

**NINJA** CPA

# **NINJA CPA Review®**



## **NINJA Notes**

Regulation  
January - July 2023

# 2023 REG

Source: AICPA

Content Area		Allocation
Area I	Ethics, Professional Responsibilities, and Federal Tax Procedures	10-20%
Area II	Business Law	10-20%
Area III	Federal Taxation of Property Transactions	12-22%
Area IV	Federal Taxation of Individuals	15-25%
Area V	Federal Taxation of Entities	28-38%

## Skill Levels

**Evaluation** The examination or assessment of problems, and use of judgment to draw conclusions.

**Analysis** The examination and study of the interrelationships of separate areas in order to identify causes and find evidence to support inferences.

**Application** The use or demonstration of knowledge, concepts or techniques.

**Remembering and Understanding** The perception and comprehension of the significance of an area utilizing knowledge gained.

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## The N.I.N.J.A. Framework

### Taxations

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# How to use NINJA Notes

## Reading

You've invested in NINJA Monthly, now let the NINJA Notes go to battle for you. You should read them as many times as possible.

**Carry it with you wherever you go.**

Simply load the PDF onto your mobile device, and **if you have 5 minutes of downtime, you have 5 minutes of study time.**

It is recommended that you read the NINJA Notes at least **five times** leading up to your final two weeks of exam prep.

If you have 6 weeks to study, then you need to complete this in 4 weeks. 5 weeks to study, then complete it in 3.4 weeks = 2 weeks. You get the picture. The point is: plan, plan, plan and budget, budget, budget, budget because exam day is looming.

### Learning Plans

#### 6-Week Plan

- Approx. 122 pages x 5 reads
- 4 weeks
- 7 days per week = Approx. 22 pages per day

#### 5-Week Plan

- Approx. 122 pages x 5 reads
- 3 weeks
- 7 days per week = Approx. 29 pages per day

#### 4-Week Plan

- Approx. 122 pages x 5 reads
- 2 weeks
- 7 days per week = Approx. 43 pages per day

#### 3-Week Plan

- Approx. 122 pages x 5 reads
- 1 week
- 7 days per week = Approx. 87 pages per day

## Rewriting The NINJA Notes

This step is optional, but it won over a lot of skeptics with its results. This is not mainstream advice. This is the NINJA way. The mainstream way of studying for the CPA Exam is old-fashioned and outdated.

Forget the old way. **You are a NINJA now.**



Now is the time to either:

1. Rewrite your own CPA Exam notes or
2. Rewrite the NINJA Notes.

Plan on investing a week doing this, and you should expect to get through at least 20 pages a day to stay on track.

# I. Individual Taxation

## 2022 Individual Tax Rates

Single Taxpayer (Don't Memorize)

Tax Rate	Taxable Income Over	But Not Over
10%	\$0	\$10,275
12%	\$10,275	\$41,775
22%	\$41,775	\$89,075
24%	\$89,075	\$170,050
32%	\$170,050	\$215,950
35%	\$215,950	\$539,900
37%	\$539,900+	

**Please Note:** This version of the 2022 REG NINJA Notes uses 2022 tax law, which is testable through June 2023.

Married Filing Jointly (Don't Memorize)

Tax Rate	Taxable Income Over	But Not Over
10%	\$0	\$20,550
12%	\$20,550	\$83,550
22%	\$83,550	\$178,150
24%	\$178,150	\$340,100
32%	\$340,100	\$431,900
35%	\$431,900	\$647,850
37%	\$647,850+	

# Overview Of Form 1040

	Gross Income
	<Adjustments>
=	<b>Adjusted Gross Income (AGI)</b>
	<Standard Deduction>
	or
	<Itemized Deductions>
=	<b>TI Before Qualified Business Income Deduction</b>
	<Qualified Business Income Deduction>
=	<b>Taxable Income</b>
x	Tax Rate
=	<b>Federal Income Tax</b>
	< Tax Credits >
	Alternative Minimum Tax
	Self-Employment Tax
	< Payments >
=	<b>Tax Due</b>

## Filing Status

- Single
- Married Filing Jointly
- Married Filing Separately
- Qualifying Widower
- Head of Household

# Cash Basis Accounting

- Allowed for
  - Businesses with < \$27MM Revenue (3 Year Avg)
    - TCJA Now Allows Cash Basis for
      - Corporations
      - Partnerships with C-Corp Partner
      - Businesses with Inventory
    - \$27MM Rule still applies

## Inclusions In Gross Income

- Wages and Salaries
  - Wages & Tips
  - Cancellation of Debt
  - Bargain Purchase
  - Guaranteed Payments
  - Life Insurance Premiums (above \$50k coverage)
  - Taxable fringe benefits and Stock options.
- Interest & Dividends
  - Taxable Interest and Dividends
    - Interest on Federal Bonds
    - Treasury Bills
    - Interest on late payment of tax refunds
    - All dividends unless specifically excluded



- Non-Taxable Interest and Dividend
  - State, Municipal and US Possession Bond Interest
  - Series EE and I savings bond
  - Non-taxable return of Capital
  - Stock Splits and Stock Dividends
  - S-Corp Dividends

- Business Income or Loss

Gross Receipts

<Returns & Allowances>

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**Net Receipts**

<COGS>

---

**Gross Profit**

+ Other Income

Gross Income

<Total Expenses>

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= **Net Profit (Loss)**

- Expenses Include:
  - Salaries and Wages
  - Taxes
  - Office Expense
  - Business use of home
  - Transportation Expenses
  - Business Meals (100% deductible)

- Note: Entertainment not deductible
- Business Travel (100% deductible)
- Interest on Business Loans
- Legal & Professional services & fees
- Business Bad Debt
- Depreciation & Amortization

## **Business Start-up Costs**

- Deduct up to \$5,000 of Start-up costs
- Reduced dollar-for-dollar by amount over \$50,000
- Remaining costs are amortized

## **Capital Gains & Losses**

Amount Realized

<Adjusted Basis of Assets Sold>

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### **Capital Gain or Loss Realized**

- Short-term Capital Gains & Losses
  - Holding period is 1 year or less
  - Treat as ordinary income and tax at ordinary rates
- Long-term Capital Gains & Losses
  - Holding period is 1 year or more
  - Tax Rates

- 0% - Low income taxpayers
- 15% - Most taxpayers
- 20% - Certain high-income taxpayers
- Capital Loss (Individual)
  - \$3,000 Loss and Carry Forward rest Indefinitely
  - Loss retains Character (STCL vs LTCL)
    - Compare to a Corporation
      - 3 years back /5 years forward
      - Corp Carry Forward as an STCL only

## **Passive Income**

- Rental real estate
- Royalties
- Income from Schedule K-1
  - Partnerships and Limited Liability Companies
  - S Corporations
  - Estates & Trusts
  - Closely-Held & Personal Service C Corps

# Farm Income

Income Items	Expense Items
<ul style="list-style-type: none"><li>• Produce, grains and livestock held for sale</li><li>• Livestock bought for resale</li></ul>	<ul style="list-style-type: none"><li>• Do not include personal or living expenses</li><li>• Include reasonable wages to children, meals to feed workers</li><li>• Depreciation</li></ul>

## Other Items Of Inclusion In Gross Income

- Alimony Received
  - Divorce Prior to December 31, 2018
    - Taxable
  - Divorce After December 31, 2018
    - Not Taxable
- Social Security Benefits
  - Up to 85%
- IRA Withdrawals
  - SECURE Act: Required Minimum Distributions begin at 72
- State and Local Tax Refund
  - If Itemized
- Unemployment Compensation
- Pensions and Annuities

## Other Items Of Exclusion From Gross Income

- Foreign-Earned Income
- Inheritance & Gifts
- Life Insurance Proceeds
- Workman's Compensation
- Injury Awards

## Deductions To Arrive At AGI

- MSA/HSA Contributions
- Educator Expenses: Up to \$300 of qualified expenses.
- Deductible part of Self-Employment Tax
- Self-Employed SEP, SIMPLE, and Qualified Plans
- Self-Employed Health Insurance Premiums
- Investment penalties for early withdrawal
- Alimony Paid
  - Divorce Prior to December 31, 2018
    - Deductible
  - Divorce After December 31, 2018
    - Not Deductible
- Traditional IRA Contribution
  - SECURE Act: No age limit on contributions
- Student Loan Interest up to \$2,500

- Can't be another taxpayer's dependent
- Qualified Tuition and Fees
  - Note: This benefit is related to the taxpayer's tax rate (it reduces the amount (AGI) to which the tax rate is applied)
  - The American Opportunity Credit is a dollar for dollar credit and more advantageous

## **Deductions & Exemptions**

- 2022 Standard Deduction
  - MFJ - \$25,900
  - Single - \$12,950
  - Head of Household - \$19,400
- 2022 Personal Exemption
  - None - Repealed under TCJA

## **Itemized Deductions – Schedule A**

- Medical Expenses – Schedule A
  - Deductible once 7.5% AGI threshold is reached for 2022
  - If your AGI is \$100,000, your first \$7,500 of medical expenses are not deductible
  - Accident/Disability insurance is not deductible
- Medical Expense – Paid On Behalf Of Another
  - Must be a Citizen of North America

- If person is your mother/father or relative closer than a cousin, they don't have to live with you
- Otherwise, they must live with you
- Must provide more than 50% support to individual
- State, Property, & Local Taxes (SALT)
  - Deduction Limited to \$10,000
  - Choose One of the Following:
    - Property Tax + State & Local Income Taxes
    - Property Tax + State & Local Sales Taxes
- Foreign Taxes Paid
  - Foreign Income Tax - Deductible
  - Foreign Real Estate Tax - Not Deductible
    - Prior to TCJA, this was Deductible
  - Foreign Personal Property Taxes - Not Deductible
  - Foreign Tax Assessments - Not Deductible
    - Add to Basis
- Investment Interest Expense
  - Deductible to extent of Net Investment Income

# Mortgage Interest Expense

- Mortgage Interest & Home Equity Loan Interest
  - Post-December 16, 2017 Acquisition
    - Deductible if used to purchase, build, or substantially improve a house (i.e. not to pay off credit cards) on debt up to **\$750,000**
  - Pre-December 16, 2017 Acquisition
    - Grandfathered under TCJA
    - Deductible if used to purchase, build, or substantially improve a house (i.e. not to pay off credit cards) on debt up to \$1MM

# Charitable Contributions

- Cash/Check
  - Up to 60% of AGI
- Property
  - Up to 50% of AGI - Short-Term Property (Deduct Lesser of FMV or Adjusted Basis)
  - Up to 30% of AGI - Long-Term Property (Deduct FMV)



# Casualty Losses

- **Federal Disaster Areas Only**
- Applicable to property held for personal use with value drop in less than 30 days
- Decrease in FMV of property vs. Basis

Drop in FMV (limited to tax basis of the asset)

<Insurance/Government Reimbursement>

<\$100 per event>

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## **Loss Eligible for Deduction**

<10% of AGI>

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## **Deductible Casualty Loss**

# Qualified Business Income Deduction (QBID)

- This deduction is for taxpayers who receive net income from certain rental activities, sole-proprietorships, and pass-through entities
- Deduction is 20% of Qualified Business Income
- Deduction is dependent upon whether business is:
  - Qualified Trade or Business: Generally Non-professional Business
  - Specified Service Trade or Business: Generally business involving Professionals.

- The QBID is the lesser of
  - QBID before Income Limitation but after W-2 Wage and Property limitation
    - W-2 Wage and Property Limitation is the greater of-
      - 50% of W-2 wages with respect to that trade or business, or
      - The sum of 25% of W-2 wages with respect to that trade or business plus 2.5% of the UBIA of a qualified property with respect to that trade or business
  - Calculated Income Limitation

	Taxable Income before QBID
	<Net Capital Gains*>
	_____
	<b>\$\$\$</b>
x	20%
	_____
=	<b>Calculated Income Limitation</b>

\* (losses do not get deducted in this calculation)

**Note:** This starts getting into details that are probably beyond the scope of the CPA Exam, but we include it (remaining QBI information below) since it's a new topic

- QBI Deduction available is dependent upon two factors
  - Taxable Income of the Taxpayer
  - Whether the business is a Qualified Trade or Business (QBT) or Specified Service Trade or Business (SSTB)

- The phase-out range for taxpayers are:
  - Single, Trust, or Estate: \$170,050 – \$220,050
  - MFJ: \$340,100 – \$440,100
- QBI Deductions with Limitations for the 2022 tax year would be calculated as follows:
  - Qualified Trade or Business
    - If your taxable income is less than \$170,050 for single (\$340,100 MFJ): Full 20% QBI Deduction.
    - If your taxable income is between \$170,050 and \$220,050 for single (\$340,100 and \$440,100 MFJ): Partial W-2 Wage and Property limitation applies and deduction is calculated as:  $QBI\ Deduction - [(QBI\ Deduction - W-2\ Wage\ \&\ Property\ Limitation) \times Phase-in\ Percentage]$
    - If your taxable income is over \$220,050 for single (\$440,100 MFJ): QBI Deduction is limited to W-2 Wage and Property Limitation
  - Specified Service Trade or Business
    - If your taxable income is less than \$170,050 for single (\$340,100 MFJ): Full 20% QBI Deduction.
    - If your taxable income is between \$170,050 and \$220,050 for single (\$340,100 and \$440,100 MFJ): QBI Deduction is reduced and W-2 Wage and Property limitation applies and deduction is calculated as:  $[(1 - Phase-in\ \%) \times QBI\ Deduction] - \{[(1 - Phase-in\ \%) \times QBI\ Deduction]\} - \{(1 - Phase-in\ \%) \times W-2\ Wage\ \&\ Property\ Limitation\}$  x Phase-in Percentage Used up
    - If your taxable income is over \$220,050 for single (\$440,100 MFJ): QBI Deduction is not available

# Tax Credits

- Tax Credits are classified under following two broad categories:
- Refundable Tax Credits
  - Taxpayer receives larger refund than money paid
    - Earned Income Credit
    - Child Tax Credit
      - 2,000 tax credit per qualifying child who is under the age of 17 years.
        - \$1,400 max refundable amount
    - American Opportunity Credit
- Personal Tax Credits
  - Tax liability reduction doesn't drop below zero
    - Foreign Tax Credit
    - General Business Credit
    - Adoption Credit
      - Expenses incurred in adopting a child who is less than 18 years of age.
    - \$500 Dependent Credit (New under TCJA)
      - For Dependents who don't qualify for Child Tax Credit
        - Age 17-23 Student Child
        - Relative closer than a cousin, etc.

## Education Credits

- Statement from School Required (Form 1098-T)
- American Opportunity Credit (formerly Hope Credit)
  - Includes first **4 years** of post-secondary school
    - Hope Credit only allowed first 2 years
  - 100% Credit for first \$2,000 expenses including
    - Tuition
    - Course-related Books & Supplies
      - Hope Credit didn't include this
  - 25% Credit for next \$2,000 of expenses
    - aka – up to \$500
  - Total Available Credit per student: \$2,500
    - vs Lifetime Learning Credit (per taxpayer)
  - 40% (\$1,000) of credit is refundable
    - vs Lifetime Learning Credit (not refundable)
- Lifetime Learning Credit
  - Per taxpayer
  - Not refundable

## **Dependent & Child Care Credit**

- Requires care for a Dependent child (under 13 years) or Disabled Dependent

## **Earned Income Credit**

- For taxpayers with low-to-moderate earned income
- Established to offset burden of Social Security taxes

## **Foreign Tax Credit**

- Can either be taken as an itemized deduction or used as income tax credit.

## Self-Employment Tax

- 15.3% of Net Profit
- Exam Trick: Executor of Estate not SE Income

## Kiddie Tax

	Child's Unearned Income
Deduction 1:	<\$1,150>
Deduction 2*:	<\$1,150 or Earned Income + \$350>
<hr/>	
	= <b>Net Unearned Minor Income**</b>

\* Taxed at Child's Tax Rate

\*\*Taxed at Parent's Marginal Tax Rates

## Estimated Tax Payments (Individual)

- The lesser of:
  - 90% of current total tax
  - 100% of prior year's total tax
  - 110% of prior year's total tax
    - If AGI is \$150,000 or more

## IRS Audit Appeals

- If no deal is reached after Appeal
  - Taxpayer has 90 days to Petition the Tax Court
  - If no Petition filed – Tax due within 10 Days

## Statute Of Limitations For A Tax Audit

- 3 years
- 6 years if 25% or more of gross income (Gross Receipts + Capital Gains) was omitted from the tax return
- The clock starts ticking on the Due Date of the return or the date the return was filed - whichever is later
- No statute of limitations for
  - Fraud
  - Failure to File

## Nonbusiness Bad Debt

- Treated as a Short-Term Capital Loss (STCL)

## Tax Refund Claims

- Must be claimed within (whichever is later)
  - 3 years of return Due Date
  - 2 years of Tax being paid

## Section 179 Expenses

- For New/Used equipment placed into service between January 1, 2022 and December 31, 2022
- Max Deduction: **\$1,080,000**
  - Note: The AICPA will give you the information you need to answer the question, so we recommend memorizing the base



amounts of **\$1,000,000** and **\$2,500,000** vs the inflation-adjusted amounts.

- Max Total Equipment Purchases for 2022: **\$2,700,000**
  - \$1,080,000 deduction is phased out dollar for dollar for the amount of equipment purchases that exceed \$2,700,000 (indexed for inflation)
    - If a company buys \$2,750,000 in equipment, then the \$1,080,000 deduction is reduced by \$50,000 (\$2,750,000 - \$2,700,000)
      - Max 179 Deduction: \$1,030,000
- 100% Bonus Depreciation
  - Use the 179 Deduction first
  - 100% of amount remaining is Bonus Depreciation

## Conventions

- Personal Property = Mid-Year/Mid-Quarter
  - Use Mid-Quarter if 40% or more of all purchases occur in 4th quarter
- Real Property = Mid-Month

## Carryovers

- Excess 179 expense
- Passive Activity Loss
  - No Carry Back
  - Carry Forward Indefinitely

- Investment Interest Expense > Investment Income
  - Carry Forward Indefinitely
- Charitable Contributions
  - Carry Forward 5 years

## Qualifying Child

- Must be resident of North America
- Younger than age 19 or age 24, if student

## Qualifying Relative

- Must be a citizen of North America
- Same "relative" test as the test for medical expenses paid for another person
  - If person is your mother/father or relative closer than a cousin, they don't have to live with you
  - Otherwise, they must live with you
  - Must provide more than 50% support to individual