

## Assignment 7 - Tax Research

### Online Tax Research Problem

Our client is a small business that has paid a programmer to develop software specifically for the client. Our client wants to be able to **deduct** the full cost of developing the software from this year's taxes as a **research expenditure**. Can the full cost be deducted from the taxes due this year or must it be spread over the course of several years?

For all Lexis/Westlaw searches, assume that your firm has a transactional contract, which means you are paying per search and the larger the database the more expensive.

I know it is late in the semester, the brain is tired, and we are talking tax, but please give this assignment the attention it deserves. On second thought, you better give it **more** attention that it deserves!

1. Assuming that you know nothing more than what is provided above, it might be best to start with a source that is organized by subject. Let's begin by using the RIA Federal Tax Coordinator on Westlaw.

A. Based on what you know, what is the best way to begin the research? Be sure to consider the cost of various options when answering this question, assuming that cheaper is better. Please explain how your suggested method is superior to other options. Indicate the steps you took as you implemented this search strategy and actually found something that looks at least remotely relevant. (Hint: Think **capital expenditure**.)

**The least expensive would be to search the TOC; since this publication is organized by subject, the TOC shows subjects, unlike a source organized numerically by IRC code section. In this case, Chp. L looks relevant; it covers "Deductions Business and Investment Expenses." After expanding Chp. L, you would need to know that this software is a capital expenditure. If you were familiar with this terminology, you would see that L-5600 is relevant. After expanding L-5600, you would see that several sections, including 5613 through 5619, discuss tax treatment of software development costs.**

B. Assume that your first option was not helpful and that you ultimately decide that a full-text search is necessary. Considering all factors, what search would you suggest running? (Hint: Think pr, ca, only different. In other words, the pr and ca fields will not work in this database but what would be the equivalent for this database? How do you determine available fields?) Also, would you run the field limited search as the initial search? Why or why not?

**A full-texts search, with a possible field limitation, might also be in order if the TOC**

**is not helpful. The following search is a good one: ti(software & development). You need to look at the explanation to see which fields exist; the explanation says that the title (ti) field is the topical paragraph headings.**

C. Run the full-text search and locate relevant publication sections. List those sections that look relevant.

**Again, 5613 to 5619 are on point.**

D. Which legal authorities look relevant? List them below.

**I.R.C. § 174, Rev. Proc. 2000-50,**

2. Assume for a moment that you didn't have access to the Federal Tax Coordinator but you did have access to RIA's United States Tax Reporter (USTR). Assuming you only had the information in the hypo found at the beginning of this assignment, how would you begin? In other words, what method or approach would you use to begin your research? This is a thought question; you do not need to actually implement your strategy.

**USTR is organized by I.R.C. section, so if you don't know the section involved, you need to use a full-text search or an index search, if available.**

3. From working with Question 1 above, you should know the number of a relevant code section. Using RIA's United States Tax Reporter (USTR) service on Westlaw, which strategy would quickly lead to relevant information on this topic? Explain in detail.

**Click on the code section; this will take you to the text of the code section and provide the text of or references to related materials.**

4. Look through the relevant information in the USTR; what legal authorities are referenced? I don't need specific cites, just the types. For example, do you find any cases? Are other types of authority we spoke of in class listed? If, so what?

**Treasury Regulation 1.174-1 through -4, cases, committee reports are listed.**

5. After regulations, other I.R.S. produced materials, like revenue rulings, revenue procedures, etc., should be located. Is there a revenue ruling or procedure that is relevant for your issue?

**Revenue Procedure 2000-50**

6. Even though the tax service provided by RIA is a great resource, it does not provide the text of nor will it always reference all relevant materials. You should not rely upon this and similar services to lead to all relevant material. For example, they will not necessarily discuss every General Counsel Memorandum or Private Letter Ruling that may be relevant. To overcome this shortfall, you should also run searches in the Westlaw or Lexis tax databases that cover all IRS releases. Using Lexis, formulate and run a search in the database that covers all regulations, revenue rulings, revenue procedures, letter rulings and technical advice memoranda.

A. What search did you run?

**174 /p computer software /s costs  
You need to combine databases, like the Cumulative Bulletin and Private  
letter Rulings/Technical Advice Memorand**

B. Did you find anything that is relevant? One additional relevant source is sufficient.

**PLR 200428025**

7. As mentioned in class, BNA produces the Tax Management Portfolios. Using the BNA Tax Management Portfolios link under the “electronic resources” link on the Library’s home page, locate a relevant portfolio. What process did you follow? What is the number of the relevant publication and which parts of that portfolio cover your topic?

**Tax Portfolio 555-1st, Sec. C covers Treatment of Software Development Expenses**

8. In addition to the materials previously mentioned, don’t forget law review articles that may discuss the issue. What options for databases do you have for locating articles on either Lexis or Westlaw and why would you select one over the other? List one article that looks, from the title, like it discusses the topic.

**JLR, LegalTrac (LRI), Citators**

9. Once you have an authority, you should remember to use the citators to check and see if it is still good law and find additional authority. You should have located a revenue procedure from 2000 that is relevant to the issue. Use Shepards, KeyCite, and RIA Federal Taxes Citator Second on Westlaw to check on the revenue procedure. What differences do you notice between these citators? Please note the differences.

**Shepardizing and KeyCiting Rev. Proc. 2000-50 reveals earlier and subsequent  
history and citing resources. The RIA Federal Taxes Citator is much more limited in  
citing coverage.**