

Team B Week Three Discussions and Problem Solutions

ACC455

Team B Week Three Discussions and Problem Solutions

Discussion Question C:3-8 Describe three ways in which the treatment of charitable contributions by individual and corporate taxpayers differ.

Individual and corporate differences are the timing of the deduction, the amount allowed to contribute, and the maximum deduction permitted in each year. Individual tax deductions for charity must be paid in cash or other property before the close of the year to be deductible and regardless of the method of accounting the individual uses. Corporations using the accrual method can apply a special rule where all or part of the charitable contribution can be used in the year it accrued instead of the year it was paid. However, the payment has to be made before the 15th of the third month following the end of the accrual year and the contribution had to be authorized by the board of directors in the year it is accrued (Anderson, Pope, & Kramer, 2010).

Corporation can donate up to 10% of adjusted taxable income and can carry excess forward the next five tax years. For example, if the adjusted gross income (AGI) is \$100,000, and the contribution is \$80,000 (to a 50% organization), the additional \$30,000 deduction could be taken over the next five years. Individuals are limited to 50% of AGI (30% on capital gain property) and donated property other than cash is generally deducted at FMV for individual returns. A special rule applies to non-cash property called ordinary income property that would have resulted in a gain if it had been sold. With the special rule, corporations can “deduct the donated property’s adjusted basis plus one-half of the excess” of FMV over the adjusted basis, not exceeding twice the adjusted basis. The rule applies when: 1) “the use of property is related to the exempt function” of the donee and “used solely for the care of the ill, needy, or infants”, or 2) “the property is not transferred to the donee in exchange for money, other property, or

services”, and when the donor has a statement describing the condition of the first rule application and the second rule application are complied with (Anderson, Pope, & Kramer, 2010, p. 3-12).

Depending on the amount and type of contribution, the IRS limits deduction amounts. Most organizations have a 50% limit of AGI exemplified in contributions to religious groups, educational facilities, nonprofit hospitals, and qualifying government organizations. Groups such as veterans, fraternal organizations and nonprofit cemeteries also restrict deduction amounts to 30% of AGI (Kennan, 2012).

When a gift of property is made that is otherwise subject to capital gains taxes, a lower AGI limit is applied to the deduction as exemplified in appreciated stock. A gift that qualifies for the 50% limit would have a capital gain deduction of 30%. Contributions made that qualify for the 30% limit would decrease the deduction to 20% (Kennan, 2012).

Discussion Question C:5-10 (p 5-39) Explain to Florida’s president the ACE adjustment, how the adjustment is similar to and different from E&P adjustments with which he is familiar, and whether the adjustment will partially or completely reverse in future years.

Both adjusted current earnings (ACE) and E&P begin with taxable income (or loss) in make adjustments. ACE adjusts to find the taxable income in the current year and E&P adjusts to find the income available for paying dividends. E&P adjustments include non-taxable income and reduce for taxes owed. The income from the installment sale is deferred when computing taxable income for ACE, but the gain is realized and used to determine the E&P. It is a matter of the timing on the income. The income is included in the E&P to determine the organizations financial status for shareholder dividends, whereas the ACE is used to determine current