

Gleim CPA Review
Updates to Regulation
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NOTE: Sections with changes are indicated by a vertical bar in the left margin. Text that should be deleted is displayed with a line through it. New text is shown with blue underlined font.

Study Unit 4 – Gross Income and Exclusions

Page 92, Subunit 4.1, Item 11.g.3)e): These edits update the limits for exclusion of discharges.

- e) Are secured by a principal residence and were incurred in the acquisition, construction, or substantial improvement of the principal residence pursuant to the Mortgage Forgiveness Debt Relief Act (extended through 2025). The exclusion applies for discharges of up to ~~\$2 million~~ 750,000 (~~\$1 million~~ 375,000 if married filing separately).

Study Unit 7 – Adjustments and Deductions from AGI

Page 165, Subunit 7.1, Item 11.: This update relocates item 11. to Subunit 7.2 as item 5. and updates the information about charitable contributions. Subsequent items were renumbered.

44. 5. Charitable Contributions (Nonitemized)

- a. ~~An above-the-line~~ A below-the-line (from AGI) charitable contribution deduction of up to \$300 (\$600 if MFJ) is allowed for the 2021 tax year for individual taxpayers who do not itemize. A qualified contribution is any charitable cash contribution for which a deduction is allowable that is made to a
 - 1) Church or association of churches;
 - 2) Nonprofit educational organization; or
 - 3) Nonprofit medical or hospital care organization, including one for medical education or medical research.

Page 166, Subunit 7.2, Item 1.: This update includes charitable contributions in the list of items subtracted from AGI when calculating taxable income.

1. Taxable Income

- a. Taxable income is adjusted gross income (AGI) minus
 - 1) Itemized deductions or the standard deduction.
 - 2) Charitable contributions. and
 - ~~2)3)~~ 3) The qualified business income deduction (QBID).
- b. Below-the-line deductions are all the deductions that may be subtracted from AGI to arrive at taxable income.

$$\text{Taxable income} = \text{AGI} - \text{Itemized deductions on Schedule A or the standard deduction} - \text{Charitable contributions} - \text{QBID}$$

Page 173, Subunit 7.2, Item 9.: These edits update information about charitable contributions.

9-10. Charitable Contributions (Itemized)

From Form 1040 Schedule A			
Gifts to Charity <small>Caution: If you made a gift and got a benefit for it, see instructions.</small>	11	Gifts by cash or check. If you made any gift of \$250 or more, see instructions	11
	12	Other than by cash or check. If you made any gift of \$250 or more, see instructions. You must attach Form 8283 if over \$500.	12
	13	Carryover from prior year	13
	14	Add lines 11 through 13	14

- a. ~~As mentioned in item 5. on page 167, a nonitemizer can claim up to \$300~~ deduct a limited amount of charitable contributions ~~as an above-the-line deduction~~. If the taxpayer itemizes, all charitable contributions are deducted on Schedule A (Itemized Deductions).

Study Unit 18 – Contracts

Page 503, Subunit 18.1, Item 1.: This update expands coverage of the Uniform Commercial Code. Subsequent items and examples were renumbered.

1. Governing Law

a. Common Law

- 1) Most contracts are governed by common law, which is a body of law that has evolved by judges creating legal rules when deciding their cases. Common law is based on judicial precedent rather than laws issued by legislative statute.
- a) Real estate, personal services, insurance, intangible assets, and employment are all examples of contracts governed by common law.

b. Uniform Commercial Code (UCC)

- 1) The Uniform Commercial Code is a set of rules intended to standardize commercial business transactions. It has been adopted in large part by all 50 states, meaning that businesses can rely on contract terms being enforced universally in the United States.
 - 2) UCC Article 2, Sales, governs contracts for the sale of goods.
 - a) Goods are a form of personal property. The UCC defines goods as all things movable and tangible at the time they are identified as goods to be sold.
 - 3) The UCC also applies when a merchant is a party to an agreement. A merchant
 - a) Regularly deals in goods of the kind involved in the sales contract or
 - b) Represents (or employs someone who represents) himself or herself, by occupation, as having specific knowledge or skill regarding the goods.
 - 4) If a UCC distinction is not referenced (i.e., sale of goods or merchant status), assume that the topic follows the common law rules for contracts.
- c. When a **contract** seems to be subject to both the UCC and common law, the predominant purpose of the contract determines which law governs it.

EXAMPLE 18-1 Governing

Widget, Inc., produces widgets by adding parts to a widget machine. Widget's contract with Vendor to purchase parts is governed by the UCC because parts are tangible goods. Widget's contract with a repairman to service the widget machine is governed by common law.

4.2. Formation

- a. A contract is formed when its elements (mutual assent, consideration, capacity, and legality) are present. But a writing is **not** required to **form** a contract.
 - 1) ~~A contract may be oral.~~ Oral contracts may be subject to the statute of frauds (covered in Subunit 18.7), a common law concept that does not apply to contract formation but requires certain contracts to be in writing to be enforceable.

Page 505, Subunit 18.2, Item 1.g.: This update clarifies the reasonable period length.

- g. Under the Uniform Commercial Code (UCC), a merchant's written, signed **firm offer** to sell **goods** that is to be held open for a stated or a reasonable period (not greater than 3 months without consideration) is irrevocable.

Page 506, Subunit 18.2, Item 3.b.2): This update clarifies and expands coverage of the Uniform Commercial Code.

- 2) Under common law, if a **conditional acceptance** requires the offeror's agreement to additional or different terms, it is a **counteroffer**, not an acceptance.
- 3) Under the UCC, the mirror image rule does not apply. The addition of new or different terms does not typically negate acceptance or affect the formation of a contract.

EXAMPLE 18-9

Acceptance under the

OfficeStore sends Manager an offer to sell 10,000 paperclips for \$10. Manager agrees to the terms of the offer but writes "please ship by next Friday" above their signature before sending it back to OfficeStore. Under the UCC, an acceptance containing different or additional terms is allowable if the offeree's acceptance is not conditional on the offeror's assent to the different or additional terms. Therefore, Manager's response is an acceptance because it does not require OfficeStore's assent.

Page 519, Subunit 18.9, Item 5.b.1): This update clarifies and expands coverage of the Uniform Commercial Code.

- 1) Under the common law, A **material breach** discharges the nonbreaching party from any obligation to perform under the contract and entitles that party to sue for breach of contract.
- 2) Under the UCC, the perfect tender rule applies and **any** breach, regardless of materiality, can allow a nonbreaching party to be discharged.