NINJA CPA Review®

NINJA Notes

Regulation

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.

Table of Contents

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 The mainstream way of studying for the CPA Exam is old-fashioned and outdated.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.

II. Partnership Taxation

Partnership Basics

- Partnerships are not a legal (taxable) entity
- Income and Expenses flow through to the Partner via a Form K-1

Property For Partnership Interest Exchange

- Non-Taxable Event: No gain or loss recognized
- Partner's Basis = Basis of Property Contributed
    - Exception: When property has a liability that exceeds basis Capital Gain
- Example: $4,000 basis with a $6,000 mortgage for a 20% interest

    $4,000
    <$4,800> ($6,000 x 80%)
    $800 Capital Gain

- $0 basis for partner
- $4,800 basis for Partnership on the property
    - Contributor's Basis + Gain recognized Contributor

Services For Partnership Interest Exchange

- Taxable Event
- Treated the same as compensation
- Use % of partnership interest

    x FMV of partnership

= Taxable Income

- Taxable Income amount becomes basis

Partnership Holding Period Of An Asset

- Inherits holding period of asset contributed
- Except: Inventory - holding period begins when contributed

Startup Costs For A Partnership

- Tax treatment same as that of an individual taxpayer
- Syndication fees (preparing offering materials, etc.) are not deductible or amortized

Deductions To Arrive At Partnership Income

<COGS>
<Wages> (Except for partners)
<Guaranteed Payments>
<Business Bad Debt> (Accrual basis only)
<Interest Paid> (payments to partners are OK)
<Depreciation> (except 179)
<Amortization of Startup Costs>

= **Partnership Income**

Partnership Losses

- Cannot be taken below basis
- Loss is carried forward until basis is available
- Example:

Beginning Basis:	$2,400
Plus Income:	$200
Minus Ordinary Loss:	<$3,000>
	$0

$400 Loss gets carried forward until basis is available

Guaranteed Payments

- Appear in partner's income during year in which fiscal year **closes**
- Example:
    - 6/1/Y1 - 5/31/Y2 Fiscal Year
    - Even if payment was received in Y1, it is income on the Y2 individual return

Partnership Benefits

- Health Insurance
- Life Insurance
- Treated as guaranteed payments and are self-employment income

Guaranteed Payments

%	Share of Ordinary Partnership Income (Loss) from K1
+	Guaranteed Payments
	<% share of 179 expense>
=	Self-Employment Income subject to Self-Employment Tax

Partner's Basis From Property Contribution

- Contribution of Property: Property's original basis
- Compensation for Services: FMV of % of partnership ownership
- Purchase of a Partnership Interest:
- Amount of purchase = Basis
- Partnership Interest by Gift:
    - Gift Basis rules apply

Items Not Deductible On Schedule K

- Instead, these flow to Partners' K-1
    - **I**nvestment Interest Expense
    - **F**oreign Tax Paid
    - **C**haritable Contributions
    - **179** Expense
- Mnemonic: **IFC179**

Items Not Counted As Income On Schedule K

- Passive Income
- Portfolio Income
- 1231 G/L
- Mnemonic: **PP1231**

Partnership Basis Calculation

(This is a simplistic formula for remembering on exam day)

	Beginning Partnership Basis
+	Capital Contributions
+	Share of Ordinary Income
+	Capital Gains
+	Partner's Share of Partnership Liabilities
+	Tax-Exempt Income (**don't forget this!**)
=	Ending Partnership Basis

Partnership Basis Increase/Decrease

Partnership Basis is **decreased** by:

- Money Distributed
- Adjusted Basis of Property Distributed
- Share of Ordinary Losses
- Partnership is relieved of a liability (distribution)

Partnership Basis is **increased** by:

- Partnership getting a loan

  Example:

Beginning Basis	$15,000
Share of Partnership Income	$22,000
Tax Exempt Income	$500
1231 Casualty Gain	$3,000
1231 non-Casualty Gain	$2,000
LTCG	$2,500
	$30,000
Total	$45,000
Less:	
STCL	<$2,000>
Charitable Contributions	<$3,000>
Ending Basis	$40,000

  Note: Guaranteed Payments do not affect basis

Order Of Adjustment To Basis

- Increase basis in share of liabilities
- Increase basis from all income items - including tax-exempt income

- Decrease basis for distribution
- Decrease basis for losses (limited to basis)
- Gains are always allowed in related-party transactions
    - 33% partner sells property to a partnership at a $6,000 gain
    - Partner recognizes a $6,000 capital gain on K-1
- A 50% or more partner who contributes capital gain property to partnership, who in return won't use it as capital gain property, treats the gain as ordinary and so will the partnership

Partnership Taxable Year

- Due Date: 3/15 plus a six-month extension
- Must be the same as 50% of partners and use the same tax year for 3 years

Death Of A Partner

- Taxable year only closes with respect to partner and their partnership interest

Partnership Terminates

- When less than two partners
- Operation Ceases

Sale Of Partnership Interest

- Results in a Capital Gain/(Loss)
- Amount Realized – Basis in Partnership = Gain/(Loss)
- Basis = Capital Account + Liabilities Assumed
- Any assets sold not capital in nature = Ordinary Gain
    - Unrealized Receivables
    - Appreciated inventory

Section 754 Election / Section 743(B) Adjust

- Adjustment amount equals the difference between the value of the outside basis to the transferee partner and the inside basis of the same partner. The objective is to ensure that the inside basis of the asset is equal to the outside basis.
    - Optional for Gains
    - Mandatory for Losses
        - Inside Basis > Outside basis by $250,000+

Partner's Share Of Ordinary Gain

	FMV of Assets (non-capital)
	<Adjusted Basis of non-capital assets>
=	Ordinary Gain
x	Partnership Interest %
=	Partner's share of ordinary gain

Note: Partnerships recognize NO G/L on a Distribution

Distribution: Order Of Basis Reduction

1. Money received
2. Adjusted basis of unrealized receivables and inventory
3. Adjusted basis of other property

Note: Only MONEY distributions will trigger a gain in a partnership distribution

Liquidating & Non-liquidating Distributions

- A loss can **ONLY** occur in a liquidating distribution
- Requirements for a loss to be recognized:
    1. Money was received
    2. Unrealized receivables received
    3. Appreciated inventories received
- Otherwise, no loss recognized
- Example: Liquidating Distribution

Partner's Basis in partnership:	$60,000
Partner Receives property	
Partnership Basis in that property:	$20,000
Partner's Cash received:	$10,000

Note: You ignore the property distribution of $20,000 for this calculation

Basis

<Cash>

<Receivables Received>

<Inventory Received>

<Property Distributed>

Any Remainder = Capital Loss

$60,000	Basis
<$10,000>	Cash Received
$50,000	Basis
<$50,000>	(whatever amount takes basis to zero)
$0	

- Example: Non-Liquidating Distribution

Partner's Basis in Partnership:	$9,000
Money Received:	<$5,000>
Remaining Partner's Basis:	$4,000
Partnership's Basis in Property:	$3,000

Use lesser of partner's remaining basis or partnership's basis in property to calculate partner's basis in property

Basis Remaining:	$4,000
Partner's Basis in Property:	<$3,000>
Remaining Partnership Interest:	$1,000

REG NINJA Notes (Full Version)

Taxations

Law & Professional Responsibilities

Think you're ready for REG? Let's find out:

NINJA
CPA REVIEW CMA REVIEW

83% Of Current CPA Candidates Cannot Pass This Simple Quiz.

Discover How Prepared You Really Are.

Choose the section for your quiz *

- AUD
- BEC
- FAR
- REG

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