Collect and validate Forms W-8/W-9; apply expiration and change-in-circumstances controls.
86. Maintain CFC, Subpart F, tested-income, PTEP, basis and foreign-tax-credit rollforwards.
87. Execute intercompany agreements before transactions and invoice consistently with transfer-pricing policy.
88. Track employee travel, remote work, dependent-agent authority and office space for PE/nexus risk.
89. Calendar Forms 5471, 8858, 8865, 8938, 8621, 3520, FBAR and local country returns separately.
90. Establish controversy-ready files: business purpose, functional analysis, board decisions, valuations and reconciliations.

20.8 Annual tax close checklist

Phase	Checklist
October–November	Forecast taxable income; verify elections and expiring provisions; model distributions, compensation, gains/losses, charitable gifts and state residency.
December	Complete transactions with legal/economic substance; pay deductible items under timing rules; document board actions; collect missing tax forms.
January–February	Reconcile payroll and information returns; issue W-2/1099; close fixed assets/inventory; request K-1 and international data.
March–April	File/extend pass-through and individual/corporate returns; pay balances and first estimates; extend foreign/information returns where allowed.
Post-filing	Tie filed return to final books; update basis/attribute rollforwards; save proof; review notices; conduct lessons-learned meeting.

Final operating principle The strongest tax strategy is a controlled information system: choose the legal and economic structure before acting; preserve evidence as events occur; calculate liabilities during the year; file consistently across federal, state and foreign regimes; and maintain a controversy-ready record.

Appendix A. 2026 Reference Tables

A.1 Federal individual amounts — tax year 2026

Item	2026 amount / rule	Official source
Standard deduction	$16,100 single/MFS; $24,150 HOH; $32,200 MFJ/QSS	Rev. Proc. 2025-32; IR-2025-103.
Top ordinary rate	37% above $640,600 single; $768,700 MFJ taxable income	Rev. Proc. 2025-32.
AMT exemption	$90,100 single, phaseout $500,000; $140,200 MFJ, phaseout $1,000,000	Rev. Proc. 2025-32.
Long-term capital-gain 0% ceiling	$49,450 single; $98,900 MFJ; $66,200 HOH	Rev. Proc. 2025-32.
Long-term capital-gain 20% threshold	Over $545,500 single; $613,700 MFJ; $579,600 HOH	Rev. Proc. 2025-32.
EITC maximum — 3+ children	$8,231	Rev. Proc. 2025-32.
Foreign earned income exclusion	$132,900	Rev. Proc. 2025-32.
Gift annual exclusion	$19,000 per donee	Rev. Proc. 2025-32.
Noncitizen-spouse annual exclusion	$194,000	Rev. Proc. 2025-32.
Estate/gift basic exclusion	$15,000,000	Rev. Proc. 2025-32.
Adoption credit	$17,670 maximum; up to $5,120 refundable	Rev. Proc. 2025-32.
Personal exemption	Zero	Current post-2025 law / IRS inflation guidance.

A.2 Retirement, health and payroll — 2026

Item	2026 amount
401(k)/403(b)/457/TSP elective deferral	$24,500
General age-50 catch-up	$8,000
Age 60–63 enhanced catch-up	$11,250
IRA contribution	$7,500; age-50 catch-up $1,100
Defined contribution annual additions	$72,000 excluding catch-up
HSA contribution	$4,400 self-only; $8,750 family; $1,000 age-55 catch-up
HDHP minimum deductible	$1,700 self-only; $3,400 family
HDHP out-of-pocket maximum	$8,500 self-only; $17,000 family
Social Security wage base	$184,500
FICA rates	6.2% Social Security + 1.45% Medicare each employer/employee; 0.9% Additional Medicare employee-only above thresholds
Business mileage	72.5¢ Jan. 1–Jun. 30; 76¢ Jul. 1–Dec. 31
Medical/moving mileage	20.5¢ Jan. 1–Jun. 30; 23.5¢ Jul. 1–Dec. 31

Item	2026 amount
Charitable mileage	14¢ statutory

A.3 Business amounts and post-2025 changes

Item	2026 framework
Corporate rate	21% under §11.
§179	Maximum $2,560,000; phaseout begins $4,090,000; SUV cap $32,000.
Bonus depreciation	100% for qualifying property acquired/produced after Jan. 19, 2025, subject to transition and eligibility rules.
Domestic research	§174A current deduction generally available after 2024; optional capitalization; transition procedures.
Foreign research	Generally 15-year capitalization/amortization framework remains.
§163(j) ATI	EBITDA-style computation restored after 2024, subject to current statute and guidance.
QBI	§199A made permanent under 2025 legislation; limitations and minimum-deduction framework apply.
QSBS after July 4, 2025	Tiered exclusion at 3/4/5 years; $15 million applicable cap and $75 million gross-asset threshold, subject to statutory details/indexing.

Appendix B. Major Forms and Filing Calendar

Form	Taxpayer / event	Purpose
1040 / 1040-NR	Individuals / nonresident aliens	Annual income tax.
Schedule A	Individuals	Itemized deductions.
Schedule C / E / F	Individuals	Business; rentals/royalties/pass-through; farming.
Schedule D / Form 8949	Investors	Capital gains/losses and transaction detail.
Forms 4562 / 4797	Business/property owners	Depreciation and business-property dispositions.
Forms 6251 / 8960	Individuals	AMT and NIIT.
Forms 1116 / 1118	Individuals / corporations	Foreign tax credit.
Forms 2553 / 8832	Eligible entities	S election / entity classification.
Forms 1065 / 1120-S / 1120	Partnership / S corp / C corp	Annual entity return.
Schedule K-1 / K-2 / K-3	Pass-through owners	Domestic and international allocations.
Forms 941 / 940 / W-2 / 1099-NEC	Employers/payors	Payroll and information reporting.
Form 990 / 990-T	Tax-exempt organizations	Annual information return / UBIT.
Forms 706 / 709	Estate / donor	Estate, portability, gift and GST.
Forms 5471 / 8858 / 8865	International owners	Foreign corporation, branch/disregarded entity, partnership.
Forms 8938 / 8621 / 3520	Specified persons	Foreign financial assets, PFIC, foreign trusts/gifts.
FinCEN Form 114	U.S. persons	FBAR.
Forms 2848 / 8821	Taxpayer representatives	Power of attorney / information authorization.
Forms 12153 / 656 / 9465	Collection	CDP request / offer in compromise / installment agreement.

B.1 Filing discipline

- Use the exact tax year's form and instructions; draft forms can change before release.
- Maintain proof of timely electronic filing, certified mail/private delivery and payment confirmation.
- Calendar elections separately: §83(b), S election, accounting methods, §754, treaty disclosures and extension-dependent elections.
- Reconcile information returns to income-tax returns and correct mismatches proactively.
- An amended return is a legal filing, not merely an accounting correction; assess statute, disclosure, penalty and state consequences.

Appendix C. Code Roadmap, Cases and Official Sources

C.1 Internal Revenue Code roadmap

Subtitle	Coverage
A	Income Taxes — individuals, corporations, partnerships, trusts, international and special taxes.
B	Estate and Gift Taxes.
C	Employment Taxes.
D	Miscellaneous Excise Taxes.
E	Alcohol, Tobacco and Certain Other Excise Taxes.
F	Procedure and Administration.
G	Joint Committee on Taxation.
H	Financing of Presidential Election Campaigns.
I	Trust Fund Code.
J	Coal Industry Health Benefits.
K	Group Health Plan Requirements.

C.2 Official online sources

U.S. Code, Title 26: https://uscode.house.gov/browse/prelim@title26&edition=prelim

Electronic Code of Federal Regulations, Title 26: https://www.ecfr.gov/current/title-26

IRS Forms and Instructions: https://www.irs.gov/forms-instructions

Internal Revenue Bulletin: https://www.irs.gov/irb

IRS 2026 inflation adjustments: https://www.irs.gov/newsroom/irs-releases-tax-inflation-adjustments-for-tax-year-2026-including-amendments-from-the-one-big-beautiful-bill

Revenue Procedure 2025-32: https://www.irs.gov/pub/irs-drop/rp-25-32.pdf

Public Law 119-21: https://www.govinfo.gov/link/plaw/119/public/21

U.S. Tax Court opinions and rules: https://www.ustaxcourt.gov

FinCEN FBAR: https://www.fincen.gov/report-foreign-bank-and-financial-accounts

Treasury tax treaties: https://home.treasury.gov/policy-issues/tax-policy/treaties

IRS Independent Office of Appeals: https://www.irs.gov/appeals

Taxpayer Advocate Service: https://www.taxpayeradvocate.irs.gov

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