2019 REG Book Errata

Oops! Since publishing the 2019 REG text, we have found the following issues. When new/edited text is shown along with old text, the new/edited text is highlighted in gray, unless noted otherwise.

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Please note that due to the CPA exam policy on testing changes in tax law, a 2.5% medical expense adjustment will be testable for the first half of 2019 since the medical expense threshold for regular tax purposes in 2018 is 7.5% of AGI while the alternative minimum tax only allows medical expenses to be deducted in excess of 10% of AGI. This difference is eliminated for the second half of 2019 and beyond because the thresholds for regular tax and AMT are both 10% of AGI starting with 2019 tax returns.
For example, Richie, age 16, has $25,000 in unearned income and no earned income. The amount of Richie’s unearned income subject to the Kiddie tax is $25,000 total income – $2,100 threshold = $22,900.
1. $1,050 will not be taxed;
2. $1,050 will be subject to Richie’s tax rate; and
3. $22,900 will be subject to trust tax rates (i.e., the Kiddie tax).

If, however, Richie has $25,000 in unearned income and $500 earned income, the amount of Richie’s unearned income subject to the Kiddie tax is still $22,900: $25,500 total income – $500 earned income – $2,100 threshold = $22,900.
1. $1,050 (i.e., $500 earned + $550 unearned) will not be taxed;
2. $1,550 (all unearned) will be subject to Richie’s tax rate; and
3. $22,900 will be subject to trust tax rates.

If Richie has $25,000 in unearned income and $2,000 earned income, the amount of Richie’s unearned income subject to the Kiddie tax is still $22,900: $27,000 – $2,000 earned income – $2,100 threshold = $22,900.
1. $2,350 (i.e., $2,000 earned + $350 unearned) will not be taxed;
2. $1,750 (all unearned) will be subject to Richie’s tax rate; and
3. $22,900 will be subject to trust tax rates.
Jasper Junction Corporation (JJC) is an accrual basis, calendar-year entity that was created by Chao, Iris, and Nolan in 20X1. JJC furnishes the original incorporation agreement. The shareholders' bases in the assets contributed are as follows:

- Cash $150,000
- Equipment $245,000
- Inventory $380,000
- Land and Building $375,000

The first five years of business have been lean years. Nolan had to loan the corporation $75,000 to ensure that JJC had enough cash to pay its bills and its Accumulated Earnings and Profits only amounts to $23,000 at the end of 20X5. JJC has its first year of substantial income in 20X6. It also sells some of its land for $100,000 cash, but the sale results in a capital loss. The Board of Directors decides to pay $250,000 in dividends to its shareholders. This is in addition to the $3,500 of interest it pays on the bonds and the $1,500 it pays to Nolan on the money he loaned JJC. The income and expenses of JJC for 20X6, taxable income, and current E&P are provided in the Table below.

<table>
<thead>
<tr>
<th>Income</th>
<th>Amount</th>
<th>Taxable Income</th>
<th>Current E&amp;P</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxable Income</td>
<td></td>
<td></td>
<td>176,500</td>
</tr>
<tr>
<td>Sales</td>
<td>412,000</td>
<td>412,000</td>
<td></td>
</tr>
<tr>
<td>COGS</td>
<td>150,000</td>
<td>(150,000)</td>
<td></td>
</tr>
<tr>
<td>Dividends (own 5%)</td>
<td>133,000</td>
<td>133,000</td>
<td></td>
</tr>
<tr>
<td>Muni Bond Interest</td>
<td>1,000</td>
<td>1,000</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Expenses</th>
<th>Amount</th>
<th>Taxable Income</th>
<th>Current E&amp;P</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital loss</td>
<td>32,935</td>
<td></td>
<td>(32,935)</td>
</tr>
<tr>
<td>Interest Expense</td>
<td>5,000</td>
<td>(5,000)</td>
<td></td>
</tr>
<tr>
<td>Operating Expenses</td>
<td>120,000</td>
<td>(120,000)</td>
<td></td>
</tr>
<tr>
<td>Key Life Insurance Premiums</td>
<td>6,000</td>
<td></td>
<td>(6,000)</td>
</tr>
<tr>
<td>Taxable income before Special Deductions</td>
<td>270,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Charitable Contributions</td>
<td>30,000</td>
<td>(27,000)</td>
<td>(3,000)</td>
</tr>
<tr>
<td>Dividends Received Deduction</td>
<td></td>
<td>(66,500)</td>
<td>66,500</td>
</tr>
<tr>
<td>Taxable Income</td>
<td>176,500</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Federal Income Tax</td>
<td>37,065</td>
<td>(37,065)</td>
<td></td>
</tr>
<tr>
<td>Current E&amp;P</td>
<td>165,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Schedule K-1 (Form 1040-S) 2018</td>
<td>Page 2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>---------------------------------</td>
<td>-------</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

This list identifies the codes used on Schedule K-1 for all partners and provides summarized reporting information for partners who file Form 1040.

For detailed reporting and filing information, see the separate Partner's Instructions for Schedule K-1 and the instructions for your income tax return.

### 1. Ordinary business income (loss)

- **Passive loss**
  - See Partner's Instructions
  - Schedule E, line 29, column (h)

- **Nonpassive income**
  - See Partner's Instructions
  - Schedule E, line 29, column (k)

### 2. Net rental real estate income (loss)

- **Net income**
  - See Partner's Instructions
  - Schedule E, line 29, column (h)

### 4. Guaranteed payments

- **Interest income**
  - See Partner's Instructions
  - Schedule D, line 9

### 6. Ordinary dividends

- **Qualified dividends**
  - See Partner's Instructions
  - Schedule D, line 9

- **Dividend equivalents**
  - See Partner's Instructions
  - Schedule D, line 9

### 7. Royalties

- **Net short-term capital gain (loss)**
  - See Partner's Instructions
  - Schedule D, line 12

### 9c. Unrecaptured section 1250 gain

### 10. Net section 1231 gain (loss)

### 11. Other loss (in)come

- **Code**
  - A. Other portfolio income (loss)
  - B. Involuntary conversions
  - C. Sec. 1256 contracts & stock options
  - D. Mining exploration costs & depletion
  - E. Cancellation of debt
  - F. Section 936 income
  - G. Section 956(a) inclusion
  - H. Subpart F income other than sections 933 and 966 inclusion
  - I. Other income (loss)

### 12. Section 179 deduction

### 13. Other deductions

- **A. Cash contributions (60%)**
- **B. Casualty contributions (60%)**
- **C. Noncash contributions (50%)**
- **D. Noncash contributions (30%)**
- **E. Capital gain property to a 50% owner or organization (30%)**
- **F. Capital gain property (20%)**
- **G. Contributions (100%)**

### 14. Self-employment earnings (loss)

**Note:** If you have a section 179 deduction or any partner-level deductions, see the Partner's Instructions before completing Schedule SE.

- **Net earnings (loss)**
  - Schedule SE, line 12
  - Schedule SE, line 12

### 15. Credits

- **Low-income housing credit**
  - See Partner's Instructions
  - Schedule D, line 9

- **Low-income housing credit (other)**
  - See Partner's Instructions
  - Schedule D, line 9

### 17. Alternative minimum tax (AMT) items

- **A. Post-1996 depreciation adjustment**
  - See Partner's Instructions
  - Schedule D, line 12

### 18. Tax-exempt income and nonexempted expenses

- **A. charitable contributions**
  - See Partner's Instructions
  - Schedule D, line 12

### 19. Distributions

- **A. Cash and marketable securities**
  - See Partner's Instructions
  - Schedule D, line 12

### 20. Other information

- **A. Investment income**
  - See Partner's Instructions
  - Form 1040, line 12

### 21. Code

- **J. Work opportunity credit**
- **K. Disabled access credit**
- **L. Empowerment zone employment credit**
- **M. Credit for increasing research activities**
- **N. Credit for employer social security and Medicare taxes**
- **O. Backup withholding**
- **P. Other credits**