Integrating Modern World Tax Issues into the Classroom

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Changes in ways of doing business and a global focus on environmental concerns raise a variety of tax issues likely to be of great interest to today's college students. Students may have more knowledge of and experience with many of these issues than their professors have. Bringing these topics into tax courses can introduce students to the types of issues they will face after graduation and that they can help solve. Discussion of these modern world concerns also supports integrative learning to give students a deeper level of understanding of the issues.

This column reviews the benefits of interdisciplinary and integrated coursework, suggests three aspects of the modern world that should engage students and draw on their knowledge gained outside the classroom, and suggests ways to incorporate the topics into a tax course. The issues suggested for possible integration into a tax course are:

- Virtual worlds;
- Digital goods; and
- Climate change.

Importance of Interdisciplinary and Integrated Coursework

Integrated Learning

In recent years, emphasis has been placed on the importance of integrated learning to help students get the most out of their college experience. Students must be able to go beyond seeing discrete information from one textbook or lecture as being useful only as isolated knowledge. They also need knowledge gained from integrating information that then expands their understanding. This broader perspective is useful in identifying and solving problems and in finding new areas to explore. Integrated learning not only broadens the student's knowledge, it can also motivate and enable students to engage in lifelong learning.

The Association of American Colleges and Universities (AAC&U) has been leading the charge to reinvigorate higher education to ensure that it delivers the learning students need in today's global society. The association suggests that students must become "integrative thinkers who can see connections in seemingly disparate information and draw on a wide range of knowledge to make decisions." Such thinkers "adapt the skills learned in one situation to problems encountered in another" (AAC&U National Panel Report, "Greater Expectations" 21 (AAC&U 2002), www.greaterexpectations.org/pdf/gex.final.pdf).

Integrated learning helps students become better problem solvers. They can see how they can use ideas and knowledge in multiple areas to better understand issues and derive solutions. "Learning that helps develop integrative capacities is important because it builds habits of mind that prepare students to make informed judgments in the conduct of personal, professional, and civic life" (Huber and Hutchings, Integrative Learning: Mapping the Terrain 1 (AAC&U 2004), www.carnegiefoundation.org/dynamic/publications/mapping-terrain.pdf).

Interdisciplinary Studies

Integrated learning goes hand in hand with interdisciplinary studies. Despite
the importance of integrated learning across disciplines, universities are not usually structured to support this well. The discipline-based department structure tends to reinforce the belief and practice that knowledge falls into discrete, narrow topics. However, many of the issues students will deal with in their careers and personal lives do not fall neatly into discrete topics. One of the “modern issues” discussed in this column is climate change. This topic needs to be understood and addressed in interdisciplinary ways because it involves science, geography, intergovernmental relations, finance, economics, and more.

Huber and Hutchings suggest that faculty need to help students make connections. They note that “integrative learning is unlikely to occur without commitment and creativity from our educational institutions” (Integrative Learning 3).

**Relevance to CPAs**

The AICPA's vision statement calls for CPAs to be able to integrate knowledge to help clients solve problems. It states that CPAs are the trusted professionals who enable people and organizations to shape their future. Combining insight with integrity, 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. [www.aicpa.org/vision/index.htm]

This vision goes well beyond saying that CPAs deliver value through audits and tax compliance. It notes that CPAs have a wide skill set and knowledge base that will enable them to help clients succeed in new and ongoing endeavors.

Students need opportunities to practice building connections between and among concepts, ideas, and knowledge using a broad range of areas, such as those they encounter in their general education and major courses, along with co-curricular activities. A tax course can and should provide these opportunities. It can help students connect concepts not only to their accounting courses but also to knowledge they gain outside the classroom and in their nonaccounting studies.

The three modern issues described in the...
next section provide opportunities for tax faculty to engage students, help them become integrated learners, and deepen their understanding and appreciation of tax rules and concepts.

Why These Topics?
The topics noted in this column require an interdisciplinary approach for better understanding. Certainly, without an understanding of what a virtual world is, a tax practitioner will not be able to identify whether tax issues exist and when taxable events may occur. The three topics are not the only modern issues faced by tax practitioners and policy makers. They were selected for their currency and the advantages they offer in engaging students and providing an opportunity for them to practice integrated learning in a tax course. These topics are emerging issues with limited tax guidance; the law is still evolving for them, as is the nature of the transactions.

This column is not intended to address the intricacies of the tax issues in these three areas. Instead, it offers suggestions for incorporating them into a tax class along with some resources to help students think about the issues they raise for tax compliance and tax system design.

The tax topics suitable for incorporating into discussions of these issues are noted in the exhibit. Some resource materials are also provided.

Virtual Worlds

Background

A virtual world exists online. People can create online images, typically called avatars, to represent their presence in a virtual world where they can interact with other avatars. Avatars might create or purchase virtual property, trade goods and services, engage in combat, or design their virtual spaces.

Some transactions leave the virtual world, so tax consequences are likely to become more certain. For example, if someone sells his or her avatar or other virtual world item for real-world cash, taxable income results. But what happens when transactions never leave the virtual world but look a lot like real-world bartering, or items are bought and sold using a virtual currency?

The National Taxpayer Advocate's 2008 Annual Report to Congress listed the need to address emerging issues of virtual worlds as one of the 20 most serious tax problems. The report notes that in 2005, roughly $1 billion was exchanged in virtual worlds, and over 16 million people have subscriptions to virtual worlds. This report serves as an excellent guide to virtual world issues, possible tax concerns, and related topics, such as property and contract law (National Taxpayer Advocate, 2008 Annual Report to Congress 214–26 (2008), www.irs.gov/pub/irs-utl/08_tas_arc_intro_toc_msp.pdf). Students can also look for information on how other countries are dealing with virtual world tax issues.

Integrated Learning

Many students will be able to bring a lot of knowledge and experience into a discussion of the tax consequences, if any, of virtual world activities because they participate in those worlds. Given the many disciplines that "touch" virtual worlds (such as computer science, psychology, and economics), students may gain more information from other classes or activities. There is also a good deal of information available on the Internet and on virtual world sites, such as Second Life.

Digital Goods

Background

The Internet has allowed items previously purchased in a tangible form, such as music CDs, to be obtained in a digital form. This has posed a significant challenge to state sales tax systems that historically have applied only to tangible personal property. The shift from taxable tangible personal property to non-taxable digital property erodes a state's sales tax base. States tend to find that they need law changes to preserve the tax base.

Prior to the proliferation of MP3 players, several states had already modified their sales tax rules to apply to software transferred electronically. However, some of these modifications were not worded broadly enough to cover other digital products. The emergence of digital goods is an example of how new ways of doing business can challenge tax rules that were not written with the new technologies or practices in mind.


Another significant tax issue posed by digital goods is the difficulty of tracking transactions and determining where they should be taxed. An individual could download music onto a computer while traveling on a train through several states, none of which she lives in. Where did the sale take place for state income tax and sales tax purposes? How can the IRS and state tax agencies audit transactions involving digital goods?

Information on the taxation of digital goods can be found at many state tax agency websites. Students can learn how their state taxes digital goods for sales tax purposes. If they find that their state does not tax digital items, students can look for legislative proposals to tax them and discuss the prospects for enactment or draft their own proposal and debate its pros and cons.

Integrated Learning

As with virtual worlds, students are likely to have real-life experience with digital products, particularly music and ringtones. They may have discussed digital goods in other classes, such as learning about copyright issues in a business law class. Their experience with digital goods should be very useful in identifying possible tax topics, including how practitioners can assist clients in reporting transactions involving digital goods and how lawmakers might resolve these issues.

Greenhouse Gases

Background

Since at least the 1990s, various efforts have been made by countries, local
jurisdictions, companies, individuals, and organizations to reduce the emission of greenhouse gases (GHGs). The United Nations has tried to get countries to work together to agree to reduce GHG emissions. Tax incentives have been created at the federal and state levels to encourage the development and use of renewable energy sources.

Carbon taxes are used in some countries as well as in Boulder, Colorado. Other countries have implemented a cap-and-trade system under which companies are given allowances to emit a specified amount of GHGs. If they emit more than their allowances permit, they must either change their practices to emit less or purchase allowances from others. President Barack Obama’s 2010 budget proposal mentions exploring a cap-and-trade system (Office of Management and Budget, “A New Era of Responsibility” 21 (2009)).

Emission allowances are not new in the United States. In the 1990s, utility companies were issued sulfur dioxide emission allowances. The IRS issued guidance on various tax consequences of owning and selling these allowances.

With the Energy Tax Incentives Act of 2005, P.L. 109-58, Congress has added several special deductions and credits to the federal income tax law to encourage development and use of alternative energies. For example, Sec. 45L allows eligible contractors to obtain a credit for producing and selling energy-efficient homes. Sec. 179D allows for an energy-efficient commercial building deduction.

Congress has also realized that some tax provisions may encourage the production of GHGs, such as incentives for oil drilling or depletion. To help identify areas of the federal tax law that may directly or indirectly encourage GHG emissions, the Emergency Economic Stabilization Act of 2008, P.L. 110-343, called for the National Academy of Sciences to perform a carbon audit of the tax law. The report is due by October 2010.

Summary

Students are more engaged when learning takes an integrated and interdisciplinary approach. Their learning is also broadened and they gain skills crucial for lifelong learning. While professors can integrate many topics besides financial accounting into a tax course, students should find that the “modern” tax issues noted in this column add an intriguing aspect to their study of taxation. Professors should also find them of interest. These emerging topics are rich with research opportunities that professors and students can identify via discussions in tax classes.