

## **Regulation (REG) – Content Outline Effective January 2014**

The Regulation section tests knowledge and understanding of ethics, professional and legal responsibilities, business law, and federal taxation.

### *Ethics, Professional and Legal Responsibilities and Business Law*

These topics test knowledge and understanding of professional and legal responsibilities of certified public accountants. Professional ethics questions relate to tax practice issues and are based on the AICPA Statements on Standards for Tax Services, Treasury Department Circular 230, and rules and regulations for tax return preparers. Business law topics test knowledge and understanding of the legal implications of business transactions, particularly as they relate to accounting, auditing, and financial reporting. This section deals with federal and widely adopted uniform state laws or references identified in this CSO.

In addition to demonstrating knowledge and understanding of these topics, candidates are required to demonstrate the skills required to apply that knowledge in performing their responsibilities as certified public accountants. To demonstrate such knowledge and skills, candidates will be expected to perform the following tasks:

- Identify situations that might be unethical or a violation of professional standards, perform research and consultations as appropriate, and determine the appropriate action.
- Recognize potentially unethical behavior of clients and determine the impact on the tax services being performed.
- Demonstrate the importance of identifying and adhering to requirements, rules, and standards that are established by licensing boards within their state, and which may place additional professional requirements specific to their state of practice.
- Apply business law concepts in evaluating the economic substance of client transactions, including purchase agreements, loans and promissory notes, sales contracts, leases, side agreements, commitments, contingencies, and assumption of liabilities.
- Evaluate the legal structure of an entity to determine the implications of applicable laws and regulations on how a business is organized, governed, and operates.

### *Federal Taxation*

These topics test knowledge and understanding of concepts and laws relating to federal taxation (income, gift, and estate). The areas of testing include federal tax process, procedures, accounting, and planning, as well as federal taxation of property transactions, individuals, and entities (which include sole proprietorships, partnerships,

limited liability entities, C corporations, S corporations, joint ventures, trusts, estates, and tax-exempt organizations).

In addition to demonstrating knowledge and understanding of these topics, candidates are required to demonstrate the skills required to apply that knowledge in providing tax preparation and advisory services and performing other responsibilities as certified public accountants. To demonstrate such knowledge and skills, candidates will be expected to perform the following tasks:

- Evaluate the tax implications of different legal structures for business entities.
- Apply analytical reasoning tools to assess how taxes affect economic decisions related to the timing of income/expense recognition and property transactions.
  
- Consider the impact of multijurisdictional tax issues on federal taxes.
  
- Identify the differences between tax and financial accounting.
  
- Analyze information and identify data relevant for tax purposes.
  
- Identify issues, elections, and alternative tax treatments.
  
- Research issues and alternative tax treatments.
  
- Formulate conclusions.
  
- Prepare documentation to support conclusions and tax positions.
  
- Research relevant professional literature.

The outline below specifies the knowledge in which candidates are required to demonstrate proficiency:

## **I. Ethics, Professional, and Legal Responsibilities (15% -19%)**

### **A. Ethics and Responsibilities in Tax Practice**

1. Treasury Department Circular 230

2. AICPA Statements on Standards for Tax Services

3. Internal Revenue Code of 1986, as amended, and Regulations related to tax return preparers

## **B. Licensing and Disciplinary Systems**

1. Role of state boards of accountancy
2. Requirements of regulatory agencies

## **C. Legal Duties and Responsibilities**

1. Common law duties and liability to clients and third parties
2. Federal statutory liability
3. Privileged communications, confidentiality, and privacy acts

## **II. Business Law (17% - 21%)**

### **A. Agency**

1. Formation and termination
2. Authority of agents and principals
3. Duties and liabilities of agents and principals

### **B. Contracts**

1. Formation
2. Performance
3. Third party assignments
4. Discharge, breach, and remedies

### **C. Uniform Commercial Code**

1. Sales contracts
2. Negotiable instruments
3. Secured transactions
4. Documents of title and title transfer

## **D. Debtor-Creditor Relationships**

1. Rights, duties, and liabilities of debtors, creditors, and guarantors
2. Bankruptcy and insolvency

## **E. Government Regulation of Business**

1. Federal securities regulation
2. Other federal laws and regulations (antitrust, copyright, patents, money-laundering, labor, employment, and ERISA)

## **F. Business Structure (Selection of a Business Entity)**

1. Advantages, disadvantages, implications, and constraints
2. Formation, operation, and termination
3. Financial structure, capitalization, profit and loss allocation, and distributions
4. Rights, duties, legal obligations, and authority of owners and management

## **III. Federal Tax Process, Procedures, Accounting, and Planning (11% - 15%)**

### **A. Federal Tax Legislative Process**

### **B. Federal Tax Procedures**

1. Due dates and related extensions of time
2. Internal Revenue Service (IRS) audit and appeals process
3. Judicial process
4. Required disclosure of tax return positions
5. Substantiation requirements
6. Penalties
7. Statute of limitations

### **C. Accounting Periods**

## **D. Accounting Methods**

1. Recognition of revenues and expenses under cash, accrual, or other permitted methods
2. Inventory valuation methods, including uniform capitalization rules
3. Accounting for long-term contracts
4. Installment sales

## **E. Tax Return Elections, Including Federal Status Elections, Alternative Treatment Elections, or Other Types of Elections Applicable to an Individual or Entity's Tax Return**

### **F. Tax Planning**

1. Alternative treatments
2. Projections of tax consequences
3. Implications of different business entities
4. Impact of proposed tax audit adjustments
5. Impact of estimated tax payment rules on planning
6. Role of taxes in decision-making

## **G. Impact of Multijurisdictional Tax Issues on Federal Taxation (Including Consideration of Local, State, and Multinational Tax Issues)**

### **H. Tax Research and Communication**

1. Authoritative hierarchy
2. Communications with or on behalf of clients

## **IV. Federal Taxation of Property Transactions (12% - 16%)**

### **A. Types of Assets**

### **B. Basis and Holding Periods of Assets**

**C. Cost Recovery (Depreciation, Depletion, and Amortization)**

**D. Taxable and Nontaxable Sales and Exchanges**

**E. Amount and Character of Gains and Losses, and Netting Process**

**F. Related Party Transactions**

**G. Estate and Gift Taxation**

1. Transfers subject to the gift tax

2. Annual exclusion and gift tax deductions

3. Determination of taxable estate

4. Marital deduction

5. Unified credit

**V. Federal Taxation of Individuals (13% - 19%)**

**A. Gross Income**

1. Inclusions and exclusions

2. Characterization of income

**B. Reporting of Items from Pass-Through Entities**

**C. Adjustments and Deductions to Arrive at Taxable Income**

**D. Passive Activity Losses**

**E. Loss Limitations**

**F. Taxation of Retirement Plan Benefits**

**G. Filing Status and Exemptions**

**H. Tax Computations and Credits**

**I. Alternative Minimum Tax**

## **VI. Federal Taxation of Entities (18% - 24%)**

### **A. Similarities and Distinctions in Tax Treatment among Business Entities**

1. Formation
2. Operation
3. Distributions
4. Liquidation

### **B. Differences between Tax and Financial Accounting**

1. Reconciliation of book income to taxable income
2. Disclosures under Schedule M-3

### **C. C Corporations**

1. Determination of taxable income/loss
2. Tax computations and credits, including alternative minimum tax
3. Net operating losses
4. Entity/owner transactions, including contributions and distributions
5. Earnings and profits
6. Consolidated returns

### **D. S Corporations**

1. Eligibility and election
2. Determination of ordinary income/loss and separately stated items
3. Basis of shareholder's interest
4. Entity/owner transactions, including contributions and distributions
5. Built-in gains tax

## **E. Partnerships**

1. Determination of ordinary income/loss and separately stated items
2. Basis of partner's/member's interest and basis of assets contributed to the partnership
3. Partnership and partner elections
4. Transactions between a partner and the partnership
5. Treatment of partnership liabilities
6. Distribution of partnership assets
7. Ownership changes and liquidation and termination of partnership

## **F. Trusts and Estates**

1. Types of trusts
2. Income and deductions
3. Determination of beneficiary's share of taxable income

## **G. Tax-Exempt Organizations**

1. Types of organizations
2. Obtaining and maintaining tax-exempt status
3. Unrelated business income