

Chapter 14

REVISING THE TAX CURRICULUM: MAKING THE TRANSITION FROM A TRADITIONAL CURRICULUM TO THE AICPA MODEL TAX CURRICULUM

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To meet the call of practicing CPAs for recent accounting graduates to possess greater knowledge of basic business taxation concepts and laws, a transition from the traditional first tax course's emphasis on individual taxation to one that stresses business taxation is necessary. Revision of the second tax course is necessitated, as well. This chapter describes the differences between the traditional tax curriculum and the Model Tax Curriculum suggested by the AICPA,¹ presents a blueprint for making changes in the tax curriculum, addresses some of the problems that may be encountered, and offers suggestions for solving these problems.

The AICPA Model Tax Curriculum (MTC) is not a "revolution" in teaching tax. The MTC takes the basic topics traditionally taught in the first two tax courses, alters the order in which the topics are taught, and changes the emphasis placed on certain topics. The major difference between the Model Tax Curriculum and the "traditional" first tax course is the MTC's greater emphasis on business entities and its reduced focus on individual taxation.

Traditionally, the first tax course has stressed individual tax-return topics and preparation. The basic concepts of income, business deductions, and property transactions are included within the context of their effect on individuals. Often, this approach results in a problem if the student does not take a second tax course—the student is unable to relate these broad concepts to other entities. Additionally, even when students take the second tax course, the coverage for business taxation and tax planning is often insufficient to meet the needs of modern employers.

¹ The Model Tax Curriculum (MTC) was developed by the AICPA's Task Force on Tax Education. The complete text of the MTC can be found on the AICPA's web page at: <http://www.aicpa.org/members/div/career/edu/introduc.htm>.

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As more CPA firms redirect their tax compliance efforts to tax planning, the content of the tax curriculum needs to be focused more on the "big picture" and less on technical tax compliance. Such concerns are consistent with the AICPA vision, which emphasizes broadening the CPA practitioner's scope. Thus, the AICPA adopted the MTC, placing greater emphasis on business taxes rather than individual taxes.

The breadth of topics encompassed in the MTC necessitates that the depth of coverage be limited. The suggested classroom hours for each topic are just that, suggested. If an instructor feels more time is needed due to local requirements or students' needs, then deviation from the time specified in the MTC is warranted. However, each topic should be covered to some degree.

THE FIRST TAX COURSE

The first tax course of the MTC begins with an overview of the different types of entities generally encountered in practice and the characteristics unique to them. Because most individual topics are covered later in the course, the beginning of the course should have an overview of the individual tax model with an emphasis on the concepts of "for" vs. "from" adjusted gross income (AGI). Background on the evolution of tax laws and how they are developed also should be introduced at the beginning of the course.

Basic principles that apply to all entities (not just individuals) also should be introduced. These include concepts of income determination, deductions, losses, and property transactions. An introduction to taxation of C corporations should include reasons for and against incorporation, deductions unique to corporations, along with the concept of earnings and profits and how distributions are treated. An introduction to partnerships should include a discussion of entity vs. conduit theory, general vs. limited interests, basis and loss limitations, partnership income vs. separately stated items, and guaranteed payments to partners. An introduction to S corporations should include a discussion of the flow-through entity, reasons for election, how to elect, restrictions on who can elect, involuntary termination, and basis limitations.

In the first tax course of the MTC, individual topics such as standard deductions and exemptions are covered later and less time is spent on them than in the traditional curriculum. Instead, more emphasis is placed on items appearing on Schedule C. Fringe benefits and retirement plans can be addressed separately or integrated throughout the course. Generally, it is preferable to integrate the discussion where appropriate, reinforcing how fringe benefits and retirement plans fit into the entire tax model; the taxability of retirement plans and fringe benefits can be addressed when income exclusions are covered, while the deductibility of contributions to retirement plans and employer's deductions for fringe benefits can be addressed when other deductions are covered.

THE SECOND TAX COURSE

Because the first course in taxation may be taken months (or in some cases a year or more) before the second course, the second course of the MTC begins with a brief review of basic income and expense determination, property transactions, the business and individual tax models, and the general principles of business formation, distributions, and liquidation. Additionally, a thorough refresher of the sole proprietorship form of business is included. This review is especially important for those students whose first course in taxation did not explicitly follow the MTC.

Once students are familiar with the basics, the second course in taxation moves quickly to more in-depth coverage of business taxation. The coverage follows a life-cycle approach (i.e., from formation, to operation, to distributions, and finally to liquidating the business). More complex incorporations are included, particularly the details of incorporating a sole proprietorship and/or partnership that includes receivables, payables, assumption of liabilities, and boot received. Additional topics that are covered include employee compensation and fringe benefit issues, reconciliation of taxable and financial accounting income (with an examination of SFAS No.109 and

GAAP issues), tax-exempt organizations, and corporate liquidating and nonliquidating distributions (including complex problems involving Section 338 elections). Also introduced are various forms of corporate reorganizations and the theory behind the preparation of consolidated financial statements

The coverage of partnership formation places more emphasis on the details of liability assumptions, the differences between inside and outside basis, and the partner's capital accounts. Additionally, special allocations, withdrawals, sales of interests, and disproportionate distributions are addressed more fully. The coverage of S corporations stresses the differences from and similarities to corporations and partnerships, with detailed comparisons provided for corporations, partnerships, S corporations, LLCs, and LLPs.

Penalty and other taxes, such as the alternative minimum tax, are addressed for all taxable entities. Also explored are the personal holding company and accumulated earnings taxes. The concept of wealth-transfer taxation is introduced through estate and gift taxation and the cumulative nature of this tax is emphasized. Tax research is incorporated throughout the course, with students expected to prepare research memos and client letters on advanced topics. Complex issues in tax practice and procedure are also addressed. The course concludes with an examination of the income taxation of estates and trusts and an introduction to both international and state and local taxation. Throughout the course, greater emphasis is placed on tax planning for the business and its owners.

WHY MAKE THE CHANGE?

Many may question why a transition from the traditional tax courses to the MTC is warranted. The answer to this question lies in the changing business environment. Today's profession demands an accountant who is first and foremost a businessperson. Tax planning and an ability to recognize and solve complex tax problems are becoming increasingly important as computerized tax-preparation programs assume more of the responsibility for the technical aspects of compliance. Moreover, the rapid expansion of the Internal Revenue Code is making it impossible for students to "learn" everything. What they need, therefore, is a familiarity with the tools available to solve tax problems. To do this, they must develop their learning skills and analytical abilities to the point that they are adept at thinking critically and solving problems.

HOW TO MAKE THE TRANSITION

Moving to the MTC can take place in small steps or in one major leap. It is up to each instructor to decide which approach is preferable—but the decision can be influenced by several factors such as the course(s) previously taught, the number of years teaching the traditional curriculum, the books and other material available to support the new teaching approach, and the willingness of other persons teaching these courses to adopt the new approach.

For those who are unable to adopt the MTC in its entirety, there are numerous ways the basic concepts of business taxation can be included within the traditional curriculum using the traditional comprehensive or two-volume text approach within the first course.

1. When discussing the basic concepts of income, business deductions, and property transactions, present the students with examples using a corporation or partnership as the entity rather than the individual.
2. When assigning problems, ask the students to complete appropriate problems as if the entity were a corporation or a partnership.
3. Introduce the corporate limitations on charitable contributions when discussing the limitations for individuals. Similarly, discuss the dividends-received deduction when discussing dividend income for individuals.

4. Present the concept of partnership pass-through when discussing those income and deductions items that are treated "specially" for individuals.
5. Ask the students to complete basic Forms 1120 and 1065 when they complete a Schedule C for an individual return. Some additional explanatory material may need to be provided depending upon the facts for the business.

Many other concepts related to taxation of other entities can also be introduced depending on the instructor's preference; for example, comparisons of sole proprietorships, corporations, and partnerships for selection of tax year, formation of a business, dissolution of a business, and distributions from a business can be discussed in general terms depending on the time available.

To provide more class time for these topics, some things can be assigned for self-study outside the classroom. Tax research is one such topic. Instructional video tapes can be developed—as explained in this monograph's Chapter 3 by Shirley Dennis-Escoffier—and placed on reserve in the library for students to check out and watch at their convenience. Encouraging students to participate in a VITA program is another way to move topics outside the classroom.

If the first volume of a traditional two-volume text is used, little reference material may be available to students. To compensate for this, certain topics can be covered superficially or hand-outs can be prepared for student use. Alternatively, the comprehensive volume of a traditional text can be used. Although this text will provide students with ample reference material, the instructor will need to carefully guide them so that they do not become bogged down in material that will not be covered.

If a decision is made to adopt the entire MTC, then the use of one of the newer texts designed to meet this approach is recommended. Generally, any of these texts can be adapted to the instructor's own preferences for the depth of coverage in the business tax area. The major advantage to adopting such texts is that they typically can be used with fewer adaptations than required when using a traditional text. These MTC texts explore the basic tax concepts as they apply to a variety of entities, with examples that reflect corporations, partnerships, and sole proprietorships. Additionally, the authors have already made many of the fundamental decisions regarding the actual topics, their order within the text, and the depth of coverage. Although the instructor may choose to alter some of the text material as the course is taught over several semesters, the first time the revised course is offered, the instructor has a basic guide from the textbook authors.

One of the variables that often affects the decision to adopt the MTC is the instructor's prior teaching experience. The following sections discuss some of the strengths and challenges that may be encountered based on whether the instructor is new to teaching tax, has taught primarily individual tax, or has taught both of the traditional tax courses on a regular basis.

The New Tax Instructor

The major advantage for someone beginning their career teaching tax is that they possess fewer preconceptions on how the topics in the course should be structured. Although a new instructor's tax courses may have some residual influence, the lack of years of preparation and teaching the "old" method generally allows for greater flexibility in structuring the course or courses to be taught. Adoption of one of the newer textbooks that either has been written from scratch or adapted to the MTC can greatly assist in offering a new course.

Preparation time is always a factor to consider when getting ready to teach any course. Ideally, the new tax instructor has a strong background in both individual and business taxation. If so, the preparation time should be no greater for the MTC than for teaching the traditional two tax courses.

The primary challenge that may face the new instructor is a resistance to change from others teaching these courses. However, this challenge is not unique to the new instructor. Anytime more than one instructor regularly teaches a course, there should be some agreement on the content of

the course so that students are not left with gaps in their knowledge base. It must always be kept in mind that providing a complete tax introduction to both individual and business taxation is the objective of the first two tax classes. If the traditional approach is still used, then some of the transitional teaching ideas discussed earlier can be included.

The Instructor Who Regularly Teaches Both Individual and Business Taxation

On first impression, it may seem that a transition from the traditional curriculum to the MTC should be easy for those who have previously taught both individual and business taxation. However, this may not necessarily be the case. Because only basic concepts of business taxation (for example, the tax consequences encountered in the formation and dissolution of corporations and partnerships) are introduced in the first MTC tax course, the instructor who has regularly taught corporations and partnerships as part of the second course must make some significant decisions regarding which topics to cover and in what depth. The tendency to include all the exceptions may be difficult to overcome. However, it must be remembered that additional detail will be provided when the corporation and partnership topics are addressed in the second course.

Prior teaching experience in business taxation benefits an instructor by minimizing content preparation time. It also gives the instructor more options in selecting a text. Since the type of text used in the course has an effect on preparation time, serious consideration should be made to the selection of a text. If the text previously used has a newer edition based on the MTC, then the selection of this text may have advantages over a new MTC text in that the instructor is already familiar with the presentation of the material. Often, however, the selection of an entirely different text may assist the transition and in breaking old habits.

The Instructor with Primarily Individual Taxation Teaching Experience

An instructor whose primary teaching experience is individual taxation may need to make a considerable investment in preparing to teach the first MTC tax course, particularly if it is more than a few years beyond the completion of his or her own tax courses. But this investment can be viewed positively. It is unlikely that a switch to the MTC will be undertaken at the same time in both the first and second courses. Instead, the traditional second course generally will be offered at least one last time to accommodate those students who took the traditional first course. By teaching the first course under the MTC, the instructor can prepare for the basic concepts addressed in corporate and partnership taxation. Then, when the second course is offered, the instructor can supplement this preparation with a more in-depth look at business taxation. And because that first course's level of business taxation is intentionally at an introductory level, the instructor will be far less likely to burden the students with excess detail.

The biggest challenge to an instructor with primarily individual taxation teaching experience is an awareness that when teaching the basic concepts (for example, income determination, deductions, and property transactions) examples must be provided for business entities and not just individuals. While this may appear to be a relatively simple adjustment, it can take real concentration when individual examples have been used for a number of years. The second challenge to this type of instructor is a realization that with the introduction of basic business taxation topics, less time is available to address the individual topics covered in the traditional first course. To address this time limitation, the instructor can either simplify the individual coverage or require the students to learn more on their own. One advantage of the latter approach is that by requiring students to learn some of these topics through self-study, the instructor is helping them develop good "learning to learn" habits that will assist them in their professional careers.

ADMINISTRATIVE CHANGES

Although technically not new courses, the coverage in the courses may change sufficiently such that administrative procedures specific to the school may have to be addressed. Course

descriptions in catalogs and other material may need to be updated. In some schools, these changes may need to be in place before the course content can be modified. Additionally, transfer students may face certain challenges and need careful advising if they come from traditional programs.

BENEFITS OF MAKING THE TRANSITION

The primary beneficiary of making the transition from a traditional tax curriculum to the MTC is the student. The MTC should better prepare students to be business advisors and tax professionals when only one or two tax courses are taken. Moreover, if a student goes on to take an advanced program of study, such as a Master's of Tax or Master's of Accounting with a tax emphasis, the student who has been educated under the MTC should be better prepared for the graduate-level business taxation courses.

Although it may appear that individual taxation receives insufficient coverage under the MTC, student participation in VITA programs can overcome much of this perceived problem. Additionally, a requirement that students learn some of the individual topics on their own can provide them with an introduction to the real challenge of tax—keeping up with the current tax laws and their application. Finally, the transition can also allow those of us who teach tax on a continuing basis to re-examine how and what we have been teaching in our courses. Adopting a new focus can re-energize our teaching skills and bring new excitement to the classroom.