

Domain 3 of 4

Overview

REG covers federal taxation (individual, corporate, partnership, estate/gift), business law, and professional ethics. It consists of 72 multiple-choice questions (50%) and 8 task-based simulations (50%) in 4 hours.

Tax topics account for approximately 75% of the exam, with business law at 25%. The exam tests the Internal Revenue Code and Treasury Regulations as they apply to common tax situations.

Individual Income Tax

- Gross income: all income from whatever source derived unless specifically excluded
- Exclusions: gifts, inheritances, life insurance proceeds, municipal bond interest
- Deductions for AGI: alimony (pre-2019), student loan interest, self-employment tax, IRA contributions
- Itemized deductions: SALT (capped at \$10,000), mortgage interest, charitable contributions, medical expenses (>7.5% AGI)
- Standard deduction vs. itemized: choose the higher amount
- Tax rates: 10%, 12%, 22%, 24%, 32%, 35%, 37% (2024 brackets)

■ **Exam Tip:** For the CPA exam, know the difference between "for AGI" deductions (above the line — always deductible) and "from AGI" deductions (below the line — only if itemizing). Above-the-line deductions are more valuable.

Corporate Taxation

- C corporations: flat 21% tax rate (post-TCJA 2017)
- Dividends received deduction (DRD): 50% (< 20% ownership), 65% (20-80%), 100% (≥80%)
- Net operating loss (NOL): indefinite carryforward, limited to 80% of taxable income
- Organizational costs: \$5,000 immediate deduction, remainder amortized over 180 months
- Accumulated earnings tax: 20% on unreasonable accumulation of earnings
- S corporation: pass-through entity, limited to 100 shareholders, one class of stock

Business Law Essentials

- Contracts: offer, acceptance, consideration, capacity, legality; UCC vs. common law
- Agency: actual authority (express/implied), apparent authority, ratification
- Partnerships: general (unlimited liability), limited (LP), LLP, LLC
- Secured transactions (UCC Article 9): attachment, perfection, priority
- Bankruptcy: Chapter 7 (liquidation), Chapter 11 (reorganization), Chapter 13 (wage earner)

■ **Exam Tip:** For contract questions, remember the UCC applies to the sale of goods; common law applies to services and real estate. The UCC is more flexible — it allows a contract to exist even with open terms.