

# **Model Tax Curriculum**

## **Preamble**

The AICPA's Vision Statement asserts that "CPAs deliver value by:

- Communicating the total picture with clarity and objectivity,
- Translating complex information into critical knowledge,
- Anticipating and creating opportunities, and
- Designing pathways that transform vision into reality."

A practicing accountant cannot fulfill this vision without a foundation in tax. The tax section of the AICPA's mission serves the public interest by assisting AICPA members to be the most trusted professional providers of tax services, and by advocating sound tax policy and effective tax administration. The Model Tax Curriculum (MTC) provides recommendations for designing the tax component of the accounting curriculum so that the AICPA's vision and its tax section's mission can be maximized. The MTC's recommendations are intended to adequately prepare students for entering the accounting profession, and to aid in the design and assessment of accounting curricula that will serve to attract students to careers in taxation. As such, it has a pivotal role in ensuring that there is an adequate supply of students who will continue their studies to become tax professionals. Regardless of a student's interest in becoming a future tax professional, the tax curriculum should provide a sound foundation for future learning; and while not its main objective, the curriculum also should assist students in preparing for the CPA examination.

## **Importance of Tax in the Undergraduate Curriculum**

Tax costs can consume a significant portion of business and individual wealth. Nearly every economic decision involves tax considerations. The study of taxation is important for any business major, but it has added importance for students interested in careers in accounting.

Tax and financial reporting considerations often intertwine, and accountants cannot provide effective financial services without a fundamental understanding of both financial reporting and taxation issues. Results from a survey focusing on the first tax course indicate that significant gaps in fundamental principles and skills remain in the tax component of the accounting curriculum at a large percentage of universities. These include little or no coverage of tax research, tax planning, business entity taxation and the interaction between taxes and financial reporting.<sup>1</sup> Because students may obtain their tax knowledge via a variety of paths, including both undergraduate and graduate courses, it is quite possible for a student to develop significant gaps in his or her tax knowledge when important concepts are taught in elective courses. Because taxation is pervasive, complex and critical to decision-making, we recommend that accounting faculty carefully examine the tax component of their curricula to ensure that all accounting students obtain the fundamental tax knowledge they need to begin careers in accounting or tax regardless of the path that a student might take to obtain a degree.

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<sup>1</sup> See "Current Status of the Tax Curriculum in Accounting Programs," *The Tax Adviser* 35(11): 712-714.

## Objectives of the Tax Component of the Undergraduate Curriculum

The primary objective of the tax component of the accounting curriculum is that students understand the role of taxation in economic decision making and financial reporting. A student should understand fundamental tax law and be able to apply essential tax planning concepts. The curriculum should introduce a broad range of tax issues and their impact on a variety of taxpaying entities. While the primary focus is on the federal income tax, students should acquire knowledge that is transferable to taxes imposed by other taxing authorities. The knowledge and skills provided in the tax component of the accounting curriculum should facilitate future learning in tax even if the student does not expect to become a tax professional. The tax component of the curriculum is also critical in that it shapes the perceptions of those students who may wish to become tax professionals. As such, it has a key role in attracting students toward careers as tax professionals.

## Learning Outcomes

A student completing the tax component<sup>2</sup> of the body of knowledge for entry into the accounting profession should have the ability to:

- Comprehend the rationale for tax laws by differentiating the types of tax bases and weighing the multiple objectives tax policymakers consider when developing tax law
- Apply analytical reasoning tools to assess how taxes affect economic decisions for *all* taxpaying entities (including individuals, partnerships, Subchapters C and S corporations):
  - Through the amount and timing of income recognition and deductions
  - Related to property transactions that generate recognized, deferred or no taxable gains or losses
  - Related to organizational form decisions
- Analyze how taxes affect financial reporting including:
  - Comparing and contrasting book and tax differences and how they impact tax-based and financial reporting-based income statements and balance sheets
  - Detecting FAS 109 issues including applying the accounting standards for determining deferred tax assets and liabilities
  - Developing an awareness of internal control issues related to tax reporting
- Develop a fundamental understanding of the components of taxable income determination across taxable entities so that the student builds a foundation for effectively learning future tax laws in order to implement future tax compliance and planning strategies

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<sup>2</sup> The Model Tax Curriculum adopted the perspective of examining the accounting curriculum in its entirety. It is quite likely that several universities may choose to help their students achieve these outcomes by including some of them in courses that are traditionally considered “nontax.”

- Draw supportable conclusions regarding tax issues by using research skills (including accessing and interpreting sources of authoritative support) to identify and evaluate strengths, weaknesses and opportunities
- Communicate tax conclusions and recommendations in a clear and concise manner to relevant stakeholders
- Appreciate the professional and ethical obligations as well as community service opportunities for tax service providers
- Enhance his or her interpersonal skills
- Develop technological skills necessary to undertake tax planning, compliance and research strategies

### **Teaching Methods**

A faculty member greatly enhances a student’s ability to understand and apply tax concepts by providing a framework for organizing the student’s knowledge. Providing a framework is essential, but the specific framework should be one that is suited to the institution’s mission and linked to the broader accounting curriculum of which tax is a part. The Model Tax Curriculum recognizes that there is a wide variety of schools with differing missions and differing accounting curricula designed to serve the students at these schools.

Faculty should use a variety of teaching methods to achieve the learning outcomes of the Model Tax Curriculum, tailored to the differing needs of students at schools with differing missions and accounting curricula. These teaching methods include, but are not limited to: lecture, in class discussion, presentations, cases, simulations, role-plays, service learning activities and distance education methods. Whatever combination of methods used, the objective should be to prepare and enable students to learn on their own during their professional careers.

Following this preamble is a matrix to assist faculty with designing the tax component of the accounting curriculum. It displays the key learning outcomes as well as suggestions for *potential* technical tax topics that *might* be used to help achieve the learning outcomes. When introducing technical topics, faculty are encouraged to use an approach that integrates planning, research, and financial accounting concepts from a decision-making perspective. In addition, the matrix shows how the learning outcomes for the tax component help fulfill the components of the AICPA’s Core Competency Framework.

The intent of the Model Tax Curriculum is to recommend the learning outcomes a student should be able to attain before he or she begins a professional career. As such, these outcomes may be achieved via a variety of means including undergraduate or graduate courses, in –class or out-of-class experiences, and components within traditional “nontax courses.” Faculty need to ensure that a student has the opportunity to achieve these learning outcomes regardless of the educational path he or she may choose. It is important to recognize that achieving the learning outcomes and developing the core competencies cannot be accomplished via a single individual income tax-oriented course which is exclusively lecture-based. Faculty at schools with only one required tax course need to be particularly creative not only in adopting a more active teaching style but also in exploring additional opportunities to enhance students’ tax knowledge while

developing their communication, intellectual, and interpersonal skills. There are several opportunities for developing the core competencies that are unique to the tax component of the accounting curriculum. For example, VITA programs are a unique and efficient means for helping students develop their personal competencies while enhancing their tax knowledge.

It is clear that there are multiple opportunities for innovation in the tax curriculum that can help give students the foundation to become highly valued business advisers. But to meet the changing needs of the accounting profession, faculty should periodically revisit the tax curriculum and its critical role in accounting programs to ensure that students are fully prepared to enter the business world as knowledgeable professionals.

### **Summary**

In order to most effectively meet student needs, academia and the accounting profession must continue to work together to develop thought-provoking teaching materials such as cases and simulations. In addition, it is expected that the Model Tax Curriculum will need to be periodically reviewed to ensure that it is meeting the continuously changing tax and business environments.

**Matrix Relating Learning Outcomes to AICPA Core Competencies and Technical Topics**

	Comprehend rational for tax laws	Apply analytical reasoning tools to assess how taxes affect economic decisions			Analyze how taxes affect financial reporting	Develop a fundamental understanding of the components of taxable income determination	Draw supportable conclusions regarding tax issues using research skills	Communicate tax conclusions and recommendations in a clear and concise manner	Appreciate professional and ethical obligations as well as community service opportunities for tax service providers	Enhance his or her inter-personal skills	Develop technological skills
		Through amount and timing of income recognition and deductions	Related to property transactions	Related to organizational form decisions							
<b>CORE COMPETENCIES</b>											
<b>I. Functional competencies</b>											
Decision modeling							X	X			X
Risk analysis					X		X	X			X
Measurement		X	X		X	X					
Reporting					X	X		X			X
Research							X	X	X	X	X
Leverage technology to develop and enhance functional competencies		X	X	X	X		X	X		X	X
<b>II. Personal competencies</b>											
Professional demeanor									X	X	
Problem solving and decision making							X			X	X
Interaction								X	X	X	
Leadership									X	X	
Communication								X		X	X
Project management								X		X	
Leverage technology to develop and enhance personal competencies							X			X	X

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III	<b>Broad business perspective competencies</b>										
	Strategic/critical thinking			X			X	X			
	Industry/sector Perspective	X	X	X	X		X				
	International/global Perspective	X	X	X	X		X				
	Resource management									X	
	Legal/regulatory perspective	X	X	X	X	X					
	Marketing/client focus								X	X	
	Leverage technology to develop and enhance a broad business perspective						X			X	X
	<b>TECHNICAL TOPICS</b>										
I.	<b>Introduction to role of taxes</b>										
	Role of taxes in decision making	X	X	X	X			X		X	X
	Tax policy considerations	X				X			X		
	Interrelationship between tax authorities	X							X		
	Legislative process	X						X		X	

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		Through amount and timing of income recognition and deductions	Related to property transactions	Related to organizational form decisions							
II	<b>Taxes and financial reporting</b>										
	Differences between financial and tax accounting				X	X					
	FAS 109				X	X					
	Awareness of internal control issues related to tax reporting				X				X		
III	<b>Tax practice</b>										
	Tax research						X	X	X	X	X
	Professional responsibilities and ethics						X	X	X	X	
	Federal tax procedures								X		
IV	<b>Accounting periods and methods</b>										
	Accounting periods		X		X	X					
	Cash versus accrual		X		X	X					
	Inventory methods		X	X	X	X					
V	<b>Property transactions</b>										
	Types of assets	X		X		X					
	Basis of assets	X		X		X					
	Depreciation and amortization	X		X		X					

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		Through amount and timing of income recognition and deductions	Related to property transactions	Related to organizational form decisions							
	Sales and exchanges of business property and depreciation recapture	X		X			X				
	Capital gains and losses	X		X			X				
	Nontaxable sales and exchanges	X		X			X				
VI	<b>Individuals</b>										
	Gross income inclusions and exclusions	X	X				X				
	Reporting of items from passthrough entities, including passive activity losses	X	X		X		X				
	Adjustments and deductions to arrive at taxable income	X	X				X				
	Filing status and exemptions	X	X				X				
	Tax computations and credits	X	X				X				
	Alternative minimum tax	X					X				
	Compensation, retirement plans and fringe benefits	X	X				X				

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VII	<b>Comparison of entity taxation</b>										
	Similarities and distinctions in tax reporting among entities	X		X							
VIII	<b>C corporations</b>										
	Determination of taxable income and loss, and reconciliation of book income to taxable income	X	X		X	X					X
	Tax computations and credits	X	X			X					
	Alternative minimum tax and penalty taxes	X				X					
	Net operating losses	X	X			X					
	Entity/owner transactions, including contributions and distributions	X	X		X	X					
	Earnings and profits	X	X		X	X					
IX	<b>S corporations</b>										
	Eligibility and election	X	X		X						
	Basis of shareholder's interest	X		X		X					

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		Through amount and timing of income recognition and deductions	Related to property transactions	Related to organizational form decisions							
	Determination of ordinary income, separately stated items, and reconciliation of book income to taxable income	X	X			X					X
	Entity/owner transactions, including contributions and distributions	X	X	X	X	X					
	Introduction to built-in gains tax	X	X	X		X					
	<b>Partnerships</b>										
	Determination of ordinary income, separately stated items, and reconciliation of book income to taxable income	X	X	X		X					X
	Basis of partner's interest and basis of assets contributed to the partnership	X	X	X	X	X					
	Partner dealing with own partnership	X		X		X					
	Treatment of partnership liabilities	X	X	X							
	Distribution of partnership assets	X	X	X							

X.

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XI.	Ownership changes and liquidation and termination of partnership	X	X	X		X					
	<b>Additional tax reporting and/or paying entities</b>										
	Conceptual understanding of transfer taxes	X	X			X					
XII	Introduction to estates, trusts and tax-exempt organizations as tax reporting and/or paying entities	X	X	X		X					
	<b>Multijurisdictional tax issues</b>										
	Conceptual understanding of state/local and multinational tax issues	X	X				X				X