PROFESSIONAL CAREER CLUB

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FORMULA SHEET

CPA REG

Taxation & Regulation · Core section · Formulas and limits

61 formulas   6 subject areas

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HOW TO USE THIS SHEET

READ THIS FIRST — a warning about the numbers. Every dollar threshold in this sheet is tied to a specific tax year (the figures here reflect 2026 and post-OBBBA law). Standard deductions, contribution limits, phase-outs and exemptions are INDEXED and change annually, and Congress changes the law more often than that.

The AICPA examines the law in effect for a stated window, and a stale threshold is worse than no threshold at all — it gives you false confidence. Learn the MECHANICS from this sheet, and verify every number against the current AICPA blueprint and IRS figures before you sit.

With that said: REG is the most formulaic section after FAR. Most questions are a computation with a rule attached, and the computation is usually straightforward once you know which bucket the item falls into.

The ‣ notes flag the classification decisions the examiners actually test: above the line or below it, ordinary or capital, permanent or temporary, basis for gain or basis for loss.

ETHICS, PROFESSIONAL RESPONSIBILITIES & FEDERAL TAX PROCEDURES · 6 formulas

Penalties, deadlines and the preparer's duties. High-yield and entirely learnable.

Estimated tax safe harbour (individuals)

```
No penalty if payments ≥ the LESSER of:
  • 90% of the CURRENT year's tax, OR
  • 100% of the PRIOR year's tax (110% if prior-year AGI > $150,000)
```

Where: Due: April 15, June 15, September 15, January 15.

‣ *The LESSER — this is a safe harbour, so it protects you. The prior-year test is the useful one: it is a known number, whereas the current year is a guess. Corporations get 100% of prior year with NO 110% step-up.*

Accuracy-related penalty (§6662)

```
20% of the underpayment for negligence, substantial understatement, or substantial valuation misstatement
40% for a GROSS valuation misstatement
```

Where: Substantial understatement = the greater of 10% of the tax or $5,000 (individuals) / $10,000 (corporations).

‣ *Reasonable cause plus good faith is a defence. Note the penalty attaches to the TAXPAYER — preparer penalties are a separate regime with separate numbers.*

Tax preparer penalties (§6694)

```
§6694(a) unreasonable position: the GREATER of $1,000 or 50% of the fee
§6694(b) willful or reckless conduct: the GREATER of $5,000 or 75% of the fee
```

Where: Circular 230 governs practice before the IRS.

‣ *A preparer may rely on client-provided facts in good faith — but MUST investigate red flags and inconsistencies. Wilful blindness is not reliance.*

Statute of limitations

```
ASSESSMENT: 3 years from the later of the due date or the filing date
6 years if gross income is understated by MORE THAN 25%
UNLIMITED if fraud, or if no return was filed
REFUND CLAIM: the later of 3 years from filing or 2 years from payment
```

Where: Different clocks for assessment and refund.

‣ *3 / 6 / unlimited. The 25% test is on GROSS INCOME understated, not tax understated — a distinction the examiners exploit.*

Trust fund recovery penalty (§6672)

```
TFRP = 100% × (withheld income tax + the EMPLOYEE's share of FICA)
```

Where: Applies to responsible persons who wilfully fail to collect or remit.

▸ *The EMPLOYER's share of FICA is EXCLUDED — the penalty covers only money held in trust for the government. A bookkeeper with disbursement authority can be a responsible person; the title does not matter, the authority does.*

AICPA Statements on Standards for Tax Services

```
 1: realistic possibility of success (otherwise disclose). 2: make a reasonable effort on questions. 3: may rely on client information, but inquire if it appears suspect. 4: estimates are acceptable if reasonable. 5: may depart from a prior treatment if justified. 6: advise the client on errors. 7: give clear tax advice.
```

Where: Ethical standards for tax practice.

▸ *SSTS 6 is the one that bites: on discovering an error, the CPA must ADVISE the client — but may NOT inform the IRS without the client's consent. Confidentiality and duty pull against each other, and the standard resolves it in the client's favour.*

EXAM TIPS — ETHICS, PROFESSIONAL RESPONSIBILITIES & FEDERAL TAX PROCEDURES

- Penalties questions are about WHO is being penalised — the taxpayer or the preparer. They are separate regimes with separate thresholds and separate defences.
- The safe harbour is the LESSER of the two tests, because it is a shelter. Reason from the purpose and the direction is obvious.

BUSINESS LAW · 8 formulas

Contracts, agency, secured transactions and bankruptcy. No formulas — pure rule recall.

Contract formation — the six elements

```
 Offer, Acceptance, Consideration, Capacity, Legality, Mutual assent
```

Where: Common law: the MIRROR-IMAGE rule — acceptance must match the offer exactly.

▸ *UCC §2-207 RELAXES this for the sale of goods: additional terms can become part of the contract between merchants. Common law is rigid; the UCC is pragmatic. Identify which body of law governs before you answer.*

Statute of Frauds (MY LEGS)

```
 Marriage consideration; Year (cannot be performed within one year); Land interests; Executor paying a decedent's debts personally; Goods ≥ $500 (UCC §2-201); Surety (promising to pay another's debt)
```

Where: Must be written and signed by the party to be charged.

▸ *MY LEGS. Note the writing need only be signed by the party being SUED, not both. And an oral contract within the Statute is voidable, not void — it can still be performed voluntarily.*

Agency — types of authority

```
 Express: explicitly stated by the principal
 Implied: incidental or customary to the express authority
 Apparent: the PRINCIPAL's conduct leads a third party to reasonably believe authority exists
 Ratification: the principal accepts an unauthorised act after the fact
```

Where: Four routes to binding the principal.

▸ *APPARENT authority arises from the PRINCIPAL's conduct, never the agent's. An agent cannot manufacture their own authority by claiming to have it — that is the whole point of the doctrine.*

UCC Article 9 — attachment and perfection

```
 ATTACHMENT (3 requirements): value given; the debtor has rights in the collateral; an authenticated security agreement
 PERFECTION (gives priority): file a UCC-1; possession; control (deposit accounts); or automatic (PMSI in consumer goods)
```

Where: Attachment creates the interest; perfection protects it against others.

▸ *Attachment is between the two parties. Perfection is against the WORLD. An attached but unperfected interest is valid against the debtor and worthless against a competing creditor.*

Negotiable instruments — holder in due course

```
An HDC takes: (1) for value, (2) in good faith, (3) without notice of defects, dishonour or claims.
```

Where: The HDC takes free of PERSONAL defences.

▸ *Free of PERSONAL defences (lack of consideration, fraud in the inducement) but STILL subject to REAL defences (fraud in the factum, infancy, illegality, duress, bankruptcy discharge). Sorting the two lists is the entire topic.*

Bankruptcy — Chapter 7 vs 11 vs 13

```
Ch 7: LIQUIDATION — a trustee sells non-exempt assets; unsecured debts discharged
Ch 11: REORGANISATION — debtor-in-possession, court-approved plan
Ch 13: WAGE-EARNER repayment — debt limits apply, a 3–5 year plan from disposable income
```

Where: Three very different outcomes.

▸ *Chapter 7 ends the business; Chapter 11 saves it; Chapter 13 is for individuals with regular income. The Chapter number tells you who the debtor is and what happens to them.*

Securities Acts — 1933 vs 1934

```
1933 Act (ISSUANCE): register new securities on an S-1 with a prospectus. §11 = registration misstatements; §12 = unregistered sale or a misleading prospectus.
1934 Act (TRADING): §10(b) / Rule 10b-5 fraud and insider trading; periodic 10-K, 10-Q and 8-K reporting.
```

Where: 33 = issuance, 34 = trading.

▸ *Remember it as "33 gets it out, 34 keeps it honest". §11 imposes near-strict liability on the issuer; Rule 10b-5 requires SCIENTER — intent. That difference in mental state is the key distinction.*

Federal employment law thresholds

```
ADEA: 20+ employees (protects those 40 and over)
ADA and Title VII: 15+ employees
FMLA: 50+ employees (12 weeks unpaid)
FLSA: minimum wage $7.25; overtime at 1.5× after 40 hours
ERISA: pensions (no employee minimum)
```

Where: Employee-count thresholds trigger coverage.

▸ *15 / 20 / 50 is the ladder. A small employer can be exempt from Title VII entirely — which surprises candidates, and is exactly why it is tested.*

EXAM TIPS — BUSINESS LAW

- Business law is recall, not reasoning. There is no formula to fall back on, so the mnemonics genuinely matter here.
- For any contract question, first ask: common law (services, real estate) or UCC (goods)? The answer changes the rules.

FEDERAL TAXATION OF PROPERTY TRANSACTIONS · 13 formulas

Basis, gain recognition and recapture. The most mechanical area of REG, and the most reliably examined.

Gifted property basis (§1015) — the split rule

```
If FMV ≥ donor's basis at the gift date: basis = DONOR'S BASIS (carryover); holding period TACKS
If FMV < donor's basis: GAIN basis = donor's basis; LOSS basis = FMV
Sale between the two ⇒ NO gain and NO loss
```

Where: The dual-basis rule.

▸ *The "no man's land" between the two bases is the classic exam fact: sell in that range and you recognise nothing at all. The planning point: NEVER gift loss property — sell it, take the loss yourself, and gift the cash.*

Inherited property basis (§1014) — step-up

```
Basis = FMV at the date of death (a step-UP or a step-DOWN)
```

Where: Alternate valuation date = 6 months after death, electable ONLY if it both (1) lowers the gross estate AND (2) lowers the estate tax.

▸ *The holding period is AUTOMATICALLY long-term, regardless of how long anyone actually held it. And the AVD election needs BOTH conditions — you cannot cherry-pick it to raise basis.*

Home sale exclusion (§121)

```
Exclude up to $250,000 of gain ($500,000 MFJ) on the sale of a principal residence.
```

Where: Must have OWNED and USED it as a principal residence for 2 of the last 5 years. Cannot use the exclusion more than once every 2 years.

▸ *Two separate tests — ownership AND use — and they need not be the same two years. For MFJ, only ONE spouse must meet ownership, but BOTH must meet use.*

§121 — partial exclusion

```
Partial exclusion = Maximum exclusion × (Qualifying months / 24)
```

Where: Triggers: a job change, health reasons, or unforeseen circumstances.

▸ *It prorates the EXCLUSION, not the gain — a distinction that changes the answer entirely. Only the three listed triggers qualify; simply wanting to move does not.*

§1031 like-kind exchange (post-TCJA)

```
REAL PROPERTY ONLY, held for trade, business or investment
Gain recognised = min(Realised gain, Boot received)
New basis = FMV of new property − deferred gain
45-day identification / 180-day closing
```

Where: Personal property no longer qualifies after the TCJA.

▸ *LOSS IS NEVER RECOGNISED in a §1031 exchange, even with boot. Gains are limited by boot; losses simply disappear into basis. That asymmetry is the most-tested feature.*

§1031 — boot and new basis

```
Boot received = Cash + FMV of non-like-kind property + liabilities assumed BY the buyer − liabilities assumed BY the taxpayer
New basis = Old basis + Boot paid − Boot received + Gain recognised
```

Where: Net the liabilities.

▸ *Debt RELIEF is boot to you (you got something). Debt ASSUMED is boot given (you paid something). Net them — only NET relief counts.*

§1033 involuntary conversion

```
Recognised gain = min(Realised gain, Proceeds NOT reinvested)
New basis = Replacement cost − deferred gain
```

Where: Reinvest within 2 years (3 years for federal condemnation of real property).

▸ *Reinvest EVERYTHING and you recognise nothing. Reinvest part and you are taxed on what you kept. Unlike §1031, this is elective — and it applies to personal property too.*

§1231, §1245 and §1250

```
§1231: NET GAINS → long-term capital gain. NET LOSSES → ordinary. (The best of both worlds.)
§1245 (personal property): ALL depreciation recaptured as ORDINARY income
§1250 (real property): only depreciation ABOVE straight-line is recaptured as ordinary; the rest is unrecaptured §1250 gain, taxed at a 25% maximum
```

Where: Recapture converts capital gain into ordinary income.

▸ *Because post-1986 real property uses straight-line, there is almost NEVER any §1250 ordinary recapture in practice — it is all unrecaptured §1250 gain at 25%. Candidates over-apply §1250 constantly.*

§1231 lookback rule

```
Net §1231 GAINS are treated as ORDINARY income to the extent of unrecaptured net §1231 LOSSES from the prior 5 years.
```

Where: A 5-year lookback.

▸ *This exists to stop you taking an ordinary loss one year and a capital gain the next. The statute noticed the arbitrage before you did.*

§179 expense election

```
Deduction = min(Elected amount, $1,250,000 − max(0, Qualifying property − $3,130,000), Active business taxable income)
```

Where: 2026 figures — VERIFY against the current year.

▸ *THREE separate caps, applied in order: the dollar cap, the phase-out (dollar-for-dollar above the threshold), and the taxable income limit. The income limit cannot create a loss — the excess carries forward.*

Bonus depreciation phase-down

```
2024 = 60%, 2025 = 40%, 2026 = 20%, 2027 onwards = 0%
```

Where: Qualified property: new OR used, recovery period ≤ 20 years.

▸ *ORDER OF OPERATIONS: §179 first → bonus on the remaining basis → MACRS on what is left. Getting the sequence wrong changes every number downstream. And unlike §179, bonus CAN create a loss.*

MACRS class lives

```
3-year: tractors, racehorses
5-year: autos, computers, R&D equipment
7-year: furniture, fixtures, agricultural machinery
15-year: qualified leasehold / restaurant property
27.5-year: RESIDENTIAL rental
39-year: NONRESIDENTIAL real property
```

Where: Half-year convention by default.

▸ *MID-QUARTER convention applies if more than 40% of personal property is placed in service in Q4. That test is a favourite, and it is easy to miss because it is buried in the fact pattern.*

Instalment sale — gross profit ratio

```
GP ratio = Gross profit / Contract price
Gain recognised in year t = Cash collected × GP ratio
```

Where: Contract price = selling price − qualifying debt assumed.

▸ *DEPRECIATION RECAPTURE (§1245/§1250) is recognised 100% IN THE YEAR OF SALE — even if you receive no cash at all. That is the trap: the instalment method defers the capital gain, never the recapture.*

EXAM TIPS — FEDERAL TAXATION OF PROPERTY TRANSACTIONS

- Basis questions: gift = carryover (with the dual-basis split for loss property). Inheritance = FMV at death. Those two rules cover most of the topic.
- Recapture converts capital gain to ordinary income. It never converts a loss, and it never exceeds the gain.
- For any exchange, work the order: realised gain → boot → recognised gain → new basis. In that sequence, every time.

FEDERAL TAXATION OF INDIVIDUALS · 15 formulas

The individual tax formula, credits and the AMT. All figures are 2026 — VERIFY before you sit.

The individual income tax formula

```
Gross income
− Above-the-line deductions (for AGI)
= ADJUSTED GROSS INCOME
− Standard or itemised deduction
− QBI deduction (§199A)
= TAXABLE INCOME
× Tax rate
− Credits
= TAX LIABILITY
```

Where: The skeleton of the whole section.

▸ *AGI is the gatekeeper: it drives the medical floor, the charitable ceilings and dozens of phase-outs. An above-the-line deduction is therefore worth MORE than a below-the-line one of the same size, because it lowers AGI too.*

AGI and taxable income flow

```
AGI = Gross income − Above-the-line adjustments
TI = AGI − max(Standard, Itemised) − QBI
Net tax = Tax(TI) − Credits
```

Where: QBI comes AFTER the standard/itemised deduction.

▸ *The QBI deduction does NOT reduce AGI — it sits below it. So it does not help you clear an AGI-based phase-out, which is a point of genuine planning significance.*

Above-the-line deductions

```
Educator expenses ($300), HSA contributions, one-half of SE tax, self-employed retirement, self-employed health insurance, student loan interest ($2,500 cap, AGI phase-out), pre-2019 alimony
```

Where: These reduce AGI.

▸ *Standard and itemised deductions are BELOW the line. The distinction matters because AGI gates so much else — a dollar above the line is worth more than a dollar below it.*

Standard deduction (2026)

```
Single: $16,100   MFJ: $32,200   HoH: $24,150   MFS: $16,100
Additional (65+ or blind): $1,650 single/HoH; $1,300 each for MFJ/MFS
Dependent: the greater of $1,350, or earned income + $450 — capped at the regular SD
```

Where: 2026 OBBBA values. VERIFY.

▸ *The additional amount is PER CONDITION and PER PERSON — someone 65 AND blind gets it twice. The dependent calculation is a separate formula entirely, and it is regularly tested.*

Itemised deductions — Schedule A

```
Medical: only the excess over a 7.5% AGI floor
SALT: capped at $40,000 MFJ (post-OBBBA)
Mortgage interest: acquisition debt up to $750,000 (post-2017); $1M grandfathered
Charitable: 60% AGI for cash to public charities; 30% for private; 30% for LTCG property
Investment interest: limited to net investment income
```

Where: 2026 figures — VERIFY.

▸ *The medical floor is 7.5% and it is now permanent. SALT is the number that changes most often with legislation — check it every single year.*

Long-term capital gain rates (2026)

```
0%: taxable income up to $49,450 (single) / $98,900 (MFJ)
15%: up to $545,500 (single) / $613,700 (MFJ)
20%: above those thresholds
```

Where: Plus NIIT for high earners.

▸ *The brackets run on TAXABLE INCOME, not on the gain alone. And a taxpayer can straddle two brackets — the gain fills up the 0% band first. Stacking is where candidates go wrong.*

Net investment income tax

```
NIIT = 3.8% × min(Net investment income, MAGI − Threshold)
```

Where: Thresholds: $200,000 single / $250,000 MFJ / $125,000 MFS. NOT indexed.

▸ *The MINIMUM of the two — you are taxed on the lesser of your investment income and your excess MAGI. NII includes interest, dividends, capital gains, rents, royalties and PASSIVE business income; it excludes wages and active business income.*

AMT formula (2026)

```
Regular taxable income + preferences and adjustments = AMTI
− Exemption = AMT base
× 26% (up to $244,500) or 28% (above) = Tentative minimum tax
AMT = max(0, TMT − regular tax)
```

Where: 2026 exemptions: $90,100 single (phase-out from $500K); $140,200 MFJ (from $1M).

▸ *You pay the EXCESS of TMT over regular tax, not TMT itself. The AMT is a floor, not a second bill. Post-TCJA the higher exemptions mean far fewer taxpayers hit it — but it remains examinable.*

Child Tax Credit and ODC

```
CTC = $2,200 × qualifying children under 17
Refundable portion (ACTC): up to $1,700 per child
ODC = $500 nonrefundable per other dependent (including children 17+)
```

Where: Phase-out: −$50 per $1,000 (or fraction) of AGI above $400,000 MFJ / $200,000 others.

▸ *UNDER 17 — a child who turns 17 during the year drops to the $500 ODC. That single year of age is worth $1,700, and the exam knows it.*

Education credits — AOTC vs LLC

```
AOTC: max $2,500 = 100% of the first $2,000 + 25% of the next $2,000. 40% REFUNDABLE. First 4 years of undergraduate study only. Phase-out $80–90K single / $160–180K MFJ.
LLC: max $2,000 PER RETURN = 20% of the first $10,000. NONREFUNDABLE. Unlimited years.
```

Where: Same phase-out ranges.

▸ *AOTC is PER STUDENT; LLC is PER RETURN. A family with three children in college gets three AOTCs but only one LLC. That is the distinction that decides the question.*

Kiddie tax (2026)

```
A child under 19 (or under 24 if a full-time student) with unearned income: the first $1,400 is tax-free, the next $1,400 is taxed at the CHILD's rate, and the excess is taxed at the PARENT's marginal rate.
```

Where: Form 8615; election on Form 8814 if unearned income is under $13,000.

▸ *It applies to UNEARNED income only. A teenager with a summer job pays tax at their own rate on those wages, however much they earn.*

Retirement contribution limits (2026)

```
401(k): $24,500 + $8,000 catch-up (50+)
§415(c) total additions: $72,000 ($80,000 with catch-up)
IRA: $7,500 + $1,100 catch-up
Roth phase-out: $150K–$165K single; $236K–$246K MFJ
```

Where: 2026 figures — VERIFY.

▸ *The §415(c) cap covers EVERYTHING going into the plan — employee deferrals, employer match, and after-tax contributions. Candidates apply the deferral limit and forget the total cap.*

HSA contribution limits (2026)

```
$4,400 self-only / $8,750 family; +$1,000 catch-up if 55 or older
Must be enrolled in a high-deductible health plan (min deductible $1,650 self / $3,300 family)
```

Where: The triple tax benefit.

▸ *Pre-tax in, tax-free growth, tax-free out for qualified medical expenses. It is the ONLY vehicle in the Code with all three — which is why the exam calls it out.*

Filing status

```
SINGLE: unmarried on 12/31
MFJ: married and electing jointly
MFS: married, filing separately
HEAD OF HOUSEHOLD: unmarried + paid MORE THAN 50% of household costs + a qualifying person lived there MORE THAN half the year
QUALIFYING SURVIVING SPOUSE: widow(er) with a dependent child, for 2 years after the death; uses MFJ brackets
```

Where: Status is determined on the last day of the year.

▸ *Head of household is the one that produces errors — it needs BOTH the support test AND the residency test. And a parent qualifies as the qualifying person even if they do NOT live with you.*

Dependency tests

```
QUALIFYING CHILD (CARES): Citizen (US/Canada/Mexico), Age (under 19, under 24 if a student, any age if disabled), Relationship (descendant or sibling), Economic (did not self-support more than half), Same home more than half the year
QUALIFYING RELATIVE (SUPORT): Support (you provided more than 50%), Under the gross income limit, Precluded as a qualifying child, Only US/Canada/Mexico, Relationship OR Resident of your home, Taxpayer not filing MFJ
```

Where: Two entirely separate tests.

▸ *Test for a qualifying CHILD first. If the person fails, only then test qualifying RELATIVE — hence the "P" (precluded as a QC). The QC test has NO gross income limit; the QR test does. That is the biggest structural difference.*

EXAM TIPS — FEDERAL TAXATION OF INDIVIDUALS

- AGI is the pivot of the whole section. Above the line reduces it; below the line does not. And AGI gates the medical floor, the charitable ceilings, and most phase-outs.
- Credits reduce TAX; deductions reduce INCOME. A $1,000 credit beats a $1,000 deduction for every taxpayer — and refundable beats nonrefundable.
- Every threshold on this page is indexed and changes annually. Learn the mechanics; verify the numbers against the current AICPA window.

FEDERAL TAXATION OF ENTITIES · 13 formulas

Formation, basis, distributions and the corporate taxes. The most technical area of REG.

§351 corporate formation — control and boot

```
(1) NO gain if the property transferors own ≥ 80% of voting stock AND ≥ 80% of each other class immediately after (services do not count toward control)
(2) Gain recognised = min(Realised gain, Boot FMV)
(3) Shareholder stock basis = Adjusted basis transferred − Boot + Gain recognised
(4) Corporation's basis = Transferor's basis + Gain recognised
```

Where: The control test is the gate.

▸ *CONTROL IS MEASURED IMMEDIATELY AFTER the exchange. Services received for stock DO produce ordinary income to the recipient, and those shares do not count toward the 80% test — a two-part trap in one fact.*

§721 partnership formation

```
NO gain or loss on the contribution of property for a partnership interest — and NO control test (unlike §351).
```

Where:

▸ *The absence of a control test is the headline difference from §351. Partnerships are far friendlier to formation — you can contribute to a 1% interest and still defer.*

Partnership outside basis

```
Cash contributed
+ Adjusted basis of property contributed
+ Share of partnership LIABILITIES
+ Allocated income
− Allocated losses
− Distributions
= OUTSIDE BASIS (cannot go below zero)
```

Where: Liabilities INCREASE outside basis.

▸ *A partner's share of partnership debt adds to basis — this is the single biggest structural difference from an S corporation, where entity-level debt does NOT create shareholder basis.*

S-corporation shareholder basis

```
Beginning basis
+ Separately and non-separately stated income
− Distributions (tax-free up to basis)
− Losses and deductions (limited to basis)
= Ending basis (≥ 0; excess losses suspended)
```

Where: Note the ORDER: income, then distributions, then losses.

▸ *Entity-level debt does NOT give an S shareholder basis — only DIRECT loans from the shareholder do. Partners get basis from partnership debt; S shareholders do not. That contrast is examined relentlessly.*

Partnership distributions — current vs liquidating

```
CURRENT: nontaxable up to outside basis; cash in excess of basis = capital gain; property takes a carryover basis (capped at remaining outside basis). NO LOSS is ever recognised.
LIQUIDATING: allocate basis in order — cash → ordinary income assets → capital assets. Any leftover basis is a LOSS (only if cash and ordinary assets alone were received); otherwise it is absorbed into the property.
```

Where: Cash always reduces basis first.

▸ *A LOSS can only be recognised on a LIQUIDATING distribution, and only if nothing but cash and ordinary assets came out. If any capital property is distributed, the leftover basis lands in that property instead.*

Corporate tax rate and DRD

```
Flat 21% corporate rate
DRD: 50% if under 20% ownership; 65% if 20% to under 80%; 100% if 80% or more (affiliated)
```

Where: DRD limited to the applicable % of taxable income before the DRD — UNLESS the full DRD would create or increase an NOL.

▸ *The NOL exception is the trap: the taxable-income limitation is SUSPENDED if applying it would create or worsen a loss. So the limitation only bites in the middle range.*

Self-employment tax

```
SE tax = 15.3% × 92.35% × Net SE income
12.4% Social Security on earnings up to the wage base, + 2.9% Medicare on ALL earnings, + 0.9% Additional Medicare above $200K/$250K
```

Where: Deduct one-half of the SE tax above the line.

▸ *The 92.35% adjustment exists because an employee's FICA is not part of their own wage base. The Social Security portion is CAPPED; Medicare is UNCAPPED. And the 0.9% additional Medicare is NOT deductible.*

QBI deduction (§199A)

```
QBI deduction = min(20% × QBI, 20% × (Taxable income − net capital gains))
High earners are capped at the GREATER of 50% of W-2 wages, or 25% of W-2 wages + 2.5% of UBIA
```

Where: SSTBs lose the deduction entirely above the upper threshold.

▸ *The overall limit uses taxable income LESS net capital gains — because capital gains already enjoy a preferential rate and should not also generate a QBI deduction. That subtraction is easy to miss.*

S-corp distributions — AAA and AEP

```
NO accumulated E&P: the distribution reduces basis; the excess is capital gain.
WITH accumulated E&P, in order: (1) AAA — tax-free to the extent of basis (2) AEP — taxable DIVIDEND (3) remaining AAA — tax-free to basis (4) basis recovery (5) capital gain
```

Where: AAA is tracked at the CORPORATION level.

▸ *AEP only exists if the company was once a C corporation. A company that has always been an S corp has no AEP, and the whole layered analysis collapses into the simple case.*

Accumulated Earnings Tax (§531)

```
AET = 20% × Accumulated Taxable Income
ATI = Taxable income − Federal tax − Dividends paid − the Accumulated Earnings Credit
```

Where: Credit: $250,000 lifetime ($150,000 for a personal service corporation).

▸ *C corporations only, and the IRS bears the BURDEN OF PROOF that the accumulation was unreasonable. It is a penalty tax on hoarding cash to avoid shareholder-level dividend tax.*

Personal Holding Company tax (§541)

```
PHC tax = 20% × Undistributed PHC income
BOTH tests required: (1) STOCK — 5 or fewer shareholders own more than 50% in the last half of the year (2) INCOME — PHC income (dividends, interest, rents, royalties) is at least 60% of adjusted ordinary gross income
```

Where: Both, not either.

▸ *AET and PHC are both anti-hoarding taxes, but PHC is SELF-ASSESSED (the taxpayer computes it) while AET is IRS-ASSERTED. Escape either by distributing, or by failing a test.*

Corporate AMT (CAMT)

```
CAMT = max(0, 15% × Adjusted Financial Statement Income − regular tax)
```

Where: Applies only if average AFSI exceeds $1 billion over the prior 3 years.

▸ *It is built on BOOK income (AFSI), not taxable income — a genuine departure. It targets the very large corporation reporting big profits to shareholders and little taxable income to the IRS.*

Schedule M-1 / M-3 reconciliation

```
Taxable income = Book net income
+ Federal tax expense + excess book depreciation + 50% of meals + key-person life premiums + fines and penalties
− Tax-exempt interest − life insurance proceeds − excess tax depreciation − DRD
```

Where: M-3 required if total assets are $10 million or more.

▸ *Work the direction: anything DEDUCTED for book but NOT for tax gets ADDED BACK. Anything income for book but not for tax gets SUBTRACTED. Derive the sign; do not memorise the list.*

EXAM TIPS — FEDERAL TAXATION OF ENTITIES

- The master contrast in entity tax: PARTNERS get basis from entity debt; S CORPORATION SHAREHOLDERS do not. Almost every basis question exploits this.
- §351 has a control test; §721 does not. That single difference makes partnerships dramatically easier to form.

- Distributions always follow an ORDER. Write the tiers down before computing anything — skipping a tier corrupts everything downstream.

LIMITS & THRESHOLDS — QUICK REFERENCE (2026) · 6 formulas

The figures most likely to appear, in one place. EVERY number here is year-specific — verify against the current AICPA examinable window before relying on any of them.

SALT itemised deduction cap

```
$40,000 for MFJ, phasing down above $500,000 MAGI (post-OBBBA)
```

Where: The state and local tax deduction.

▸ *The most politically volatile number in the Code. It has changed repeatedly and will change again — check it every year without exception.*

Standard deduction (2026)

```
MFJ: $32,200    HoH: $24,150    Single: $16,100    MFS: $16,100
```

Where: Plus additional amounts for age 65+ or blindness.

▸ *MFS always equals single. A taxpayer who is BOTH 65 and blind takes the additional amount twice.*

Child Tax Credit

```
$2,200 per qualifying child under 17, of which $1,700 is refundable as the ACTC
```

Where: Phase-out above $400,000 MFJ / $200,000 others.

▸ *The refundable portion is LESS than the full credit — so a taxpayer with no tax liability does not receive the whole $2,200.*

Estate and gift exemption (2026)

```
$15,000,000 per individual; top rate 40%
```

Where: The unified lifetime exemption.

▸ *UNIFIED — lifetime gifts consume it, reducing what remains at death. Portability lets a surviving spouse inherit the unused portion, but it must be ELECTED on a timely-filed estate tax return.*

Retirement plan limits (2026)

```
401(k) elective deferral: $24,500
Total §415(c) additions: $72,000
```

Where: Plus catch-up contributions at age 50 and over.

▸ *The §415(c) cap covers EVERYTHING entering the plan — deferrals, employer match and after-tax contributions together. Applying only the deferral limit is the standard error.*

Qualified Charitable Distribution

```
Capped at $111,000 per year, once the IRA owner is at least age 70½
```

Where: Paid directly from the IRA to a qualifying charity.

▸ *A QCD satisfies the RMD but is EXCLUDED from AGI entirely — which beats taking the distribution and claiming a charitable deduction, because a lower AGI also relaxes every AGI-gated limit elsewhere on the return.*

EXAM TIPS — LIMITS & THRESHOLDS — QUICK REFERENCE (2026)

- Print this page, then check every figure against the IRS release for the year in your examinable window. Do not trust a dollar amount you have not verified this cycle.
- The MECHANICS of these rules are stable; only the dollar amounts move. Learn the structure from the sections above and treat this page as a lookup table, not as knowledge.

PASSING REG

A final word on the numbers

- Every threshold on this sheet is dated. Standard deductions, contribution caps, phase-outs and exemptions are indexed annually, and Congress rewrites the law on top of that.
- The AICPA examines the law in effect for a stated window. Confirm that window, then confirm the numbers. A stale figure is worse than a blank — it gives you confidence in a wrong answer.
- Learn the MECHANICS from this sheet: which bucket, which order, which limitation. Those do not change annually. The dollar amounts do.

The high-yield core

- The individual tax formula, and the difference between above-the-line and below-the-line.
- Basis: gift (carryover, with the dual-basis split), inheritance (FMV at death), §351 and §721 formations.
- The partner-versus-S-shareholder debt-basis distinction. It is tested every single time.
- §1231 / §1245 / §1250 recapture, and the order of operations for §179, bonus and MACRS.
- Distribution ordering: for both partnerships and S corporations, the tiers are the question.

The traps

- The estimated tax safe harbour is the LESSER of the two tests.
- Depreciation recapture on an instalment sale is 100% in the year of sale — even with no cash received.
- Loss is never recognised in a §1031 exchange, even with boot.
- The §179 income limitation cannot create a loss; bonus depreciation can.
- Control under §351 is measured IMMEDIATELY AFTER the exchange, and stock for services does not count.