After some administrative announcements, I will discuss what I hope to accomplish in this course and what I expect of you. I also will try to convey a sense of why tax is important and why you should be taking the class. We will then begin the course by exploring various rudimentary, structural elements of the federal income tax system. Each of you comes to this class with a different background in taxation, ranging from no background to filing your own return to sophisticated economics and accounting experience. One purpose of the first class discussion and the assigned readings is to begin to lay the groundwork for the substantive discussion that will occupy the remainder of the semester. Another purpose is to give us a common background.

We will not return to some of the material in the assigned readings. Other parts of the readings and the class discussion are crucial building blocks for the remainder of the semester. One of the goals of the first few class hours is to develop a common "language" for use during the course. We also will do a brief overview of the federal tax system and the policy goals of this system. Finally, we will focus briefly on why Congress has made an "income" tax a major component of our revenue raising system, and what the possible alternatives to an income tax might be.

The materials for the class include the course book – *Federal Income Taxation, Principles and Policies* (Graetz and Schenk, 5th ed 2005), the Internal Revenue Code and Regulations (an abridged edition has been ordered and is available in the Bookstore), and the problem sets that will be posted on Blackboard. As an additional source for study or review, I recommend Marvin Chirelstein, *Federal Income Taxation, A Law Student’s Guide to the Leading Cases and Concepts* (10th ed). This is also available in the bookstore.

**Assignment:**

Graetz & Schenk (G & S): 1-22; 27-40; 56-88 (read generally as background).

– Class discussion will emphasize pages 7-22, 27-40, and 65-83.

Consider the following problem in connection with the reading material.
Problem

Assume (quite unrealistically) that there is a world of only three taxpayers – A, B, and C. The government needs revenue to carry out its functions, and it looks to A, B, and C as a major source of those revenue needs. A, B, and C have the following profiles.

A – married with no children. A earns $50,000 per year in her job. A's husband works in the home. A and her husband have $30,000 of basic living expenses each year. A and her husband intend to save whatever they have left over after paying their taxes.

B – single. B earns $100,000 per year in his job, and has $50,000 of basic living expenses each year. B intends to save $25,000 in the current year, and plans several high-end vacations with whatever is left over after he pays taxes.

C – married with three children under the age of 18. C's wife works in the home. C earns $250,000 per year in his job, and C and his family have $125,000 of basic living expenses each year. C and his spouse will save as much as possible after taxes for their children's education. They may take a modest vacation in October costing $5,000.

Assume that the government needs $80,000 in revenue in the current year. What alternative tax systems can you think of to allocate the burden of the $80,000 of needed revenue among A, B, and C?

Would it matter in your thinking whether any of these individuals and families lived in states, such as New York and California, with high state and local taxes?

What impact on your thinking about the question above would things like the charitable contributions, casualty loses, medical expenses of A, B, and/or C have?

Would it make any difference if C’s employer provides to C and his family a medical benefit plan?

Would it matter if A’s employer, in addition to A’s salary, contributes $5,000 on A’s behalf to an employer sponsored 401(k) plan?

Would it matter that all of B's $100,000 came from dividends and interest, rather than earnings?