1. During the current taxable year, John's employer, Jolly Corporation, which did not regularly sell furniture to customers, allowed John to purchase one of Jolly Corporation's office tables (which table had an adjusted basis of $2,000 and which table had a fair market value of $10,000 and with respect to which Jolly Corporation had taken $15,000 of depreciation deductions) for $6,000, because John had worked so hard for Jolly Corporation during the last taxable year, and therefore, Jolly Corporation wanted to give John a bonus for the current taxable year. John paid for and received the table (with no restrictions attached) on November 1 of the current taxable year. John's ordinary gross income for the current taxable year with respect to the transfer to John is as follows.
   a. None/Zero
   b. $10,000
   c. $6,000
   d. $4,000
   e. None of the above

2. Referring to Question 1, Jolly Corporation's ordinary gross income for the current taxable year with respect to the transfer to John is as follows.
   a. None/Zero
   b. $8,000
   c. $4,000
   d. $6,000
   e. None of the above

3. Referring to Question 1, John's adjusted basis for the property transferred to John is as follows.
   a. None/Zero
   b. $6,000
   c. $4,000
   d. $10,000
   e. None of the above

4. On January 1 of the current taxable year, Nice Corporation declared a dividend of cash which was payable to shareholders who owned Nice Corporation common stock on February 1 of the current taxable year. The dividend was payable on April 1 of the current taxable year. Mary died on January 15 of the current taxable year, and the executor of Mary’s estate received the dividend of $100 on April 1 of the current taxable year. The estate's ordinary gross income for the current taxable year with respect to the dividend is as follows.
   a. None/Zero
   b. $100
   c. Need additional information
   d. None of the above

5. During the current taxable year, Mary organized Fair Corporation, transferred all of Mary's sole proprietorship assets (with a fair market value of $200,000 and a total adjusted basis of $50,000, all appreciated assets) to Fair Corporation, and Mary received, from Fair Corporation, in exchange for the assets, all of Fair Corporation's issued and outstanding common shares. One category of assets which Mary transferred to Fair Corporation was accounts receivable, which Mary had received in the ordinary course of operating Mary’s sole proprietorship and with respect to which Mary had an adjusted basis of $10,000 and which had a fair market value of $15,000. Mary's ordinary gross income for the current taxable year with respect to the transfer of the accounts receivable to Fair Corporation is as follows.
   a. None/Zero
   b. $10,000
   c. $5,000
   d. $15,000
   e. None of the above
6. Referring to Question 5, Fair Corporation’s adjusted basis for the accounts receivable is as follows.
   a. None/Zero
   b. $10,000
   c. $5,000
   d. $15,000
   e. None of the above

7. Referring to Question 5, Fair Corporation had an adjusted basis for the accounts receivable of $40,000 and that the accounts receivable has a face value of $50,000 and that during the next taxable year, Fair Corporation collected the entire face amount of the accounts receivable ($50,000). Fair Corporation's ordinary gross income for the next taxable year with respect to the collection of the accounts receivable is as follows.
   a. None/Zero
   b. $10,000
   c. $50,000
   d. $5,000
   e. None of the above

8. John died on July 1 of the current taxable year. With respect to John's final taxable year (the current taxable year), John had no gross income and John had a short term capital loss carryover (from John's sales of securities in prior taxable years) of $50,000. During the first taxable year of John’s estate, the estate received $20,000 of short term capital gain gross income (from the estate's sales of securities) and $10,000 of dividends. John's estate's adjusted gross income for the estate's taxable year was $100,000. The estate's ordinary expense or ordinary loss deduction plus any personal exemption to which the estate is entitled for the estate’s first taxable year total is as follows.
   a. None/Zero
   b. $600
   c. $15,600
   d. $15,000
   e. None of the above

9. During the current taxable year, Beverly had a gross salary of $100,000 and Beverly paid a neighbor $5,000 to care for Rebecca, nine hours a day, five days a week, so that Beverly could work at Viva Corporation. During the current taxable year, Rebecca was ten years old. Beverly is entitled to a credit of less than $5,000 because of these expenditures by Beverly during the current taxable year.
   a. Yes/True
   b. No/False
   c. Need additional information
   d. None of the above

10. During the current taxable year, Peter had adjusted gross income of $100,000, without considering the following transactions and Peter made no election with respect to these facts. During the current taxable year, Peter made a charitable contribution of common shares which Peter had owned for 15 months, with an adjusted basis of $30,000 and a fair market value of $40,000. Peter's ordinary expense or ordinary loss deduction for the current taxable year with respect to the charitable contribution (considering all deduction limitations) is as follows.
    a. None/Zero
    b. $30,000
    c. $40,000
    d. $15,000
    e. None of the above

11. During the current taxable year, Peter had adjusted gross income of $100,000, without considering the following transactions and Peter made no election was made with respect to these facts. During the current taxable year, Peter made a charitable contribution of common shares which Peter had owned for two years, with an adjusted
basis of $10,000 and a fair market value $60,000. Peter's ordinary expense or ordinary loss deduction for the current taxable year with respect to the charitable contribution (considering all deduction limitations) is as follows.

a. None/Zero
b. $30,000
c. $50,000
d. $70,000
e. None of the above

12. During the current taxable year, Peter had adjusted gross income of $100,000, without considering the following transactions and Peter made no election with respect to these facts. During the current taxable year, Peter made a charitable contribution of Peter's rare toy electric train collection to the RailroadMuseum Corporation, under an agreement with the charitable organization, which agreement allowed Peter to keep the toy electric train collection until Peter died, which train collection had been owned by Peter for many years, and which train collection had an adjusted basis to Peter of $40,000, and which train collection had a fair market value of $70,000, and with respect to which the fair market value of Peter's life estate was $50,000, and with respect to which the fair market value of the remainder interest was $60,000. Peter's ordinary expense or ordinary loss deduction for the current taxable year with respect to the charitable contribution (considering all deduction limitations) is as follows.

a. None/Zero
b. $30,000
c. $50,000
d. $40,000
e. None of the above

13. During the current taxable year, Peter had adjusted gross income of $100,000, without considering the following transactions and Peter made no election with respect to these facts. During the current taxable year, Peter made a charitable contribution of common shares which Peter had owned for two months, with an adjusted basis of $50,000 and a fair market value of $30,000. Peter's ordinary expense or ordinary loss deduction for the current taxable year with respect to the charitable contribution (considering all deduction limitations) is as follows.

a. None/Zero
b. $20,000
c. $30,000
d. $50,000
e. None of the above

14. During the current taxable year, Peter had adjusted gross income of $100,000, without considering the following transactions and Peter made no election with respect to these facts. During the current taxable year, Peter made a charitable contribution of common shares which Peter had owned for two months, with an adjusted basis of $70,000 and a fair market value $80,000. Peter's charitable contribution carryover to next year (considering all deduction limitations) is as follows.

a. None/Zero
b. $20,000
c. $30,000
d. $10,000
e. None of the above

15. During the current taxable year, Peter borrowed, as an unsecured loan from a bank, $100,000, in order to invest in GoGo Corporation shares and in FooFoo Corporation shares. Peter kept the balance of the borrowed funds in a savings account. By the end of the current taxable year, Peter had paid interest on the debt of $7,000 and received dividends of $2,000 and interest of $2,000 and capital gains of $2,000. Peter wants to deduct all of the interest which Peter can during the current taxable year. Peter's ordinary expense or ordinary loss deduction (considering all deduction limitations) for interest for the current taxable year is as follows.

a. None/Zero
b. $4,000
c. $6,000
d. $7,000
e. None of the above

16. On January 1 of the current taxable year, Peter purchased a Courageous Corporation bond for $10,000 when the bond was issued. The bond matures on December 31 ten years from the bond's issue date, has a par value of $10,000, and has a stated interest rate of seven percent per year, which stated interest is paid each December 31. During the current taxable year, Peter received a check for the proper amount of the stated interest. Peter took all of the deductions (or gross income reductions) indicated by these facts, but Peter did not itemize Peter's deductions. Peter's gross income for the current taxable year is (approximately) as follows.
   a. None/Zero
   b. $700
   c. $1,400
d. $2,100
e. None of the above

17. Referring to Question 16, Peter owned the bond until the bond matured, at which time, Courageous Corporation redeemed the bond from Peter. Peter's gross income for the year in which the bond was redeemed with respect to the bond is (approximately) as follows.
   a. None/Zero
   b. $700
   c. $10,700
d. $10,000
e. None of the above

18. On January 1 of the current taxable year, Peter purchased a Sushi Corporation bond for $11,000 when the bond was issued. The bond matures on December 31 ten years from the bond's issue date, has a par value of $10,000, and has a stated interest rate of five percent per year, which stated interest is paid each December 31. During the current taxable year, Peter received a check for the proper amount of the stated interest. Peter took all of the deductions (or gross income reductions) indicated by these facts, but Peter did not itemize Peter's deductions. Peter's gross income for the current taxable year is (approximately) as follows.
   a. None/Zero
   b. $400
   c. $500
d. $100
e. None of the above

19. Referring to Question 18, Peter's adjusted basis for the bond at the beginning of the next taxable year is (approximately) as follows.
   a. None/Zero
   b. $11,000
c. $10,000
d. $10,900
e. None of the above

20. On January 1 of the current taxable year, Peter purchased a LoveyDovey Corporation bond for $8,000 when the bond was issued. The bond matures on December 31 ten years from the bond's issue date, has a par value of $10,000, and has a stated interest rate of eight percent per year, which stated interest is paid each December 31. During the current taxable year, Peter received a check for the proper amount of the stated interest. Peter took all of the deductions (or gross income reductions) indicated by these facts, but Peter did not itemize Peter's deductions. Peter's gross income for the current taxable year is (approximately) as follows.
   a. None/Zero
   b. $800
c. $640
21. Referring to Question 20, Peter's adjusted basis for the bond at the beginning of the next taxable year is (approximately) as follows.
   a. None/Zero
   b. $8,000
   c. $8,200
   d. $10,000
   e. None of the above

22. Referring to Question 20, Peter owned the bond until the bond matured, at which time, LoveyDovey Corporation redeemed the bond from Peter. Peter's gross income for the year in which the bond was redeemed with respect to the bond is (approximately) as follows.
   a. None/Zero
   b. $2,000
   c. $1,000
   d. $10,000
   e. None of the above

23. On January 1 of two taxable years ago, Peter purchased a Moogoogaipan Corporation bond for $20,000 when the bond was issued. The bond was to mature on December 31, ten years from the bond's issue date, had a par value of $20,000, and had a stated interest rate of ten percent per year, which stated interest was to be paid each December 31. From the date of Peter's acquisition of the bond through Peter's disposition of the bond (a period of three years), Peter has not received a payment for any of the interest with respect to the bond. On December 31 of the current taxable year, Peter sold the bond to Paul for $15,000. Peter took all of the deductions (or reductions, prior to gross income) indicated by these facts. Peter's long term capital loss for the current taxable year is as follows.
   a. None/Zero
   b. $5,000
   c. $9,000
   d. $11,000
   e. None of the above

24. On January 1 of the current taxable year, Peter purchased a GetALong Corporation bond for $10,000 when the bond was issued. The bond was to mature on December 31, ten years from the bond's issue date, had a par value of $10,000 and had a stated interest rate of six percent per year, which stated interest was to be paid each December 31. During the current taxable year, Peter did not receive a check for any of the stated interest and on January 15 of the next taxable year the bond became worthless. Peter took all of the deductions (or reductions, prior to gross income) indicated by these facts. Peter's long term capital loss for the next taxable year is as follows.
   a. None/Zero
   b. $600
   c. $10,000
   d. $10,600
   e. None of the above

25. On January 1 of the last taxable year, Peter purchased a HavingFun Corporation bond for $10,000 when the bond was issued. The bond was to mature on December 31, ten years from the bond's issue date, had a par value of $10,000, and had a stated interest rate of five percent per year, which stated interest was to be paid each December 31 and the interest was paid to Peter on December 31 of the last taxable year. On January 4 of the current taxable year, Peter sold the bond to Paul for $11,000. Peter's long term capital gain gross income for the current taxable year is (approximately) as follows.
   a. None/Zero
26. On December 1 of the current taxable year, Paul purchased a YourOk Corporation bond for $10,000 when the bond was issued. The bond was to mature on December 31, ten years from the bond's issue date, had a par value of $10,000, and had a stated interest rate of five percent per year, which stated interest was to be paid each December 31. During the current taxable year, Paul did not receive a check for any of the stated interest and the bond became worthless during January of next taxable year. Paul took all of the deductions (or reductions, prior to gross income) indicated by these facts. Paul's long term capital loss for the next taxable year is as follows.
   a. None/Zero
   b. $10,000
   c. $10,500
   d. $11,000
   e. None of the above

27. Paul made many purchases and sales of common shares over the LuckyStock Exchange as an investor for many years. During the current taxable year, Paul had capital gains of $5,000 and capital losses of $45,000. During each year for ten years prior to the current taxable year, Paul had capital gains of $5,000 and a gross salary of $100,000. For each year for 30 years after the current taxable year, Paul had capital gains of $5,000 and a gross salary of $100,000. Paul made all elections which were available to Paul and the current taxable year is 1997. The last taxable year (chronologically) during which Paul may deduct any part of Paul’s capital losses is as follows.
   a. None/Zero
   b. 1996
   c. 2001
   d. 2002
   e. None of the above

28. On January 1 of the current taxable year, Paul's mother gave John 1,000 common shares of CornedBeef&Cabbage Corporation. John's mother purchased the common shares four taxable years ago for a gross purchase price of $60,000 and John's mother also paid purchase expenses of $5,000. John's mother did not owe any gift taxes as a result of the gift. At the date of the gift, the common shares had a fair market value of $100,000. John held the common shares until April 1 of the current taxable year, at which time John sold the common shares to Paul for a gross sales price of $120,000. John paid selling expenses of $5,000. John's long term capital gain gross income for the current taxable year is as follows.
   a. None/Zero
   b. $20,000
   c. $15,000
   d. $50,000
   e. None of the above

29. Referring to Question 28, John sold the common shares to Paul for a gross sales price of $50,000 and John paid selling expenses of $5,000. John's long term capital loss for the current taxable year is as follows.
   a. None/Zero
   b. $50,000
   c. $20,000
   d. $55,000
   e. None of the above

30. On January 1 of the current taxable year, John's mother gave John 1,000 common shares of Starbuck Corporation. John's mother purchased the common shares for a gross purchase price of $60,000 and John's mother paid purchase expenses of $5,000 on November 10 of the last taxable year. At the date of the gift, the common shares
John held the common shares until April 1 of the current taxable year, at which time John sold the common shares to Paul for a gross sales price of $80,000. John also paid selling expenses of $5,000. John's long term capital gain gross income for the current taxable year is as follows.

a. None/Zero
b. $10,000
c. $15,000
d. $25,000
e. None of the above

31. Referring to Question 30, John had sold the common shares to Paul on April 1 of the current taxable year, for a gross sales price of $20,000 and that John paid selling expenses of $5,000. John's short term capital loss for the current taxable year is as follows.

a. None/Zero
b. $25,000
c. $45,000
d. $50,000
e. None of the above

32. Referring to Question 30, John sold the common shares to Paul for a gross sales price of $55,000 and John paid selling expenses of $5,000. John's short term capital loss for the current taxable year is as follows.

a. None/Zero
b. $5,000
c. $10,000
d. $15,000
e. None of the above

33. Mary died on January 1 of the current taxable year, owning 1,000 common shares of Starbuck Corporation. Mary paid a gross purchase price of $120,000 for the common shares in December of the last taxable year, and the common shares had a fair market value of $80,000 at Mary's death and $60,000 on July 1 of the current taxable year. The executor of Mary’s estate elected to use the date of death values for estate tax purposes, and on May 1 of the current taxable year, the executor sold the common shares to Paul, for a gross sales price of $65,000, and the executor paid selling expenses of $5,000, which selling expenses were elected to be utilized in determining the gain or loss on the federal fiduciary income tax return (IRS Form 1041), rather than being deducted on the federal estate tax return (IRS Form 706). The estate’s long term capital loss for the current taxable year is as follows.

a. None/Zero
b. $15,000
c. $20,000
d. $55,000
e. None of the above

34. Referring to Question 33, the executor of Mary’s estate elected to deduct the selling expenses on the estate's federal estate tax return (IRS Form 706), rather than utilizing the selling expenses in determining the gain or loss on the estate's federal fiduciary income tax return (IRS Form 1041). The estate’s long term capital loss for the current taxable year with respect to the sale of the common shares to Paul is as follows.

a. None/Zero
b. $15,000
c. $20,000
d. $55,000
e. None of the above

35. Referring to Question 33, the executor of Mary’s estate elected to use the alternate valuation dates. The estate’s long term capital loss for the current taxable year with respect to the sale of the common shares to Paul is as follows.
36. Mary died on January 1 of the current taxable year, owning 1,000 common shares of Starbuck Corporation. Mary paid $80,000 for the common shares in December of the last taxable year, and the common shares had a fair market value of $20,000 at Mary's death and $42,000 on July 1 of the current taxable year. The executor of Mary’s estate elected to use the date of death values for estate tax purposes. Mary's last will and testament devised $40,000 of cash to Paul, and on May 1 of the current taxable year, when the fair market value of the common shares was $40,000, the executor transferred the common shares to Paul, under an agreement under which Paul took the common shares in lieu of the cash devise. Mary’s estate’s long term capital gain for the current taxable year with respect to the transfer of the common shares to Paul is as follows.
   a. None/Zero
   b. $2,000
   c. $10,000
   d. $20,000
   e. None of the above

37. Two taxable years ago, John purchased some common shares for $40,000, and during the current taxable year, John sold the common shares to Sue for $50,000. John's long term capital gain gross income for the current taxable year is as follows.
   a. None/Zero
   b. $5,000
   c. $10,000
   d. $40,000
   e. None of the above

38. Referring to Question 37, John sold the common shares to Sue for $40,000. John's long term capital loss for the current taxable year is as follows.
   a. None/Zero
   b. $3,000
   c. $5,000
   d. $10,000
   e. None of the above

39. During the current taxable year, Mary died owning one whole (ordinary life) life insurance policy on Mary's life which had a face amount of $1,000,000 and which was payable, in lump sum, to Mary's estate. The life insurance policy had been purchased by Mary, during the current taxable year, for $100,000, from Zesty Corporation of which Mary was president and which corporation was a C corporation, and which corporation had purchased the life insurance policy several taxable years ago from the issuing life insurance company, and which life insurance policy was payable, prior to the sale to Mary, to Zesty Corporation. Mary promptly changed the beneficiary designation of the life insurance policy in order to make Mary's estate be the beneficiary. Initially, Zesty Corporation had purchased the life insurance policy for the benefit of Zesty Corporation, but then, when Mary decided to retire, Zesty Corporation sold the life insurance policy to Mary. Zesty Corporation had paid a total of $50,000 of premiums with respect to the life insurance policy, $5,000 of which was paid during the current taxable year, prior to the sale of the life insurance policy to Mary. Zesty Corporation capitalized each premium payment; that is, Zesty Corporation did not expense the premiums either for book purposes or for earnings and profit purposes. The Table 2001 cost with respect to the payment of the current taxable year's life insurance premium was $500. Zesty Corporation's gross income for the current taxable year with respect to the sale of the life insurance policy to Mary is as follows.
   a. None/Zero
   b. $50,000
40. Referring to Question 39, Zesty Corporation did not sell the life insurance policy to Mary, Mary died, and Zesty Corporation received $1,000,000 from the life insurance company due to the life insurance policy. Zesty Corporation's gross income with respect to the receipt of the life insurance proceeds policy, is as follows.
   a. None/Zero
   b. $950,000
   c. $955,000
   d. $1,000,000
   e. None of the above

41. Referring to Question 39, Zesty Corporation did not sell the life insurance policy to Mary, Mary died, and Zesty Corporation received, during the current taxable year, $1,000,000 from the life insurance company due to the life insurance policy. Zesty Corporation's net increase in earnings and profits for the current taxable year with respect to the receipt of the life insurance proceeds policy, is as follows.
   a. None/Zero
   b. $950,000
   c. $955,000
   d. $1,000,000
   e. None of the above

42. Referring to Question 39, Zesty Corporation's ordinary expense or ordinary loss deduction for the last taxable year with respect to the life insurance policy premium payment by Zesty Corporation is as follows.
   a. None/Zero
   b. $50,000
   c. $55,000
   d. $55,500
   e. None of the above

43. Referring to Question 39, Peter purchased the life insurance policy for $100,000 from Zesty Corporation, and that Peter promptly changed the beneficiary designation of the life insurance policy to be Peter, and that Peter paid one life insurance policy premium, of $5,000, with respect to the life insurance policy prior to Mary's death. Then, after all of this, Mary died during the current taxable year and Peter received the $1,000,000 of the life insurance policy's proceeds during the current taxable year. Peter's ordinary gross income for the current taxable year with respect to the receipt of the life insurance proceeds is as follows.
   a. None/Zero
   b. $900,000
   c. $895,000
   d. $995,000
   e. None of the above

44. Several taxable years ago, Mary acquired a whole (ordinary life) life insurance policy, as an owner, in the normal manner. The life insurance policy, with proceeds of $1,000,000, was payable to John, except as otherwise stated. Sable Corporation (which was Mary's employer) paid a total of $60,000 of premiums ($10,000 per year for six years, including the life insurance premium of the current taxable year, all of which Sable Corporation capitalized, rather than expensed, for book purposes and for earnings and profits purposes) with respect to the life insurance policy, which amount was the total amount paid as life insurance premiums with respect to the life insurance policy through the last taxable year. Mary had an agreement with Sable Corporation and with the life insurance company, which agreement provided that when Mary died, Sable Corporation would be repaid all of the premiums which Sable Corporation had paid on the life insurance policy and that this repayment would come from the proceeds of the life insurance policy. Thus, when Mary died during the current taxable year, Sable Corporation, received $60,000 of the life insurance proceeds and John received $940,000. The Table 2001 cost
(of the $10,000 life insurance premium which Sable Corporation paid the last taxable year) was $500. Mary's ordinary gross income for the last taxable year with respect to Sable Corporation's payment of the life insurance premium is as follows.

a. None/Zero  
b. $500  
c. $10,000  
d. $60,000  
e. None of the above

45. Referring to Question 44, Sable Corporation's ordinary expense or ordinary loss deduction for the last taxable year with respect to Sable Corporation's payment of the last taxable year's life insurance premium is as follows.

a. None/Zero  
b. $5,000  
c. $10,500  
d. $10,000  
e. None of the above

46. Referring to Question 44, Sable Corporation's gross income for the current taxable year with respect to the receipt of the $60,000 of life insurance proceeds is as follows.

a. None/Zero  
b. $60,000  
c. $10,000  
d. $10,500  
e. None of the above

47. Referring to Question 44, Sable Corporation paid, during the last taxable year, $9,500 of the last taxable year's life insurance premium and that Mary paid $500 of such life insurance premium, which latter amount which was equal to the Table 2001 cost. Also, Sable Corporation paid Mary a bonus, during the last taxable year, of $500 so that Mary could pay the Table 2001 cost. Mary's ordinary gross income for the last taxable year with respect to Sable Corporation's life insurance premium payment and Table 2001 cost and bonus payment is as follows.

a. None/Zero  
b. $500  
c. $9,500  
d. $10,000  
e. None of the above

48. Referring to Question 47, Sable Corporation's ordinary expense or ordinary loss deduction to Sable Corporation for the last taxable year is as follows.

a. None/Zero  
b. $500  
c. $9,500  
d. $10,000  
e. None of the above

49. During the current taxable year, Special Corporation paid a premium of $600 with respect to a group term life insurance policy which insured the life of John, an employee of Special Corporation, which policy was owned by John, and which policy was payable to John's estate as the beneficiary, with a face amount of $60,000. Special Corporation's ordinary expense or ordinary loss deduction for the current taxable year with respect to the payment of the life insurance premium is as follows.

a. None/Zero  
b. $60  
c. $600  
d. $60,000  
e. None of the above
50. John had a gross salary of $60,000 during the current taxable year and John was covered by John's corporate employer's qualified retirement fund, which ChewChew Corporation maintained for John. Mary was not employed, but worked at home to maintain John's and Mary's home. Mary had a basic individual retirement account which Mary established for Mary. Mary may contribute to Mary's basic individual retirement account and deduct for income tax purposes the following amount.
   a. None/Zero
   b. $1,000
   c. $3,000
   d. $4,000
   e. None of the above

51. During the current taxable year, Paul was employed by Grits Corporation at an annual gross salary of $40,000 and Paul established a Roth individual retirement account and contributed $2,000 to the individual retirement account. Neither Paul nor Grits Corporation made any other contribution to any retirement account with respect to Paul. During the current taxable year, the earnings in Paul's individual retirement account were $800. Paul's ordinary expense or ordinary loss deduction for the current taxable year is as follows.
   a. None/Zero
   b. $800
   c. $1,000
   d. $2,000
   e. None of the above

52. John, age 40, who had a gross salary of $250,000 during each of several prior years and during the current taxable year, retired during the current taxable year, due to a permanent disability which prevented John from working any more, from PastaAndRedWine Corporation and withdrew $30,000, during the current taxable year, from John's corporate employer's qualified retirement fund, which PastaAndRedWine Corporation maintained for John. John's retirement fund, to which John had not made any contribution, had a fair market value of $600,000 when John retired and the withdrawn amount was computed by a qualified actuary to be the correct amount. John's gross income for the current taxable year is as follows.
   a. None/Zero
   b. $30,000
   c. $250,000
   d. $280,000
   e. None of the above

53. On April 1 of the current taxable year, Paul was employed by Sauerkraut Corporation at an annual gross salary of $50,000 and Paul needed money in order to purchase a house, and thus, Paul withdrew $70,000 from Paul's basic individual retirement account which was maintained for Paul at a bank and which was contributed to solely by Paul and Paul deducted all of Paul's contributions to the basic individual retirement account. Paul did not have any other retirement plan during the current taxable year. Paul had never had an interest in a residence (house and land) before. Paul's gross income for the current taxable year is as follows.
   a. None/Zero
   b. $50,000
   c. $120,000
   d. $170,000
   e. None of the above

54. On April 1 of the current taxable year, Beverly was employed by DoingWell Corporation at gross salary of $50,000 and Beverly needed money in order to pay $20,000 for Rebecca's college tuition. The college required the tuition to be paid for both the first and second semesters. Thus, Beverly told the trustee of Beverly's basic individual retirement account to distribute $20,000 from the account to Beverly. Beverly was the sole contributor to the basic individual retirement account and all of Beverley's contributions were deductible to Beverly. Beverley paid the tuition during the current taxable year. Beverly's gross income for the current taxable year is as follows.
a. None/Zero  
b. $20,000  
c. $50,000  
d. $70,000  
e. None of the above

55. During April of the current taxable year, Mary died as an employee of Superman Corporation, which had established a qualified retirement plan for Mary. The beneficiary of Mary's corporate qualified retirement plan was John and John was entitled to receive a lump sum distribution under the retirement plan of $300,000 or to rollover the amount (of $300,000). The fund consisted of $200,000 of Superman Corporation contributions and $100,000 of earnings thereon. After John was notified with respect to the amount of the distribution and John’s rights with respect to the distribution, John promptly established a basic individual retirement account in John's name and told the trustee of Mary’s retirement fund to distribute the funds to the trustee of John's basic individual retirement account, which the trustee did. John did not have any other retirement plan during the current taxable year.  
John's gross income for the current taxable year is as follows.

a. None/Zero  
b. $100,000  
c. $200,000  
d. $300,000  
e. None of the above

56. During April of the current taxable year, Beverly died. The beneficiary of Beverly's corporate qualified retirement plan was Rebecca and Rebecca was entitled to receive a lump sum distribution under the retirement plan of $500,000. Beverly did not make any contribution to the retirement plan trust, only StraightArrow Corporation did. At Beverly’s death, the fund consisted of $300,000 of employer contributions and $200,000 of earnings thereon. However, Rebecca, who had no other income during the current taxable year, and who had no prior retirement fund promptly established a basic individual retirement account in Rebecca's name, but Rebecca did not make a contribution to the basic individual retirement account at that time and Rebecca told the trustee of Beverly's retirement fund to distribute the funds to the trustee of Rebecca's basic individual retirement account, which the trustee did. Rebecca made no other election with respect to the distribution, other than depositing the funds in the individual retirement account. Rebecca's gross income for the current taxable year is as follows.

a. None/Zero  
b. $200,000  
c. $300,000  
d. $500,000  
e. None of the above

57. During the current taxable year, John was a beneficiary of an irrevocable trust which was established by John's father several taxable years ago, and during the current taxable year the trust had the following financial information. All of the gains and losses from the sales of assets were attributable to the principal of the trust. All of the other receipts and expenses were attributable to the net income of the trust. The trustee (which was the State Bank of Indianapolis) was the sole trustee and the trustee was required to distribute to John, each year, all of the trust's net book income, during John's life, which the trustee did, and then, at John's death, to distribute the remaining funds to Mary.

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividends received</td>
<td>20,000</td>
</tr>
<tr>
<td>Interest received from Bank of Indiana</td>
<td>20,000</td>
</tr>
<tr>
<td>Capital gains</td>
<td>20,000</td>
</tr>
<tr>
<td>Capital losses</td>
<td>2,000</td>
</tr>
<tr>
<td>Administrative expenses attributable to book income</td>
<td>2,000</td>
</tr>
</tbody>
</table>
John's gross income for the current taxable year is as follows.

- a. None/Zero
- b. $38,000
- c. $16,000
- d. $56,000
- e. None of the above

58. Referring to Question 57, the trustee's taxable income for the current taxable year is as follows.

- a. None/Zero
- b. $38,000
- c. $37,700
- d. $17,700
- e. None of the above

59. Alan died on July 1 of the current taxable year and the executor of Alan's estate assembled the following information about Alan’s final taxable year: Alan had earned and received $10,000 of fees and Alan had earned, but not actually or constructively received by Alan, fees of $15,000. Also, the executor assembled the following information about the estate’s first taxable year: received Alan’s fees of $15,000 and received dividends of $10,000 not actually or constructive received or accrued by Alan. Alan's gross income for the current taxable year is as follows.

- a. None/Zero
- b. $10,000
- c. $15,000
- d. $25,000
- e. None of the above

60. During the current taxable year, John established a revocable trust and transferred all of John's assets to Paul, who was the trustee of the trust. Under the terms of the trust, the trustee was required to distribute all of the trust’s net book income, including, ordinary income and capital gains to Peter. During the current taxable year, the trustee had dividends of $20,000 and long term capital gain gross income of $20,000, deductible long term capital loss of $1,000 and the trustee paid the trustee a fee of $2,000. Therefore, the trustee distributed $37,000 to Peter. John’s gross income for the current taxable year is as follows.

- a. None/Zero
- b. $40,000
- c. $39,000
- d. $37,000
- e. None of the above

61. During the current taxable year, John was a beneficiary of an irrevocable trust which was established by John's father several taxable years ago, and during the current taxable year the trust had the following financial information. All of the gains and losses from the sales of assets were attributable to the principal of the trust. All of the other receipts and expenses were attributable to the net income of the trust. The trustee (which was the State Bank of Indianapolis) was the sole trustee and the trustee was required to distribute to John for the current taxable year the specific amount of $150,000 from the trust's principal (which was over $2,000,000) and the trustee was required to accumulate the net book income, along with the gains and losses from the sales of assets. Upon John's death, all of the remaining funds in the trust were to be distributed to Mary.

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividends received</td>
<td>25,000</td>
</tr>
<tr>
<td>Interest received from Bank of Indiana</td>
<td>25,000</td>
</tr>
<tr>
<td>Capital gains</td>
<td>25,000</td>
</tr>
<tr>
<td>Capital losses</td>
<td>8,000</td>
</tr>
</tbody>
</table>
John's gross income for the current taxable year is as follows.

a. None/Zero
b. $150,000
c. $134,000
d. $142,000
e. None of the above

During the current taxable year, Paul had a net profit from Paul's sole proprietorship of $50,000, after taking into account all deductions. Paul's federal self-employment tax (social security taxes and medicare taxes), with respect to Paul's net income, which is payable for the current taxable year is as follows.

a. None/Zero
b. $7,350
c. $3,825
d. $7,065
e. None of the above

Referring to Question 62, Paul paid a salary of $20,000 to Beverly during the current taxable year. Beverly’s share of federal employment taxes (social security taxes and medicare taxes), with respect to Beverly, for the current taxable year is as follows.

a. None/Zero
b. $1,530
c. $765
d. $3,060
e. None of the above

During the current taxable year, Mary, who was president of Winner College and who received a gross salary of $50,000, was asked, by the college's board of trustees, to attend the class reunion of the class of 1960 in Dallas, Texas. Mary was told that all of Mary's reasonable expenses for the trip would be reimbursed. However, Mary was told that if Mary took John, who worked for the LollyGag Corporation for gross salary of $50,000, then Mary would not be reimbursed for John's expenses. Nevertheless, John went with Mary so that Mary would feel more comfortable during the various social functions, which were attended mostly by married couples. Thus, Mary was reimbursed by Winner College for a total of $2,000 of reasonable travel ($1,500 for lodging expenses and $500 for meal and business entertainment expenses, all of which were Mary's). John's travel expenses were $2,000, $500 of which were for meals of John. John paid for all of John's expenses. Mary's and John's gross income for the current taxable year is as follows.

a. None/Zero
b. $100,000
c. $101,000
d. $102,000
e. None of the above

During the current taxable year, Paul received a salary of $100,000 from SoleFood Corporation and received $20,000 of dividends from SoleFood Corporation. Also, Paul paid the following expenses during the current taxable year.

<table>
<thead>
<tr>
<th>Payment</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office rent for employment</td>
<td>10,000</td>
</tr>
<tr>
<td>Publications for share and bond investments, $2,000 of which</td>
<td>3,000</td>
</tr>
<tr>
<td>was reimbursed by Paul's employer</td>
<td></td>
</tr>
<tr>
<td>Income tax return preparation fee - personal portion</td>
<td>500</td>
</tr>
<tr>
<td>Income tax return preparation fee - business portion</td>
<td>500</td>
</tr>
</tbody>
</table>
Paul's gross income for the current taxable year with respect to these facts (considering all deduction limitations) is as follows.

a. None/Zero
b. $124,000
c. $120,000
d. $122,000
e. None of the above

66. Paul was an employee and vice-president of HippityHoppity Corporation, which manufactured bird feeders, owl boxes, bat boxes, bee hive supers, etc., 24 hours per day, and Paul generally worked during the day, but Paul was on call for solving problems 24 hours per day.

a. During the current taxable year, the in-house corporate lawyer for HippityHoppity Corporation drafted Paul’s last will and testament for no charge. The in-house counsel regularly did this type of drafting for employees of HippityHoppity Corporation, without any charge to the employee, as a fringe benefit to the employees. Had Paul had this drafting done by a lawyer on the outside, Paul would have been charged $500.

b. During the current taxable year, Paul purchased numerous items from HippityHoppity Corporation's inventory, for use in Paul's forest and animal preserve, and, whenever Paul purchased such merchandise, Paul was allowed to purchase the merchandise at a discount. The retail price of the items which Paul purchased during the current taxable year was $3,000. The cost of the items that Paul purchased from HippityHoppity Corporation was $1,200. HippityHoppity Corporation maintains an across-the-board gross profit percentage of 40%. However, Paul was allowed to purchase the items for only $600, an 80% discount, but only because Paul was a vice-president of HippityHoppity Corporation.

c. During the current taxable year, Paul (as could any other employee) could use HippityHoppity Corporation's gym (in the basement of HippityHoppity Corporation's office building), free of charge, to work out on Monday through Thursday, each week. Had Paul joined a similar athletic/sports club in the city in which HippityHoppity Corporation's office building was located, Paul would have paid an annual membership fee of $1,000.

d. During the current taxable year, because of the many problems which occurred during days and nights, Paul was required, as a condition of Paul’s employment, to live at HippityHoppity Corporation's office building for six days each week. Paul was furnished both meals and lodging for this purpose, which meals had a fair market value of $7,000 and which lodging had a fair market value of $15,000 for the current taxable year.

e. During the current taxable year, HippityHoppity Corporation paid all of the medical insurance premiums which were attributable to Paul's medical insurance, which medical insurance was part of a corporate medical reimbursement plan for all employees. The total of the premium payments was $2,000.

Paul’s gross income for the current taxable year is as follows.

a. None/Zero
b. $500
c. $600
d. $1,100
e. None of the above

67. During the current taxable year, Paul was an employee and vice-president of TipToe Corporation, which
manufactured sailboats and because Paul did such a great job as an employee, Paul was allowed to purchase, during the current taxable year, 100 shares of common stock of TipToe Corporation for $100 per share at a time when the common shares were selling for $500. The only restrictions with respect to the common shares was that Paul could not transfer the common shares to any person for the five-year period following the transfer of the common shares to Paul and that if Paul terminated Paul's employment with TipToe Corporation for any reason during the five-year period, Paul had to transfer (return) the common shares to TipToe Corporation for $100 per share. During the first day of the first taxable year after the five-year period, the common shares had a fair market value of $800 per share. Paul wishes to report as little gross income as Paul may during the current taxable year. Paul’s gross income for the current taxable year is as follows.

a. None/Zero
b. $50,000
c. $40,000
d. $20,000
e. None of the above

68. Two taxable years ago, KnockThemDead Corporation gave Paul an incentive stock option which allowed Paul the right to purchase 100 common shares of KnockThemDead Corporation for $100 per share, which was the current fair market value of the common shares at the time when Paul was granted the option. During January of the current taxable year, Paul's employer, KnockThemDead Corporation, when each common share had a fair market value of $150, Paul exercised Paul's option and purchased the 100 common shares. Paul had the right to sell the common shares at any time after two years after Paul exercised of the option. Paul’s gross income for the taxable year two taxable years ago is as follows.

a. None/Zero
b. $9,000
c. $10,000
d. $5,000
e. None of the above

69. Referring to Question 68, might the exercise of Paul's stock option subject Paul to the alternative minimum tax?

a. Yes/True
b. No/False
c. Need additional information
d. None of the above

70. Paul was an employee and vice-president of TapALittleTune Corporation, which manufactured sailboats and because Paul did such a great job as an employee, Paul was granted, during the current taxable year, the right, by TapALittleTune Corporation, to purchase 100 shares of common stock of TapALittleTune Corporation for $100 per share, at any time during the next five (5) years, which Paul did, during the next taxable year. The option was not part of an incentive stock option plan and the option had no readily ascertainable value and the only restrictions with respect to the option was that Paul could not transfer the option to any other person and the only restriction with respect to the common shares was that Paul could not transfer the common shares to any person for the five-year period following the transfer of the common shares to Paul. During the next taxable year when Paul exercised the option and acquired the common shares, the common shares had a fair market value of $1,000 per share, free of all restrictions. During the first day of the first taxable year after the five-year period, the common shares had a fair market value of $1,500 per share. Paul wishes to report as little gross income as Paul may during the current taxable year and during the next taxable year. Paul’s gross income for the current taxable year is as follows.

a. None/Zero
b. $10,000
c. $9,000
d. $1,000
e. None of the above

71. During the current taxable year, Peter owned all of the following assets and Peter transferred the assets to Recycle
Corporation, a newly organized corporation for this purpose, and which corporation will be a C corporation. In return for the transfer of these assets, Recycle Corporation issued 600 common shares of Recycle Corporation to Peter. Also, Recycle Corporation issued 300 common shares to Paul in return for Paul's transfer to Recycle Corporation of some vacant land, with an adjusted basis of $5,000 to Paul and with a fair market value of $30,000. In addition, Recycle Corporation issued 100 common shares to Paul because of services which Paul rendered to organize Recycle Corporation. Thus, Peter and Paul will be the only initial shareholders of Recycle Corporation, with Peter owning 600 common shares and Paul owning 400 common shares. Peter has owned the accounts receivable and inventory for less than two months, but Peter has owned the other assets (except for the cash) for more than two years. Peter has estimated the amount of Peter's goodwill, and Paul and Recycle Corporation accept the estimate. Peter has taken $15,000 of depreciation deductions with respect to the equipment.

<table>
<thead>
<tr>
<th>Asset</th>
<th>Adjusted Basis</th>
<th>Fair Market Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>5,000</td>
<td>5,000</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>2,000</td>
<td>5,000</td>
</tr>
<tr>
<td>Inventory</td>
<td>3,000</td>
<td>20,000</td>
</tr>
<tr>
<td>Equipment</td>
<td>25,000</td>
<td>20,000</td>
</tr>
<tr>
<td>Goodwill</td>
<td>0</td>
<td>10,000</td>
</tr>
</tbody>
</table>

The total amount of Peter's and Paul's gross income for the current taxable year as a result of the incorporation is as follows.

a. None/Zero   
b. $10,000   
c. $30,000   
d. $5,000   
e. None of the above

72. Referring to Question 71, Peter's adjusted basis for the common shares which Peter received is as follows.

a. None/Zero   
b. $15,000   
c. $25,000   
d. $35,000   
e. None of the above

73. Referring to Question 71, Recycle Corporation's adjusted basis for the goodwill which Peter transferred to Recycle Corporation is as follows.

a. None/Zero   
b. $15,000   
c. $25,000   
d. $35,000   
e. None of the above

74. Referring to Question 71, Paul's adjusted basis for the common shares which Paul received for the land is as follows.

a. None/Zero   
b. $5,000   
c. $10,000   
d. $15,000   
e. None of the above

75. Referring to Question 71, Paul's adjusted basis for the common shares which Paul received for Paul's services is as follows.
76. During the last taxable year, Paul operated a business as a sole proprietor and during the last taxable year, Paul had the following income and deductions.

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividends</td>
<td>10,000</td>
</tr>
<tr>
<td>Indiana Bank savings account interest</td>
<td>1,000</td>
</tr>
<tr>
<td>State of Nevada bond interest</td>
<td>1,000</td>
</tr>
<tr>
<td>Sales of merchandise</td>
<td>300,000</td>
</tr>
<tr>
<td>Long term capital gains</td>
<td>20,000</td>
</tr>
<tr>
<td>Cost of goods sold</td>
<td>100,000</td>
</tr>
<tr>
<td>Short term capital gains</td>
<td>10,000</td>
</tr>
<tr>
<td>Business expenses</td>
<td>20,000</td>
</tr>
<tr>
<td>Investment periodicals</td>
<td>500</td>
</tr>
<tr>
<td>Charitable contributions of cash</td>
<td>2,000</td>
</tr>
<tr>
<td>Unreimbursed medical expenses</td>
<td>1,000</td>
</tr>
<tr>
<td>Business casualty loss</td>
<td>1,000</td>
</tr>
<tr>
<td>Income tax return preparation fee</td>
<td>1,000</td>
</tr>
<tr>
<td>Personal casualty loss</td>
<td>500</td>
</tr>
</tbody>
</table>

Paul’s gross income for the last taxable year is as follows.

a. None/Zero
b. $10,000
c. $9,000
d. $30,000
e. None of the above

77. During the current taxable year, Beverly was the sole shareholder of Chuckle Corporation, which was a C corporation, and which corporation was organized by Beverly on July 1 of the current taxable year. During Chuckle Corporation’s first taxable period (the short period of July 1 through December 31), Chuckle Corporation borrowed $50,000, had no receipts and had a net loss of $20,000. Also, during such first taxable period, Chuckle Corporation distributed to Beverly, as a shareholder, cash of $40,000. Beverly’s adjusted basis for Beverly’s common shares at the beginning of the short taxable period was $30,000. Beverly’s gross income for the current taxable year is as follows.

a. None/Zero
b. $10,000
c. $20,000
d. $30,000
e. None of the above

78. Charming Corporation was organized ten taxable years ago and during the current taxable year, Charming
Corporation was a C corporation with the following financial information. Charming Corporation used the accrual method of accounting as its accounting method, and, at the beginning of the current taxable year, Charming Corporation had $500,000 of accumulated earnings and profits. Beverly was the sole shareholder of Charming Corporation and Beverly's adjusted basis for Beverly's shares was $50,000 at the beginning of the current taxable year. Other financial information about Charming Corporation for the current taxable year is as follows.

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales of inventory</td>
<td>3,000,000</td>
</tr>
<tr>
<td>Dividends from other domestic, nonaffiliated, C corporations</td>
<td>200,000</td>
</tr>
<tr>
<td>Interest from Bank of Indiana</td>
<td>100,000</td>
</tr>
<tr>
<td>State of New York bond interest</td>
<td>100,000</td>
</tr>
<tr>
<td>Cost of goods sold</td>
<td>1,000,000</td>
</tr>
<tr>
<td>Compensation accrued to Charming Corporation and paid to Beverly, which includes $5,000 of unreasonable compensation</td>
<td>200,000</td>
</tr>
<tr>
<td>Federal income taxes</td>
<td>600,000</td>
</tr>
<tr>
<td>Other expenses</td>
<td>200,000</td>
</tr>
<tr>
<td>Total cash distributions to Beverly, as a shareholder</td>
<td>200,000</td>
</tr>
</tbody>
</table>

Charming Corporation's gross income for the current taxable year is as follows.

a. None/Zero
b. $3,300,000
c. $2,300,000
d. $2,100,000
e. None of the above

79. Referring to Question 78, Charming Corporation had gross income of $4,000,000 for the current taxable year. Charming Corporation's taxable income for the current taxable year is as follows.

a. None/Zero
b. $3,405,000
c. $3,605,000
d. $3,465,000
e. None of the above

80. Referring to Question 78, Charming Corporation had taxable income of $1,200,000 for the last taxable year. Charming Corporation's income tax (prior to any credit) for the current taxable year is as follows.

a. None/Zero
b. $408,000
c. $446,250
d. $374,000
e. None of the above

81. Referring to Question 78, Charming Corporation had taxable income of $65,000 for the current taxable year. Charming Corporation's income tax (prior to any credit) for the current taxable year is as follows.

a. None/Zero
b. $22,100
c. $11,250
d. $9,750
e. None of the above
82. Referring to Question 78, Beverly's adjusted basis for Beverly's shares in Charming Corporation at the end of the current taxable year is as follows.
   a. None/Zero
   b. $50,000
   c. $200,000
   d. $250,000
   e. None of the above

83. During the current taxable year, Smart Corporation, which was a manufacturing corporation and a C corporation, had $2,000,000 of accumulated earnings and profits. The highest amount of accumulated earnings tax which Smart Corporation might owe for the current taxable year is as follows.
   a. None/Zero
   b. $350,000
   c. $262,500
   d. $200,000
   e. None of the above

84. During the current taxable year, John was the sole owner (as John had been for several years) of the common shares (which was the only issued and outstanding shares) in Apple Corporation, which corporation had elected income tax treatment under Subchapter S during Apple Corporation's first taxable year. At the beginning of the current taxable year, the adjusted basis for John's shares was $10,000. John worked for Apple Corporation. In addition to the data which is stated below, John had salary of $20,000 from Apple Corporation and Mary had salary of $100,000 from ZoomZoom Corporation. Also, during the current taxable year, Apple Corporation had gross receipts of $350,000, cost of goods sold of $50,000, taxable interest income of $5,000, and operational expenses of $100,000 (which amount includes all paid salaries). Also, during the current taxable year, Apple Corporation distributed $20,000 to John with respect to John's common shares. John's and Mary's gross income for the current taxable year is as follows.
   a. None/Zero
   b. $335,000
   c. $325,000
   d. $345,000
   e. None of the above

85. Referring to Question 84, John's adjusted basis for John's common shares at the end of the current taxable year is as follows.
   a. None/Zero
   b. $205,000
   c. $195,000
   d. $215,000
   e. None of the above

86. Referring to Question 84, John did not work for Apple Corporation and John did not receive a salary from Apple Corporation and Apple Corporation's total operational expenses was $315,000. John's and Mary's gross income for the current taxable year is as follows.
   a. None/Zero
   b. $105,000
   c. $110,000
   d. $130,000
   e. None of the above

87. Referring to Question 86, John's adjusted basis for John's common shares at the end of the current taxable year is as follows.
   a. None/Zero
88. During the current taxable year, Beverly was the sole shareholder in four corporations (Winter Corporation, Spring Corporation, Summer Corporation, and Fall Corporation). Winter Corporation and Spring Corporation and Summer Corporation were S corporations. Fall Corporation was a C corporation. Beverly had an adjusted basis for the common shares which Beverly owned in each of the four corporations of $100,000 ($100,000 per corporation).

a. With respect to Winter Corporation, Beverly worked for Winter Corporation and received a gross salary from Winter Corporation of $20,000. During the current taxable year, Winter Corporation sold computers and had a net profit of $100,000 (after deducting Beverly's gross salary).

b. With respect to Spring Corporation, Beverly did not work for Spring Corporation and did not receive a salary from Spring Corporation. During the current taxable year, Spring Corporation sold porch furniture and had a net profit of $100,000.

c. With respect to Summer Corporation, Beverly did not work for Summer Corporation and did not receive a salary from Summer Corporation. During the current taxable year, Summer Corporation sold and repaired bicycles and had a net loss of $100,000.

d. With respect to Fall Corporation, Beverly worked for Fall Corporation and received a gross salary from Fall Corporation of $20,000. During the current taxable year, Fall Corporation had earnings and profits of $200,000 distributed $10,000 to Beverly with respect to Beverly's shares.

Beverly's gross income for the current taxable year is as follows.

a. None/Zero
b. $240,000
c. $250,000
d. $150,000
e. None of the above

89. Referring to Question 88, Beverly's adjusted gross income for the current taxable year is as follows.

a. None/Zero
b. $240,000
c. $250,000
d. $150,000
e. None of the above

90. Referring to Question 88, Beverly's adjusted basis for Beverly's common shares in Winter Corporation at the end of the current taxable year is as follows.

a. None/Zero
b. $100,000
c. $200,000
d. $220,000
e. None of the above

91. Referring to Question 88, Beverly's adjusted basis for Beverly's common shares in Spring Corporation at the end of the current taxable year is as follows.

a. None/Zero
b. $100,000
c. $200,000
d. $50,000
92. Referring to Question 88, Beverly's adjusted basis for Beverly's common shares in Summer Corporation at the end of the current taxable year is as follows.
   a. None/Zero
   b. $100,000
   c. $200,000
   d. $50,000
   e. None of the above

93. Referring to Question 88, Beverly's adjusted basis for the common shares in Fall Corporation at the end of the current taxable year is as follows.
   a. None/Zero
   b. $100,000
   c. $110,000
   d. $130,000
   e. None of the above

94. Throughout the current taxable year, Peter owned a ten percent equity interest in AllMostOver, LLC, which limited liability company had net earnings for the year of $200,000. Peter's gross income for the current taxable year is as follows.
   a. None/Zero
   b. $2,000
   c. $20,000
   d. $200,000
   e. None of the above

95. During the current taxable year, HaveSomeFun Corporation operated a business which provided, for rent, men and/or women who performed lewd dances and many other erotic forms of entertainment, ten to 20 dancers at a time, for very, very private parties of men and women. Such dancing and other activities for pay were outlawed by all state and local laws and ordinances, but, nevertheless, the dancers were very popular and well-liked in town, and, thus, during the current taxable year, HaveSomeFun Corporation received $500,000 of fees from the business and HaveSomeFun Corporation paid, in order to operate the business, the following expenses.

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rent for office</td>
<td>20,000</td>
</tr>
<tr>
<td>Rent for taxies and limousines</td>
<td>20,000</td>
</tr>
<tr>
<td>Traffic tickets, generally, as a result of exciting &quot;getaways&quot;</td>
<td>20,000</td>
</tr>
<tr>
<td>Lawyer fees to represent HaveSomeFun Corporation and the dancers in criminal court cases which resulted from such dancing and other activities</td>
<td>20,000</td>
</tr>
<tr>
<td>Accounting fees</td>
<td>20,000</td>
</tr>
<tr>
<td>Criminal fines</td>
<td>20,000</td>
</tr>
<tr>
<td>Bribes to various public officials</td>
<td>20,000</td>
</tr>
<tr>
<td>Telephone</td>
<td>20,000</td>
</tr>
<tr>
<td>Utilities</td>
<td>20,000</td>
</tr>
<tr>
<td>Fees paid to dancers</td>
<td>20,000</td>
</tr>
</tbody>
</table>

HaveSomeFun Corporation's gross income for the current taxable year is as follows.
96. Referring to Question 95, HaveSomeFun Corporation's taxable income for the current taxable year is as follows.
   a. None/Zero
   b. $380,000
   c. $500,000
   d. $300,000
   e. None of the above

97. On July 5 of the current taxable year, Paul sold 100 common shares of the Woodchuck Corporation for $40,000. Paul received the 100 common shares, as a share dividend, on January 2 of the current taxable year when these (new) common shares had a total fair market value of $30,000. The share dividend was a 100% share dividend of common shares with respect to 100 common shares and the new common shares had the same terms as the original common shares and Paul was not granted any election with respect to the receipt of such share dividend. Paul had purchased the original common shares four taxable years ago for $10,000. Paul’s gross income for the current taxable year with respect to the share dividend is as follows.
   a. None/Zero
   b. $30,000
   c. $10,000
   d. $40,000
   e. None of the above

98. Referring to Question 97, Paul's long term capital gain gross income for the current taxable year with respect to the sale of the new common shares is as follows.
   a. None/Zero
   b. $35,000
   c. $30,000
   d. $10,000
   e. None of the above

99. On July 5 of the current taxable year, Paul sold 200 common shares of Wood Corporation for $40,000. Paul received the 200 common shares on October 1 of the last taxable year when these (new) common shares had a total fair market value of $20,000. The dividend was a 100% share dividend of common shares on 200 common shares and the new common shares had the same terms as the original common shares. However, just prior to the distribution of the new common shares to Paul, Paul had an election to either receive such share dividend or to receive $20,000 of cash, and Paul chose to receive the share dividend. Paul purchased the original common shares five taxable years ago for $20,000. Paul's gross income for the last taxable year with respect to the share dividend is as follows.
   a. None/Zero
   b. $20,000
   c. $10,000
   d. $40,000
   e. None of the above

100. Referring to Question 99, Paul's short term capital gain gross income for the current taxable year with respect to the sale of the new common shares is as follows.
   a. None/Zero
   b. $20,000
   c. $10,000
   d. $40,000
101. On May 5 of the current taxable year, Paul sold 100 common shares of DoingFine Corporation for $10,000. Paul received 200 common shares (which included the 100 common shares which Paul sold) on November 10 of the last taxable year as a two for one stock split, when DoingFine Corporation required Paul to turn in (to DoingFine Corporation) 100 common shares which Paul then owned in DoingFine Corporation in return for the 200 new common shares in DoingFine Corporation. The 100 common shares which Paul initially owned were purchased on February 9, two taxable years ago, by Paul for $10,000. The fair market value of the 200 new common shares which Paul received on November 10 of the last taxable year was $20,000. Paul's gross income for the last taxable year with respect to the share split is as follows.
   a. None/Zero
   b. $5,000
   c. $10,000
   d. $20,000
   e. None of the above

102. Referring to Question 101, Paul's long term capital gain gross income for the current taxable year with respect to the sale of the new common shares is as follows.
   a. None/Zero
   b. $10,000
   c. $5,000
   d. $15,000
   e. None of the above

103. During the current taxable year, John sold 100 common shares of YaHoo Corporation for $50,000, which John had purchased two taxable years ago for $75,000 as an investment. The common shares were qualified as section 1244 stock. John's ordinary expense or ordinary loss deduction (considering all deduction limitations) for the current taxable year is as follows.
   a. None/Zero
   b. $25,000
   c. $3,000
   d. Need additional information
   e. None of the above

104. Referring to Question 103, John sold the common shares for $115,000. John's ordinary gross income for the current taxable year is as follows.
   a. None/Zero
   b. $50,000
   c. $25,000
   d. Need additional information
   e. None of the above

105. During the current taxable year, all of John's common shares of Nice Corporation, which John had purchased two taxable years ago for $20,000, became worthless. The common shares were qualified as section 1244 stock. John's long term capital loss for the current taxable year is as follows.
   a. None/Zero
   b. $3,000
   c. $20,000
   d. Need additional information
   e. None of the above

106. Six taxable years ago, Paul purchased some common shares for $100,000 which qualified for treatment under section 1202. During the current taxable year, Paul sold the common shares for $150,000. Paul's long term capital gain gross income for the current taxable year is as follows.
107. Referring to Question 106, Paul sold the common shares for $50,000. Paul's long term capital loss for the current taxable year is as follows.
   a. None/Zero
   b. $25,000
   c. $50,000
   d. Need additional information
   e. None of the above

108. On December 10 of the current taxable year, Mary sold 100 common shares of Friendly Corporation for $125,000. Mary had purchased the common shares many taxable years ago for $100,000. In addition to the sale of the Friendly Corporation common shares, Mary had a gross salary of $200,000. On January 2 of the next taxable year, Mary purchased 100 common shares of Friendly Corporation for $120,000. Mary's gross income for the current taxable year is as follows.
   a. None/Zero
   b. $25,000
   c. $200,000
   d. $225,000
   e. None of the above

109. On December 10 of the current taxable year, Mary sold 100 common shares of Friendly Corporation for $200,000. Mary had purchased the common shares ten taxable years ago for $225,000. In addition to the sale of the Friendly Corporation common shares, Mary had a gross salary of $200,000 for the current taxable year. Then, on January 5 of the next taxable year, Mary purchased 100 common shares of Friendly Corporation for $230,000. Mary's and John's adjusted gross income for the current taxable year is as follows.
   a. None/Zero
   b. $175,000
   c. $200,000
   d. $197,000
   e. None of the above

110. On January 1 of the current taxable year, Packing Corporation exchanged, with Dealer, Inc. (a corporation which was a dealer in box sealing machines), a box sealing machine (which Packing Corporation had used for five years and which had been purchased by Packing Corporation for $600,000 and with respect to which Packing Corporation had taken $450,000 of depreciation deductions) for a new box sealing machine which was owned by Dealer, Inc. Packing Corporation also paid Dealer, Inc. cash of $800,000. Packing Corporation and Dealer, Inc. estimated that Packing Corporation's old machine had a fair market value, at the date of the transfer to Dealer, Inc., of $300,000. Dealer, Inc. had owned the Dealer, Inc.'s machine for two years, as inventory, and had an adjusted basis for the machine of $450,000. Dealer, Inc.'s ordinary gross income for the current taxable year is as follows.
   a. None/Zero
   b. $650,000
   c. $800,000
   d. $1,000,000
   e. None of the above

111. Referring to Question 110, Dealer, Inc.'s adjusted basis for the box sealing machine which Dealer, Inc. received from Packing Corporation is as follows.
   a. None/Zero
b. $1,100,000

c. $300,000

d. $800,000

e. None of the above

112. Referring to Question 110, Packing Corporation's ordinary gross income for the current taxable year is as follows.

a. None/Zero

b. $150,000

c. $350,000

d. $550,000

e. None of the above

113. Referring to Question 110, Packing Corporation's adjusted basis for the box sealing machine which Packing Corporation received from Dealer, Inc. is as follows.

a. None/Zero

b. $450,000

c. $650,000

d. $950,000

e. None of the above

114. During the current taxable year, Kinder Corporation merged into Gentler Corporation. Just prior to the merger, John owned 125 common shares (50% of the common shares) of Kinder Corporation, which shares (of John) had a fair market value of $200,000 (because Kinder Corporation's fair market value was $400,000) and which shares had an adjusted basis to John of $40,000 and which shares had been owned by John for over five years. The other 50% (125 common shares) of Kinder Corporation was owned by Paul, which shares (of Paul) had a fair market value of $200,000 (because Kinder Corporation's fair market value was $400,000) and which shares had an adjusted basis to Paul of $45,000 and which shares had been owned by Paul for over five years. The total fair market value of Gentler Corporation's 1,000 issued and outstanding common shares was also $400,000 and 100% of the 1,000 common shares of Gentler Corporation was owned by Paul. As part of the merger, Gentler Corporation authorized another 1,000 common shares to be issued by Gentler Corporation (so that Gentler Corporation would then have 2,000 common shares authorized), and then, Kinder Corporation transferred all of Kinder Corporation's assets to Gentler Corporation. Just prior to the merger, the adjusted basis of Kinder Corporation's assets which Kinder Corporation transferred to Gentler Corporation was $100,000 and the fair market value of the assets which Kinder Corporation transferred to Gentler Corporation was $400,000 and Kinder Corporation and Gentler Corporation each had accumulated earnings and profits of $150,000. Thereafter, Gentler Corporation issued the new (and additional) 1,000 common shares of Gentler Corporation to Kinder Corporation in exchange therefor. Thereafter, Kinder Corporation transferred 500 common shares of Gentler Corporation to John (in exchange for John's 125 common shares of Kinder Corporation), and, in addition, Kinder Corporation transferred 500 common shares of Gentler Corporation to Paul (in exchange for Paul's 125 common shares of Kinder Corporation). Then, under the provisions of the applicable merger laws, Kinder Corporation ceased to exist. And, as a result of the merger, the 2,000 common shares of Gentler Corporation were owned as follows: John owned 500 common shares (25%) of Gentler Corporation (and no shares in Kinder Corporation); Paul owned 500 common shares (25%) of Gentler Corporation (and no shares in Kinder Corporation); and, Paul owned 1,000 common shares (50%) of Gentler Corporation (and no shares in Kinder Corporation). Further, after the merger, Kinder Corporation was no longer in existence. Further, after the merger, Gentler Corporation had a fair market value of $800,000. John's capital gain gross income for the current taxable year is as follows.

a. None/Zero

b. $60,000

c. $100,000

d. $200,000

e. None of the above

115. Referring to Question 114, John's adjusted basis for the common shares which John received in Gentler Corporation from Kinder Corporation is as follows.
116. Referring to Question 114, Gentler Corporation's gross income for the current taxable year is as follows.
   a. None/Zero
   b. $200,000
   c. $300,000
   d. $400,000
   e. None of the above

117. Referring to Question 114, Gentler Corporation's adjusted basis for the assets which Gentler Corporation received from Kinder Corporation is as follows.
   a. None/Zero
   b. $100,000
   c. $200,000
   d. $400,000
   e. None of the above

118. Referring to Question 114, Kinder Corporation's gross income for the current taxable year is as follows.
   a. None/Zero
   b. $100,000
   c. $200,000
   d. $400,000
   e. None of the above

119. Referring to Question 114, after the merger, Gentler Corporation's total earnings and profits is as follows.
   a. None/Zero
   b. $150,000
   c. $180,000
   d. $300,000
   e. None of the above

120. Referring to Question 114, John received from Kinder Corporation, as part of the merger, $10,000 of cash and the common shares in Gentler Corporation, which shares had a fair market value of $190,000. John's capital gain gross income for the current taxable year is as follows.
   a. None/Zero
   b. $10,000
   c. $5,000
   d. $200,000
   e. None of the above

121. Referring to Question 120, John's adjusted basis for the common shares of Gentler Corporation which John received as a result of the merger is as follows.
   a. None/Zero
   b. $40,000
   c. $60,000
   d. $100,000
   e. None of the above

122. During the current taxable year and as part of a corporate division, Hotshot Corporation organized GoodLuck Corporation and transferred 60% of Hotshot Corporation's assets and 60% of Hotshot's Corporation liabilities to
GoodLuck Corporation in exchange for 1,000 common shares of GoodLuck Corporation (which were all of the common shares of Good Luck Corporation). Mary owned, at that time, 60% of the common shares (600 of the 1,000 common shares) of Hotshot Corporation, which common shares (of Mary) had a fair market value of $1,200,000 (because Hotshot Corporation's fair market value was $2,000,000) and which common shares had an adjusted basis to Mary of $30,000 and which common shares had been owned by Mary for over five years. Paul owned the other 40% (400 common shares) of Hotshot Corporation, which 400 common shares had a fair market value of $800,000. As part of the corporate division of Hotshot Corporation, Hotshot Corporation transferred 60% of Hotshot Corporation's assets and liabilities (which had a net fair market value of $1,200,000) to GoodLuck Corporation and GoodLuck Corporation issued 1,000 common shares of GoodLuck Corporation (which were all of GoodLuck Corporation's shares) to Hotshot Corporation in exchange such assets and liabilities. Just prior to the corporate division, Hotshot Corporation had $300,000 of accumulated earnings and profits. Thereafter, Hotshot Corporation transferred all of the GoodLuck Corporation common shares to Mary in exchange for the common shares of Hotshot Corporation which were owned by Mary. Then, under the provisions of the applicable corporate division laws, Hotshot Corporation and Good Luck Corporation existed as separate corporations, with Mary owning all of the common shares of GoodLuck Corporation (which then had a fair market value of $1,200,000) and with Paul owning all of the common shares of Hotshot Corporation (which then had a fair market value of $800,000). The adjusted basis of Hotshot Corporation's assets which Hotshot Corporation transferred to Good Luck Corporation was $275,000. Mary's gross income for the current taxable year with respect to the corporate division is as follows.

123. Referring to Question 122, Mary's adjusted basis for the common shares which Mary received in GoodLuck Corporation from Hotshot Corporation is as follows.
   a. None/Zero
   b. $925,000
   c. $1,170,000
   d. $1,200,000
   e. None of the above

124. Referring to Question 122, Hotshot Corporation's gross income for the current taxable year with respect to the corporate division is as follows.
   a. None/Zero
   b. $30,000
   c. $275,000
   d. $1,170,000
   e. None of the above

125. Referring to Question 122, GoodLuck Corporation's adjusted basis for the assets which GoodLuck Corporation received from Hotshot Corporation is as follows.
   a. None/Zero
   b. $30,000
   c. $275,000
   d. $1,170,000
   e. None of the above

126. Referring to Question 122, GoodLuck Corporation's gross income as the result of these facts is as follows.
   a. None/Zero
   b. $30,000
   c. $275,000
   d. $1,170,000
127. Referring to Question 122, GoodLuck Corporation's accumulated earnings and profits just after the corporate division is as follows.
   a. None/Zero
   b. $160,000
   c. $240,000
   d. $400,000
   e. None of the above

128. During the current taxable year, Paul owned 100 common shares of FruitLoops Corporation, which was 100% of the common shares of FruitLoops Corporation, a C corporation which had accumulated earnings and profits of $400,000. Paul needed some money in order to repay a debt which Paul owed. Therefore, Paul, as the sole director and as the president and treasurer of FruitLoops Corporation had FruitLoops Corporation redeem, during the current taxable year, 50 of the common shares which Paul owned. Paul's adjusted basis for the 50 redeemed common shares was $5,000 and the common shares were redeemed at the fair price of $20,000. Paul's gross income for the current taxable year is as follows.
   a. None/Zero
   b. $20,000 ordinary income
   c. $15,000 long term capital gain
   d. $20,000 long term capital gain
   e. None of the above

129. During the current taxable year, SnickelFritz Corporation, a C corporation, had accumulated earnings and profits of $300,000 and had the following assets and Mary owned all of the common shares of SnickelFritz Corporation, which common shares had been owned by Mary for over five years and which common shares had an adjusted basis to Mary of $60,000. Further, during the current taxable year, SnickelFritz Corporation began to completely liquidate.

<table>
<thead>
<tr>
<th>Asset</th>
<th>Adjusted Basis</th>
<th>Fair Market Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>25,000</td>
<td>25,000</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>18,000</td>
<td>Undetermined</td>
</tr>
<tr>
<td>Inventory</td>
<td>25,000</td>
<td>50,000</td>
</tr>
<tr>
<td>Equipment</td>
<td>15,000</td>
<td>10,000</td>
</tr>
<tr>
<td>Land</td>
<td>20,000</td>
<td>80,000</td>
</tr>
<tr>
<td>Goodwill</td>
<td>0</td>
<td>20,000</td>
</tr>
<tr>
<td>Liabilities</td>
<td>0</td>
<td>10,000</td>
</tr>
</tbody>
</table>

As part of the liquidation process, SnickelFritz Corporation distributed the inventory to Mary as the first distribution of the assets to Mary, which was the only distribute of assets made to Mary during the current taxable year. SnickelFritz Corporation's gross income with respect to the liquidation distribution of the inventory to Mary is as follows.
   a. None/Zero
   b. $23,000
   c. $25,000
   d. $48,000
   e. None of the above

130. Referring to Question 129, Mary's gross income with respect to the liquidation distribution of the inventory to Mary is as follows.
   a. None/Zero
b. $23,000
c. $25,000
d. $48,000
e. None of the above

131. Referring to Question 129, Mary sold the inventory (one week after Mary received the inventory) for $55,000. Mary's gross income for the current taxable year as a result of the sale of the inventory is as follows.
   a. None/Zero
   b. $5,000
c. $30,000
d. $25,000
e. None of the above

132. During the current taxable year, John's employer, Spider Corporation, which regularly sold automobiles to customers, allowed John to purchase an office table (which table had an adjusted basis of $4,000 and which table had a fair market value of $15,000 and with respect to which Spider Corporation had taken $16,000 of depreciation deductions) for $10,000, because John had worked so hard for Spider Corporation during the last taxable year, and therefore, Spider Corporation wanted to give John a bonus for the current taxable year. John paid for and received the table (with no restrictions attached) on November 1 of the current taxable year. John's ordinary gross income for the current taxable year with respect to the transfer to John is as follows.
   a. None/Zero
   b. $15,000
c. $10,000
d. $5,000
e. None of the above

133. Referring to Question 132, Spider Corporation's ordinary gross income for the current taxable year with respect to the transfer to John is as follows.
   a. None/Zero
   b. $11,000
c. $5,000
d. $10,000
e. None of the above

134. During the current taxable year, Mary earned $5,000 selling books as an employee of UpAndAtom Corporation. Because Sue was going to go to college in a few years, Mary asked UpAndAtom Corporation to issue a check directly to Sue for $5,000, which UpAndAtom Corporation did as a favor to Mary. Also, as a favor to Mary, UpAndAtom Corporation issued an IRS Form W-2 to Sue for the $5,000 for the current taxable year. Sue reported the $5,000 as gross income to Sue for the current taxable year. Mary did not report the $5,000 as gross income for the current taxable year. UpAndAtom Corporation deducted, during the current taxable year, for income tax purposes, the $5,000 payment to Sue. Mary’s gross income for the current taxable year is as follows.
   a. None/Zero
   b. $5,000
c. $2,500
d. Need more information
e. None of the above

135. Referring to Question 134, UpAndAtom Corporation is entitled to a $5,000 income tax deduction for the payment of the $5,000 to Sue.
   a. Yes/True
   b. No/False
   c. $2,500
d. Need additional information
e. None of the above
136. Referring to Question 134, it is very likely that Mary and UpAndAtom Corporation have committed criminal fraud for income tax purposes with respect to all of this, under section 7201, which states, in part that any person who wilfully attempts in any manner to evade or defeat any tax imposed by this title or the payment thereof shall, in addition to other penalties provided by law, be guilty of a felony.
   a. Yes/True
   b. No/False
   c. $2,500
   d. Need additional information
   e. None of the above

137. Referring to Question 134, if UpAndAtom Corporation did commit a crime and is fined $10,000 for doing so, then UpAndAtom Corporation may deduct the amount of the fine for federal income tax purposes.
   a. Yes/True
   b. No/False
   c. $5,000
   d. Need additional information
   e. None of the above

138. On January 1 of the current taxable year, Nice Corporation declared a dividend of cash which was payable to shareholders who owned Nice Corporation common stock on February 1 of the current taxable year. The dividend was payable on April 1 of the current taxable year. Mary died on February 2 of the current taxable year, and the executor of Mary’s estate received the dividend of $150 on April 1 of the current taxable year. Mary's ordinary gross income for the current taxable year with respect to the dividend is as follows.
   a. None/Zero
   b. $150
   c. $75
   d. Need additional information
   e. None of the above

139. During the current taxable year, Mary organized Fair Corporation, transferred all of Mary's sole proprietorship assets (with a fair market value of $100,000 and a total adjusted basis of $25,000, all appreciated assets) to Fair Corporation, and Mary received, from Fair Corporation, in exchange for the assets, all of Fair Corporation's issued and outstanding common shares. One category of assets which Mary transferred to Fair Corporation was accounts receivable, which Mary had received in the ordinary course of operating Mary’s sole proprietorship and with respect to which Mary had an adjusted basis of $17,000 and which had a fair market value of $20,000. Mary's ordinary gross income for the current taxable year with respect to the transfer of the accounts receivable to Fair Corporation is as follows.
   a. None/Zero
   b. $17,000
   c. $10,000
   d. $20,000
   e. None of the above

140. Referring to Question 139, Fair Corporation’s adjusted basis for the accounts receivable is as follows.
   a. None/Zero
   b. $17,000
   c. $10,000
   d. $20,000
   e. None of the above

141. Referring to Question 139, Fair Corporation had an adjusted basis for the accounts receivable of $17,000 and that the accounts receivable has a face value of $20,000 and that during the next taxable year, Fair Corporation collected the entire face amount of the accounts receivable ($20,000). Fair Corporation's ordinary gross income
for the next taxable year with respect to the collection of the accounts receivable is as follows.
  a. None/Zero
  b. $3,000
  c. $20,000
  d. $17,000
  e. None of the above

142. During the current taxable year, Beverly had a gross salary of $30,000 and Beverly paid a neighbor $3,000 to care for Rebecca, nine hours a day, five days a week, in the neighbor’s home, so that Beverly could work at Viva Corporation. During the current taxable year, Rebecca was ten years old. Beverly is entitled to a child care credit for the current taxable year.
  a. Yes/True
  b. No/False
  c. $1,500
  d. Need additional information
  e. None of the above

143. Five taxable years ago, John and Paul formed the RedNeckedRightWingRifle Corporation under the Indiana not-for-profit corporation laws. After considerable fundraising by RedNeckedRightWingRifle Corporation, Rebecca was awarded, during the current taxable year, a $500 scholarship by RedNeckedRightWingRifle Corporation which allowed Rebecca to rent a pistol, a rifle, and rounds of ammunition for $300 and to purchase five lunches at RedNeckedRightWingRifle Corporation’s cafeteria at a cost of $50, and to receive 15 hours of instruction on how to use firearms safely for $150. RedNeckedRightWingRifle Corporation held five meetings each year, for the purpose of teaching students to use a pistol and rifle safely. If a student attended each of the five meetings, then RedNeckedRightWingRifle Corporation would award the student a certificate of firearms achievement, which Rebecca received during the current taxable year. Rebecca’s gross income for the current taxable year is as follows.
  a. None/Zero
  b. $500
  c. $250
  d. Need additional information
  e. None of the above

144. During the current taxable year, Alan, age 63, received a recovery, due to a state court’s trial and order, for $85,000. Alan was given $40,000 because Alan’s employer, GrandSlam, LLC, determined that Alan was a Roman Catholic, and for that reason, GrandSlam, LLC fired Alan, who had worked for GrandSlam, LLC for 20 years. Alan also received $40,000 because, after Alan was fired and Alan walked away from the employment site, the president of GrandSlam, LLC ran after Alan and grabbed Alan’s jacket, swung Alan around, and punched Alan in the face, causing severe nose damage. Alan also received $5,000 of prejudgement interest with respect to the awards. Alan's ordinary gross income for the current taxable year is as follows.
  a. None/Zero
  b. $45,000
  c. $85,000
  d. $80,000
  e. None of the above

145. During the current taxable year, Peter had adjusted gross income of $100,000, without considering the following transactions and Peter made no election with respect to these facts. During the current taxable year, Peter made a charitable contribution of common shares which Peter had owned for 15 months, with an adjusted basis of $40,000 and a fair market value of $50,000. Peter's ordinary expense or ordinary loss deduction for the current taxable year with respect to the charitable contribution (considering all deduction limitations) is as follows.
  a. None/Zero
  b. $30,000
  c. $50,000
d. $20,000  

146. During the current taxable year, Peter had adjusted gross income of $100,000, without considering the following transactions and Peter made no election with respect to these facts. During the current taxable year, Peter made a charitable contribution of common shares which Peter had owned for six months, with an adjusted basis of $20,000 and a fair market value $50,000. Peter's ordinary expense or ordinary loss deduction for the current taxable year with respect to the charitable contribution (considering all deduction limitations) is as follows.

a. None/Zero  
b. $30,000  
c. $50,000  
d. $20,000  
e. None of the above  

147. During the current taxable year, Peter had adjusted gross income of $100,000, without considering the following transactions and Peter made no election with respect to these facts. During the current taxable year, Peter made a charitable contribution of Peter's rare toy electric train collection to the RailroadMuseum Corporation, under an agreement with the charitable organization, which agreement allowed Peter to keep the toy electric train collection until Peter died, which train collection had been owned by Peter for many years, and which train collection had an adjusted basis to Peter of $10,000, and which train collection had a fair market value of $80,000, and with respect to which the fair market value of Peter's life estate was $30,000, and with respect to which the fair market value of the remainder interest was $50,000. Peter's ordinary expense or ordinary loss deduction for the current taxable year with respect to the charitable contribution (considering all deduction limitations) is as follows.

a. None/Zero  
b. $30,000  
c. $50,000  
d. Need additional information  
e. None of the above  

148. During the current taxable year, Peter had adjusted gross income of $100,000, without considering the following transactions and Peter made no election with respect to these facts. During the current taxable year, Peter made a charitable contribution of common shares which Peter had owned for two years, with an adjusted basis of $45,000 and a fair market value of $40,000. Peter's ordinary expense or ordinary loss deduction for the current taxable year with respect to the charitable contribution (considering all deduction limitations) is as follows.

a. None/Zero  
b. $30,000  
c. $40,000  
d. $45,000  
e. None of the above  

149. During the current taxable year, Peter had adjusted gross income of $100,000, without considering the following transactions and Peter made no election with respect to these facts. During the current taxable year, Peter made a charitable contribution of common shares which Peter had owned for two months, with an adjusted basis of $60,000 and a fair market value $80,000. Peter's charitable contribution carryover to next year (considering all deduction limitations) is as follows.

a. None/Zero  
b. $10,000  
c. $20,000  
d. $30,000  
e. None of the above  

150. During the current taxable year, Peter borrowed, as an unsecured loan from a bank, $100,000, in order to invest in GoGo Corporation shares and in FooFoo Corporation shares. Peter kept the balance of the borrowed funds in a
savings account. By the end of the current taxable year, Peter had paid interest on the debt of $9,000 and received dividends of $1,500 and interest of $1,000 and capital gains of $2,000. Peter wants to deduct all of the interest which Peter can during the current taxable year. Peter's ordinary expense or ordinary loss deduction (considering all deduction limitations) for interest for the current taxable year is as follows.

a. None/Zero
b. $9,000
c. $2,500
d. $4,500
e. None of the above

151. On January 1 of the current taxable year, Peter purchased a Courageous Corporation bond for $20,000 when the bond was issued. The bond matures on December 31 ten years from the bond's issue date, has a par value of $20,000, and has a stated interest rate of six percent per year, which stated interest is paid each December 31. During the current taxable year, Peter received a check for the proper amount of the stated interest. Peter took all of the deductions (or gross income reductions) indicated by these facts, but Peter did not itemize Peter's deductions. Peter's gross income for the current taxable year is (approximately) as follows.

a. None/Zero
b. $1,200
c. $600
d. $1,300
e. None of the above

152. Referring to Question 151, Peter owned the bond until the bond matured, at which time, Courageous Corporation redeemed the bond from Peter. Peter's gross income for the year in which the bond was redeemed with respect to the bond is (approximately) as follows.

a. None/Zero
b. $1,200
c. $20,000
d. $18,700
e. None of the above

153. On January 1 of the current taxable year, Peter purchased a Sushi Corporation bond for $24,000 when the bond was issued. The bond matures on December 31 ten years from the bond's issue date, has a par value of $20,000, and has a stated interest rate of five percent per year, which stated interest is paid each December 31. During the current taxable year, Peter received a check for the proper amount of the stated interest. Peter took all of the deductions (or gross income reductions) indicated by these facts, but Peter did not itemize Peter's deductions. Peter's gross income for the current taxable year is (approximately) as follows.

a. None/Zero
b. $1,000
c. $1,400
d. $600
e. None of the above

154. On January 1 of the current taxable year, Peter purchased a LoveyDovey Corporation bond for $15,000 when the bond was issued. The bond matures on December 31 ten years from the bond's issue date, has a par value of $20,000, and has a stated interest rate of seven percent per year, which stated interest is paid each December 31. During the current taxable year, Peter received a check for the proper amount of the stated interest. Peter took all of the deductions (or gross income reductions) indicated by these facts, but Peter did not itemize Peter's deductions. Peter's gross income for the current taxable year is (approximately) as follows.

a. None/Zero
b. $900
c. $1,400
d. $1,900
e. None of the above
155. Referring to Question 154, Peter owned the bond until the bond matured, at which time, LoveyDovey Corporation redeemed the bond from Peter. Peter's gross income for the year in which the bond was redeemed with respect to the bond is (approximately) as follows.
   a. None/Zero
   b. $16,900
   c. $1,900
   d. $21,000
   e. None of the above

156. On January 1 of the current taxable year, Peter purchased a GetALong Corporation bond for $20,000 when the bond was issued. The bond was to mature on December 31, ten years from the bond's issue date, had a par value of $20,000 and had a stated interest rate of six percent per year, which stated interest was to be paid each December 31. During the current taxable year, Peter did not receive a check for any of the stated interest and on January 15 of the next taxable year the bond became worthless. Peter took all of the deductions (or reductions, prior to gross income) indicated by these facts. Peter's long term capital loss for the next taxable year is as follows.
   a. None/Zero
   b. $1,200
   c. $20,000
   d. $21,200
   e. None of the above

157. On January 1 of the last taxable year, Peter purchased a HavingFun Corporation bond for $20,000 when the bond was issued. The bond was to mature on December 31, ten years from the bond's issue date, had a par value of $20,000, and had a stated interest rate of five percent per year, which stated interest was to be paid each December 31 and the interest was paid to Peter on December 31 of the last taxable year. On January 4 of the current taxable year, Peter sold the bond to Paul for $22,000. Peter's long term capital gain gross income for the current taxable year is (approximately) as follows.
   a. None/Zero
   b. $1,000
   c. $20,000
   d. $22,000
   e. None of the above

158. Peter normally has the 28% income tax rate applied to Peter's taxable income. Peter wants to save more taxes and make more money. Therefore, Peter should purchase a State of California bond for a par value and a purchase value of $15,000 and which has a stated interest rate of six percent rather than a GreatDay Corporation bond for a par value and a purchase price of $15,000 and which has a stated interest rate of eight percent.
   a. Yes/True
   b. No/False
   c. 3%
   d. Need additional information
   e. None of the above

159. On December 1 of the current taxable year, Paul purchased a YourOk Corporation bond for $10,000 when the bond was issued. The bond was to mature on December 31, ten years from the bond's issue date, had a par value of $10,000, and had a stated interest rate of five percent per year, which stated interest was to be paid each December 31. During the current taxable year, Paul did not receive a check for any of the stated interest and the bond became worthless during January of next taxable year. Paul took all of the deductions (or reductions, prior to gross income) indicated by these facts. Paul's long term capital loss for the next taxable year is as follows.
   a. None/Zero
   b. $10,000
   c. $10,500
160. Paul made many purchases and sales of common shares over the LuckyStock Exchange as an investor for many years. During the current taxable year, Paul had capital gains of $5,000 and capital losses of $45,000 and a salary of $100,000. During each year for ten years prior to the current taxable year, Paul had capital gains of $5,000 and a gross salary of $100,000. For each year for 30 years after the current taxable year, Paul had capital gains of $5,000 and a gross salary of $100,000. Paul made all elections which were available to Paul and the current taxable year is 1998. The last taxable year (chronologically) during which Paul may deduct any part of Paul’s capital losses is as follows.

a. 2000
b. 2001
c. 2002
d. 2003
e. None of the above

Gifts Followed By Sales Or Exchanges

161. On January 1 of the current taxable year, John's mother gave John 1,000 common shares of CornedBeef&Cabbage Corporation. John's mother purchased the common shares four taxable years ago for a gross purchase price of $50,000 and John's mother also paid purchase expenses of $5,000. John's mother did not owe any gift taxes as a result of the gift. At the date of the gift, the common shares had a fair market value of $100,000. John held the common shares until April 1 of the current taxable year, at which time John sold the common shares to Paul for a gross sales price of $100,000. John paid selling expenses of $5,000. John's long term capital gain gross income for the current taxable year is as follows.

a. None/Zero
b. $50,000
c. $45,000
d. $40,000
e. None of the above

162. Referring to Question 161, John sold the common shares to Paul for a gross sales price of $40,000 and John paid selling expenses of $5,000. John's long term capital loss deduction for the current taxable year is as follows.

a. None/Zero
b. $20,000
c. $25,000
d. $30,000
e. None of the above

163. On January 1 of the current taxable year, John's mother gave John 1,000 common shares of Starbuck Corporation. John's mother purchased the common shares for a gross purchase price of $50,000 and John's mother paid purchase expenses of $5,000 two taxable years ago. At the date of the gift, the common shares had a fair market value of $30,000 and the mother owed no gift taxes because of the gift. John held the common shares until April 1 of the current taxable year, at which time John sold the common shares to Paul for a gross sales price of $80,000. John paid selling expenses of $5,000. John's long term capital gain gross income for the current taxable year is as follows.

a. None/Zero
b. $45,000
c. $30,000
d. $20,000
e. None of the above

164. Referring to Question 163, John sold the common shares to Paul on April 1 of the current taxable year, for a gross sales price of $20,000 and John paid selling expenses of $5,000. John's long term capital loss for the current...
taxable year is as follows.
a. None/Zero  
b. $15,000  
c. $20,000  
d. $40,000  
e. None of the above

165. Referring to Question 163, John sold the common shares to Paul for a gross sales price of $40,000 and John paid selling expenses of $5,000. John's long term capital loss for the current taxable year is as follows.
a. None/Zero  
b. $20,000  
c. $25,000  
d. $30,000  
e. None of the above

166. Mary died on January 1 of the current taxable year, owning 1,000 common shares of Starbuck Corporation. Mary paid a gross purchase price of $120,000 for the common shares in December of the last taxable year, and the common shares had a fair market value of $100,000 at Mary's death and $70,000 on July 1 of the current taxable year. The executor of Mary’s estate elected to use the date of death values for estate tax purposes, and on May 1 of the current taxable year, the executor sold the common shares to Paul, for a gross sales price of $75,000, and the executor paid selling expenses of $5,000, which selling expenses were elected to be utilized in determining the gain or loss on the federal fiduciary income tax return (IRS Form 1041), rather than being deducted on the federal estate tax return (IRS Form 706). The estate’s long term capital loss for the current taxable year is as follows.
a. None/Zero  
b. $35,000  
c. $30,000  
d. $40,000  
e. None of the above

167. Mary died on January 1 of the current taxable year, owning 1,000 common shares of Starbuck Corporation. Mary paid $20,000 for the common shares in December of the last taxable year, and the common shares had a fair market value of $30,000 at Mary's death and $42,000 on July 1 of the current taxable year. The executor of Mary’s estate elected to use the date of death values for estate tax purposes. Mary's last will and testament devised $35,000 of cash to Paul, and on May 1 of the current taxable year, when the fair market value of the common shares was $35,000, the executor transferred the common shares to Paul, under an agreement under which Paul took the common shares in lieu of the cash devise. Mary’s estate’s long term capital gain for the current taxable year with respect to the transfer of the common shares to Paul is as follows.
a. None/Zero  
b. $5,000  
c. $7,000  
d. $15,000  
e. None of the above

168. Two taxable years ago, John purchased some common shares for $50,000, and during the current taxable year, John sold the common shares to Sue for $70,000. John's long term capital gain gross income for the current taxable year is as follows.
a. None/Zero  
b. $10,000  
c. $20,000  
d. $5,000  
e. None of the above

169. Referring to Question 168, John sold the common shares to Sue for $40,000. John's deductible long term capital loss for the current taxable year is as follows.

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170. During the current taxable year, Mary died owning one whole (ordinary life) life insurance policy on Mary's life which had a face amount of $2,000,000 and which was payable, in lump sum, to Mary's estate. The life insurance policy had been purchased by Mary, during the current taxable year, for $200,000, from Zesty Corporation of which Mary was president and which corporation was a C corporation, and which corporation had purchased the life insurance policy several taxable years ago from the issuing life insurance company, and which life insurance policy was payable, prior to the sale to Mary, to Zesty Corporation. Mary promptly changed the beneficiary designation of the life insurance policy in order to make Mary's estate be the beneficiary. Initially, Zesty Corporation had purchased the life insurance policy for the benefit of Zesty Corporation, but then, when Mary decided to retire, Zesty Corporation sold the life insurance policy to Mary. Zesty Corporation had paid a total of $100,000 of premiums with respect to the life insurance policy, $10,000 of which was paid during the current taxable year, prior to the sale of the life insurance policy to Mary. Zesty Corporation capitalized each premium payment; that is, Zesty Corporation did not expense the premiums either for book purposes or for earnings and profit purposes. The Table 2001 cost with respect to the payment of the current taxable year's life insurance premium was $1,000. Zesty Corporation's gross income for the current taxable year with respect to the sale of the life insurance policy to Mary is as follows.

a. None/Zero
b. $100,000
c. $90,000
d. $200,000
e. None of the above

171. Referring to Question 170, Zesty Corporation did not sell the life insurance policy to Mary, Mary died, and Zesty Corporation received $2,000,000 from the life insurance company due to the life insurance policy. Zesty Corporation's gross income with respect to the receipt of the life insurance proceeds policy, is as follows.

a. None/Zero
b. $2,000,000
c. $1,900,000
d. $1,910,000
e. None of the above

172. During the current taxable year, Mary died while PeterRabbit Corporation owned one whole (ordinary life) life insurance policy on Mary's life which had a face amount of $1,000,000 and which was payable, in lump sum, to PeterRabbit Corporation, which received the proceeds. PeterRabbit Corporation had always been an C corporation. The life insurance policy had been purchased by PeterRabbit Corporation several taxable years ago, as a key person life insurance policy on Mary’s life, and PeterRabbit Corporation had paid $10,000 per year for ten years ($100,000) of life insurance premiums, all of which were capitalized. PeterRabbit Corporation's net increase in earnings and profits for the current taxable year with respect to the receipt of the life insurance proceeds policy is as follows.

a. None/Zero
b. $900,000
c. $950,000
d. $1,000,000
e. None of the above

173. Referring to Question 172, PeterRabbit Corporation's ordinary expense or ordinary loss deduction for the last taxable year with respect to the payment of the life insurance policy premium payment is as follows.

a. None/Zero
b. $10,000
Referring to Question 172, Peter purchased the life insurance policy for $120,000 from PeterRabbit Corporation, and that Peter promptly changed the beneficiary designation of the life insurance policy to be Peter, and that Peter paid one life insurance policy premium, of $10,000, with respect to the life insurance policy prior to Mary's death. Then, after all of this, Mary died during the current taxable year and Peter received the $2,000,000 of the life insurance policy's proceeds during the current taxable year. Peter's ordinary gross income for the current taxable year with respect to the receipt of the life insurance proceeds is as follows.

a. None/Zero
b. $1,900,000
c. $1,870,000
d. $2,000,000
e. None of the above

Several taxable years ago, Mary acquired a whole (ordinary life) life insurance policy, as an owner, in the normal manner. The life insurance policy, with proceeds of $2,000,000, was payable to John, except as otherwise stated. Sable Corporation (which was Mary's employer) paid a total of $120,000 of premiums ($20,000 per year for six years, including the life insurance premium of the current taxable year, all of which Sable Corporation capitalized, rather than expensed, for book purposes and for earnings and profits purposes) with respect to the life insurance policy, which amount was the total amount paid as life insurance premiums with respect to the life insurance policy through the last taxable year. Mary had an agreement with Sable Corporation and with the life insurance company, which agreement provided that when Mary died, Sable Corporation would be repaid all of the premiums which Sable Corporation had paid on the life insurance policy and that this repayment would come from the proceeds of the life insurance policy. Thus, when Mary died during the current taxable year, Sable Corporation, received $120,000 of the life insurance proceeds and John received $1,880,000. The Table 2001 cost (of the $20,000 life insurance premium which Sable Corporation paid the last taxable year) was $1,000. Mary's ordinary gross income for the last taxable year with respect to Sable Corporation's payment of the life insurance premium is as follows.

a. None/Zero
b. $1,000
c. $20,000
d. $120,000
e. None of the above

Referring to Question 175, Sable Corporation's ordinary expense or ordinary loss deduction for the last taxable year with respect to Sable Corporation's payment of the last taxable year's life insurance premium is as follows.

a. None/Zero
b. $21,000
c. $1,000
d. $20,000
e. None of the above

Referring to Question 175, Sable Corporation's gross income for the current taxable year with respect to the receipt of the $120,000 of life insurance proceeds is as follows.

a. None/Zero
b. $120,000
c. $20,000
d. $21,000
e. None of the above

Referring to Question 175, Sable Corporation paid, during the last taxable year, $19,000 of the last taxable year's life insurance premium and that Mary paid $1,000 of such life insurance premium, which latter amount which was
equal to the Table 2001 cost. Also, Sable Corporation paid Mary a bonus, during the last taxable year, of $1,000 so that Mary could pay the Table 2001 cost. Mary's ordinary gross income for the last taxable year with respect to Sable Corporation's life insurance premium payment and Table 2001 cost and bonus payment is as follows.

a. None/Zero
b. $1,000
c. $19,000
d. $20,000
e. None of the above

179. Referring to Question 178, Sable Corporation's ordinary expense or ordinary loss deduction to Sable Corporation for the last taxable year is as follows.

a. None/Zero
b. $1,000
c. $19,000
d. $20,000
e. None of the above

180. During the current taxable year, Special Corporation paid a premium of $700 with respect to a group term life insurance policy which insured the life of John, an employee of Special Corporation, which policy was owned by John, and which policy was payable to John's estate as the beneficiary, with a face amount of $70,000. Special Corporation's ordinary expense or ordinary loss deduction for the current taxable year with respect to the payment of the life insurance premium is as follows.

a. None/Zero
b. $70
c. $700
d. $70,000
e. None of the above

181. John had a gross salary of $50,000 during the current taxable year and John was covered by John's corporate employer's qualified retirement fund, which ChewChew Corporation maintained for John. Mary was not employed, but worked at home to maintain John's and Mary's home. Mary had a basic individual retirement account which Mary established for Mary. Mary may contribute to Mary's basic individual retirement account and deduct for income tax purposes the following amount.

a. None/Zero
b. $1,000
c. $3,000
d. $4,000
e. None of the above

182. During the current taxable year, Paul was employed by Grits Corporation at an annual gross salary of $60,000 and Paul established a Roth individual retirement account and contributed $2,000 to the individual retirement account. Neither Paul nor Grits Corporation made any other contribution to any retirement account with respect to Paul. During the current taxable year, the earnings in Paul's individual retirement account were $100. Paul's ordinary expense or ordinary loss deduction for the current taxable year is as follows.

a. None/Zero
b. $1,000
c. $2,000
d. $2,500
e. None of the above

183. Referring to Question 182, Paul's gross income for the current taxable year is as follows.

a. None/Zero
b. $60,000
c. $60,100
184. Referring to Question 182, Paul continued to work for Grits Corporation for ten more years and continued to contribute to Paul's retirement plan fund, and then, Paul retired at age 62 and five years later, Paul withdrew all of the funds from Paul's retirement fund in lump sum, in the amount of $200,000 (during the current taxable year). Paul's gross income for the current taxable year, due to the withdrawal of funds only, is as follows.
   a. None/Zero
   b. $200,000
   c. $100,000
   d. $50,000
   e. None of the above

185. John, age 40, who had a gross salary of $200,000 during each of several prior years and during the current taxable year, retired during the current taxable year, due to a permanent disability which prevented John from working any more, from PastaAndRedWine Corporation and withdrew $20,000, during the current taxable year, from John's corporate employer's qualified retirement fund, which PastaAndRedWine Corporation maintained for John. John's retirement fund, to which John had not made any contribution, had a fair market value of $700,000 when John retired and the withdrawn amount was computed by a qualified actuary to be the correct amount. John's gross income for the current taxable year is as follows.
   a. None/Zero
   b. $20,000
   c. $200,000
   d. $220,000
   e. None of the above

186. On April 1 of the current taxable year, Paul was employed by Sauerkraut Corporation at an annual gross salary of $60,000 and Paul needed money in order to purchase a house, and thus, Paul withdrew $50,000 from Paul's basic individual retirement account which was maintained for Paul at a bank and which was contributed to solely by Paul and Paul deducted all of Paul's contributions to the basic individual retirement account. Paul did not have any other retirement plan during the current taxable year. Paul had never had an interest in a residence (house and land) before. Paul's gross income for the current taxable year is as follows.
   a. None/Zero
   b. $60,000
   c. $110,000
   d. $100,000
   e. None of the above

187. On April 1 of the current taxable year, Beverly was employed by DoingWell Corporation at gross salary of $40,000 and Beverly needed money in order to pay $20,000 for Rebecca's college tuition. The college required the tuition to be paid for both the first and second semesters. Thus, Beverly told the trustee of Beverly's basic individual retirement account to distribute $20,000 from the account to Beverly. Beverly was the sole contributor to the basic individual retirement account and all of Beverly's contributions were deductible to Beverly. Beverly paid the tuition during the current taxable year. Beverly's gross income for the current taxable year is as follows.
   a. None/Zero
   b. $50,000
   c. $40,000
   d. $60,000
   e. None of the above

188. During April of the current taxable year, Mary died as an employee of Superman Corporation, which had established a qualified retirement plan for Mary. The beneficiary of Mary's corporate qualified retirement plan was John and John was entitled to receive a lump sum distribution under the retirement plan of $450,000 or to rollover the amount (of $450,000). The fund consisted of $300,000 of Superman Corporation contributions and
After John was notified with respect to the amount of the distribution and John’s rights with respect to the distribution, John promptly established a basic individual retirement account in John’s name and told the trustee of Mary’s retirement fund to distribute the funds to the trustee of John’s basic individual retirement account, which the trustee did. John did not have any other retirement plan during the current taxable year. John's gross income for the current taxable year is as follows.

a. None/Zero  
b. $150,000  
c. $300,000  
d. $450,000  
e. Need additional information  
f. None of the above

During April of the current taxable year, Beverly died. The beneficiary of Beverly's corporate qualified retirement plan was Rebecca and Rebecca was entitled to receive a lump sum distribution under the retirement plan of $1,000,000. Beverly did not make any contribution to the retirement plan trust, only StraightArrow Corporation did. At Beverly’s death, the fund consisted of $700,000 of employer contributions and $300,000 of earnings thereon. However, Rebecca, who had no other income during the current taxable year, and who had no prior retirement fund promptly established a basic individual retirement account in Rebecca’s name, but Rebecca did not make a contribution to the basic individual retirement account at that time and Rebecca told the trustee of Beverly's retirement fund to distribute the funds to the trustee of Rebecca's basic individual retirement account, which the trustee did. Rebecca made no other election with respect to the distribution, other than depositing the funds in the individual retirement account. Rebecca's gross income for the current taxable year is as follows.

a. None/Zero  
b. $300,000  
c. $700,000  
d. $1,000,000  
e. None of the above

During the last taxable year, John died, leaving John’s entire estate to Mary. During the current taxable year, the estate had the following financial information. All of the gains and losses from the sales of assets were attributable to the principal of the estate. All of the other receipts and expenses were attributable to the net income of the estate. The executor (which was the State Bank of Indianapolis) was the sole executor of the estate and the executor was required to distribute to 50% of the estate’s net book income to Mary for the current taxable year and the executor was required to accumulate the remaining net book income, along with the gains and losses from the sales of assets. Upon the termination of the estate, all of the remaining funds of the estate were to be distributed to Mary.

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
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<tbody>
<tr>
<td>Dividends received</td>
<td>25,000</td>
</tr>
<tr>
<td>Interest received from Bank of Indiana</td>
<td>25,000</td>
</tr>
<tr>
<td>Capital gains</td>
<td>25,000</td>
</tr>
<tr>
<td>Capital losses</td>
<td>8,000</td>
</tr>
<tr>
<td>Administrative expenses attributable to book income</td>
<td>8,000</td>
</tr>
</tbody>
</table>

Mary's gross income for the current taxable year is as follows.

a. None/Zero  
b. $50,000  
c. $21,000  
d. $59,000  
e. None of the above

During the last taxable year, John died, leaving John’s entire estate to Mary. During the current taxable year, the
estate had the following financial information. All of the gains and losses from the sales of assets were attributable to the principal of the estate. All of the other receipts and expenses were attributable to the net income of the estate. The executor (which was the State Bank of Indianapolis) was the sole executor of the estate and the executor was required to distribute to Mary for the current taxable year the specific amount of $100,000 from the trust's principal (which was over $2,000,000) and the executor was required to accumulate the net book income, along with the gains and losses from the sales of assets. Upon the termination of the estate, all of the remaining funds of the estate were to be distributed to Mary.

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<td>8,000</td>
</tr>
<tr>
<td>Administrative expenses attributable to book income</td>
<td>8,000</td>
</tr>
</tbody>
</table>

Mary's gross income for the current taxable year is as follows.

a. None/Zero  
b. $100,000  
c. $92,000  
d. $84,000  
e. None of the above

192. During December of the last taxable year, Peter, who was president of AlmostThrough Corporation, read in the newspaper that the State of Indiana was going to condemn some land which was owned by and used for business by AlmostThrough Corporation. Therefore, during June of the current taxable year, AlmostThrough Corporation purchased some new and similar land for $500,000. During December of the current taxable year, the State of Indiana condemned AlmostThrough Corporation’s old land and paid AlmostThrough Corporation $700,000 for the old land. Peter determined that the adjusted basis of the condemned land was $100,000. AlmostThrough Corporation's gross income for the current taxable year is as follows.

a. None/Zero  
b. $600,000  
c. $400,000  
d. $200,000  
e. None of the above

193. Referring to Question 192, AlmostThrough Corporation's adjusted basis for the new land which AlmostThrough Corporation acquired during the current taxable year is as follows.

a. None/Zero  
b. $200,000  
c. $100,000  
d. $500,000  
e. None of the above

194. Referring to Question 192, AlmostThrough Corporation purchased the new land three years after the current taxable year. AlmostThrough Corporation's adjusted basis for the new land which AlmostThrough Corporation purchased three years after the current taxable year is as follows.

a. None/Zero  
b. $200,000  
c. $700,000  
d. $500,000  
e. None of the above
195. Referring to Question 192, AlmostThrough Corporation purchased the new land for $1,000,000. AlmostThrough Corporation's adjusted basis for the new land is as follows.
   a. None/Zero
   b. $100,000
   c. $400,000
   d. $1,000,000
   e. None of the above

196. During the current taxable year, Paul had a net profit from Paul's sole proprietorship of $60,000, after taking into account all deductions. Paul's federal self-employment tax (social security taxes and medicare taxes), with respect to Paul’s net income, which is payable for the current taxable year is as follows.
   a. None/Zero
   b. $10,404
   c. $7,650
   d. $9,180
   e. None of the above

197. Referring to Question 196, Paul paid a salary of $30,000 to Beverly during the current taxable year. Beverly’s federal employment taxes (social security taxes and medicare taxes), with respect to Beverly, for the current taxable year is as follows.
   a. None/Zero
   b. $4,590
   c. $1,148
   d. $2,295
   e. None of the above

198. During the current taxable year, Paul received a salary of $100,000 from SoleFood Corporation and received $20,000 of dividends from SoleFood Corporation. Also, Paul paid the following expenses during the current taxable year.

<table>
<thead>
<tr>
<th>Payment</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office rent for employment</td>
<td>10,000</td>
</tr>
<tr>
<td>Publications for share and bond investments, $2,000 of which was reimbursed by Paul's employer</td>
<td>3,000</td>
</tr>
<tr>
<td>Income tax return preparation fee - personal portion</td>
<td>500</td>
</tr>
<tr>
<td>Income tax return preparation fee - business portion</td>
<td>500</td>
</tr>
<tr>
<td>Supplies for employment</td>
<td>5,000</td>
</tr>
<tr>
<td>Entertainment of clients, $2,000 of which was reimbursed by Paul's employer</td>
<td>5,000</td>
</tr>
<tr>
<td>Total</td>
<td></td>
</tr>
<tr>
<td></td>
<td>24000</td>
</tr>
</tbody>
</table>

Paul's gross income for the current taxable year with respect to these facts (considering all deduction limitations) is as follows.
   a. None/Zero
   b. $124,000
   c. $120,000
   d. $122,000
   e. None of the above

199. Paul was an employee and vice-president of HippityHoppity Corporation, which manufactured bird feeders, owl boxes, bat boxes, bee hive supers, etc., 24 hours per day, and Paul generally worked during the day, but Paul was on call for solving problems 24 hours per day.
a. During the current taxable year, the in-house corporate lawyer for HippityHoppity Corporation drafted Paul’s last will and testament for no charge. The in-house counsel regularly did this type of drafting for employees of HippityHoppity Corporation, without any charge to the employee, as a fringe benefit to the employees. Had Paul had this drafting done by a lawyer on the outside, Paul would have been charged $500.

b. During the current taxable year, Paul purchased numerous items from HippityHoppity Corporation's inventory, for use in Paul's forest and animal preserve, and, whenever Paul purchased such merchandise, Paul was allowed to purchase the merchandise at a discount. The retail price of the items which Paul purchased during the current taxable year was $3,000. The cost of the items that Paul purchased from HippityHoppity Corporation was $1,200. HippityHoppity Corporation maintains an across-the-board gross profit percentage of 40%. However, Paul was allowed to purchase the items for only $600, an 80% discount, but only because Paul was a vice-president of HippityHoppity Corporation.

c. During the current taxable year, Paul (as could any other employee) could use HippityHoppity Corporation's gym (in the basement of HippityHoppity Corporation's office building), free of charge, to work out on Monday through Thursday, each week. Had Paul joined a similar athletic/sports club in the city in which HippityHoppity Corporation's office building was located, Paul would have paid an annual membership fee of $1,000.

d. During the current taxable year, because of the many problems which occurred during days and nights, Paul was required, as a condition of Paul’s employment, to live at HippityHoppity Corporation's office building for six days each week. Paul was furnished both meals and lodging for this purpose, which meals had a fair market value of $7,000 and which lodging had a fair market value of $15,000 for the current taxable year.

e. During the current taxable year, HippityHoppity Corporation paid all of the medical insurance premiums which were attributable to Paul's medical insurance, which medical insurance was part of a corporate medical reimbursement plan for all employees. The total of the premium payments was $2,000.

Paul’s gross income for the current taxable year is as follows.

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>a.</td>
<td>None/Zero</td>
</tr>
<tr>
<td>b.</td>
<td>$500</td>
</tr>
<tr>
<td>c.</td>
<td>$600</td>
</tr>
<tr>
<td>d.</td>
<td>$1,100</td>
</tr>
<tr>
<td>e.</td>
<td>None of the above</td>
</tr>
</tbody>
</table>

200. During the current taxable year, Paul was an employee and vice-president of TipToe Corporation, which manufactured sailboats and because Paul did such a great job as an employee, Paul was allowed to purchase, during the current taxable year, 100 shares of common stock of TipToe Corporation for $100 per share at a time when the common shares were selling for $500. The only restrictions with respect to the common shares was that Paul could not transfer the common shares to any person for the five-year period following the transfer of the common shares to Paul and that if Paul terminated Paul's employment with TipToe Corporation for any reason during the five-year period, Paul had to transfer (return) the common shares to TipToe Corporation for $100 per share. During the first day of the first taxable year after the five-year period, the common shares had a fair market value of $800 per share. Paul wishes to report as little gross income as Paul may during the current taxable year. Paul’s gross income for the current taxable year is as follows.

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>a.</td>
<td>None/Zero</td>
</tr>
<tr>
<td>b.</td>
<td>$50,000</td>
</tr>
<tr>
<td>c.</td>
<td>$40,000</td>
</tr>
<tr>
<td>d.</td>
<td>$20,000</td>
</tr>
<tr>
<td>e.</td>
<td>None of the above</td>
</tr>
</tbody>
</table>
201. Referring to Question 200, Paul's gross income for the first taxable year after the end of the five-year period is as follows.
   a. None/Zero
   b. $80,000
   c. $70,000
   d. $50,000
   e. None of the above

202. Two taxable years ago, KnockThemDead Corporation gave Paul an incentive stock option which allowed Paul the right to purchase 100 common shares of KnockThemDead Corporation for $100 per share, which was the current fair market value of the common shares at the time when Paul was granted the option. During January of the current taxable year, Paul's employer, KnockThemDead Corporation, when each common share had a fair market value of $150, Paul exercised Paul's option and purchased the 100 common shares. Paul had the right to sell the common shares at any time after two years after Paul exercised the option. Paul’s gross income for the taxable year two taxable years ago is as follows.
   a. None/Zero
   b. $9,000
   c. $10,000
   d. $5,000
   e. None of the above

203. Referring to Question 202, Paul’s gross income for the current taxable year is as follows.
   a. None/Zero
   b. $15,000
   c. $5,000
   d. $7,500
   e. None of the above

204. Paul was an employee and vice-president of TapALittleTune Corporation, which manufactured sailboats and because Paul did such a great job as an employee, Paul was granted, during the current taxable year, the right, by TapALittleTune Corporation, to purchase 100 shares of common stock of TapALittleTune Corporation for $100 per share, at any time during the next five (5) years, which Paul did, during the next taxable year. The option was not part of an incentive stock option plan and the option had no readily ascertainable value and the only restrictions with respect to the option was that Paul could not transfer the option to any other person and the only restriction with respect to the common shares was that Paul could not transfer the common shares to any person for the five-year period following the transfer of the common shares to Paul. During the next taxable year when Paul exercised the option and acquired the common shares, the common shares had a fair market value of $1,000 per share, free of all restrictions. During the first day of the first taxable year after the five-year period, the common shares had a fair market value of $1,500 per share. Paul wishes to report as little gross income as Paul may during the current taxable year and during the next taxable year. Paul’s gross income for the current taxable year is as follows.
   a. None/Zero
   b. $10,000
   c. $9,000
   d. $1,000
   e. None of the above

205. Referring to Question 204, Paul's gross income for the next taxable year is as follows.
   a. None/Zero
   b. $90,000
   c. $10,000
   d. $100,000
   e. None of the above
206. During the current taxable year, Peter owned all of the following assets and Peter transferred the assets to Recycle Corporation, a newly organized corporation for this purpose, and which corporation will be a C corporation. In return for the transfer of these assets, Recycle Corporation issued 600 common shares of Recycle Corporation to Peter. Also, Recycle Corporation issued 300 common shares to Paul in return for Paul's transfer to Recycle Corporation of some vacant land, with an adjusted basis of $5,000 to Paul and with a fair market value of $30,000. In addition, Recycle Corporation issued 100 common shares to Paul because of services which Paul rendered to organize Recycle Corporation. Thus, Peter and Paul will be the only initial shareholders of Recycle Corporation, with Peter owning 600 common shares and Paul owning 400 common shares. Peter has owned the accounts receivable and inventory for less than two months, but Peter has owned the other assets (except for the cash) for more than two years. Peter has estimated the amount of Peter's goodwill, and Paul and Recycle Corporation accept the estimate. Peter has taken $15,000 of depreciation deductions with respect to the equipment.

<table>
<thead>
<tr>
<th>Asset</th>
<th>Adjusted Basis</th>
<th>Fair Market Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>5,000</td>
<td>5,000</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>2,000</td>
<td>5,000</td>
</tr>
<tr>
<td>Inventory</td>
<td>3,000</td>
<td>20,000</td>
</tr>
<tr>
<td>Equipment</td>
<td>25,000</td>
<td>20,000</td>
</tr>
<tr>
<td>Goodwill</td>
<td>0</td>
<td>10,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>35,000</strong></td>
<td><strong>60,000</strong></td>
</tr>
</tbody>
</table>

The total amount of Peter's and Paul's gross income for the current taxable year as a result of the incorporation is as follows.

a. None/Zero  
b. $9,000  
c. $30,000  
d. $10,000  
e. None of the above

207. Referring to Question 206, Peter's adjusted basis for the common shares which Peter received is as follows.

a. None/Zero  
b. $15,000  
c. $25,000  
d. $35,000  
e. None of the above

208. Referring to Question 206, Recycle Corporation's adjusted basis for the goodwill which Peter transferred to Recycle Corporation is as follows.

a. None/Zero  
b. $15,000  
c. $25,000  
d. $35,000  
e. None of the above

209. Referring to Question 206, Paul's adjusted basis for the common shares which Paul received for the land is as follows.

a. None/Zero  
b. $5,000  
c. $10,000  
d. $15,000  
e. None of the above
210. Referring to Question 206, Paul's adjusted basis for the common shares which Paul received for Paul’s services is as follows.
   a. None/Zero
   b. $5,000
   c. $9,000
   d. $10,000
   e. None of the above

211. During the current taxable year, Peter owned all of the following assets and Peter and Paul transferred these assets to YoHoHeaveHo, LLC, which was organized for this purpose. Paul transferred $150,000 of cash to YoHoHeaveHo, LLC. In return for the transfer of these assets, YoHoHeaveHo, LLC issued member interests, in equal shares, to Peter and Paul. Peter owned the accounts receivable and inventory for less than two months, but Peter owned the other assets (except for the cash) for more than two years. Peter has estimated the amount of Peter's goodwill, and Paul and YoHoHeaveHo, LLC accept the estimate. Peter has taken $15,000 of depreciation deductions with respect to the equipment.

<table>
<thead>
<tr>
<th>Asset</th>
<th>Adjusted Basis</th>
<th>Fair Market Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>30,000</td>
<td>30,000</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>20,000</td>
<td>30,000</td>
</tr>
<tr>
<td>Inventory</td>
<td>30,000</td>
<td>60,000</td>
</tr>
<tr>
<td>Equipment</td>
<td>15,000</td>
<td>10,000</td>
</tr>
<tr>
<td>Goodwill</td>
<td>0</td>
<td>20,000</td>
</tr>
<tr>
<td>Total</td>
<td>95000</td>
<td>150000</td>
</tr>
</tbody>
</table>

Peter's gross income for the current taxable year as a result of these transfers is as follows.
   a. None/Zero
   b. $15,000
   c. $55,000
   d. $150,000
   e. None of the above

212. Referring to Question 211, Peter's adjusted basis for Peter’s interest in YoHoHeaveHo, LLC is as follows.
   a. None/Zero
   b. $95,000
   c. $150,000
   d. $155,000
   e. None of the above

213. Referring to Question 211, YoHoHeaveHo, LLC’s adjusted basis for the inventory which Peter transferred to YoHoHeaveHo, LLC is as follows.
   a. None/Zero
   b. $20,000
   c. $30,000
   d. $35,000
   e. None of the above

214. Referring to Question 211, Paul’s gross income for the current taxable year as a result of these transfers is as follows.
   a. None/Zero
   b. $10,000
215. Referring to Question 211, Paul's adjusted basis for Paul’s interest in YoHoHeaveHo, LLC is as follows.
   a. None/Zero
   b. $95,000
   c. $100,000
   d. $150,000
   e. None of the above

216. During the current taxable year, Beverly was the sole shareholder of Chuckle Corporation, which was a C corporation, and which corporation was organized by Beverly on July 1 of the current taxable year. During Chuckle Corporation's first taxable period (the short period of July 1 through December 31), Chuckle Corporation borrowed $50,000, had no receipts and had a net loss of $20,000. Also, during such first taxable period, Chuckle Corporation distributed to Beverly, as a shareholder, cash of $40,000. Beverly's adjusted basis for Beverly's common shares at the beginning of the short taxable period was $30,000. Beverly's gross income for the current taxable year is as follows.
   a. None/Zero
   b. $10,000
   c. $20,000
   d. $30,000
   e. None of the above

217. Charming Corporation was organized ten taxable years ago and during the current taxable year, Charming Corporation was a C corporation with the following financial information. Charming Corporation used the accrual method of accounting as its accounting method, and, at the beginning of the current taxable year, Charming Corporation had $500,000 of accumulated earnings and profits. Beverly was the sole shareholder of Charming Corporation and Beverly's adjusted basis for Beverly's shares was $50,000 at the beginning of the current taxable year. Other financial information about Charming Corporation for the current taxable year is as follows.

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales of inventory</td>
<td>$3,000,000</td>
</tr>
<tr>
<td>Dividends from other domestic, nonaffiliated, C corporations</td>
<td>200,000</td>
</tr>
<tr>
<td>Interest from Bank of Indiana</td>
<td>100,000</td>
</tr>
<tr>
<td>State of New York bond interest</td>
<td>100,000</td>
</tr>
<tr>
<td>Cost of goods sold</td>
<td>1,000,000</td>
</tr>
<tr>
<td>Compensation accrued to Charming Corporation and paid to Beverly, which includes $5,000 of unreasonable compensation</td>
<td>200,000</td>
</tr>
<tr>
<td>Federal income taxes</td>
<td>600,000</td>
</tr>
<tr>
<td>Other expenses</td>
<td>200,000</td>
</tr>
<tr>
<td>Total cash distributions to Beverly, as a shareholder</td>
<td>200,000</td>
</tr>
</tbody>
</table>

Charming Corporation's gross income for the current taxable year is as follows.
   a. None/Zero
   b. $3,300,000
   c. $2,300,000
   d. $2,100,000
218. Referring to Question 217, Charming Corporation had gross income of $4,000,000 for the current taxable year. Charming Corporation's taxable income for the current taxable year is as follows.
   a. None/Zero
   b. $3,405,000
   c. $3,605,000
   d. $3,465,000
   e. None of the above

219. Referring to Question 217, Beverly's gross income for the current taxable year is as follows.
   a. None/Zero
   b. $400,000
   c. $395,000
   d. $200,000
   e. None of the above

220. Referring to Question 217, Charming Corporation had taxable income of $1,100,000 for the current taxable year. Charming Corporation's income tax (prior to any credit) for the current taxable year is as follows.
   a. None/Zero
   b. $435,600
   c. $340,000
   d. $374,000
   e. None of the above

221. Referring to Question 217, Charming Corporation had taxable income of $60,000 for the current taxable year. Charming Corporation's income tax (prior to any credit) for the current taxable year is as follows.
   a. None/Zero
   b. $20,400
   c. $10,000
   d. $15,000
   e. None of the above

222. Referring to Question 217, Beverly's adjusted basis for Beverly's shares in Charming Corporation at the end of the current taxable year is as follows.
   a. None/Zero
   b. $50,000
   c. $200,000
   d. $250,000
   e. None of the above

223. During the current taxable year, Duty Corporation, which was a manufacturing corporation and a C corporation, had $2,500,000 of accumulated earnings and profits. The highest amount of accumulated earnings tax which Duty Corporation might owe for the current taxable year is as follows.
   a. None/Zero
   b. $337,500
   c. $335,000
   d. $850,000
   e. None of the above

224. During the current taxable year, John was the sole owner (as John had been for several years) of the common shares (which was the only issued and outstanding shares) in Orange Corporation, which corporation had elected income tax treatment under Subchapter S during Orange Corporation's first taxable year. At the beginning of the current taxable year, the adjusted basis for John's shares was $10,000. John worked for Orange Corporation. In
addition to the data which is stated below, John had salary of $20,000 from Orange Corporation and Mary had salary of $100,000 from ZoomZoom Corporation. Also, during the current taxable year, Orange Corporation had gross receipts of $350,000, cost of goods sold of $50,000, taxable interest income of $5,000, and operational expenses of $100,000 (which amount includes all paid salaries). Also, during the current taxable year, Orange Corporation distributed $20,000 to John with respect to John's common shares. John's and Mary's gross income for the current taxable year is as follows.

a. None/Zero  
b. $335,000  
c. $325,000  
d. $345,000  
e. None of the above

225. Referring to Question 224, John's and Mary's adjusted gross income for the current taxable year is as follows.

a. None/Zero  
b. $335,000  
c. $345,000  
d. $320,000  
e. None of the above

226. Referring to Question 224, John's adjusted basis for John's common shares at the end of the current taxable year is as follows.

a. None/Zero  
b. $205,000  
c. $195,000  
d. $320,000  
e. None of the above

227. Referring to Question 224, John did not work for Orange Corporation and John did not receive a salary from Orange Corporation and Orange Corporation's total operational expenses was $315,000. John's and Mary's gross income for the current taxable year is as follows.

a. None/Zero  
b. $130,000  
c. $190,000  
d. $405,000  
e. None of the above

228. Referring to Question 227, John's and Mary's gross income for the current taxable year is $100,000. John’s and Mary’s adjusted gross income for the current taxable year is as follows.

a. None/Zero  
b. $100,000  
c. $110,000  
d. $405,000  
e. None of the above

229. Referring to Question 227, John's adjusted basis for John's common shares at the end of the current taxable year is as follows.

a. None/Zero  
b. $40,000  
c. $50,000  
d. $350,000  
e. None of the above

230. During the current taxable year, Beverly was the sole shareholder in four corporations (Winter Corporation, Spring Corporation, Summer Corporation, and Fall Corporation). Winter Corporation and Spring Corporation
and Summer Corporation were S corporations. Fall Corporation was a C corporation. Beverly had an adjusted basis for the common shares which Beverly owned in each of the four corporations of $100,000 ($100,000 per corporation).

a. With respect to Winter Corporation, Beverly worked for Winter Corporation and received a gross salary from Winter Corporation of $20,000. During the current taxable year, Winter Corporation sold computers and had a net profit of $100,000 (after deducting Beverly's gross salary).

b. With respect to Spring Corporation, Beverly did not work for Spring Corporation and did not receive a salary from Spring Corporation. During the current taxable year, Spring Corporation sold porch furniture and had a net profit of $100,000.

c. With respect to Summer Corporation, Beverly did not work for Summer Corporation and did not receive a salary from Summer Corporation. During the current taxable year, Summer Corporation sold and repaired bicycles and had a net loss of $100,000.

d. With respect to Fall Corporation, Beverly worked for Fall Corporation and received a gross salary from Fall Corporation of $20,000. During the current taxable year, Fall Corporation had earnings and profits of $200,000 distributed $10,000 to Beverly with respect to Beverly's shares.

Beverly's gross income for the current taxable year is as follows.

a. None/Zero
b. $240,000
c. $250,000
d. $150,000
e. None of the above

231. Referring to Question 230, Beverly's adjusted gross income for the current taxable year is as follows.

a. None/Zero
b. $240,000
c. $250,000
d. $150,000
e. None of the above

232. Referring to Question 230, Beverly's adjusted basis for Beverly's common shares in Winter Corporation at the end of the current taxable year is as follows.

a. None/Zero
b. $100,000
c. $200,000
d. $220,000
e. None of the above

233. Referring to Question 230, Beverly's adjusted basis for Beverly's common shares in Spring Corporation at the end of the current taxable year is as follows.

a. None/Zero
b. $100,000
c. $200,000
d. $50,000
e. None of the above

234. Referring to Question 230, Beverly's adjusted basis for Beverly's common shares in Summer Corporation at the end of the current taxable year is as follows.

a. None/Zero
b. $100,000
c. $200,000
d. $50,000
e. None of the above

235. Referring to Question 230, Beverly's adjusted basis for the common shares in Fall Corporation at the end of the current taxable year is as follows.
   a. None/Zero
   b. $100,000
   c. $110,000
   d. $130,000
   e. None of the above

236. On July 5 of the current taxable year, Paul sold 100 common shares of the Waffle Corporation for $40,000. Paul received the 100 common shares, as a share dividend, on January 2 of the current taxable year when these (new) common shares had a total fair market value of $30,000. The share dividend was a 100% share dividend of common shares with respect to 100 common shares and the new common shares had the same terms as the original common shares and Paul was not granted any election with respect to the receipt of such share dividend. Paul had purchased the original common shares four taxable years ago for $10,000. Paul’s gross income for the current taxable year with respect to the share dividend is as follows.
   a. None/Zero
   b. $30,000
   c. $10,000
   d. $40,000
   e. None of the above

237. Referring to Question 236, Paul's long term capital gain gross income for the current taxable year with respect to the sale of the new common shares is as follows.
   a. None/Zero
   b. $35,000
   c. $30,000
   d. $10,000
   e. None of the above

238. On July 5 of the current taxable year, Paul sold 200 common shares of Solid Corporation for $40,000. Paul received the 200 common shares on October 1 of the last taxable year when these (new) common shares had a total fair market value of $20,000. The dividend was a 100% share dividend of common shares on 200 common shares and the new common shares had the same terms as the original common shares. However, just prior to the distribution of the new common shares to Paul, Paul had an election to either receive such share dividend or to receive $20,000 of cash, and Paul chose to receive the share dividend. Paul purchased the original common shares five taxable years ago for $20,000. Paul's gross income for the last taxable year with respect to the share dividend is as follows.
   a. None/Zero
   b. $20,000
   c. $10,000
   d. $40,000
   e. None of the above

239. Referring to Question 238, Paul's short term capital gain gross income for the current taxable year with respect to the sale of the new common shares is as follows.
   a. None/Zero
   b. $20,000
   c. $10,000
   d. $40,000
   e. None of the above
240. On May 5 of the current taxable year, Paul sold 100 common shares of DoingFine Corporation for $10,000. Paul received 200 common shares (which included the 100 common shares which Paul sold) on November 10 of the last taxable year as a two for one stock split, when DoingFine Corporation required Paul to turn in (to DoingFine Corporation) 100 common shares which Paul then owned in DoingFine Corporation in return for the 200 new common shares in DoingFine Corporation. The 100 common shares which Paul initially owned were purchased on February 9, two taxable years ago, by Paul for $10,000. The fair market value of the 200 new common shares which Paul received on November 10 of the last taxable year was $20,000. Paul's gross income for the last taxable year with respect to the share split is as follows.
   a. None/Zero
   b. $5,000
   c. $10,000
   d. $20,000
   e. None of the above

241. Referring to Question 240, Paul's long term capital gain gross income for the current taxable year with respect to the sale of the new common shares is as follows.
   a. None/Zero
   b. $10,000
   c. $5,000
   d. $15,000
   e. None of the above

242. During the current taxable year, John sold 100 common shares of YaHoo Corporation for $50,000, which John had purchased two taxable years ago for $200,000 as an investment. The common shares were qualified as section 1244 stock. John's ordinary expense or ordinary loss deduction (considering all deduction limitations) for the current taxable year is as follows.
   a. None/Zero
   b. $100,000
   c. $150,000
   d. Need additional information
   e. None of the above

243. Referring to Question 242, John sold the common shares for $300,000. John's ordinary gross income for the current taxable year is as follows.
   a. None/Zero
   b. $150,000
   c. $100,000
   d. Need additional information
   e. None of the above

244. During the current taxable year, all of John's common shares of Nice Corporation, which John had purchased two taxable years ago for $50,000, became worthless. The common shares were qualified as section 1244 stock. John's long term capital loss for the current taxable year is as follows.
   a. None/Zero
   b. $3,000
   c. $9,000
   d. Need additional information
   e. None of the above

245. Six taxable years ago, Paul purchased some common shares for $50,000 which qualified for treatment under section 1202. During the current taxable year, Paul sold the common shares for $150,000. Paul's long term capital gain gross income for the current taxable year is as follows.
   A. None/Zero
   B. $25,000
246. Referring to Question 245, Paul sold the common shares for $30,000. Paul's long term capital loss for the current taxable year is as follows.
   a. None/Zero  
   b. $15,000  
   c. $20,000  
   d. Need additional information  
   e. None of the above

247. On December 10 of the current taxable year, Mary sold 100 common shares of Friendly Corporation for $125,000. Mary had purchased the common shares many taxable years ago for $100,000. In addition to the sale of the Friendly Corporation common shares, Mary had a gross salary of $200,000. On January 2 of the next taxable year, Mary purchased 100 common shares of Friendly Corporation for $120,000. Mary's gross income for the current taxable year is as follows.
   A. None/Zero  
   B. $25,000  
   C. $200,000  
   D. $225,000  
   E. None of the above

248. On December 10 of the current taxable year, Paul sold 100 common shares of Friendly Corporation for $200,000. Paul had purchased the common shares ten taxable years ago for $225,000. In addition to the sale of the Friendly Corporation common shares, Paul had a gross salary of $200,000 for the current taxable year. Then, on January 5 of the next taxable year, Paul purchased 100 common shares of Friendly Corporation for $230,000. Paul's adjusted gross income for the current taxable year is as follows.
   a. None/Zero  
   b. $175,000  
   c. $200,000  
   d. $197,000  
   e. None of the above

249. On January 1 of the current taxable year, Packing Corporation exchanged, with Dealer, Inc. (a corporation which was a dealer in box sealing machines), a box sealing machine (which Packing Corporation had used for five years and which had been purchased by Packing Corporation for $600,000 and with respect to which Packing Corporation had taken $400,000 of depreciation deductions) for a new box sealing machine which was owned by Dealer, Inc. Packing Corporation also paid Dealer, Inc. cash of $900,000. Packing Corporation and Dealer, Inc. estimated that Packing Corporation's old machine had a fair market value, at the date of the transfer to Dealer, Inc., of $300,000. Dealer, Inc. had owned the Dealer, Inc.'s machine for two years, as inventory, and had an adjusted basis for the machine of $500,000. Dealer, Inc.'s ordinary gross income for the current taxable year is as follows.
   a. None/Zero  
   b. $500,000  
   c. $300,000  
   d. $700,000  
   e. None of the above

250. Referring to Question 249, Dealer, Inc.'s adjusted basis for the box sealing machine which Dealer, Inc. received from Packing Corporation is as follows.
   a. None/Zero  
   b. $1,100,000  
   c. $500,000
d. $300,000
e. None of the above

251. Referring to Question 249, Packing Corporation's gross income for the current taxable year is as follows.
   a. None/Zero
   b. $250,000
c. $450,000
d. $650,000
e. None of the above

252. During the current taxable year, Kinder Corporation merged into Gentler Corporation. Just prior to the merger, John owned 125 common shares (50% of the common shares) of Kinder Corporation, which shares (of John) had a fair market value of $200,000 (because Kinder Corporation's fair market value was $400,000) and which shares had an adjusted basis to John of $40,000 and which shares had been owned by John for over five years. The other 50% (125 common shares) of Kinder Corporation was owned by Paul, which shares (of Paul) had a fair market value of $200,000 (because Kinder Corporation's fair market value was $400,000) and which shares had an adjusted basis to Paul of $45,000 and which shares had been owned by Paul for over five years. The total fair market value of Gentler Corporation's 1,000 issued and outstanding common shares was also $400,000 and 100% of the 1,000 common shares of Gentler Corporation was owned by Paul. As part of the merger, Gentler Corporation authorized another 1,000 common shares to be issued by Gentler Corporation (so that Gentler Corporation would then have 2,000 common shares authorized), and then, Kinder Corporation transferred all of Kinder Corporation's assets to Gentler Corporation. Just prior to the merger, the adjusted basis of Kinder Corporation's assets which Kinder Corporation transferred to Gentler Corporation was $100,000 and the fair market value of the assets which Kinder Corporation transferred to Gentler Corporation was $400,000 and Kinder Corporation and Gentler Corporation each had accumulated earnings and profits of $150,000. Thereafter, Gentler Corporation issued the new (and additional) 1,000 common shares of Gentler Corporation to Kinder Corporation in exchange therefor. Thereafter, Kinder Corporation transferred 500 common shares of Gentler Corporation to John (in exchange for John's 125 common shares of Kinder Corporation), and, in addition, Kinder Corporation transferred 500 common shares of Gentler Corporation to Paul (in exchange for Paul's 125 common shares of Kinder Corporation). Then, under the provisions of the applicable merger laws, Kinder Corporation ceased to exist. And, as a result of the merger, the 2,000 common shares of Gentler Corporation were owned as follows: John owned 500 common shares (25%) of Gentler Corporation (and no shares in Kinder Corporation); Paul owned 500 common shares (25%) of Gentler Corporation (and no shares in Kinder Corporation); and, Paul owned 1,000 common shares (50%) of Gentler Corporation (and no shares in Kinder Corporation). Further, after the merger, Kinder Corporation was no longer in existence. Further, after the merger, Gentler Corporation had a fair market value of $800,000. John's capital gain gross income for the current taxable year is as follows.
   a. None/Zero
   b. $60,000
c. $100,000
d. $200,000
e. None of the above

253. Referring to Question 252, John's adjusted basis for the common shares which John received in Gentler Corporation from Kinder Corporation is as follows.
   a. None/Zero
   b. $40,000
c. $100,000
d. $200,000
e. None of the above

254. Referring to Question 252, Gentler Corporation's gross income for the current taxable year is as follows.
   a. None/Zero
   b. $200,000
c. $300,000
d. $400,000

255. Referring to Question 252, Gentler Corporation's adjusted basis for the assets which Gentler Corporation received from Kinder Corporation is as follows.
a. None/Zero
b. $100,000
c. $200,000
d. $400,000
e. None of the above

256. Referring to Question 252, Kinder Corporation's gross income for the current taxable year is as follows.
a. None/Zero
b. $100,000
c. $200,000
d. $400,000
e. None of the above

257. Referring to Question 252, after the merger, Gentler Corporation's total earnings and profits is as follows.
a. None/Zero
b. $150,000
c. $180,000
d. $300,000
e. None of the above

258. Referring to Question 252, John received from Kinder Corporation, as part of the merger, $10,000 of cash and the common shares in Gentler Corporation, which shares had a fair market value of $190,000. John's capital gain gross income for the current taxable year is as follows.
a. None/Zero
b. $10,000
c. $5,000
d. $200,000
e. None of the above

259. Referring to Question 258, John's adjusted basis for the common shares of Gentler Corporation which John received as a result of the merger is as follows.
a. None/Zero
b. $40,000
c. $60,000
d. $100,000
e. None of the above

260. During the current taxable year and as part of a corporate division, Hotshot Corporation organized GoodLuck Corporation and transferred 60% of Hotshot Corporation's assets and 60% of Hotshots Corporation's liabilities to GoodLuck Corporation in exchange for 1,000 common shares of GoodLuck Corporation (which were all of the common shares of Good Luck Corporation). Mary owned, at that time, 60% of the common shares (600 of the 1,000 common shares) of Hotshot Corporation, which common shares (of Mary) had a fair market value of $1,200,000 (because Hotshot Corporation's fair market value was $2,000,000) and which common shares had an adjusted basis to Mary of $30,000 and which common shares had been owned by Mary for over five years. Paul owned the other 40% (400 common shares) of Hotshot Corporation, which 400 common shares had a fair market value of $800,000. As part of the corporate division of Hotshot Corporation, Hotshot Corporation transferred 60% of Hotshot Corporation's assets and liabilities (which had a net fair market value of $1,200,000) to GoodLuck Corporation and GoodLuck Corporation issued 1,000 common shares of GoodLuck Corporation (which were all of GoodLuck Corporation's shares) to Hotshot Corporation in exchange such assets and liabilities.
Just prior to the corporate division, Hotshot Corporation had $300,000 of accumulated earnings and profits. Thereafter, Hotshot Corporation transferred all of the GoodLuck Corporation common shares to Mary in exchange for the common shares of Hotshot Corporation which were owned by Mary. Then, under the provisions of the applicable corporate division laws, Hotshot Corporation and Good Luck Corporation existed as separate corporations, with Mary owning all of the common shares of GoodLuck Corporation (which then had a fair market value of $1,200,000) and with Paul owning all of the common shares of Hotshot Corporation (which then had a fair market value of $800,000). The adjusted basis of Hotshot Corporation's assets which Hotshot Corporation transferred to Good Luck Corporation was $275,000. Mary's gross income for the current taxable year with respect to the corporate division is as follows.

A. None/Zero
B. $925,000
C. $1,170,000
D. $1,200,000
E. None of the above

261. Referring to Question 260, Mary's adjusted basis for the common shares which Mary received in GoodLuck Corporation from Hotshot Corporation is as follows.
   a. None/Zero
   b. $30,000
   c. $275,000
   d. $1,170,000
   e. None of the above

262. Referring to Question 260, Hotshot Corporation's gross income for the current taxable year with respect to the corporate division is as follows.
   a. None/Zero
   b. $30,000
   c. $275,000
   d. $1,170,000
   e. None of the above

263. Referring to Question 260, GoodLuck Corporation's adjusted basis for the assets which GoodLuck Corporation received from Hotshot Corporation is as follows.
   a. None/Zero
   b. $30,000
   c. $275,000
   d. $1,170,000
   e. None of the above

264. Referring to Question 260, GoodLuck Corporation's gross income as the result of these facts is as follows.
   a. None/Zero
   b. $30,000
   c. $275,000
   d. $1,170,000
   e. None of the above

265. Referring to Question 260, GoodLuck Corporation's accumulated earnings and profits just after the corporate division is as follows.
   a. None/Zero
   b. $180,000
   c. $240,000
   d. $400,000
   e. None of the above
266. During the current taxable year, Paul owned 100 common shares of FruitLoops Corporation, which was 100% of the common shares of FruitLoops Corporation, a C corporation which had accumulated earnings and profits of $400,000. Paul needed some money in order to repay a debt which Paul owed. Therefore, during the current taxable year, FruitLoops Corporation redeemed 50 of the common shares which Paul owned. Paul's adjusted basis for the 50 redeemed common shares was $5,000 and the common shares were redeemed at the fair price of $12,000. Paul's gross income for the current taxable year is as follows.
   a. None/Zero
   b. $12,000 ordinary income
   c. $7,000 long term capital gain
   d. $7,000 ordinary income
   e. None of the above

267. During the current taxable year, Paul owned 100 common shares of SeeYouSoon Corporation, which was 50% of the common shares of SeeYouSoon Corporation, a C corporation which had accumulated earnings and profits of $400,000. John owned the other 50% of the common shares. Paul needed some money in order to repay a debt which Paul owed. Therefore, during the current taxable year, SeeYouSoon Corporation redeemed all 100 of the common shares which Paul owned. Paul's adjusted basis for the 100 redeemed common shares was $5,000 and the common shares were redeemed at the fair price of $12,000. Paul's gross income for the current taxable year is as follows.
   a. None/Zero
   b. $12,000 ordinary income
   c. $7,000 long term capital gain
   d. $7,000 ordinary income
   e. None of the above

268. Referring to Question 267, Paul sold to Mary 50 of the common shares which Paul owned for $12,000. Paul's adjusted basis for the 50 sold common shares was $5,000. Paul's gross income for the current taxable year is as follows.
   a. None/Zero
   b. $12,000 ordinary income
   c. $7,000 long term capital gain
   d. $7,000 ordinary income
   e. None of the above

269. During the current taxable year, SnickelFritz Corporation, a C corporation, had accumulated earnings and profits of $300,000 and had the following assets and liabilities.

<table>
<thead>
<tr>
<th>Asset</th>
<th>Adjusted Basis</th>
<th>Fair Market Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>25,000</td>
<td>25,000</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>15,000</td>
<td>20,000</td>
</tr>
<tr>
<td>Inventory</td>
<td>20,000</td>
<td>50,000</td>
</tr>
<tr>
<td>Equipment</td>
<td>20,000</td>
<td>10,000</td>
</tr>
<tr>
<td>Land</td>
<td>20,000</td>
<td>80,000</td>
</tr>
<tr>
<td>Goodwill</td>
<td>0</td>
<td>20,000</td>
</tr>
<tr>
<td>Liabilities</td>
<td>0</td>
<td>10,000</td>
</tr>
</tbody>
</table>

As part of the liquidation process, SnickelFritz Corporation distributed the land to Mary as the first distribution of the assets to Mary, which was the only distribute of assets made to Mary during the current taxable year.
SnickelFritz Corporation's gross income with respect to the liquidation distribution of the land to Mary is as follows.

a. None/Zero
b. $20,000
c. $60,000
d. $50,000
e. None of the above

270. Referring to Question 269, Mary's gross income with respect to the liquidation distribution to Mary is as follows.

a. None/Zero
b. $20,000
c. $80,000
d. $50,000
e. None of the above

271. Referring to Question 269, Mary sold the land for $90,000 nine months after Mary received the land. Mary's gross income for the current taxable year as a result of the sale is as follows.

a. None/Zero
b. $60,000
c. $30,000
d. $10,000
e. None of the above

272. During the current taxable year, HereWeGo Corporation has taxable income of $51,000. HereWeGo Corporation's income tax (prior to any credit) for the current taxable year is as follows.

a. None/Zero
b. $10,000
c. $7,750
d. $8,000
e. None of the above

273. Referring to Question 272, HereWeGo Corporation has taxable income of $501,000. HereWeGo Corporation's income tax (prior to any credit) for the current taxable year is as follows.

a. None/Zero
b. $100,000
c. $170,340
d. $150,400
e. None of the above

274. During the current taxable year, SpringFever Corporation paid a salary of $10,000 to Paul. The amount of social security tax and hospital insurance tax which SpringFever Corporation must withhold from Paul’s salary for the current year is as follows.

a. None/Zero
b. $6,000
c. $600
d. $765
e. None of the above

275. Referring to Question 274, the amount of unemployment tax (prior to any credit) which SpringFever Corporation must withhold from Paul’s salary for the current year is as follows.

a. None/Zero
b. $6,000
c. $600
d. $765
276. During the current taxable year, John's employer, Jolly Corporation, which regularly sold sporting equipment to customers, allowed John to purchase a some landscaping equipment which Jolly Corporation had used but which Jolly Corporation no longer wanted to use and which had no adjusted basis to Jolly Corporation, but which had a fair market value of $12,000) for $10,000, because John had worked so hard for Jolly Corporation during the last taxable year, and therefore, Jolly Corporation wanted to give John a bonus for the current taxable year. John paid for and received the landscaping equipment (with no restrictions attached) on November 1 of the current taxable year. John's ordinary gross income for the current taxable year with respect to the transfer to John is as follows.
   a. None/Zero
   b. $7,000
   c. $2,000
   d. $5,000
   e. None of the above

277. Referring to Question 276, Jolly Corporation's ordinary gross income for the current taxable year with respect to the transfer to John is as follows.
   a. None/Zero
   b. $5,000
   c. $2,000
   d. $7,000
   e. None of the above

278. On January 1 of the current taxable year, Nice Corporation declared a dividend of cash which was payable to shareholders who owned Nice Corporation common stock on February 1 of the current taxable year. The dividend was payable on April 1 of the current taxable year. Mary died on February 2 of the current taxable year, and the executor of Mary’s estate received the dividend of $150 on April 1 of the current taxable year. Mary's ordinary gross income for the current taxable year with respect to the dividend is as follows.
   a. None/Zero
   b. $150
   c. $75
   d. Need additional information
   e. None of the above

279. Referring to Question 278, Mary used the accrual method of accounting. The estate's ordinary gross income for the current taxable year is as follows.
   a. None/Zero
   b. $150
   c. $75
   d. Need additional information
   e. None of the above

280. During the current taxable year, Mary organized Fair Corporation, transferred all of Mary's sole proprietorship assets (with a fair market value of $100,000 and a total adjusted basis of $25,000, all appreciated assets) to Fair Corporation, and Mary received, from Fair Corporation, in exchange for the assets, all of Fair Corporation's issued and outstanding common shares. One category of assets which Mary transferred to Fair Corporation was accounts receivable, which Mary had received in the ordinary course of operating Mary’s sole proprietorship and with respect to which Mary had an adjusted basis of $17,000 and which had a fair market value of $20,000. Mary's ordinary gross income for the current taxable year with respect to the transfer of the accounts receivable to Fair Corporation is as follows.
   a. None/Zero
   b. $17,000
   c. $10,000
   d. $20,000
e. None of the above

281. Referring to Question 280, Fair Corporation’s adjusted basis for the accounts receivable is as follows.
   a. None/Zero
   b. $17,000
   c. $10,000
   d. $20,000
   e. None of the above

282. Referring to Question 280, Fair Corporation had an adjusted basis for the accounts receivable of $17,000 and that the accounts receivable has a face value of $20,000 and that during the next taxable year, Fair Corporation collected the entire face amount of the accounts receivable ($20,000). Fair Corporation's ordinary gross income for the next taxable year with respect to the collection of the accounts receivable is as follows.
   a. None/Zero
   b. $3,000
   c. $20,000
   d. $17,000
   e. None of the above

283. During the current taxable year, John and Mary had taxable income of $400,000. During the current taxable year, Sue received a distribution of $5,000 of interest from an irrevocable trust which had been established by Mary’s father when Mary's father died. The $5,000 was attributable to the current income of the trust. In addition, Sue had earned income of $10,000. Sue's income tax (prior to any credit) for the current taxable year is as follows.
   a. None/Zero
   b. $1,850
   c. $1,875
   d. $1,886
   e. None of the above

284. During the current taxable year, John had adjusted gross income of $100,000, without considering the following transactions and John made no election with respect to these facts. During the current taxable year, John made a charitable contribution of common shares which John had owned for 15 months, with an adjusted basis of $50,000 and a fair market value of $40,000. John's ordinary expense or ordinary loss deduction for the current taxable year with respect to the charitable contribution (considering all deduction limitations) is as follows.
   a. None/Zero
   b. $30,000
   c. $40,000
   d. $50,000
   e. None of the above

285. During the current taxable year, John had adjusted gross income of $100,000, without considering the following transactions and John made no election was made with respect to these facts. During the current taxable year, John made a charitable contribution of common shares which John had owned for six months, with an adjusted basis of $30,000 and a fair market value $40,000. John's ordinary expense or ordinary loss deduction for the current taxable year with respect to the charitable contribution (considering all deduction limitations) is as follows.
   a. None/Zero
   b. $30,000
   c. $40,000
   d. $10,000
   e. None of the above

286. During the current taxable year, John had adjusted gross income of $100,000, without considering the following transactions and John made no election was made with respect to these facts. During the current taxable year,
John made a charitable contribution of common shares which John had owned for two months, with an adjusted basis of $55,000 and a fair market value $60,000. John's charitable contribution carryover to next year (considering all deduction limitations) is as follows.

a. None/Zero  
b. $25,000  
c. $30,000  
d. $5,000  
e. None of the above

287. During the current taxable year, Peter borrowed, as an unsecured loan from a bank, $100,000, in order to invest in GoGo Corporation shares and in FooFoo Corporation shares. Peter kept the balance of the borrowed funds in a savings account. By the end of the current taxable year, Peter had paid interest on the debt of $7,000 and received dividends of $2,000 and interest of $2,000 and capital gains of $2,000. Peter wants to deduct all of the interest which Peter can during the current taxable year. Peter's ordinary expense or ordinary loss deduction for interest for the current taxable year (considering all deduction limitations) is as follows.

a. None/Zero  
b. $4,000  
c. $6,000  
d. $7,000  
e. None of the above

288. On January 1 of the current taxable year, Peter purchased a Courageous Corporation bond for $10,000 when the bond was issued. The bond matures on December 31 ten years from the bond's issue date, has a par value of $10,000, and has a stated interest rate of seven percent per year, which stated interest is paid each December 31. During the current taxable year, Peter received a check for the proper amount of the stated interest. Peter took all of the deductions (or gross income reductions) indicated by these facts, but Peter did not itemize Peter's deductions. Peter's gross income for the current taxable year is (approximately) as follows.

a. None/Zero  
b. $700  
c. $1,400  
d. $2,100  
e. None of the above

289. On January 1 of the current taxable year, Peter purchased a Sushi Corporation bond for $11,000 when the bond was issued. The bond matures on December 31 ten years from the bond's issue date, has a par value of $10,000, and has a stated interest rate of five percent per year, which stated interest is paid each December 31. During the current taxable year, Peter received a check for the proper amount of the stated interest. Peter took all of the deductions (or gross income reductions) indicated by these facts, but Peter did not itemize Peter's deductions. Peter's gross income for the current taxable year is (approximately) as follows.

a. None/Zero  
b. $400  
c. $500  
d. $100  
e. None of the above

290. Referring to Question 289, Peter's adjusted basis for the bond at the beginning of the next taxable year is (approximately) as follows.

a. None/Zero  
b. $11,000  
c. $10,000  
d. $10,900  
e. None of the above

291. On January 1 of the current taxable year, Peter purchased a LoveyDovey Corporation bond for $8,000 when the
bond was issued. The bond matures on December 31 ten years from the bond's issue date, has a par value of $10,000, and has a stated interest rate of eight percent per year, which stated interest is paid each December 31. During the current taxable year, Peter received a check for the proper amount of the stated interest. Peter took all of the deductions (or gross income reductions) indicated by these facts, but Peter did not itemize Peter's deductions. Peter's gross income for the current taxable year is (approximately) as follows.

a. None/Zero
b. $800
c. $640
d. $1,000
e. None of the above

292. Referring to Question 291, Peter's adjusted basis for the bond at the beginning of the next taxable year is (approximately) as follows.

a. None/Zero
b. $8,000
c. $8,200
d. $10,000
e. None of the above

293. Referring to Question 291, Peter owned the bond until the bond matured, at which time, LoveyDovey Corporation redeemed the bond from Peter. Peter's gross income for the year in which the bond was redeemed with respect to the bond is (approximately) as follows.

a. None/Zero
b. $2,000
c. $1,000
d. $10,000
e. None of the above

294. On January 1 of two taxable years ago, Peter purchased a Moogoogaipan Corporation bond for $20,000 when the bond was issued. The bond was to mature on December 31, ten years from the bond's issue date, had a par value of $20,000, and had a stated interest rate of ten percent per year, which stated interest was to be paid each December 31. From the date of Peter's acquisition of the bond through Peter's disposition of the bond (a period of three years), Peter has not received a payment for any of the interest with respect to the bond. On December 31 of the current taxable year, Peter sold the bond to Paul for $15,000. Peter took all of the deductions (or reductions, prior to gross income) indicated by these facts. Peter's long term capital loss for the current taxable year is as follows.

a. None/Zero
b. $5,000
c. $9,000
d. $11,000
e. None of the above

295. On January 1 of the current taxable year, Peter purchased a GetALong Corporation bond for $10,000 when the bond was issued. The bond was to mature on December 31, ten years from the bond's issue date, had a par value of $10,000 and had a stated interest rate of six percent per year, which stated interest was to be paid each December 31. During the current taxable year, Peter did not receive a check for any of the stated interest and on January 15 of the next taxable year the bond became worthless. Peter took all of the deductions (or reductions, prior to gross income) indicated by these facts. Peter's long term capital loss for the next taxable year is as follows.

a. None/Zero
b. $600
c. $10,000
d. $10,600
e. None of the above
296. On January 1 of the last taxable year, Peter purchased a HavingFun Corporation bond for $10,000 when the bond was issued. The bond was to mature on December 31, ten years from the bond's issue date, had a par value of $10,000, and had a stated interest rate of five percent per year, which stated interest was to be paid each December 31 and the interest was paid to Peter on December 31 of the last taxable year. On January 4 of the current taxable year, Peter sold the bond to Paul for $11,000. Peter's long term capital gain gross income for the current taxable year is (approximately) as follows.
   a. None/Zero
   b. $1,000
   c. $10,000
   d. $10,500
   e. None of the above

297. On December 1 of the current taxable year, Paul purchased a YourOk Corporation bond for $10,000 when the bond was issued. The bond was to mature on December 31, ten years from the bond's issue date, had a par value of $10,000, and had a stated interest rate of five percent per year, which stated interest was to be paid each December 31. During the current taxable year, Paul did not receive a check for any of the stated interest and the bond became worthless during January of next taxable year. Paul took all of the deductions (or reductions, prior to gross income) indicated by these facts. Paul's long term capital loss for the next taxable year is as follows.
   a. None/Zero
   b. $10,000
   c. $10,500
   d. $11,000
   e. None of the above

298. Paul made many purchases and sales of common shares over the LuckyStock Exchange as an investor for many years. During the current taxable year, Paul had capital gains of $5,000 and capital losses of $45,000. During each year for ten years prior to the current taxable year, Paul had capital gains of $5,000 and a gross salary of $100,000. For each year for 30 years after the current taxable year, Paul had capital gains of $5,000 and a gross salary of $100,000. Paul made all elections which were available to Paul and the current taxable year is 1997. The last taxable year (chronologically) during which Paul may deduct any part of Paul’s capital losses is as follows.
   a. None/Zero
   b. 1996
   c. 2001
   d. 2002
   e. None of the above

299. On January 1 of the current taxable year, John's mother gave John 1,000 common shares of CornedBeef&Cabbage Corporation. John's mother purchased the common shares four taxable years ago for a gross purchase price of $50,000 and John's mother also paid purchase expenses of $5,000. John's mother did not owe any gift taxes as a result of the gift. At the date of the gift, the common shares had a fair market value of $100,000. John held the common shares until April 1 of the current taxable year, at which time John sold the common shares to Paul for a gross sales price of $100,000. John paid selling expenses of $5,000. John's long term capital gain gross income for the current taxable year is as follows.
   a. None/Zero
   b. $50,000
   c. $45,000
   d. $40,000
   e. None of the above

300. Referring to Question 299, John sold the common shares to Paul for a gross sales price of $40,000 and John paid selling expenses of $5,000. John's long term capital loss for the current taxable year is as follows.
   a. None/Zero
b. $20,000  
c. $25,000  
d. $30,000  
e. None of the above

301. On January 1 of the current taxable year, John's mother gave John 1,000 common shares of Starbuck Corporation. John's mother purchased the common shares for a gross purchase price of $50,000 and John's mother paid purchase expenses of $5,000 two taxable years ago. At the date of the gift, the common shares had a fair market value of $30,000 and the mother owed no gift taxes because of the gift. John held the common shares until April 1 of the current taxable year, at which time John sold the common shares to Paul for a gross sales price of $80,000. John also paid selling expenses of $5,000. John's long term capital gain gross income for the current taxable year is as follows.
   a. None/Zero  
b. $45,000  
c. $30,000  
d. $20,000  
e. None of the above

302. Referring to Question 301, John had sold the common shares to Paul on April 1 of the current taxable year, for a gross sales price of $20,000 and that John paid selling expenses of $5,000. John's long term capital loss for the current taxable year is as follows.
   a. None/Zero  
b. $15,000  
c. $20,000  
d. $40,000  
e. None of the above

303. Referring to Question 301, John sold the common shares to Paul for a gross sales price of $40,000 and John paid selling expenses of $5,000. John's long term capital loss for the current taxable year is as follows.
   a. None/Zero  
b. $20,000  
c. $25,000  
d. $30,000  
e. None of the above

304. Mary died on January 1 of the current taxable year, owning 1,000 common shares of Starbuck Corporation. Mary paid a gross purchase price of $120,000 for the common shares in December of the last taxable year, and the common shares had a fair market value of $100,000 at Mary's death and $70,000 on July 1 of the current taxable year. The executor of Mary’s estate elected to use the date of death values for estate tax purposes, and on May 1 of the current taxable year, the executor sold the common shares to Paul, for a gross sales price of $75,000, and the executor paid selling expenses of $5,000, which selling expenses were elected to be utilized in determining the gain or loss on the federal fiduciary income tax return (IRS Form 1041), rather than being deducted on the federal estate tax return (IRS Form 706). The estate’s long term capital loss for the current taxable year is as follows.
   a. None/Zero  
b. $35,000  
c. $30,000  
d. $40,000  
e. None of the above

305. Referring to Question 304, the executor of Mary’s estate elected to deduct the selling expenses on the estate's federal estate tax return (IRS Form 706), rather than utilizing the selling expenses in determining the gain or loss on the estate's federal fiduciary income tax return (IRS Form 1041). The estate’s long term capital loss for the current taxable year with respect to the sale of the common shares to Paul is as follows.
   a. None/Zero
b. $25,000
c. $30,000
d. $35,000
e. None of the above

306. Referring to Question 304, the executor of Mary’s estate elected to use the alternate valuation dates. The estate’s long term capital loss for the current taxable year with respect to the sale of the common shares to Paul is as follows.
   a. None/Zero
   b. $25,000
c. $5,000
d. $30,000
e. None of the above

307. Mary died on January 1 of the current taxable year, owning 1,000 common shares of Starbuck Corporation. Mary paid $20,000 for the common shares in December of the last taxable year, and the common shares had a fair market value of $30,000 at Mary's death and $42,000 on July 1 of the current taxable year. The executor of Mary’s estate elected to use the date of death values for estate tax purposes. Mary's last will and testament devised $35,000 of cash to Paul, and on May 1 of the current taxable year, when the fair market value of the common shares was $35,000, the executor transferred the common shares to Paul, under an agreement under which Paul took the common shares in lieu of the cash devise. Mary’s estate’s long term capital gain for the current taxable year with respect to the transfer of the common shares to Paul is as follows.
   a. None/Zero
   b. $5,000
c. $7,000
d. $15,000
e. None of the above

308. Two taxable years ago, John purchased some common shares for $50,000, and during the current taxable year, John sold the common shares to Sue for $70,000. John's long term capital gain gross income for the current taxable year is as follows.
   a. None/Zero
   b. $10,000
c. $20,000
d. $5,000
e. None of the above

309. Referring to Question 308, John sold the common shares to Sue for $40,000. John's deductible long term capital loss for the current taxable year is as follows.
   a. None/Zero
   b. $3,000
c. $5,000
d. $10,000
e. None of the above

310. During the current taxable year, Mary died owning one whole (ordinary life) life insurance policy on Mary's life which had a face amount of $2,000,000 and which was payable, in lump sum, to Mary's estate. The life insurance policy had been purchased by Mary, during the current taxable year, for $200,000, from Zesty Corporation of which Mary was president and which corporation was a C corporation, and which corporation had purchased the life insurance policy several taxable years ago from the issuing life insurance company, and which life insurance policy was payable, prior to the sale to Mary, to Zesty Corporation. Mary promptly changed the beneficiary designation of the life insurance policy in order to make Mary's estate be the beneficiary. Initially, Zesty Corporation had purchased the life insurance policy for the benefit of Zesty Corporation, but then, when Mary decided to retire, Zesty Corporation sold the life insurance policy to Mary. Zesty Corporation had paid a total of
$100,000 of premiums with respect to the life insurance policy, $10,000 of which was paid during the current taxable year, prior to the sale of the life insurance policy to Mary. Zesty Corporation capitalized each premium payment; that is, Zesty Corporation did not expense the premiums either for book purposes or for earnings and profit purposes. The Table 2001 cost with respect to the payment of the current taxable year's life insurance premium was $1,000. Zesty Corporation's gross income for the current taxable year with respect to the sale of the life insurance policy to Mary is as follows.

a. None/Zero
b. $100,000
c. $90,000
d. $200,000
e. None of the above

311. Referring to Question 310, Mary’s estate's gross income for the current taxable year with respect to the life insurance proceeds is as follows.

a. None/Zero
b. $1,800,000
c. $1,810,000
d. None of the above
e. None of the above

312. Referring to Question 310, Zesty Corporation did not sell the life insurance policy to Mary, Mary died, and Zesty Corporation received $2,000,000 from the life insurance company due to the life insurance policy. Zesty Corporation's gross income with respect to the receipt of the life insurance proceeds policy, is as follows.

a. None/Zero
b. $2,000,000
c. $1,900,000
d. $1,910,000
e. None of the above

313. During the current taxable year, Mary died while Rabbit Corporation owned one whole (ordinary life) life insurance policy on Mary's life which had a face amount of $2,000,000 and which was payable, in lump sum, to Rabbit Corporation, which received the proceeds. Rabbit Corporation had always been a C corporation. The life insurance policy had been purchased by Rabbit Corporation several taxable years ago, as a key person life insurance policy on Mary’s life, and Rabbit Corporation had paid $20,000 per year for ten years ($200,000) of life insurance premiums, all of which were capitalized. Rabbit Corporation's net increase in earnings and profits for the current taxable year with respect to the receipt of the life insurance proceeds policy is as follows.

a. None/Zero
b. $2,000,000
c. $200,000
d. $1,800,000
e. None of the above

314. Referring to Question 313, Rabbit Corporation's ordinary expense or ordinary loss deduction for the last taxable year with respect to the payment of the life insurance policy premium payment is as follows.

a. None/Zero
b. $200,000
c. $100,000
d. $20,000
e. None of the above

315. Referring to Question 313, Peter purchased the life insurance policy for $180,000 from Rabbit Corporation, and that Peter promptly changed the beneficiary designation of the life insurance policy to be Peter, and that Peter paid one life insurance policy premium, of $15,000, with respect to the life insurance policy prior to Mary's death. Then, after all of this, Mary died during the current taxable year and Peter received the $2,000,000 of the life insurance policy's proceeds during the current taxable year. Peter's ordinary gross income for the current taxable
year with respect to the receipt of the life insurance proceeds is as follows.
   a. None/Zero  
   b. $1,820,000  
   c. $1,985,000  
   d. $1,805,000  
   e. None of the above

316. Referring to Question 315, Peter elected to receive the life insurance proceeds of the life insurance policy by receiving $210,000, each year, for a period of 20 years, beginning the next taxable year. Peter's ordinary gross income for the next taxable year with respect to the receipt of the $210,000 is as follows.
   a. None/Zero  
   b. $115,000  
   c. $200,250  
   d. $185,000  
   e. None of the above

317. Several taxable years ago, Mary acquired a whole (ordinary life) life insurance policy, as an owner, in the normal manner. The life insurance policy, with proceeds of $2,000,000, was payable to John, except as otherwise stated. Sable Corporation (which was Mary's employer) paid a total of $120,000 of premiums ($20,000 per year for six years, including the life insurance premium of the current taxable year, all of which Sable Corporation capitalized, rather than expensed, for book purposes and for earnings and profits purposes) with respect to the life insurance policy, which amount was the total amount paid as life insurance premiums with respect to the life insurance policy through the last taxable year. Mary had an agreement with Sable Corporation and with the life insurance company, which agreement provided that when Mary died, Sable Corporation would be repaid all of the premiums which Sable Corporation had paid on the life insurance policy and that this repayment would come from the proceeds of the life insurance policy. Thus, when Mary died during the current taxable year, Sable Corporation, received $120,000 of the life insurance proceeds and John received $1,880,000. The Table 2001 cost (of the $20,000 life insurance premium which Sable Corporation paid the last taxable year) was $1,000. Mary's ordinary gross income for the last taxable year with respect to Sable Corporation's payment of the life insurance premium is as follows.
   a. None/Zero  
   b. $1,000  
   c. $20,000  
   d. $120,000  
   e. None of the above

318. Referring to Question 317, Sable Corporation's ordinary expense or ordinary loss deduction for the last taxable year with respect to Sable Corporation's payment of the last taxable year's life insurance premium is as follows.
   a. None/Zero  
   b. $21,000  
   c. $1,000  
   d. $20,000  
   e. None of the above

319. Referring to Question 317, Sable Corporation's gross income for the current taxable year with respect to the receipt of the $120,000 of life insurance proceeds is as follows.
   a. None/Zero  
   b. $120,000  
   c. $20,000  
   d. $21,000  
   e. None of the above

320. Referring to Question 317, Sable Corporation paid, during the last taxable year, $19,000 of the last taxable year's life insurance premium and that Mary paid $1,000 of such life insurance premium, which latter amount which was
equal to the Table 2001 cost. Also, Sable Corporation paid Mary a bonus, during the last taxable year, of $1,000 so that Mary could pay the Table 2001 cost. Mary's ordinary gross income for the last taxable year with respect to Sable Corporation's life insurance premium payment and Table 2001 cost and bonus payment is as follows.

a. None/Zero
b. $1,000
c. $19,000
d. $20,000
e. None of the above

321. Referring to Question 320, Sable Corporation's ordinary expense or ordinary loss deduction to Sable Corporation for the last taxable year is as follows.

a. None/Zero
b. $1,000
c. $19,000
d. $20,000
e. None of the above

322. During the current taxable year, Special Corporation paid a premium of $600 with respect to a group term life insurance policy which insured the life of John, an employee of Special Corporation, which policy was owned by John, and which policy was payable to John's estate as the beneficiary, with a face amount of $60,000. Special Corporation's ordinary expense or ordinary loss deduction for the current taxable year with respect to the payment of the life insurance premium is as follows.

a. None/Zero
b. $60
c. $600
d. $60,000
e. None of the above

323. Referring to Question 322, John's ordinary gross income for the current taxable year with respect to the payment of the life insurance premium is as follows.

a. None/Zero
b. $100
c. $60
d. $600
e. None of the above

324. John had a gross salary of $50,000 during the current taxable year and John was covered by John's corporate employer's qualified retirement fund, which ChewChew Corporation maintained for John. Mary was not employed, but worked at home to maintain John's and Mary's home. Mary had a basic individual retirement account which Mary established for Mary. Mary may contribute to Mary's basic individual retirement account and deduct for income tax purposes the following amount.

a. None/Zero
b. $1,000
c. $3,000
d. $4,000
e. None of the above

325. During the current taxable year, Paul was employed by Grits Corporation at an annual gross salary of $60,000 and Paul established a Roth individual retirement account and contributed $2,000 to the individual retirement account. Neither Paul nor Grits Corporation made any other contribution to any retirement account with respect to Paul. During the current taxable year, the earnings in Paul's individual retirement account were $100. Paul's ordinary expense or ordinary loss deduction for the current taxable year is as follows.

a. None/Zero
b. $1,000
c. $2,000

d. $3,000

e. None of the above

326. Referring to Question 325, Paul's adjusted gross income for the current taxable year is as follows.

a. None/Zero
b. $60,000
c. $58,000
d. $57,900
e. None of the above

327. Referring to Question 325, Paul continued to work for Grits Corporation for ten more years and continued to contribute to Paul’s retirement plan fund, and then, Paul retired at age 68 and Paul withdrew all of the funds from Paul’s retirement fund in lump sum, in the amount of $200,000, during the current taxable year. Paul's gross income for the current taxable year, due to the withdrawal of funds only, is approximately as follows.

a. None/Zero
b. $200,000
c. $100,000
d. $50,000
e. None of the above

328. John, age 40, who had a gross salary of $150,000 during each of several prior years and during the current taxable year, retired during the current taxable year, due to a permanent disability which prevented John from working any more, from PastaAndRedWine Corporation and withdrew $25,000, during the current taxable year, from John's corporate employer's qualified retirement fund, which PastaAndRedWine Corporation maintained for John. John's retirement fund, to which John had not made any contribution, had a fair market value of $700,000 when John retired and the withdrawn amount was computed by a qualified actuary to be the correct amount. John's gross income for the current taxable year is as follows.

a. None/Zero
b. $150,000
c. $175,000
d. $50,000
e. None of the above

329. On April 1 of the current taxable year, Paul was employed by Sauerkraut Corporation at an annual gross salary of $65,000 and Paul needed money in order to purchase a house, and thus, Paul withdrew $20,000 from Paul's basic individual retirement account which was maintained for Paul at a bank and which was contributed to solely by Paul and Paul deducted all of Paul's contributions to the basic individual retirement account. Paul did not have any other retirement plan during the current taxable year. Paul had never had an interest in a residence (house and land) before. Paul's gross income for the current taxable year is as follows.

a. None/Zero
b. $75,000
c. $65,000
d. $85,000
e. None of the above

330. Referring to Question 329, the amount of any excise (or penalty) tax which Paul must pay with respect to the distribution from the retirement plan trust is as follows.

a. None/Zero
b. $2,000
c. $1,000
d. $6,500
e. None of the above
331. On April 1 of the current taxable year, Beverly was employed by DoingWell Corporation at gross salary of $40,000 and Beverly needed money in order to pay $20,000 for Rebecca's college tuition. The college required the tuition to be paid for both the first and second semesters. Thus, Beverly told the trustee of Beverly's basic individual retirement account to distribute $20,000 from the account to Beverly. Beverly was the sole contributor to the basic individual retirement account and all of Beverly's contributions were deductible to Beverly. Beverly paid the tuition during the current taxable year. Beverly's gross income for the current taxable year is as follows.
   a. None/Zero
   b. $50,000
   c. $40,000
   d. $60,000
   e. None of the above

332. Referring to Question 331, the amount of any excise (or penalty) tax which Beverly must pay with respect to the distribution from the basic individual retirement account is as follows.
   a. None/Zero
   b. $2,000
   c. $1,200
   d. $1,000
   e. None of the above

333. During April of the current taxable year, Mary died as an employee of Superman Corporation, which had established a qualified retirement plan for Mary. The beneficiary of Mary's corporate qualified retirement plan was John and John was entitled to receive a lump sum distribution under the retirement plan of $300,000 or to rollover the amount (of $300,000). The fund consisted of $250,000 of Superman Corporation contributions and $50,000 of earnings thereon. After John was notified with respect to the amount of the distribution and John’s rights with respect to the distribution, John promptly established a basic individual retirement account in John's name and told the trustee of Mary’s retirement fund to distribute the funds to the trustee of John's basic individual retirement account, which the trustee did. John did not have any other retirement plan during the current taxable year. John's gross income for the current taxable year is as follows.
   a. None/Zero
   b. $250,000
   c. $300,000
   d. $350,000
   e. None of the above

334. Referring to Question 333, the amount of any excise (or penalty) tax which John must pay with respect to the distribution from the retirement plan trust is as follows.
   a. None/Zero
   b. $18,000
   c. $25,000
   d. $30,000
   e. None of the above

335. During April of the current taxable year, Beverly died. The beneficiary of Beverly's corporate qualified retirement plan was Rebecca and Rebecca was entitled to receive a lump sum distribution under the retirement plan of $900,000. Beverly did not make any contribution to the retirement plan trust, only StraightArrow Corporation did. At Beverly’s death, the fund consisted of $700,000 of employer contributions and $200,000 of earnings thereon. However, Rebecca, who had no other income during the current taxable year, and who had no prior retirement fund promptly established a basic individual retirement account in Rebecca's name, but Rebecca did not make a contribution to the basic individual retirement account at that time and Rebecca told the trustee of Beverly's retirement fund to distribute the funds to the trustee of Rebecca's basic individual retirement account, which the trustee did. Rebecca made no other election with respect to the distribution. Rebecca's gross income for the current taxable year is as follows.
   a. None/Zero
b. $900,000  

c. $700,000  

d. $200,000  

e. None of the above  

336. Referring to Question 335, the amount of any excise (or penalty) tax which Rebecca must pay with respect to the distribution to Rebecca from the retirement plan trust is as follows.  

a. None/Zero  

b. $20,000  

c. $70,000  

d. $90,000  

e. None of the above  

337. Referring to Question 335, the amount of any excise (or penalty) tax which Rebecca must pay with respect to the depositing of the retirement plan trust funds into Rebecca’s basic individual retirement account is as follows.  

a. None/Zero  

b. $53,880  

c. $54,000  

d. $90,000  

e. None of the above  

338. During the current taxable year, John was a beneficiary of an irrevocable trust which was established by John's father several taxable years ago, and during the current taxable year the trust had the following financial information. All of the gains and losses from the sales of assets were attributable to the principal of the trust. All of the other receipts and expenses were attributable to the net income of the trust. The trustee (which was the Indiana Bank) was the sole trustee and the trustee was required to distribute to John, each year, all of the trust's net book income, during John's life, which the trustee did, and then, at John's death, to distribute the remaining funds to Mary.  

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John's gross income for the current taxable year is as follows.  

a. None/Zero  

b. $50,000  

c. $48,000  

d. $46,000  

e. None of the above  

339. Referring to Question 338, the trustee's taxable income for the current taxable year is as follows.  

a. None/Zero  

b. $22,700  

c. $23,000  

d. $20,700  

e. None of the above  

340. Referring to Question 338, John's father had the power to revoke the terms of the trust agreement at any time; but nevertheless, the trustee followed the terms of the trust agreement and distributed all of the net income (the net
book income) of the trust to John. John's gross income for the current taxable year is as follows.

a. None/Zero
b. $75,000
c. $46,000
d. $48,000
e. None of the above

341. Referring to Question 338, John's father had only the power to change the beneficiaries of the trust at any time, but John’s father could not make John’s father a beneficiary of the trust. The trustee followed the terms of the trust agreement and distributed all of the net income (the net book income) of the trust to John, because John’s father did not change the beneficiaries of the trust. John's gross income for the current taxable year is as follows.

a. None/Zero
b. $75,000
c. $46,000
d. $48,000
e. None of the above

342. Referring to Question 338, Mary had the power to change the beneficiaries of the trust at any time, including, the power to make Mary a beneficiary of the trust. The trustee followed the terms of the trust agreement and distributed all of the net income (the net book income) of the trust to John, because Mary did not change the beneficiaries of the trust. John's gross income for the current taxable year is as follows.

a. None/Zero
b. $75,000
c. $46,000
d. $48,000
e. None of the above

343. Referring to Question 338, Paul had the power to require the trustee to distribute all of the principal and all of the net income (the net book income) to Paul at any time for any purpose. Prior to and during the current taxable year, Paul did not request or receive any distribution from the trust. Paul's gross income for the current taxable year is as follows.

a. None/Zero
b. $71,000
c. $72,000
d. $75,000
e. None of the above

344. During the current taxable year, John was a beneficiary of an irrevocable trust which was established by John's father several taxable years ago, and during the current taxable year the trust had the following financial information. All of the gains and losses from the sales of assets were attributable to the principal of the trust. All of the other receipts and expenses were attributable to the net income of the trust. The trustee (which was the Indiana Bank) was the sole trustee and the trustee was required to distribute to John for the current taxable year the specific amount of $100,000 from the trust's principal (which was over $2,000,000) and the trustee was required to accumulate the net book income, along with the gains and losses from the sales of assets. Upon John's death, all of the remaining funds in the trust were to be distributed to Mary.

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John's gross income for the current taxable year is as follows.

- None/Zero
- $100,000
- $92,000
- $84,000
- None of the above

345. Alan died on July 1 of the current taxable year and the executor of Alan's estate assembled the following information about Alan’s final taxable year: Alan earned and received $5,000 of fees and Alan earned, but not actually or constructively received by Alan, fees of $7,000. Also, the executor assembled the following information about the estate’s first taxable year: received Alan’s fees of $7,000 and received dividends of $6,000 not actually or constructive received or accrued by Alan. Alan's gross income for the current taxable year is as follows.

- None/Zero
- $5,000
- $7,000
- $13,000
- None of the above

346. During the last taxable year, John died, leaving John’s entire estate to Mary. During the current taxable year, the estate had the following financial information. All of the gains and losses from the sales of assets were attributable to the principal of the estate. All of the other receipts and expenses were attributable to the net income of the estate. The executor (which was the Indiana Bank) was the sole executor of the estate and the executor was required to distribute to 50% of the estate’s net book income to Mary for the current taxable year and the executor was required to accumulate the remaining net book income, along with the gains and losses from the sales of assets. Upon the termination of the estate, all of the remaining funds of the estate were to be distributed to Mary.

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Mary's gross income for the current taxable year is as follows.

- None/Zero
- $21,000
- $67,000
- $59,000
- None of the above

347. Referring to Question 346, the estate’s taxable income for the current taxable year is as follows.

- None/Zero
- $58,400
- $41,400
- $37,400
- None of the above

348. During the last taxable year, John died, leaving John’s entire estate to Mary. During the current taxable year, the
estate had the following financial information. All of the gains and losses from the sales of assets were attributable to the principal of the estate. All of the other receipts and expenses were attributable to the net income of the estate. The executor (which was the Indiana Bank) was the sole executor of the estate and the executor was required to distribute to Mary for the current taxable year the specific amount of $75,000 from the trust's principal (which was over $2,000,000) and the executor was required to accumulate the net book income, along with the gains and losses from the sales of assets. Upon the termination of the estate, all of the remaining funds of the estate were to be distributed to Mary.

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Mary's gross income for the current taxable year is as follows.

| a. None/Zero                                             |
| b. $17,000                                               |
| c. $75,000                                               |
| d. $67,000                                               |
| e. None of the above                                     |

349. During December of the last taxable year, Peter, who was president of AlmostThrough Corporation, read in the newspaper that the State of Indiana was going to condemn some land which was owned by and used for business by AlmostThrough Corporation. Therefore, during June of the current taxable year, AlmostThrough Corporation purchased some new and similar land for $500,000. During December of the current taxable year, the State of Indiana condemned AlmostThrough Corporation’s old land and paid AlmostThrough Corporation $700,000 for the old land. Peter determined that the adjusted basis of the condemned land was $100,000. AlmostThrough Corporation's gross income for the current taxable year is as follows.

| a. None/Zero                                             |
| b. $600,000                                              |
| c. $400,000                                              |
| d. $200,000                                              |
| e. None of the above                                     |

350. Referring to Question 349, AlmostThrough Corporation's adjusted basis for the new land which AlmostThrough Corporation acquired during the current taxable year is as follows.

| a. None/Zero                                             |
| b. $200,000                                              |
| c. $700,000                                              |
| d. $100,000                                              |
| e. None of the above                                     |

351. Referring to Question 349, AlmostThrough Corporation purchased the new land three years after the current taxable year. AlmostThrough Corporation's adjusted basis for the new land which AlmostThrough Corporation purchased three years after the current taxable year is as follows.

| a. None/Zero                                             |
| b. $200,000                                              |
| c. $700,000                                              |
| d. $500,000                                              |
| e. None of the above                                     |
352. Referring to Question 349, AlmostThrough Corporation purchased the new land for $1,000,000. AlmostThrough Corporation’s adjusted basis for the new land is as follows.
   a. None/Zero
   b. $100,000
   c. $400,000
   d. $1,000,000
   e. None of the above

353. During the current taxable year, Paul had a net profit from Paul's sole proprietorship of $50,000, after taking into account all deductions. Paul’s federal self-employment tax (for example, social security taxes and Medicare taxes) for the current taxable year is as follows.
   a. None/Zero
   b. $7,650
   c. $3,825
   d. $6,200
   e. None of the above

354. Referring to Question 353, Paul paid a salary of $20,000 to Beverly during the current taxable year. Beverly’s federal employment taxes for the current taxable year is as follows.
   a. None/Zero
   b. $1,530
   c. $765
   d. $3,060
   e. None of the above

355. During the current taxable year, Paul received a salary of $100,000 from SoleFood Corporation and received $20,000 of dividends from SoleFood Corporation. Also, Paul paid the following expenses during the current taxable year.

<table>
<thead>
<tr>
<th>Payment</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office rent for employment</td>
<td>14,000</td>
</tr>
<tr>
<td>Publications for share and bond investments</td>
<td>1,000</td>
</tr>
<tr>
<td>Income tax return preparation fee</td>
<td>1,000</td>
</tr>
<tr>
<td>Travel expenses for employment</td>
<td>3,000</td>
</tr>
<tr>
<td>Supplies for employment</td>
<td>1,000</td>
</tr>
<tr>
<td>Entertainment of clients, $2,000 of which was reimbursed by Paul's employer</td>
<td>5,000</td>
</tr>
<tr>
<td>Total</td>
<td>25,000</td>
</tr>
</tbody>
</table>

Paul's gross income for the current taxable year with respect to these facts (considering all deduction limitations) is as follows.
   a. None/Zero
   b. $124,000
   c. $120,000
   d. $122,000
   e. None of the above

356. Referring to Question 355, Paul’s gross income for the current taxable year is $200,000. Therefore, Paul’s adjusted gross income (considering all deduction limitations) is as follows.
   a. None/Zero
   b. $122,000
   c. $124,000
Referring to Question 355, Paul’s adjusted gross income for the current taxable year is $100,000. Therefore, Paul’s taxable income (considering all deduction limitations) is as follows.

- None/Zero
- $93,000
- $75,500
- $77,500
- None of the above

Paul was an employee and vice-president of HippityHoppity Corporation, which manufactured bird feeders, owl boxes, bat boxes, bee hive supers, etc., 24 hours per day, and Paul generally worked during the day, but Paul was on call for solving problems 24 hours per day.

- During the current taxable year, the in-house corporate lawyer for HippityHoppity Corporation drafted Paul’s last will and testament for no charge. The in-house counsel regularly did this type of drafting for employees of HippityHoppity Corporation, without any charge to the employee, as a fringe benefit to the employees. Had Paul had this drafting done by a lawyer on the outside, Paul would have been charged $500.

- During the current taxable year, Paul purchased numerous items from HippityHoppity Corporation's inventory, for use in Paul's forest and animal preserve, and, whenever Paul purchased such merchandise, Paul was allowed to purchase the merchandise at a discount. The retail price of the items which Paul purchased during the current taxable year was $3,000. The cost of the items that Paul purchased from HippityHoppity Corporation was $1,200. HippityHoppity Corporation maintains an across-the-board gross profit percentage of 40%. However, Paul was allowed to purchase the items for only $600, an 80% discount, but only because Paul was a vice-president of HippityHoppity Corporation.

- During the current taxable year, Paul (as could any other employee) could use HippityHoppity Corporation's gym (in the basement of HippityHoppity Corporation's office building), free of charge, to work out on Monday through Thursday, each week. Had Paul joined a similar athletic/sports club in the city in which HippityHoppity Corporation's office building was located, Paul would have paid an annual membership fee of $1,000.

- During the current taxable year, because of the many problems which occurred during days and nights, Paul was required, as a condition of Paul’s employment, to live at HippityHoppity Corporation's office building for six days each week. Paul was furnished both meals and lodging for this purpose, which meals had a fair market value of $7,000 and which lodging had a fair market value of $15,000 for the current taxable year.

- During the current taxable year, HippityHoppity Corporation paid all of the medical insurance premiums which were attributable to Paul's medical insurance, which medical insurance was part of a corporate medical reimbursement plan for all employees. The total of the premium payments was $2,000.

Paul’s gross income for the current taxable year is as follows.

- None/Zero
- $500
- $600
- $1,100
- None of the above

During the current taxable year, Paul was an employee and vice-president of TipToe Corporation, which
manufactured sailboats and because Paul did such a great job as an employee, Paul was allowed to purchase, during the current taxable year, 100 shares of common stock of TipToe Corporation for $100 per share at a time when the common shares were selling for $400. The only restrictions with respect to the common shares was that Paul could not transfer the common shares to any person for the five-year period following the transfer of the common shares to Paul and that if Paul terminated Paul's employment with TipToe Corporation for any reason during the five-year period, Paul had to transfer (return) the common shares to TipToe Corporation for $100 per share. During the first day of the first taxable year after the five-year period, the common shares had a fair market value of $900 per share. Paul wishes to report as little gross income as Paul may during the current taxable year. Paul’s gross income for the current taxable year is as follows.

a. None/Zero
b. $30,000
c. $50,000
d. $80,000
e. None of the above

360. Referring to Question 359, Paul's gross income for the first taxable year after the end of the five-year period is as follows.

a. None/Zero
b. $30,000
c. $50,000
d. $80,000
e. None of the above

361. Two taxable years ago, KnockThemDead Corporation gave Paul an incentive stock option which allowed Paul the right to purchase 100 common shares of KnockThemDead Corporation for $100 per share, which was the current fair market value of the common shares at the time when Paul was granted the option. During January of the current taxable year, Paul's employer, KnockThemDead Corporation, when each common share had a fair market value of $200, Paul exercised Paul's option and purchased the 100 common shares. Paul had the right to sell the common shares at any time after two years after Paul exercised of the option. Paul’s gross income for the taxable year two taxable years ago is as follows.

a. None/Zero
b. $1,000
c. $10,000
d. $20,000
e. None of the above

362. Referring to Question 359, Paul’s gross income for the current taxable year is

a. None/Zero
b. $1,000
c. $10,000
d. $20,000
e. None of the above

363. Two taxable years ago, KnockThemDead Corporation gave Paul a stock option (which was not a qualified stock option) which allowed Paul the right to purchase 100 common shares of KnockThemDead Corporation for $100 per share, which was the current fair market value of the common shares at the time when Paul was granted the option. At the time when Paul received the stock option, the stock option had not ascertainable value. During January of the current taxable year, when each common share had a fair market value of $200, Paul exercised Paul's option and purchased the 100 common shares for $100 per share. Paul had the right to sell the common shares at any time after two years after Paul exercised of the option. Paul’s gross income for the taxable year two taxable years ago is as follows.

a. None/Zero
b. $1,000
c. $10,000
d. $20,000

e. None of the above

364. Referring to Question 363, Paul’s gross income for the current taxable year is as follows.
   a. None/Zero
   b. $1,000
   c. $10,000
   d. $20,000
   e. None of the above

365. Paul was an employee and vice-president of TapALittleTune Corporation, which manufactured sailboats and because Paul did such a great job as an employee, Paul was granted, during the current taxable year, the right, by TapALittleTune Corporation, to purchase 100 shares of common stock of TapALittleTune Corporation for $100 per share, at any time during the next five (5) years, which Paul did, during the next taxable year. The option was not part of an incentive stock option plan and the option had no readily ascertainable value and the only restrictions with respect to the option was that Paul could not transfer the option to any other person and the only restriction with respect to the common shares was that Paul could not transfer the common shares to any person for the five-year period following the transfer of the common shares to Paul. During the next taxable year when Paul exercised the option and acquired the common shares, the common shares had a fair market value of $1,500 per share, free of all restrictions. During the first day of the first taxable year after the five-year period, the common shares had a fair market value of $2,500 per share. Paul wishes to report as little gross income as Paul may during the current taxable year and during the next taxable year. Paul’s gross income for the current taxable year is as follows.
   a. None/Zero
   b. $150,000
   c. $140,000
   d. $240,000
   e. None of the above

366. Referring to Question 365, Paul’s gross income for the next taxable year is as follows.
   a. None/Zero
   b. $150,000
   c. $140,000
   d. $240,000
   e. None of the above

367. During the current taxable year, Peter owned all of the following assets and Peter transferred the assets to Recycle Corporation, a newly organized corporation for this purpose, and which corporation will be a C corporation. In return for the transfer of these assets, Recycle Corporation issued 600 common shares of Recycle Corporation to Peter. Also, Recycle Corporation issued 300 common shares to Paul in return for Paul's transfer to Recycle Corporation of some vacant land, with an adjusted basis of $5,000 to Paul and with a fair market value of $30,000. In addition, Recycle Corporation issued 100 common shares to Paul because of services which Paul rendered to organize Recycle Corporation. Thus, Peter and Paul will be the only initial shareholders of Recycle Corporation, with Peter owning 600 common shares and Paul owning 400 common shares. Peter has owned the accounts receivable and inventory for less than two months, but Peter has owned the other assets (except for the cash) for more than two years. Peter has estimated the amount of Peter's goodwill, and Paul and Recycle Corporation accept the estimate. Peter has taken $15,000 of depreciation deductions with respect to the equipment.

<table>
<thead>
<tr>
<th>Asset</th>
<th>Adjusted Basis</th>
<th>Fair Market Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>5,000</td>
<td>5,000</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>2,000</td>
<td>5,000</td>
</tr>
<tr>
<td>Asset</td>
<td>Adjusted Basis</td>
<td>Fair Market Value</td>
</tr>
<tr>
<td>--------------</td>
<td>----------------</td>
<td>-------------------</td>
</tr>
<tr>
<td>Inventory</td>
<td>3,000</td>
<td>20,000</td>
</tr>
<tr>
<td>Equipment</td>
<td>25,000</td>
<td>20,000</td>
</tr>
<tr>
<td>Goodwill</td>
<td>0</td>
<td>10,000</td>
</tr>
</tbody>
</table>

The total amount of Peter's and Paul's gross income for the current taxable year as a result of the incorporation is as follows.

a. None/Zero
b. $9,000
c. $30,000
d. $10,000
e. None of the above

368. Referring to Question 367, Peter's adjusted basis for the common shares which Peter received is as follows.

a. None/Zero
b. $15,000
c. $25,000
d. $35,000
e. None of the above

369. Referring to Question 367, Recycle Corporation's adjusted basis for the goodwill which Peter transferred to Recycle Corporation is as follows.

a. None/Zero
b. $15,000
c. $25,000
d. $35,000
e. None of the above

370. Referring to Question 367, Paul's adjusted basis for the common shares which Paul received for the land is as follows.

a. None/Zero
b. $5,000
c. $10,000
d. $15,000
e. None of the above

371. Referring to Question 367, Paul's adjusted basis for the common shares which Paul received for Paul's services is as follows.

a. None/Zero
b. $5,000
c. $10,000
d. $30,000
e. None of the above

372. During the current taxable year, Beverly was the sole shareholder of Chuckle Corporation, which was a C corporation, and which corporation was organized by Beverly on July 1 of the current taxable year. During Chuckle Corporation's first taxable period (the short period of July 1 through December 31), Chuckle Corporation borrowed $60,000, had no receipts and had a net loss of $25,000. Also, during such first taxable period, Chuckle Corporation distributed to Beverly, as a shareholder, cash of $30,000. Beverly's adjusted basis for Beverly's common shares at the beginning of the short taxable period was $25,000. Beverly's gross income for the current taxable year is as follows.

a. None/Zero
373. Charming Corporation was organized ten taxable years ago and during the current taxable year, Charming Corporation was a C corporation with the following financial information. Charming Corporation used the accrual method of accounting as its accounting method, and, at the beginning of the current taxable year, Charming Corporation had $400,000 of accumulated earnings and profits. Beverly was the sole shareholder of Charming Corporation and Beverly's adjusted basis for Beverly's shares was $50,000 at the beginning of the current taxable year. Other financial information about Charming Corporation for the current taxable year is as follows.

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales of inventory</td>
<td>4,000,000</td>
</tr>
<tr>
<td>Dividends from other domestic, nonaffiliated, C corporations</td>
<td>300,000</td>
</tr>
<tr>
<td>Interest from Bank of Indiana</td>
<td>100,000</td>
</tr>
<tr>
<td>State of New York bond interest</td>
<td>100,000</td>
</tr>
<tr>
<td>Cost of goods sold</td>
<td>1,000,000</td>
</tr>
<tr>
<td>Compensation accrued to Charming Corporation and paid to Beverly, which includes $5,000 of unreasonable compensation</td>
<td>200,000</td>
</tr>
<tr>
<td>Federal income taxes</td>
<td>700,000</td>
</tr>
<tr>
<td>Other expenses</td>
<td>300,000</td>
</tr>
<tr>
<td><strong>Total cash distributions to Beverly, as a shareholder</strong></td>
<td>100,000</td>
</tr>
</tbody>
</table>

Charming Corporation's gross income for the current taxable year is as follows.

a. None/Zero
b. $3,400,000
c. $4,100,000
d. $4,400,000
e. None of the above

374. Referring to Question 373, Charming Corporation had gross income of $4,000,000 for the current taxable year. Charming Corporation's taxable income for the current taxable year is as follows.

a. None/Zero
b. $3,505,000
c. $3,290,000
d. $3,295,000
e. None of the above

375. Referring to Question 373, Beverly's gross income for the current taxable year is as follows.

a. None/Zero
b. $190,000
c. $290,000
d. $300,000
e. None of the above

376. Referring to Question 373, Charming Corporation had taxable income of $1,500,000 for the current taxable year. Charming Corporation's income tax (prior to any credit) for the current taxable year is as follows.
a. None/Zero
b. $510,000
c. $594,000
d. $463,500
e. None of the above

377. Referring to Question 373, Charming Corporation had taxable income of $60,000 for the current taxable year. Charming Corporation's income tax (prior to any credit) for the current taxable year is as follows.
   a. None/Zero
   b. $20,400
c. $15,000
d. $10,000
e. None of the above

378. Referring to Question 373, Beverly's adjusted basis for Beverly's shares in Charming Corporation at the end of the current taxable year is as follows.
   a. None/Zero
   b. $50,000
c. $200,000
d. $250,000
e. None of the above

379. During the current taxable year, Loyal Corporation, which was a manufacturing corporation and a C corporation, had $4,000,000 of accumulated earnings and profits. The highest amount of accumulated earnings tax which Smart Corporation might owe for the current taxable year is as follows.
   a. None/Zero
   b. $562,500
c. $435,000
d. $600,000
e. None of the above

380. During the current taxable year, John was the sole owner (as John had been for several years) of the common shares (which was the only issued and outstanding shares) in Crown Corporation, which corporation had elected income tax treatment under Subchapter S during Crown Corporation's first taxable year. At the beginning of the current taxable year, the adjusted basis for John's shares was $10,000. John worked for Crown Corporation. In addition to the data which is stated below, John had salary of $20,000 from Crown Corporation and Mary had salary of $100,000 from Bracelet Corporation. Also, during the current taxable year, Crown Corporation had gross receipts of $350,000, cost of goods sold of $50,000 and operational expenses of $100,000 (which amount includes paid salaries). Also, during the current taxable year, Crown Corporation distributed $20,000 to John with respect to John's common shares. John's and Mary's gross income for the current taxable year is as follows.
   a. None/Zero
   b. $330,000
c. $340,000
d. $320,000
e. None of the above

381. Referring to Question 380, John's and Mary's adjusted gross income for the current taxable year is as follows.
   a. None/Zero
   b. $320,000
c. $270,000
d. $330,000
e. None of the above

382. Referring to Question 380, John's adjusted basis for John's common shares at the end of the current taxable year is
as follows.

383. Referring to Question 380, John did not work for Crown Corporation and John did not receive a salary from
Crown Corporation and Crown Corporation's total operational expenses was $315,000. John's and Mary's gross
income for the current taxable year is as follows.

a. None/Zero  
b. $190,000  
c. $210,000  
d. $200,000  
e. None of the above

384. Referring to Question 383, John's and Mary's gross income for the current taxable year is $100,000. John’s and
Mary’s adjusted gross income for the current taxable year is as follows.

a. None/Zero  
b. $100,000  
c. $130,000  
d. $120,000  
e. None of the above

385. Referring to Question 383, John's adjusted basis for John's common shares at the end of the current taxable year is
as follows.

a. None/Zero  
b. $10,000  
c. $30,000  
d. $20,000  
e. None of the above

386. During the current taxable year, Paul was the sole shareholder in four corporations (Winter Corporation, Spring
Corporation, Summer Corporation, and Fall Corporation). Winter Corporation and Spring Corporation and
Summer Corporation were S corporations. Fall Corporation was a C corporation. Paul had an adjusted basis for
the common shares which Paul owned in each of the four corporations of $100,000 ($100,000 per corporation).

a. With respect to Winter Corporation, Paul worked for Winter Corporation and received a gross
salary from Winter Corporation of $20,000. During the current taxable year, Winter Corporation
sold computers and had a net profit of $100,000 (after deducting Paul's gross salary).

b. With respect to Spring Corporation, Paul did not work for Spring Corporation and did not receive
a salary from Spring Corporation. During the current taxable year, Spring Corporation sold porch
furniture and had a net profit of $100,000.

c. With respect to Summer Corporation, Paul did not work for Summer Corporation and did not
receive a salary from Summer Corporation. During the current taxable year, Summer
Corporation sold and repaired bicycles and had a net loss of $100,000.

d. With respect to Fall Corporation, Paul worked for Fall Corporation and received a gross salary
from Fall Corporation of $20,000. During the current taxable year, Fall Corporation had earnings
and profits of $200,000 distributed $10,000 to Paul with respect to Paul's shares.

Paul's gross income for the current taxable year is as follows.

a. None/Zero
b. $240,000  
c. $250,000  
d. $150,000  
e. None of the above

387. Referring to Question 386, Paul's adjusted gross income for the current taxable year is as follows.  
a. None/Zero  
b. $240,000  
c. $250,000  
d. $150,000  
e. None of the above

388. Referring to Question 386, Paul's adjusted basis for Paul's common shares in Winter Corporation at the end of the current taxable year is as follows.  
a. None/Zero  
b. $100,000  
c. $200,000  
d. $220,000  
e. None of the above

389. Referring to Question 386, Paul's adjusted basis for Paul's common shares in Spring Corporation at the end of the current taxable year is as follows.  
a. None/Zero  
b. $100,000  
c. $200,000  
d. $50,000  
e. None of the above

390. Referring to Question 386, Paul's adjusted basis for Paul's common shares in Summer Corporation at the end of the current taxable year is as follows.  
a. None/Zero  
b. $100,000  
c. $200,000  
d. $50,000  
e. None of the above

391. Referring to Question 386, Paul's adjusted basis for the common shares in Fall Corporation at the end of the current taxable year is as follows.  
a. None/Zero  
b. $100,000  
c. $110,000  
d. $130,000  
e. None of the above

392. On July 5 of the current taxable year, Paul sold 100 common shares of the Woodchuck Corporation for $40,000. Paul received the 100 common shares, as a share dividend, on January 2 of the current taxable year when these (new) common shares had a total fair market value of $30,000. The share dividend was a 100% share dividend of common shares with respect to 100 common shares and the new common shares had the same terms as the original common shares and Paul was not granted any election with respect to the receipt of such share dividend. Paul had purchased the original common shares four taxable years ago for $10,000. Paul’s gross income for the current taxable year with respect to the share dividend is as follows.  
a. None/Zero  
b. $30,000  
c. $10,000
d. $40,000

e. None of the above

393. Referring to Question 392, Paul's long term capital gain gross income for the current taxable year with respect to the sale of the new common shares is as follows.

a. None/Zero
b. $35,000
c. $30,000
d. $10,000
e. None of the above

394. On July 5 of the current taxable year, Paul sold 200 common shares of Wood Corporation for $40,000. Paul received the 200 common shares on October 1 of the last taxable year when these (new) common shares had a total fair market value of $20,000. The dividend was a 100% share dividend of common shares on 200 common shares and the new common shares had the same terms as the original common shares. However, just prior to the distribution of the new common shares to Paul, Paul had an election to either receive such share dividend or to receive $20,000 of cash, and Paul chose to receive the share dividend. Paul purchased the original common shares five taxable years ago for $20,000. Paul's gross income for the last taxable year with respect to the share dividend is as follows.

a. None/Zero
b. $20,000
c. $10,000
d. $40,000
e. None of the above

395. Referring to Question 394, Paul's short term capital gain gross income for the current taxable year with respect to the sale of the new common shares is as follows.

a. None/Zero
b. $20,000
c. $10,000
d. $40,000
e. None of the above

396. On May 5 of the current taxable year, Paul sold 100 common shares of DoingFine Corporation for $10,000. Paul received 200 common shares (which included the 100 common shares which Paul sold) on November 10 of the last taxable year as a two for one stock split, when DoingFine Corporation required Paul to turn in (to DoingFine Corporation) 100 common shares which Paul initially owned were purchased on February 9, two taxable years ago, by Paul for $10,000. The fair market value of the 200 new common shares which Paul received on November 10 of the last taxable year was $20,000. Paul's gross income for the last taxable year with respect to the share split is as follows.

a. None/Zero
b. $5,000
c. $10,000
d. $20,000
e. None of the above

397. Referring to Question 396, Paul's long term capital gain gross income for the current taxable year with respect to the sale of the new common shares is as follows.

a. None/Zero
b. $10,000
c. $5,000
d. $15,000
e. None of the above
398. During the current taxable year, John sold 100 common shares of YaHoo Corporation for $50,000, which John had purchased two taxable years ago for $200,000 as an investment. The common shares were qualified as section 1244 stock. John's ordinary expense or ordinary loss deduction for the current taxable year (considering all deduction limitations) is as follows.
   a. None/Zero
   b. $100,000
   c. $150,000
   d. None of the above

399. Referring to Question 398, John sold the common shares for $300,000. John's ordinary gross income for the current taxable year is as follows.
   a. None/Zero
   b. $150,000
   c. $100,000
   d. None of the above

400. During the current taxable year, all of John's common shares of Nice Corporation, which John had purchased two taxable years ago for $50,000, became worthless. The common shares were qualified as section 1244 stock. John's long term capital loss for the current taxable year is as follows.
   a. None/Zero
   b. $3,000
   c. $9,000
   d. None of the above

401. Six taxable years ago, Paul purchased some common shares for $50,000 which qualified for treatment under section 1202. During the current taxable year, Paul sold the common shares for $150,000. Paul's long term capital gain gross income for the current taxable year is as follows.
   a. None/Zero
   b. $25,000
   c. $50,000
   d. $100,000
   e. None of the above

402. Referring to Question 401, Paul sold the common shares for $30,000. Paul's long term capital loss for the current taxable year is as follows.
   a. None/Zero
   b. $15,000
   c. $20,000
   d. None of the above

403. On December 10 of the current taxable year, Mary sold 100 common shares of Friendly Corporation for $125,000. Mary had purchased the common shares many taxable years ago for $100,000. In addition to the sale of the Friendly Corporation common shares, Mary had a gross salary of $200,000. On January 2 of the next taxable year, Mary purchased 100 common shares of Friendly Corporation for $120,000. Mary's gross income for the current taxable year is as follows.
   a. None/Zero
   b. $25,000
   c. $200,000
   d. $225,000
   e. None of the above

404. On December 10 of the current taxable year, Paul sold 100 common shares of Friendly Corporation for $200,000. Paul had purchased the common shares ten taxable years ago for $225,000. In addition to the sale of the Friendly
Corporation common shares, Paul had a gross salary of $200,000 for the current taxable year. Then, on January 5 of the next taxable year, Paul purchased 100 common shares of Friendly Corporation for $230,000. Paul's adjusted gross income for the current taxable year is as follows.

a. None/Zero
b. $175,000
c. $200,000
d. $197,000
e. None of the above

405. On January 1 of the current taxable year, Packing Corporation exchanged, with Dealer, Inc. (a corporation which was a dealer in box sealing machines), a box sealing machine (which Packing Corporation had used for five years and which had been purchased by Packing Corporation for $600,000 and with respect to which Packing Corporation had taken $400,000 of depreciation deductions) for a new box sealing machine which was owned by Dealer, Inc. Packing Corporation also paid Dealer, Inc. cash of $900,000. Packing Corporation and Dealer, Inc. estimated that Packing Corporation's old machine had a fair market value, at the date of the transfer to Dealer, Inc., of $300,000. Dealer, Inc. had owned the Dealer, Inc.'s machine for two years, as inventory, and had an adjusted basis for the machine of $500,000. Dealer, Inc.'s ordinary gross income for the current taxable year is as follows.

a. None/Zero
b. $500,000
c. $300,000
d. $700,000
e. None of the above

406. Referring to Question 405, Dealer, Inc.'s adjusted basis for the box sealing machine which Dealer, Inc. received from Packing Corporation is as follows.

a. None/Zero
b. $1,100,000
c. $500,000
d. $300,000
e. None of the above

407. Referring to Question 405, Packing Corporation's gross income for the current taxable year is as follows.

a. None/Zero
b. $250,000
c. $450,000
d. $650,000
e. None of the above

408. Referring to Question 405, Packing Corporation's adjusted basis for the box sealing machine which Packing Corporation received from Dealer, Inc. is as follows.

a. None/Zero
b. $1,000,000
c. $500,000
d. $1,100,000
e. None of the above

409. During the current taxable year, Kinder Corporation merged into Gentler Corporation. Just prior to the merger, John owned 600 common shares (60% of the common shares) of Kinder Corporation, which shares (of John) had a fair market value of $300,000 (because Kinder Corporation's fair market value was $500,000) and which shares had an adjusted basis to John of $60,000 and which shares had been owned by John for over five years. The other 40% (400 common shares) of Kinder Corporation was owned by Paul, which shares (of Paul) had a fair market value of $200,000 (because Kinder Corporation's fair market value was $500,000) and which shares had an adjusted basis to Paul of $55,000 and which shares had been owned by Paul for over five years. The total fair
market value of Gentler Corporation's 1,000 issued and outstanding common shares was also $500,000 and 100% of the 1,000 common shares of Gentler Corporation was owned by Paul. As part of the merger, Gentler Corporation authorized another 1,000 common shares to be issued by Gentler Corporation (so that Gentler Corporation would then have 2,000 common shares authorized), and then, Kinder Corporation transferred all of Kinder Corporation's assets to Gentler Corporation. Just prior to the merger, the adjusted basis of Kinder Corporation's assets which Kinder Corporation transferred to Gentler Corporation was $150,000 and the fair market value of the assets which Kinder Corporation transferred to Gentler Corporation was $500,000 and Kinder Corporation and Gentler Corporation each had accumulated earnings and profits of $175,000. Thereafter, Gentler Corporation issued the new (and additional) 1,000 common shares of Gentler Corporation to Kinder Corporation in exchange therefor. Thereafter, Kinder Corporation transferred 600 common shares of Gentler Corporation to John (in exchange for John's 600 common shares of Kinder Corporation), and, in addition, Kinder Corporation transferred 400 common shares of Gentler Corporation to Paul (in exchange for Paul's 400 common shares of Kinder Corporation). Then, under the provisions of the applicable merger laws, Kinder Corporation ceased to exist. And, as a result of the merger, the 2,000 common shares of Gentler Corporation were owned as follows: John owned 600 common shares (30%) of Gentler Corporation (and no shares in Kinder Corporation) and Paul owned 1,400 common shares (70%) of Gentler Corporation (and no shares in Kinder Corporation). Further, after the merger, Kinder Corporation was no longer in existence. Further, after the merger, Gentler Corporation had a fair market value of $900,000. John's capital gain gross income for the current taxable year is as follows.
a. None/Zero
b. $50,000
c. $240,000
d. $300,000
e. None of the above

410. Referring to Question 409, John's adjusted basis for the common shares which John received in Gentler Corporation from Kinder Corporation is as follows.
a. None/Zero
b. $80,000
c. $120,000
d. $60,000
e. None of the above

411. Referring to Question 409, Gentler Corporation's gross income for the current taxable year is as follows.
a. None/Zero
b. $150,000
c. $200,000
d. $500,000
e. None of the above

412. Referring to Question 409, Gentler Corporation's adjusted basis for the assets which Gentler Corporation received from Kinder Corporation is as follows.
a. None/Zero
b. $500,000
c. $555,000
d. $150,000
e. None of the above

413. Referring to Question 409, Kinder Corporation's gross income for the current taxable year is as follows.
a. None/Zero
b. $500,000
c. $555,000
d. $150,000
e. None of the above
414. Referring to Question 409, after the merger, Gentler Corporation's total earnings and profits is as follows.
a. None/Zero  
b. $350,000  
c. $245,000  
d. $175,000  
e. None of the above

415. Referring to Question 409, John received from Kinder Corporation, as part of the merger, $20,000 of cash and the common shares in Gentler Corporation, which shares had a fair market value of $400,000. John's capital gain gross income for the current taxable year is as follows.
a. None/Zero  
b. $20,000  
c. $120,000  
d. $360,000  
e. None of the above

416. Referring to Question 415, John's adjusted basis for the common shares of Gentler Corporation which John received as a result of the merger is as follows.
a. None/Zero  
b. $240,000  
c. $60,000  
d. $300,000  
e. None of the above

417. During the current taxable year and as part of a corporate division, Hotshot Corporation organized GoodLuck Corporation and transferred 70% of Hotshot Corporation's assets and 70% of Hotshots Corporation's liabilities to GoodLuck Corporation in exchange for 1,000 common shares of GoodLuck Corporation (which were all of the common shares of Good Luck Corporation). Mary owned, at that time, 70% of the common shares (700 of the 1,000 common shares) of Hotshot Corporation, which common shares (of Mary) had a fair market value of $2,100,000 (because Hotshot Corporation's fair market value was $3,000,000) and which common shares had an adjusted basis to Mary of $40,000 and which common shares had been owned by Mary for over five years. Paul owned the other 30% (300 common shares) of Hotshot Corporation, which 300 common shares had a fair market value of $900,000. As part of the corporate division of Hotshot Corporation, Hotshot Corporation transferred 70% of Hotshot Corporation's assets and liabilities (which had a net fair market value of $2,100,000) to GoodLuck Corporation and GoodLuck Corporation issued 1,000 common shares of GoodLuck Corporation (which were all of GoodLuck Corporation's shares) to Hotshot Corporation in exchange such assets and liabilities. Just prior to the corporate division, Hotshot Corporation had $400,000 of accumulated earnings and profits. Thereafter, Hotshot Corporation transferred all of the GoodLuck Corporation common shares to Mary in exchange for the common shares of Hotshot Corporation which were owned by Mary. Then, under the provisions of the applicable corporate division laws, Hotshot Corporation and Good Luck Corporation existed as separate corporations, with Mary owning all of the common shares of GoodLuck Corporation (which then had a fair market value of $2,100,000) and with Paul owning all of the common shares of Hotshot Corporation (which then had a fair market value of $900,000). The adjusted basis of Hotshot Corporation's assets which Hotshot Corporation transferred to Good Luck Corporation was $325,000. Mary's gross income for the current taxable year with respect to the corporate division is as follows.
a. None/Zero  
b. $1,775,000  
c. $2,060,000  
d. $2,100,000  
e. None of the above

418. Referring to Question 417, Mary's adjusted basis for the common shares which Mary received in GoodLuck Corporation from Hotshot Corporation is as follows.
a. None/Zero
b. $2,060,000

c. $325,000

d. $40,000

e. None of the above

419. Referring to Question 417, Hotshot Corporation's gross income for the current taxable year with respect to the corporate division is as follows.

a. None/Zero

b. $40,000

c. $325,000

d. $2,060,000

e. None of the above

420. Referring to Question 417, GoodLuck Corporation's adjusted basis for the assets which GoodLuck Corporation received from Hotshot Corporation is as follows.

a. None/Zero

b. $40,000

c. $325,000

d. $2,060,000

e. None of the above

421. Referring to Question 417, GoodLuck Corporation's gross income as the result of these facts is as follows.

a. None/Zero

b. $40,000

c. $325,000

d. $2,060,000

e. None of the above

422. Referring to Question 417, GoodLuck Corporation's accumulated earnings and profits just after the corporate division is as follows.

a. None/Zero

b. $120,000

c. $280,000

d. $400,000

e. None of the above

423. During the current taxable year, Paul owned 100 common shares of FruitLoops Corporation, which was 100% of the common shares of FruitLoops Corporation, a C corporation which had accumulated earnings and profits of $350,000. Paul needed some money in order to repay a debt which Paul owed. Therefore, during the current taxable year, FruitLoops Corporation redeemed 50 of the common shares which Paul owned. Paul's adjusted basis for the 50 redeemed common shares was $2,500 and the common shares were redeemed at the fair price of $5,000. Paul's gross income for the current taxable year is as follows.

a. None/Zero

b. $2,500 long term capital gain

c. $5,000 ordinary income

d. $5,000 long term capital gain

e. None of the above

424. During the current taxable year, Paul owned 150 common shares of SeeYouSoon Corporation, which was 50% of the common shares of SeeYouSoon Corporation, a C corporation which had accumulated earnings and profits of $500,000. John owned the other 50% of the common shares. Paul needed some money in order to repay a debt which Paul owed. Therefore, during the current taxable year, SeeYouSoon Corporation redeemed all 150 of the common shares which Paul owned. Paul's adjusted basis for the 150 redeemed common shares was $7,000 and the common shares were redeemed at the fair price of $10,000. Paul's gross income for the current taxable year is
as follows.

a. None/Zero
b. $3,000 long term capital gain
c. $3,000 ordinary income
d. $10,000 ordinary income
e. None of the above

425. Referring to Question 424, Paul sold to Mary 75 of the common shares which Paul owned for $10,000. Paul's adjusted basis for the 75 sold common shares was $3,500. Paul's gross income for the current taxable year is as follows.

a. None/Zero
b. $6,500 long term capital gain
c. $3,000 long term capital gain
d. $3,000 ordinary income
e. None of the above

426. During the current taxable year, SnickelFritz Corporation, a C corporation, had accumulated earnings and profits of $250,000 and had the following assets and liabilities. Mary owned all of the common shares of SnickelFritz Corporation, which common shares had been owned by Mary for over five years and which common shares had an adjusted basis to Mary of $75,000. Further, during the current taxable year, SnickelFritz Corporation began to completely liquidate.

<table>
<thead>
<tr>
<th>Asset</th>
<th>Adjusted Basis</th>
<th>Fair Market Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>25,000</td>
<td>25,000</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>15,000</td>
<td>20,000</td>
</tr>
<tr>
<td>Inventory</td>
<td>20,000</td>
<td>50,000</td>
</tr>
<tr>
<td>Equipment</td>
<td>20,000</td>
<td>10,000</td>
</tr>
<tr>
<td>Land</td>
<td>20,000</td>
<td>80,000</td>
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<tr>
<td>Goodwill</td>
<td>0</td>
<td>20,000</td>
</tr>
<tr>
<td>Liabilities</td>
<td>0</td>
<td>10,000</td>
</tr>
</tbody>
</table>

As part of the liquidation process, SnickelFritz Corporation distributed the inventory to Mary as the first distribution of the assets to Mary, which was the only distribute of assets made to Mary during the current taxable year. SnickelFritz Corporation's gross income with respect to the liquidation distribution of the inventory to Mary is as follows.

a. None/Zero
b. $20,000
c. $30,000
d. $50,000
e. None of the above

427. Referring to Question 426, Mary's gross income with respect to the liquidation distribution to Mary is as follows.

a. None/Zero
b. $20,000
c. $30,000
d. $50,000
e. None of the above

428. Referring to Question 426, Mary sold the inventory for $70,000 nine months after Mary received the inventory. Mary's gross income for the current taxable year as a result of the sale is as follows.

a. None/Zero
b. $20,000
c. $30,000
d. $40,000
e. None of the above

429. During the current taxable year, HereWeGo Corporation has taxable income of $86,000. HereWeGo Corporation's income tax (prior to any credit) for the current taxable year is as follows.
a. None/Zero
b. $17,490
c. $16,500
d. $16,000
e. None of the above

430. Referring to Question 429, HereWeGo Corporation has taxable income of $501,000. HereWeGo Corporation's income tax (prior to any credit) for the current taxable year is as follows.
a. None/Zero
b. $170,340
c. $150,300
d. $151,400
e. None of the above

431. During the current taxable year, FallFever Corporation paid a salary of $20,000 to John. The amount of social security tax and hospital insurance tax which FallFever Corporation must withhold from John’s salary for the current year is as follows.
a. None/Zero
b. $3,060
c. $1,530
d. $765
e. None of the above

432. Referring to Question 431, the amount of unemployment tax (prior to any credit) which FallFever Corporation must withhold from John’s salary for the current year is as follows.
a. None/Zero
b. $3,060
c. $1,530
d. $765
e. None of the above

433. During the current taxable year, John's employer, Jolly Corporation, which regularly sold furniture to customers, allowed John to purchase a table out of Jolly Corporation's inventory (which table had an adjusted basis of $3,000 and which table had a fair market value of $12,000) for $10,000, because John had worked so hard for Jolly Corporation during the last taxable year, and therefore, Jolly Corporation wanted to give John a bonus for the current taxable year. John paid for and received the table (with no restrictions attached) on November 1 of the current taxable year. John also owned and operated a sole proprietorship in which John sold window drapes. John's ordinary gross income for the current taxable year with respect to the transfer of the property to John is as follows.
a. None/Zero
b. $9,000
c. $2,000
d. $3,000
e. None of the above

434. Referring to Question 433, Jolly Corporation's ordinary gross income for the current taxable year with respect to the transfer of the property to John is as follows.
435. Referring to Question 433, John’s adjusted basis for the property transferred to John is as follows.
   a. None/Zero
   b. $10,000
   c. $12,000
   d. $9,000
   e. None of the above

436. During the current taxable year, Nice Corporation, which was an S corporation, was owned by John (40%) and by Mary (60%) and Nice Corporation had a net profit of $100,000 after paying John a salary of $50,000. John worked full-time for Nice Corporation and Mary did not work at all for Nice Corporation. The adjusted basis for John’s common shares in Nice Corporation was $4,000 and the adjusted basis for Mary’s common shares in Nice Corporation was $6,000. John’s gross income for the current taxable year is as follows.
   a. None/Zero
   b. $40,000
   c. $50,000
   d. $90,000
   e. None of the above

437. Referring to Question 436, Nice Corporation had a net loss of $100,000 after paying John a salary of $50,000. John’s and Mary’s adjusted gross income for the current taxable year is as follows.
   a. None/Zero
   b. $50,000
   c. $40,000
   d. $46,000
   e. None of the above

438. On January 1 of the current taxable year, Nice Corporation declared a dividend of cash which was payable on April 1 of the current taxable year to shareholders who owned Nice Corporation common stock on February 1 of the current taxable year. Mary died on February 4 of the current taxable year and the executor of Mary’s estate received the dividend of $200 on April 3 of the current taxable year. The estate’s ordinary gross income for the current taxable year with respect to the dividend is as follows.
   a. None/Zero
   b. $200
   c. $100
   d. Need additional information
   e. None of the above

439. During the current taxable year, Paul organized HoneyBun Corporation, transferred all of Paul's sole proprietorship assets (with a fair market value of $100,000 and a total adjusted basis of $25,000, all appreciated assets) to HoneyBun Corporation, and Paul received, from HoneyBun Corporation, in exchange for the assets, all of HoneyBun Corporation's issued and outstanding common shares. One type of asset which Paul transferred to HoneyBun Corporation was a truck, with respect to which, Paul had paid $20,000 and taken $15,000 of depreciation deductions. At the time of the transfer of the truck to HoneyBun Corporation, the truck had a fair market value of $8,000. Paul's ordinary gross income for the current taxable year with respect to the transfer of the truck to HoneyBun Corporation is as follows.
   a. None/Zero
   b. $75,000
   c. $3,000
d. $100,000
e. None of the above

440. Referring to Question 439, HoneyBun Corporation’s adjusted basis for the truck is as follows.
   a. None/Zero
   b. $5,000
   c. $8,000
   d. $20,000
e. None of the above

441. Referring to Question 439, during the next taxable year, HoneyBun Corporation sold the truck for $8,000 at a
time when the truck had an adjusted basis of $5,000. HoneyBun Corporation did not depreciate the truck because
HoneyBun Corporation did not use the truck in HoneyBun Corporation’s business. HoneyBun Corporation's long
term capital gain for the next taxable year is as follows.
   a. None/Zero
   b. $3,000
   c. $2,000
   d. $5,000
e. None of the above

442. During January of the current taxable year, John died and John’s estate received 100 common shares of
MissionPossible Corporation from John. John had purchased the stock a week before John died for $10,000 and
at John’s death the stock had a fair market value of $11,000. During March of the current taxable year, John’s
estate exchanged the stock with Paul for Paul’s 100 common shares of LastHurrah Corporation. At the time of
the exchange, both of the units of common stock had a fair market value of $12,000. The executor of John’s
estate elected to value John’s stock, for federal estate tax purposes, at the date of John’s death. John’s estate’s
long term capital gain gross income for the current taxable year is as follows.
   a. None/Zero
   b. $1,000
   c. $2,000
   d. $11,000
e. None of the above

443. During the current taxable year, Paul, who used the accrual method of accounting, received a bill from
ElectricShock Corporation for $100 for one month’s use of electricity in Paul’s business. Paul paid the bill during
the next taxable year. Paul’s ordinary expense or ordinary loss deduction for the next taxable year with respect to
the electrical bill is as follows.
   a. None/Zero
   b. $100
   c. $50
   d. Need additional information
e. None of the above

444. During February of the current taxable year, WatchMeGo Corporation agreed to redeem all of Beverly’s common
shares (specifically, 1,000 common shares) issued by WatchMeGo Corporation with respect to which Beverly had
an adjusted basis of $100,000. The closing of the redemption was to be June 1 of the current taxable year and the
redemption price was $2,000,000. On May 1 of the current taxable year, Beverly gave 500 of Beverly’s common
shares to HomeForBatteredChildren, Inc. and on June 1 of the current taxable year, WatchMeGo Corporation paid
Beverly $1,000,000 for the 500 common shares which Beverly then owned and WatchMeGo Corporation paid
HomeForBatteredChildren, Inc. $1,000,000 for the 500 common shares which HomeForBatteredChildren, Inc.
then owned. Beverly’s gross income for the current taxable year is as follows.
   a. None/Zero
   b. $950,000
   c. $1,900,000
445. On January 1 of the current taxable year, Alan and Beverly divorced. Beverly had paid to Alan $1,000 per month, beginning on January 1 of the last taxable year, as part of a pre-divorce agreement approved by the court, while Alan and Beverly continued to live together (in a fairly large house owned by Beverly). As part of the divorce agreement approved by the court on January 1 of the current taxable year, Beverly was to stop paying the pre-divorce monthly payments of $1,000 to Alan and Beverly was to begin paying to Alan $2,000 per month until any one of the following events occurred: Alan remarried; Beverly died; Alan attained age 75 years; or, Beverly attained age 75 years. Beverly moved out of Alan's and Beverly's home on January 1 of the current taxable year. As part of the divorce agreement approved by the court, Beverly was also required to transfer to Alan the house, on February 1 of the current taxable year, which Beverly did, and which house had a fair market value of $700,000 and with respect to which Beverly had an adjusted basis of $100,000. Alan's gross income for the last taxable year is as follows.

a. None/Zero
b. $12,000
c. $24,000
d. $712,000
e. None of the above

446. Referring to Question 445, after Beverly and Alan were divorced, Beverly worked, during the next taxable year, while Rebecca was in school, for three hours each day, Monday through Friday, as an employee, and earned $30 per day ($7,500 for the next taxable year). In addition, Beverly had dividends of $20,000 and interest of $20,000 for the next taxable year. The amount of employment taxes which Beverly must pay for the next taxable year is as follows.

a. None/Zero
b. $750
c. $574
d. $1,148
e. None of the above

447. During the current taxable year, Beverly had a gross salary of $100,000 and Beverly paid a neighbor $5,000 to care for Rebecca, nine hours a day, five days a week, so that Beverly could work at Viva Corporation. During the current taxable year, Rebecca was ten years old. Beverly is entitled to a credit of less than $5,000 because of these expenditures by Beverly during the current taxable year.

a. Yes/True
b. No/False
c. Need additional information
d. None of the above

d. None of the above

448. During the current taxable year, John had adjusted gross income of $100,000, without considering the following facts, and John made no election with respect to these facts. During the current taxable year, John made a charitable contribution of common shares which John had owned for 15 months, with an adjusted basis of $40,000 and a fair market value of $50,000. John's ordinary expense or ordinary loss deduction for the current taxable year with respect to the charitable contribution (considering all deduction limitations) is as follows.

a. None/Zero
b. $50,000
c. $10,000
d. $30,000
e. None of the above

449. During the current taxable year, John had adjusted gross income of $100,000, without considering the following facts, and John made no election with respect to these facts. During the current taxable year, John made a charitable contribution of common shares which John had owned for six months, with an adjusted basis of $2,000,000.
$30,000 and a fair market value $40,000. John's ordinary expense or ordinary loss deduction for the current taxable year with respect to the charitable contribution (considering all deduction limitations) is as follows.

a. None/Zero
b. $30,000
c. $50,000
d. $40,000
e. None of the above

450. During the current taxable year, John had adjusted gross income of $100,000, without considering the following facts, and John made no election with respect to these facts. During the current taxable year, John made a charitable contribution of John's rare toy electric train collection to the RailroadMuseum Corporation, under an agreement with the charitable organization, which agreement allowed John to keep the toy electric train collection until John died. The train collection had been owned by John for many years and John had an adjusted basis for the train collection of $10,000. At the time of the gift, the train collection had a fair market value of $80,000, and John’s actuarial interest in the train collection at the date of the gift was 40% and the remainder interest in the train collection was 60%. John's ordinary expense or ordinary loss deduction for the current taxable year with respect to the charitable contribution (considering all deduction limitations) is as follows.

a. None/Zero
b. $30,000
c. $50,000
d. Need additional information
e. None of the above

451. During the current taxable year, John had adjusted gross income of $100,000, without considering the following facts, and John made no election with respect to these facts. During the current taxable year, John made a charitable contribution of common shares which John had owned for two years, with an adjusted basis of $50,000 and a fair market value of $40,000. John's ordinary expense or ordinary loss deduction for the current taxable year with respect to the charitable contribution (considering all deduction limitations) is as follows.

a. None/Zero
b. $40,000
c. $30,000
d. $50,000
e. None of the above

452. During the current taxable year, John had adjusted gross income of $100,000, without considering the following facts, and John made no election with respect to these facts. During the current taxable year, John made a charitable contribution of common shares which John had owned for two months, with an adjusted basis of $50,000 and a fair market value $80,000. John's charitable contribution carryover to next year (considering all deduction limitations) is as follows.

a. None/Zero
b. $15,000
c. $10,000
d. $20,000
e. None of the above

453. During the current taxable year, Peter borrowed, as an unsecured loan from a bank, $100,000, in order to invest in GoGo Corporation shares and in FooFoo Corporation shares. Peter kept the balance of the borrowed funds in a savings account. By the end of the current taxable year, Peter had paid interest on the debt of $7,000 and received dividends of $2,000 and interest of $2,000 and capital gains of $2,000. Peter wants to deduct all of the interest which Peter can during the current taxable year. Peter's ordinary expense or ordinary loss deduction for interest for the current taxable year (considering all deduction limitations) is as follows.

a. None/Zero
b. $4,000
c. $6,000
454. On January 1 of the current taxable year, Peter purchased a Courageous Corporation bond for $10,000 when the bond was issued. The bond matures on December 31 ten years from the bond's issue date, has a par value of $10,000, and has a stated interest rate of seven percent per year, which stated interest is paid each December 31. During the current taxable year, Peter received a check for the proper amount of the stated interest. Peter took all of the deductions (or gross income reductions) indicated by these facts, but Peter did not itemize Peter's deductions. Peter's gross income for the current taxable year is (approximately) as follows.
   a. None/Zero
   b. $700
   c. $1,400
   d. $2,100
   e. None of the above

455. Referring to Question 454, Peter's adjusted basis for the bond at the beginning of the next taxable year is (approximately) as follows.
   a. None/Zero
   b. $9,300
   c. $10,000
   d. $10,700
   e. None of the above

456. Referring to Question 454, Peter owned the bond until the bond matured, at which time, Courageous Corporation redeemed the bond from Peter. Peter's gross income for the taxable year in which the bond was redeemed with respect to the bond is (approximately) as follows.
   a. None/Zero
   b. $700
   c. $10,700
   d. $10,000
   e. None of the above

457. On January 1 of the current taxable year, Peter purchased a Sushi Corporation bond for $11,000 when the bond was issued. The bond matures on December 31 ten years from the bond's issue date, has a par value of $10,000, and has a stated interest rate of five percent per year, which stated interest is paid each December 31. During the current taxable year, Peter received a check for the proper amount of the stated interest. Peter took all of the deductions (or gross income reductions) indicated by these facts, but Peter did not itemize Peter's deductions. Peter's gross income for the current taxable year is (approximately) as follows.
   a. None/Zero
   b. $400
   c. $500
   d. $100
   e. None of the above

458. Referring to Question 457, Peter's adjusted basis for the bond at the beginning of the next taxable year is (approximately) as follows.
   a. None/Zero
   b. $11,000
   c. $10,000
   d. $10,900
   e. None of the above

459. On January 1 of the current taxable year, Peter purchased a LoveyDovey Corporation bond for $8,000 when the bond was issued. The bond matures on December 31 ten years from the bond's issue date, has a par value of
$10,000, and has a stated interest rate of eight percent per year, which stated interest is paid each December 31. During the current taxable year, Peter received a check for the proper amount of the stated interest. Peter took all of the deductions (or gross income reductions) indicated by these facts, but Peter did not itemize Peter's deductions. Peter's gross income for the current taxable year is (approximately) as follows.

a. None/Zero
b. $800
c. $640
d. $1,000
e. None of the above

460. Referring to Question 459, Peter's adjusted basis for the bond at the beginning of the next taxable year is (approximately) as follows.

a. None/Zero
b. $8,000
c. $8,200
d. $10,000
e. None of the above

461. Referring to Question 459, Peter owned the bond until the bond matured, at which time, LoveyDovey Corporation redeemed the bond from Peter. Peter's gross income for the taxable year in which the bond was redeemed with respect to the bond is (approximately) as follows.

a. None/Zero
b. $2,000
c. $1,000
d. $10,000
e. None of the above

462. On January 1 of two taxable years ago, Peter purchased a Moogoogaipan Corporation bond for $10,000 when the bond was issued. The bond was to mature on December 31, ten years from the bond's issue date, had a par value of $10,000, and had a stated interest rate of five percent per year, which stated interest was to be paid each December 31. From the date of Peter's acquisition of the bond through Peter's disposition of the bond (a period of two taxable years), Peter has not received a payment for any of the interest with respect to the bond. On January 1 of the current taxable year, Peter sold the bond to Paul for $8,000. Peter took all of the deductions (or reductions, prior to gross income) indicated by these facts. Peter's long term capital loss for the current taxable year is as follows.

a. None/Zero
b. $2,000
c. $3,000
d. $4,000
e. None of the above

463. Referring to Question 462, Peter's ordinary income for the current taxable year.

a. None/Zero
b. $2,000
c. $3,000
d. $1,000
e. None of the above

464. On January 1 of the current taxable year, Peter purchased a GetALong Corporation bond for $10,000 when the bond was issued. The bond was to mature on December 31, ten years from the bond's issue date, had a par value of $10,000 and had a stated interest rate of six percent per year, which stated interest was to be paid each December 31. During the current taxable year, Peter did not receive a check for any of the stated interest and on January 15 of the next taxable year the bond became worthless. Peter took all of the deductions (or reductions, prior to gross income) indicated by these facts. Peter's ordinary loss for the next taxable year is as follows.
465. On December 1 of the current taxable year, Paul purchased a YourOk Corporation bond for $10,000 when the bond was issued. The bond was to mature on December 31, ten years from the bond’s issue date, had a par value of $10,000, and had a stated interest rate of five percent per year, which stated interest was to be paid each December 31. During the current taxable year, Paul did not receive a check for any of the stated interest and the bond became worthless during January of next taxable year. Paul took all of the deductions (or reductions, prior to gross income) indicated by these facts. Paul's long term capital loss for the next taxable year is as follows.

a. None/Zero
b. $10,000
c. $10,500
d. $11,000
e. None of the above

466. On January 1 of the current taxable year, John's mother gave John 1,000 common shares of CornedBeef&Cabbage Corporation. John's mother purchased the common shares four taxable years ago for a gross purchase price of $50,000 and John's mother also paid purchase expenses of $5,000. John's mother did not owe any gift taxes as a result of the gift. At the date of the gift, the common shares had a fair market value of $100,000. John held the common shares until April 1 of the current taxable year, at which time John sold the common shares to Paul for a gross sales price of $100,000. John paid selling expenses of $5,000. John's long term capital gain gross income for the current taxable year is as follows.

a. None/Zero
b. $50,000
c. $45,000
d. $40,000
e. None of the above

467. Referring to Question 466, John sold the common shares to Paul for a gross sales price of $40,000 and John paid selling expenses of $5,000. John's long term capital loss for the current taxable year is as follows.

a. None/Zero
b. $20,000
c. $25,000
d. $30,000
e. None of the above

468. On January 1 of the current taxable year, John's mother gave John 1,000 common shares of Starbuck Corporation. John's mother purchased the common shares for a gross purchase price of $50,000 and John's mother paid purchase expenses of $5,000 two taxable years ago. At the date of the gift, the common shares had a fair market value of $30,000 and the mother owed no gift taxes because of the gift. John held the common shares until April 1 of the current taxable year, at which time John sold the common shares to Paul for a gross sales price of $80,000. John also paid selling expenses of $5,000. John's long term capital gain gross income for the current taxable year is as follows.

a. None/Zero
b. $45,000
c. $30,000
d. $20,000
e. None of the above

469. Referring to Question 468, John had sold the common shares to Paul on April 1 of the current taxable year, for a gross sales price of $20,000 and that John paid selling expenses of $5,000. John's long term capital loss for the
470. Referring to Question 468, John sold the common shares to Paul for a gross sales price of $40,000 and John paid selling expenses of $5,000. John's long term capital loss for the current taxable year is as follows.
   a. None/Zero
   b. $20,000
   c. $25,000
   d. $30,000
   e. None of the above

471. Mary died on January 1 of the current taxable year, owning 1,000 common shares of Starbuck Corporation. Mary paid a gross purchase price of $120,000 for the common shares in December of the last taxable year, and the common shares had a fair market value of $100,000 at Mary's death and $70,000 on July 1 of the current taxable year. The executor of Mary’s estate elected to use the date of death values for estate tax purposes, and on May 1 of the current taxable year, the executor sold the common shares to Paul, for a gross sales price of $75,000, and the executor paid selling expenses of $5,000, which selling expenses were elected to be utilized in determining the gain or loss on the federal fiduciary income tax return (IRS Form 1041), rather than being deducted on the federal estate tax return (IRS Form 706). The estate’s long term capital loss for the current taxable year is as follows.
   a. None/Zero
   b. $30,000
   c. $40,000
   d. $45,000
   e. None of the above

472. Referring to Question 471, the executor of Mary’s estate elected to deduct the selling expenses on the estate's federal estate tax return (IRS Form 706), rather than utilizing the selling expenses in determining the gain or loss on the estate's federal fiduciary income tax return (IRS Form 1041). The estate’s long term capital loss for the current taxable year with respect to the sale of the common shares to Paul is as follows.
   a. None/Zero
   b. $25,000
   c. $30,000
   d. $35,000
   e. None of the above

473. Referring to Question 471, the executor of Mary’s estate elected to use the alternate valuation dates. The estate’s long term capital loss for the current taxable year with respect to the sale of the common shares to Paul is as follows.
   a. None/Zero
   b. $25,000
   c. $5,000
   d. $30,000
   e. None of the above

474. Mary died on January 1 of the current taxable year, owning 1,000 common shares of Starbuck Corporation. Mary paid $20,000 for the common shares in December of the last taxable year, and the common shares had a fair market value of $30,000 at Mary's death and $42,000 on July 1 of the current taxable year. The executor of Mary’s estate elected to use the date of death values for estate tax purposes. Mary's last will and testament
devised $35,000 of cash to Paul, and on May 1 of the current taxable year, when the fair market value of the
common shares was $35,000, the executor transferred the common shares to Paul, under an agreement under
which Paul took the common shares in lieu of the cash devise. Mary’s estate’s long term capital gain for the
current taxable year with respect to the transfer of the common shares to Paul is as follows.
a. None/Zero
b. $5,000
c. $7,000
d. $15,000
e. None of the above

Sales Of Property To Particular Persons

475. Two taxable years ago, John purchased some common shares for $50,000, and during the current taxable year,
John sold the common shares to Sue for $70,000. John's long term capital gain gross income for the current
taxable year is as follows.
a. None/Zero
b. $10,000
c. $20,000
d. $5,000
e. None of the above

476. Referring to Question 475, John sold the common shares to Sue for $40,000. John's deductible long term capital
loss for the current taxable year is as follows.
a. None/Zero
b. $3,000
c. $5,000
d. $10,000
e. None of the above

477. During the current taxable year, Mary died owning one whole (ordinary life) life insurance policy on Mary's life
which had a face amount of $2,000,000 and which was payable, in lump sum, to Mary's estate. The life insurance
policy had been purchased by Mary, during the current taxable year, for $200,000, from Zesty Corporation of
which Mary was president and which corporation had purchased the life insurance policy several taxable years
ago from the issuing life insurance company, and which life insurance policy was payable, prior to the sale to
Mary, to Zesty Corporation. Mary promptly changed the beneficiary designation of the life insurance policy in
order to make Mary's estate be the beneficiary. Initially, Zesty Corporation had purchased the life insurance
policy for the benefit of Zesty Corporation, but then, when Mary decided to retire, Zesty Corporation sold the life
insurance policy to Mary. Zesty Corporation had paid a total of $100,000 of premiums with respect to the life
insurance policy, $10,000 of which was paid during the current taxable year, prior to the sale of the life insurance
policy to Mary. Zesty Corporation capitalized each premium payment; that is, Zesty Corporation did not expense
the premiums either for book purposes or for earnings and profit purposes. The Table 2001 cost with respect to
the payment of the current taxable year's life insurance premium was $1,000. Zesty Corporation's gross income
for the current taxable year with respect to the sale of the life insurance policy to Mary is as follows.
a. None/Zero
b. $90,000
c. $100,000
d. $200,000
e. None of the above

478. Referring to Question 477, Mary’s estate's gross income for the current taxable year with respect to the life
insurance proceeds is as follows.
a. None/Zero
b. $1,800,000
c. $1,810,000
479. Referring to Question 477, Zesty Corporation did not sell the life insurance policy to Mary, Mary died, and Zesty Corporation received $2,000,000 from the life insurance company due to the life insurance policy. Zesty Corporation's gross income, with respect to the receipt of the life insurance proceeds policy, is as follows.
   a. None/Zero
   b. $2,000,000
   c. $1,900,000
   d. $1,910,000
   e. None of the above

480. Several taxable years ago, Mary acquired a whole (ordinary life) life insurance policy, as an owner, in the normal manner. The life insurance policy, with proceeds of $2,000,000, was payable to John, except as otherwise stated. Sable Corporation (which was Mary's employer) paid a total of $120,000 of premiums ($20,000 per year for six years, including the life insurance premium of the current taxable year, all of which Sable Corporation capitalized, rather than expensed, for book purposes and for earnings and profits purposes) with respect to the life insurance policy, which amount was the total amount paid as life insurance premiums with respect to the life insurance policy through the last taxable year. Mary had an agreement with Sable Corporation and with the life insurance company, which agreement provided that when Mary died, Sable Corporation would be repaid all of the premiums which Sable Corporation had paid on the life insurance policy and that this repayment would come from the proceeds of the life insurance policy. Thus, when Mary died during the current taxable year, Sable Corporation, received $120,000 of the life insurance proceeds and John received $1,880,000. The Table 2001 cost (of the $20,000 life insurance premium which Sable Corporation paid the last taxable year) was $1,000. Mary's ordinary gross income for the last taxable year with respect to Sable Corporation's payment of the life insurance premium is as follows.
   a. None/Zero
   b. $975
   c. $20,000
   d. $1,000
   e. None of the above

481. Referring to Question 480, Sable Corporation's ordinary expense or ordinary loss deduction for the last taxable year with respect to Sable Corporation's payment of the last taxable year's life insurance premium is as follows.
   a. None/Zero
   b. $1,000
   c. $19,000
   d. $20,000
   e. None of the above

482. Referring to Question 480, Sable Corporation's gross income for the current taxable year with respect to the receipt of the $120,000 of life insurance proceeds is as follows.
   a. None/Zero
   b. $120,000
   c. $100,000
   d. $99,000
   e. None of the above

483. Referring to Question 480, Sable Corporation paid, during the last taxable year, $19,000 of the last taxable year's life insurance premium and that Mary paid $1,000 of such life insurance premium, which latter amount which was equal to the Table 2001 cost. Also, Sable Corporation paid Mary a bonus, during the last taxable year, of $1,000 so that Mary could pay the Table 2001 cost. Mary's ordinary gross income for the last taxable year with respect to Sable Corporation's life insurance premium payment and Table 2001 cost and bonus payment is as follows.
   a. None/Zero
484. Referring to Question 483, Sable Corporation's ordinary expense or ordinary loss deduction to Sable Corporation for the last taxable year is as follows.
a. None/Zero
b. $1,000
c. $19,000
d. $20,000
e. None of the above

485. During the current taxable year, Special Corporation paid a premium of $600 with respect to a group term life insurance policy which insured the life of John, an employee of Special Corporation, which policy was owned by John, and which policy was payable to John's estate as the beneficiary, with a face amount of $60,000. Special Corporation's ordinary expense or ordinary loss deduction for the current taxable year with respect to the payment of the life insurance premium is as follows.
a. None/Zero
b. $600
c. $100
d. $90
e. None of the above

486. Referring to Question 485, John's ordinary gross income for the current taxable year with respect to the payment of the life insurance premium is as follows.
a. None/Zero
b. $100
c. $600
d. $90
e. None of the above

487. John had a gross salary of $50,000 during the current taxable year and John was covered by John's corporate employer's qualified retirement fund, which ChewChew Corporation maintained for John. Mary was not employed, but worked at home to maintain John's and Mary's home. Mary had a traditional individual retirement account which Mary established for Mary. The maximum amount which Mary may contribute to Mary's traditional individual retirement account and deduct for income tax purposes the following amount.
a. None/Zero
b. $1,000
c. $3,000
d. $4,000
e. None of the above

488. During the current taxable year, Paul was employed by Grits Corporation at an annual gross salary of $60,000 and Paul established a Roth individual retirement account and contributed $2,000 to the individual retirement account. Neither Paul nor Grits Corporation made any other contribution to any retirement account with respect to Paul. During the current taxable year, the earnings in Paul's individual retirement account were $100. Paul's ordinary expense or ordinary loss deduction for the current taxable year is as follows.
a. None/Zero
b. $100
c. $200
d. $500
e. None of the above
Referring to Question 488, Paul's gross income for the current taxable year is as follows.

a. None/Zero
b. $1,000
c. $50,000
d. $51,000
e. None of the above

Referring to Question 488, Paul continued to work for Grits Corporation for ten more years and continued to contribute to Paul’s retirement plan fund, and then, Paul retired at age 68 and Paul withdrew all of the funds from Paul’s retirement fund in lump sum, in the amount of $200,000, during the current taxable year. Paul's gross income for the current taxable year, due to the withdrawal of funds only, is as follows.

a. None/Zero
b. $200,000
c. $100,000
d. $50,000
e. None of the above

Twenty taxable years ago, John purchased a nonqualified annuity from Catchy Insurance Company for $80,000. The terms of the annuity contract are that, when John attains the age of 60 years, which John now has, John is to receive (beginning during the current taxable year) one payment per month of $3,000 (each month) until John dies. John received each of the 12 payments for the current taxable year during the current taxable year. On January 2 of the current taxable year, Catchy Insurance Company estimated John's life expectancy to be 15 years, and therefore, Catchy Insurance Company estimated that John would receive a total of $540,000 of annuity payments. John's approximate (the closest amount) of ordinary gross income for the current taxable year with respect to the annuity payments (with a reasonable rounding off of numbers) is as follows.

a. None/Zero
b. $32,903
c. $32,308
d. $31,429
e. None of the above

On April 1 of the current taxable year, Paul was employed by Sauerkraut Corporation at an annual gross salary of $65,000 and Paul needed money in order to purchase a house, and thus, Paul withdrew $20,000 from Paul's traditional individual retirement account which was maintained for Paul at a bank and which was contributed to solely by Paul and Paul deducted all of Paul's contributions to the traditional individual retirement account. Paul did not have any other retirement plan during the current taxable year. Paul had never had an interest in a residence (house and land) before. Paul's gross income for the current taxable year is as follows.

a. None/Zero
b. $75,000
c. $65,000
d. $85,000
e. None of the above

Referring to Question 492, the amount of any excise (or penalty) tax which Paul must pay with respect to the distribution from the retirement plan trust is as follows.

a. None/Zero
b. $2,000
c. $1,000
d. $6,500
e. None of the above

On April 1 of the current taxable year, Beverly was employed by DoingWell Corporation at gross salary of $40,000 and Beverly needed money in order to pay $20,000 for Rebecca's college tuition. The college required the tuition to be paid for both the first and second semesters. Thus, Beverly told the trustee of Beverly's
traditional individual retirement account to distribute $20,000 from the account to Beverly. Beverly was the sole contributor to the traditional individual retirement account and all of Beverly's contributions were deductible to Beverly. Beverly paid the tuition during the current taxable year. Beverly's gross income for the current taxable year is as follows.

a. None/Zero
b. $50,000
c. $40,000
d. $60,000
e. None of the above

495. Referring to Question 494, the amount of any excise (or penalty) tax which Beverly must pay with respect to the distribution from the traditional individual retirement account is as follows.

a. None/Zero
b. $2,000
c. $1,200
d. $1,000
e. None of the above

496. During April of the current taxable year, Mary died as an employee of Superman Corporation, which had established a qualified retirement plan for Mary. The beneficiary of Mary's corporate qualified retirement plan was John and John was entitled to receive a lump sum distribution under the retirement plan of $300,000 or to rollover the amount (of $300,000). The fund consisted of $250,000 of Superman Corporation contributions and $50,000 of earnings thereon. After John was notified with respect to the amount of the distribution and John's rights with respect to the distribution, John promptly established a traditional individual retirement account in John's name and told the trustee of Mary’s retirement fund to distribute the funds to the trustee of John's traditional individual retirement account, which the trustee did. John did not have any other retirement plan during the current taxable year. John's gross income for the current taxable year is as follows.

a. None/Zero
b. $250,000
c. $300,000
d. $350,000
e. None of the above

497. Referring to Question 496, the amount of any excise (or penalty) tax which John must pay with respect to the distribution from the retirement plan trust is as follows.

a. None/Zero
b. $18,000
c. $25,000
d. $30,000
e. None of the above

498. During April of the current taxable year, Beverly died. The beneficiary of Beverly's corporate qualified retirement plan was Rebecca and Rebecca was entitled to receive a lump sum distribution under the retirement plan of $900,000. Beverly did not make any contribution to the retirement plan trust, only StraightArrow Corporation did. At Beverly’s death, the fund consisted of $700,000 of employer contributions and $200,000 of earnings thereon. However, Rebecca, who had no other income during the current taxable year, and who had no prior retirement fund promptly established a traditional individual retirement account in Rebecca's name, but Rebecca did not make a contribution to the traditional individual retirement account at that time and Rebecca told the trustee of Beverly's retirement fund to distribute the funds to the trustee of Rebecca's traditional individual retirement account, which the trustee did. Rebecca made no other election with respect to the distribution. Rebecca's gross income for the current taxable year is as follows.

a. None/Zero
b. $900,000
c. $700,000
d. $200,000

e. None of the above

499. Referring to Question 498, the amount of any excise (or penalty) tax which Rebecca must pay with respect to the distribution to Rebecca from the retirement plan trust is as follows.

a. None/Zero  
b. $20,000  
c. $70,000  
d. $90,000  
e. None of the above

500. Referring to Question 498, the amount of any excise (or penalty) tax which Rebecca must pay with respect to the depositing of the retirement plan trust funds into Rebecca’s traditional individual retirement account is as follows.

a. None/Zero  
b. $53,880  
c. $54,000  
d. $90,000  
e. None of the above

501. During the current taxable year, John was a beneficiary of an irrevocable trust which was established by John's father several taxable years ago, and during the current taxable year the trust had the following financial information. All of the gains and losses from the sales of assets were attributable to the principal of the trust. All of the other receipts and expenses were attributable to the net income of the trust. The trustee (which was the Indiana Bank) was the sole trustee and the trustee was required to distribute to John, each year, all of the trust's net book income, during John's life, which the trustee did, and then, at John's death, to distribute the remaining funds to Mary.

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John's gross income for the current taxable year is as follows.

a. None/Zero  
b. $50,000  
c. $48,000  
d. $46,000  
e. None of the above

502. Referring to Question 501, the trustee's taxable income for the current taxable year is as follows.

a. None/Zero  
b. $22,700  
c. $23,000  
d. $20,700  
e. None of the above

503. Referring to Question 501, John's father had the power to revoke the terms of the trust agreement at any time; but nevertheless, the trustee followed the terms of the trust agreement and distributed all of the net income (the net book income) of the trust to John. John's gross income for the current taxable year is as follows.

a. None/Zero
b. $75,000
c. $46,000
d. $48,000
e. None of the above

504. Referring to Question 501, John's father had only the power to change the beneficiaries of the trust at any time, but John's father could not make John's father a beneficiary of the trust. The trustee followed the terms of the trust agreement and distributed all of the net income (the net book income) of the trust to John, because John's father did not change the beneficiaries of the trust. John's gross income for the current taxable year is as follows.
a. None/Zero
b. $75,000
c. $46,000
d. $48,000
e. None of the above

505. Referring to Question 501, Mary had the power to change the beneficiaries of the trust at any time, including, the power to make Mary a beneficiary of the trust. The trustee followed the terms of the trust agreement and distributed all of the net income (the net book income) of the trust to John, because Mary did not change the beneficiaries of the trust. John's gross income for the current taxable year is as follows.
a. None/Zero
b. $75,000
c. $46,000
d. $48,000
e. None of the above

506. Referring to Question 501, Paul had the power to require the trustee to distribute all of the principal and all of the net income (the net book income) to Paul at any time for any purpose. Prior to and during the current taxable year, Paul did not request or receive any distribution from the trust. Paul's gross income for the current taxable year is as follows.
a. None/Zero
b. $71,000
c. $72,000
d. $75,000
e. None of the above

507. During the current taxable year, John was a beneficiary of an irrevocable trust which was established by John's father several taxable years ago, and during the current taxable year the trust had the following financial information. All of the gains and losses from the sales of assets were attributable to the principal of the trust. All of the other receipts and expenses were attributable to the net income of the trust. The trustee (which was the Indiana Bank) was the sole trustee and the trustee was required to distribute to John for the current taxable year the specific amount of $100,000 from the trust's principal (which was over $2,000,000) and the trustee was required to accumulate the net book income, along with the gains and losses from the sales of assets. Upon John's death, all of the remaining funds in the trust were to be distributed to Mary.

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John's gross income for the current taxable year is as follows.
508. Alan died on July 1 of the current taxable year and the executor of Alan’s estate assembled the following information about Alan’s final taxable year: Alan earned and received $5,000 of fees and Alan earned, but not actually or constructively received by Alan, fees of $7,000. Also, the executor assembled the following information about the estate’s first taxable year: received Alan’s fees of $7,000 and received dividends of $6,000 not actually or constructively received or accrued by Alan. Alan's gross income for the current taxable year is as follows.

a. None/Zero  
b. $5,000  
c. $7,000  
d. $13,000  
e. None of the above

509. Referring to Question 508, the estate’s gross income for the estate’s first taxable year is as follows.

a. None/Zero  
b. $5,000  
c. $7,000  
d. $13,000  
e. None of the above

510. During the last taxable year, John died, leaving John’s entire estate to Mary. During the current taxable year, the estate had the following financial information. All of the gains and losses from the sales of assets were attributable to the principal of the estate. All of the other receipts and expenses were attributable to the net income of the estate. The executor (which was the Indiana Bank) was the sole executor of the estate and the executor was required to distribute 50% of the estate's net book income to Mary for the current taxable year and the executor was required to accumulate the remaining net book income, along with the gains and losses from the sales of assets. Upon the termination of the estate, all of the remaining funds of the estate were to be distributed to Mary.

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Mary's gross income for the current taxable year is as follows.

a. None/Zero  
b. $21,000  
c. $67,000  
d. $59,000  
e. None of the above

511. Referring to Question 510, the estate’s taxable income for the current taxable year is as follows.

a. None/Zero  
b. $58,400  
c. $41,400
512. During the last taxable year, John died, leaving John’s entire estate to Mary. During the current taxable year, the estate had the following financial information. All of the gains and losses from the sales of assets were attributable to the principal of the estate. All of the other receipts and expenses were attributable to the net income of the estate. The executor (which was the Indiana Bank) was the sole executor of the estate and the executor was required to distribute to Mary for the current taxable year the specific amount of $75,000 from the trust's principal (which was over $2,000,000) and the executor was required to accumulate the net book income, along with the gains and losses from the sales of assets. Upon the termination of the estate, all of the remaining funds of the estate were to be distributed to Mary.

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</tr>
<tr>
<td>Capital gains</td>
<td>25,000</td>
</tr>
<tr>
<td>Capital losses</td>
<td>8,000</td>
</tr>
<tr>
<td>Administrative expenses attributable to book income</td>
<td>8,000</td>
</tr>
</tbody>
</table>

Mary's gross income for the current taxable year is as follows.

a. None/Zero
b. $17,000
c. $75,000
d. $67,000
e. None of the above

513. During December of the last taxable year, Peter, who was president of AlmostThrough Corporation, read in the newspaper that the State of Indiana was going to condemn some land which was owned by and used for business by AlmostThrough Corporation. Therefore, during June of the current taxable year, AlmostThrough Corporation purchased some new and similar land for $2,000,000. During December of the current taxable year, the State of Indiana condemned AlmostThrough Corporation’s old land and paid AlmostThrough Corporation $700,000 for the old land and AlmostThrough Corporation paid AlmostThrough Corporation’s lawyer $20,000 for the condemnation representation. Peter determined that the adjusted basis of the condemned land was $100,000. AlmostThrough Corporation's gross income for the current taxable year is as follows.

a. None/Zero
b. $100,000
c. $600,000
d. $700,000
e. None of the above

514. Referring to Question 513, AlmostThrough Corporation's adjusted basis for the new land which AlmostThrough Corporation acquired during the current taxable year is as follows.

a. None/Zero
b. $2,000,000
c. $1,420,000
d. $100,000
e. None of the above

515. Referring to Question 513, AlmostThrough Corporation purchased the new land for $400,000. AlmostThrough Corporation's gross income for the current taxable year is as follows.

a. None/Zero
b. $280,000
c. $400,000  
d. $600,000  
e. None of the above

516. Referring to Question 515, AlmostThrough Corporation's adjusted basis for the new land is as follows.
   a. None/Zero  
b. $100,000  
c. $400,000  
d. $300,000  
e. None of the above

517. During the current taxable year, Paul had a net profit from Paul's sole proprietorship of $50,000, after taking into account all deductions. Paul's federal self-employment tax (for example, social security taxes and Medicare taxes) for the current taxable year is as follows.
   a. None/Zero  
b. $7,650  
c. $3,825  
d. $6,200  
e. None of the above

518. Referring to Question 517, Paul paid a salary of $20,000 to Beverly during the current taxable year. Beverly’s federal employment taxes for the current taxable year is as follows.
   a. None/Zero  
b. $1,530  
c. $765  
d. $3,060  
e. None of the above

519. During the current taxable year, Paul received a salary of $100,000 from SoleFood Corporation and received $20,000 of dividends from SoleFood Corporation. Also, Paul paid the following expenses during the current taxable year.

<table>
<thead>
<tr>
<th>Type Of Expense Or Cost Or Depreciation</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office rent for employment</td>
<td>10,000</td>
</tr>
<tr>
<td>Publications for share and bond investments</td>
<td>3,000</td>
</tr>
<tr>
<td>Income tax return preparation fee</td>
<td>1,000</td>
</tr>
<tr>
<td>Supplies for employment</td>
<td>5,000</td>
</tr>
<tr>
<td>Entertainment of clients, $2,000 of which was reimbursed by Paul's employer</td>
<td>5,000</td>
</tr>
</tbody>
</table>

Paul's gross income for the current taxable year with respect to these facts (considering all deduction limitations) is as follows.
   a. None/Zero  
b. $122,000  
c. $120,000  
d. $115,000  
e. None of the above

520. Referring to Question 519, Paul’s gross income for the current taxable year is $100,000. Therefore, Paul’s adjusted gross income is as follows.
   a. None/Zero  
b. $78,000  
c. $98,000  
d. $77,500
521. Referring to Question 519, Paul’s adjusted gross income for the current taxable year is $100,000. Therefore, Paul’s taxable income is as follows.
   a. None/Zero
   b. $93,000
   c. $78,500
   d. $75,000
   e. None of the above

522. During the current taxable year, Paul was an employee and vice-president of TipToe Corporation, which manufactured sailboats and because Paul did such a great job as an employee, Paul was given an option to purchase, during the current taxable year, 100 common shares of TipToe Corporation for $100 per share at a time when the common shares were selling for $400. The option was not part of an incentive stock option plan and the option had no readily ascertainable value and the only restrictions with respect to the option was that Paul could not transfer the option to any other person and the only restrictions with respect to the common shares was that Paul could not transfer the common shares to any person for the three-year period following the transfer of the common shares to Paul and if Paul terminated Paul's employment with TipToe Corporation for any reason during the three-year period, then Paul had to transfer (return) the common shares to TipToe Corporation and TipToe Corporation would pay Paul $100 per share for each of the 100 common shares. During the first day of the first taxable year after the three-year period ended, the common shares had a fair market value of $900 per share and later in that taxable year, Paul sold the 100 common shares to Peter for $1,000 per share. Paul’s long term capital gain gross income for the taxable year in which Paul sold the common shares to Peter is as follows.
   a. None/Zero
   b. $10,000
   c. $90,000
   d. $80,000
   e. None of the above

523. Two taxable years ago, KnockThemDead Corporation gave Paul an incentive stock option to purchase 100 common shares of KnockThemDead Corporation for $100 per share, which was the current fair market value of the common shares at the time when Paul was granted the option. During January of the current taxable year, when each common share had a fair market value of $200, Paul exercised Paul's option and purchased the 100 common shares. Paul had the right to sell the common shares at any time after two years after Paul exercised the option and Paul sold the common shares to Peter for $400 three taxable years after Paul exercised the option. Paul’s gross income for the taxable year two taxable years ago is as follows.
   a. None/Zero
   b. $1,000
   c. $10,000
   d. $20,000
   e. None of the above

524. Referring to Question 523, Paul’s ordinary gross income with respect to the third taxable year after Paul exercised the option is as follows.
   a. None/Zero
   b. $30,000
   c. $10,000
   d. $20,000
   e. None of the above

525. Paul was an employee and vice-president of TapALittleTune Corporation, which manufactured sailboats and because Paul did such a great job as an employee, Paul was granted, during the current taxable year, the right, by TapALittleTune Corporation, to purchase 100 shares of common stock of TapALittleTune Corporation for $100 per share, at any time during the next five (5) years, which Paul did, during the next taxable year. The option was not
part of an incentive stock option plan and the option had no readily ascertainable value and the only restrictions with respect to the option was that Paul could not transfer the option to any other person and the only restriction with respect to the common shares was that Paul could not transfer the common shares to any person for the five-year period following the transfer of the common shares to Paul. During the next taxable year when Paul exercised the option and acquired the common shares, the common shares had a fair market value of $1,500 per share, free of all restrictions. During the first day of the first taxable year after the five-year period, the common shares had a fair market value of $2,500 per share. Paul’s ordinary gross income for the current taxable year is as follows.

a. None/Zero
b. $150,000
c. $140,000
d. $130,000
e. None of the above

526. Referring to Question 525, Paul’s long term capital gain gross income for the next taxable year is as follows.

a. None/Zero
b. $150,000
c. $140,000
d. $130,000
e. None of the above

527. Referring to Question 525, Paul's gross income for the first taxable year after the five-year period is as follows.

a. None/Zero
b. $150,000
c. $140,000
d. $240,000
e. None of the above

528. Referring to Question 525, Paul sold the common shares to Beverly one year after the end of the five-year period for $3,000 per share. Paul's gross income for the first taxable year after the five-year period is as follows.

a. None/Zero
b. $300,000
c. $290,000
d. $150,000
e. None of the above

529. During the current taxable year, Paul was an employee and vice-president of TipToe Corporation, which manufactured sailboats and because Paul did such a great job as an employee, Paul was allowed to purchase, during the current taxable year, 100 shares of common stock of TipToe Corporation for $100 per share at a time when the common shares were selling for $400. The only restrictions with respect to the common shares was that Paul could not transfer the common shares to any person for the five-year period following the transfer of the common shares to Paul and that if Paul terminated Paul's employment with TipToe Corporation for any reason during the five-year period, Paul had to transfer (return) the common shares to TipToe Corporation for $100 per share. During the first day of the first taxable year after the five-year period, the common shares had a fair market value of $900 per share. Paul wishes to report as little gross income as Paul may during the current taxable year. Paul’s gross income for the current taxable year is as follows.

a. None/Zero
b. $30,000
c. $50,000
d. $80,000
e. None of the above

530. Referring to Question 529, Paul's gross income for the first taxable year after the end of the five-year period is as follows.

a. None/Zero
b. $30,000  
e. None of the above  
c. $50,000  
d. $80,000 

531. During the current taxable year, Peter owned all of the following assets and Peter transferred the assets to Recycle Corporation, a newly organized corporation for this purpose, and which corporation will be a C corporation. In return for the transfer of these assets, Recycle Corporation issued 600 common shares of Recycle Corporation to Peter. Also, Recycle Corporation issued 300 common shares to Paul in return for Paul's transfer to Recycle Corporation of some vacant land, with an adjusted basis of $5,000 to Paul and with a fair market value of $30,000. In addition, Recycle Corporation issued 100 common shares to Paul because of services which Paul rendered to organize Recycle Corporation. Thus, Peter and Paul will be the only initial shareholders of Recycle Corporation, with Peter owning 600 common shares and Paul owning 400 common shares. Peter has owned the accounts receivable and inventory for less than two months, but Peter has owned the other assets (except for the cash) for more than two years. Peter has estimated the amount of Peter's goodwill, and Paul and Recycle Corporation accept the estimate. Peter has taken $15,000 of depreciation deductions with respect to the equipment.

<table>
<thead>
<tr>
<th>Asset</th>
<th>Adjusted Basis</th>
<th>Fair Market Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>5,000</td>
<td>5,000</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>2,000</td>
<td>5,000</td>
</tr>
<tr>
<td>Inventory</td>
<td>3,000</td>
<td>20,000</td>
</tr>
<tr>
<td>Equipment</td>
<td>25,000</td>
<td>20,000</td>
</tr>
<tr>
<td>Goodwill</td>
<td>0</td>
<td>10,000</td>
</tr>
</tbody>
</table>

The total amount of Peter's and Paul's gross income for the current taxable year as a result of the incorporation is as follows.

a. None/Zero  
b. $9,000  
c. $30,000  
d. $10,000  
e. None of the above  

532. Referring to Question 531, Peter's adjusted basis for the common shares which Peter received is as follows.

a. None/Zero  
b. $15,000  
c. $25,000  
d. $35,000  
e. None of the above  

533. Referring to Question 531, Recycle Corporation's adjusted basis for the goodwill which Peter transferred to Recycle Corporation is as follows.

a. None/Zero  
b. $15,000  
c. $25,000  
d. $35,000  
e. None of the above  

534. Referring to Question 531, Paul's adjusted basis for the common shares which Paul received for the land is as follows.

a. None/Zero  
b. $5,000  
c. $10,000  
d. $15,000
535. Referring to Question 531, Paul's adjusted basis for the common shares which Paul received for Paul’s services is as follows.
   a. None/Zero
   b. $5,000
   c. $10,000
   d. $30,000
   e. None of the above

536. During the current taxable year, John was the sole owner (as John had been for several years) of the common shares
    (which was the only issued and outstanding shares) in Apple Corporation, which corporation had elected income tax
    treatment under Subchapter S during Apple Corporation's first taxable year. At the beginning of the current taxable
    year, the adjusted basis for John's shares was $10,000. John worked for Apple Corporation. In addition to the data
    which is stated below, John had salary of $20,000 from Apple Corporation and Mary had salary of $100,000 from
    ZoomZoom Corporation. Also, during the current taxable year, Apple Corporation had gross receipts of $350,000,
    cost of goods sold of $50,000 and operational expenses of $100,000 (which amount includes John's gross salary of
    $20,000). Also, during the current taxable year, Apple Corporation distributed $20,000 to John with respect to John's
    common shares. John's and Mary's gross income for the current taxable year is as follows.
   a. None/Zero
   b. $330,000
   c. $340,000
   d. $320,000
   e. None of the above

537. Referring to Question 536, John's and Mary's adjusted gross income for the current taxable year is as follows.
   a. None/Zero
   b. $330,000
   c. $210,000
   d. $320,000
   e. None of the above

538. Referring to Question 536, John's adjusted basis for John's common shares at the end of the current taxable year is
    as follows.
   a. None/Zero
   b. $190,000
   c. $210,000
   d. $5,000
   e. None of the above

539. Referring to Question 536, John did not work for Apple Corporation and John did not receive a salary from Apple
    Corporation and Apple Corporation's total operational expenses was $315,000. John's and Mary's gross income for
    the current taxable year is as follows.
   a. None/Zero
   b. $20,000
   c. $110,000
   d. $120,000
   e. None of the above

540. Referring to Question 539, John's and Mary's gross income for the current taxable year is $100,000. John’s and
    Mary’s adjusted gross income for the current taxable year is as follows.
   a. None/Zero
   b. $100,000
   c. $130,000
d. $120,000  
e. None of the above

541. Referring to Question 539, John's adjusted basis for John's common shares at the end of the current taxable year is as follows.
   a. None/Zero  
b. $10,000  
c. $30,000  
d. $20,000  
e. None of the above

542. During the current taxable year, Beverly was the sole shareholder in four corporations (Winter Corporation, Spring Corporation, Summer Corporation, and Fall Corporation). Winter Corporation and Spring Corporation and Summer Corporation were S corporations. Fall Corporation was a C corporation. Beverly had an adjusted basis for the common shares which Beverly owned in each of the four corporations of $100,000 ($100,000 per corporation).

   a. With respect to Winter Corporation, Beverly worked for Winter Corporation and received a gross salary from Winter Corporation of $20,000. During the current taxable year, Winter Corporation sold computers and had a net profit of $150,000 (after deducting Beverly's gross salary).

   b. With respect to Spring Corporation, Beverly did not work for Spring Corporation and did not receive a salary from Spring Corporation. During the current taxable year, Spring Corporation sold porch furniture and had a net profit of $40,000.

   c. With respect to Summer Corporation, Beverly did not work for Summer Corporation and did not receive a salary from Summer Corporation. During the current taxable year, Summer Corporation sold and repaired bicycles and had a net loss of $120,000.

   d. With respect to Fall Corporation, Beverly worked for Fall Corporation and received a gross salary from Fall Corporation of $20,000. During the current taxable year, Fall Corporation had earnings and profits of $200,000 distributed $10,000 to Beverly with respect to Beverly's shares.

   Beverly's gross income for the current taxable year is as follows.
   a. None/Zero  
b. $240,000  
c. $250,000  
d. $150,000  
e. None of the above

543. Referring to Question 539, Beverly's adjusted gross income for the current taxable year is as follows.
   a. None/Zero  
b. $200,000  
c. $250,000  
d. $150,000  
e. None of the above

544. Referring to Question 539, Beverly's adjusted basis for Beverly's common shares of Winter Corporation at the end of the current taxable year is as follows.
   a. None/Zero  
b. $250,000  
c. $100,000  
d. $220,000  
e. None of the above
545. Referring to Question 539, Beverly's adjusted basis for Beverly's common shares of Spring Corporation at the end of the current taxable year is as follows.
   a. None/Zero
   b. $100,000
   c. $200,000
   d. $140,000
   e. None of the above

546. Referring to Question 539, Beverly's adjusted basis for Beverly's common shares of Summer Corporation at the end of the current taxable year is as follows.
   a. None/Zero
   b. $100,000
   c. $200,000
   d. $50,000
   e. None of the above

547. Referring to Question 539, Beverly's adjusted basis for the common shares of Fall Corporation at the end of the current taxable year is as follows.
   a. None/Zero
   b. $100,000
   c. $110,000
   d. $130,000
   e. None of the above

548. On January 1 of the current taxable year, Packing Corporation exchanged, with Dealer, Inc. (a corporation which was a dealer in box sealing machines), a box sealing machine (which Packing Corporation had used for five years and which had been purchased by Packing Corporation for $600,000 and with respect to which Packing Corporation had taken $400,000 of depreciation deductions) for a new box sealing machine which was owned by Dealer, Inc. Packing Corporation also paid Dealer, Inc. cash of $900,000. Packing Corporation and Dealer, Inc. estimated that Packing Corporation's old machine had a fair market value, at the date of the transfer to Dealer, Inc., of $300,000. Dealer, Inc. had owned the Dealer, Inc.'s machine for two years, as inventory, and had an adjusted basis for the machine of $500,000. Dealer, Inc.'s ordinary gross income for the current taxable year is as follows.
   a. None/Zero
   b. $500,000
   c. $300,000
   d. $700,000
   e. None of the above

549. Referring to Question 548, Dealer, Inc.'s adjusted basis for the box sealing machine which Dealer, Inc. received from Packing Corporation is as follows.
   a. None/Zero
   b. $1,100,000
   c. $300,000
   d. $300,000
   e. None of the above

550. Referring to Question 548, Packing Corporation's gross income for the current taxable year is as follows.
   a. None/Zero
   b. $250,000
   c. $450,000
   d. $650,000
   e. None of the above

551. Referring to Question 548, Packing Corporation's adjusted basis for the box sealing machine which Packing
Corporation received from Dealer, Inc. is as follows.

a. None/Zero  
b. $1,000,000  
c. $500,000  
d. $1,100,000  
e. None of the above

552. On July 5 of the current taxable year, Paul sold 100 common shares of the Woodchuck Corporation for $40,000. Paul received the 100 common shares, as a share dividend, on January 2 of the current taxable year when these (new) common shares had a total fair market value of $30,000. The share dividend was a 100% share dividend of common shares with respect to 100 common shares and the new common shares had the same terms as the original common shares and Paul was not granted any election with respect to the receipt of such share dividend. Paul had purchased the original common shares four taxable years ago for $10,000. Paul’s gross income for the current taxable year with respect to the share dividend is as follows.

a. None/Zero  
b. $30,000  
c. $10,000  
d. $40,000  
e. None of the above

553. Referring to Question 552, Paul's long term capital gain gross income for the current taxable year with respect to the sale of the new common shares is as follows.

a. None/Zero  
b. $35,000  
c. $30,000  
d. $10,000  
e. None of the above

554. On July 5 of the current taxable year, Paul sold 200 common shares of Wood Corporation for $40,000. Paul received the 200 common shares on October 1 of the last taxable year when these (new) common shares had a total fair market value of $20,000. The dividend was a 100% share dividend of common shares on 200 common shares and the new common shares had the same terms as the original common shares. However, just prior to the distribution of the new common shares to Paul, Paul had an election to either receive such share dividend or to receive $20,000 of cash, and Paul chose to receive the share dividend. Paul purchased the original common shares five taxable years ago for $20,000. Paul's gross income for the last taxable year with respect to the share dividend is as follows.

a. None/Zero  
b. $20,000  
c. $10,000  
d. $40,000  
e. None of the above

555. Referring to Question 554, Paul's short term capital gain gross income for the current taxable year with respect to the sale of the new common shares is as follows.

a. None/Zero  
b. $20,000  
c. $10,000  
d. $40,000  
e. None of the above

556. On May 5 of the current taxable year, Paul sold 100 common shares of DoingFine Corporation for $10,000. Paul received 200 common shares (which included the 100 common shares which Paul sold) on November 10 of the last taxable year as a two for one stock split, when DoingFine Corporation required Paul to turn in (to DoingFine Corporation) 100 common shares which Paul then owned in DoingFine Corporation in return for the 200 new common shares in DoingFine Corporation. The 100 common shares which Paul initially owned were purchased on
February 9, two taxable years ago, by Paul for $10,000. The fair market value of the 200 new common shares which Paul received on November 10 of the last taxable year was $20,000. Paul's gross income for the last taxable year with respect to the share split is as follows.

a. None/Zero
b. $5,000
c. $10,000
d. $20,000
e. None of the above

557. Referring to Question 556, Paul's long term capital gain gross income for the current taxable year with respect to the sale of the new common shares is as follows.

a. None/Zero
b. $10,000
c. $5,000
d. $15,000
e. None of the above

558. During the current taxable year, John sold 100 common shares of YaHoo Corporation for $50,000, which John had purchased two taxable years ago for $200,000 as an investment. The common shares were qualified as section 1244 stock. John's ordinary expense or ordinary loss deduction for the current taxable year (considering all deduction limitations) is as follows.

a. None/Zero
b. $100,000
c. $150,000
d. $75,000
e. None of the above

559. Referring to Question 558, John sold the common shares for $300,000. John's ordinary gross income for the current taxable year is as follows.

a. None/Zero
b. $50,000
c. $100,000
d. $75,000
e. None of the above

560. During the current taxable year, all of John's common shares of Nice Corporation, which John had purchased two taxable years ago for $50,000, became worthless. The common shares were qualified as section 1244 stock. John's long term capital loss for the current taxable year is as follows.

a. None/Zero
b. $3,000
c. $25,000
d. $50,000
e. None of the above

561. Six taxable years ago, Paul purchased some common shares for $50,000 which qualified for treatment under section 1202. During the current taxable year, Paul sold the common shares for $150,000. Paul's long term capital gain gross income for the current taxable year is as follows.

a. None/Zero
b. $25,000
c. $50,000
d. $100,000
e. None of the above

562. Referring to Question 560, Paul sold the common shares for $30,000. Paul's long term capital loss for the current
taxable year is as follows.

a. None/Zero
b. $15,000
c. $20,000
d. $3,000
e. None of the above

563. On December 10 of the current taxable year, Mary sold 100 common shares of Friendly Corporation for $125,000. Mary had purchased the common shares many taxable years ago for $100,000. In addition to the sale of the Friendly Corporation common shares, Mary had a gross salary of $200,000. On January 2 of the next taxable year, Mary purchased 100 common shares of Friendly Corporation for $120,000. Mary's gross income for the current taxable year is as follows.

a. None/Zero
b. $25,000
c. $200,000
d. $225,000
e. None of the above

564. On December 10 of the current taxable year, Paul sold 100 common shares of Friendly Corporation for $200,000. Paul had purchased the common shares ten taxable years ago for $225,000. In addition to the sale of the Friendly Corporation common shares, Paul had a gross salary of $200,000 for the current taxable year. Then, on January 5 of the next taxable year, Paul purchased 100 common shares of Friendly Corporation for $230,000. Paul's adjusted gross income for the current taxable year is as follows.

a. None/Zero
b. $175,000
c. $200,000
d. $197,000
e. None of the above

565. During the current taxable year, John owned 100 common shares of the 500 issued and outstanding common shares of C corporation. John’s adjusted basis for the 100 common shares was $1,000. Paul owned the other 400 issued and outstanding common shares and Paul’s adjusted basis for Paul’s 400 common shares was $4,000. C corporation, with $100,000 of earnings and profits at the beginning of the current taxable year, gave transferred to John a truck which had an adjusted basis to C corporation of $13,000 and a fair market value of $10,000, because John was a shareholder. John’s gross income for the current taxable year is as follows.

a. None/Zero
b. $9,000
c. $2,000
d. $10,000
e. None of the above

566. During the current taxable year, John owned 100 common shares of the 500 issued and outstanding common shares of C corporation. John’s adjusted basis for the 100 common shares was $1,000. Paul owned the other 400 issued and outstanding common shares and Paul’s adjusted basis for Paul’s 400 common shares was $4,000. C corporation, with $100,000 of earnings and profits at the beginning of the current taxable year, gave John a check for $2,000 in return for one of John’s common shares, which one common share had a fair market value of $2,000. John’s gross income for the current taxable year is as follows.

a. None/Zero
b. $990
c. $2,000
d. $1,000
e. None of the above

567. Referring to Question 566, John’s adjusted basis for John’s remaining common shares is as follows.
568. Referring to Question 566, C corporation gave John the check for $2,000 in return for all of John’s common shares, which common shares had a total fair market value of $2,000. John’s gross income for the current taxable year is as follows.
   a. None/Zero
   b. $990
   c. $2,000
   d. $1,000
   e. None of the above

569. Referring to Question 566, Mary (not Paul) owned the other 400 issued and outstanding common shares. C corporation gave John the check for $2,000 in return for all of John’s common shares, which common shares had a total fair market value of $2,000. John continued to work for C corporation. John’s gross income for the current taxable year is as follows.
   a. None/Zero
   b. $990
   c. $2,000
   d. $1,000
   e. None of the above

570. Referring to Question 566, C corporation, with no earnings and profits at the beginning of the current taxable year, sold some land for $10,000 at a time when C corporation had an adjusted basis for the land of $3,000. Thereafter, C corporation gave John the check for $2,000, because John was a shareholder (the sole shareholder) of C corporation. John’s gross income for the current taxable year is as follows.
   a. None/Zero
   b. $990
   c. $2,000
   d. Need additional information
   e. None of the above

571. Referring to Question 570, John’s adjusted basis for John’s common shares, after the distribution by C corporation, is as follows.
   a. None/Zero
   b. $990
   c. $1,000
   d. $2,000
   e. None of the above

572. Referring to Question 570, C corporation distributed the land to John (but not the check for $2,000), because John was a shareholder of C corporation. John’s gross income for the current taxable year is as follows.
   a. None/Zero
   b. $10,000
   c. $9,000
   d. $7,000
   e. None of the above

573. Referring to Question 572, John’s adjusted basis for the land is as follows.
   a. None/Zero
   b. $10,000
574. Referring to Question 572, John’s adjusted basis for John’s common shares, after the distribution by C corporation, is as follows.
   a. None/Zero
   b. $10,000
   c. $1,000
   d. $2,000
   e. None of the above

575. During the current taxable year, C corporation, with no earnings and profits at the beginning of the current taxable year, transferred some land to John, because John was a shareholder (the sole shareholder) of C corporation, at a time when C corporation had an adjusted basis for the land of $13,000 and the fair market value of the land was $10,000. John’s adjusted basis for John’s shareholder at the time of the distribution was $1,000. John’s gross income for the current taxable year is as follows.
   a. None/Zero
   b. $9,000
   c. $13,000
   d. $10,000
   e. None of the above

576. Referring to Question 575, John’s adjusted basis for the land is as follows.
   a. None/Zero
   b. $3,000
   c. $13,000
   d. $10,000
   e. None of the above

577. During the current taxable year, John owned 100 common shares of the 500 issued and outstanding common shares of S corporation, an S corporation, with no earnings and profits at the beginning of the current taxable year. John’s adjusted basis for John’s 100 common shares was $1,000 ($10 per share). Paul owned the other 400 issued and outstanding common shares and Paul’s adjusted basis for Paul’s 400 common shares was $4,000. During the current taxable year, S corporation gave John a check for $2,000, because John was a shareholder in S corporation. John’s gross income for the current taxable year is as follows.
   a. None/Zero
   b. $990
   c. $2,000
   d. $1,000
   e. None of the above

578. Referring to Question 577, S corporation gave John the check for $2,000 in return for 30 of John’s common shares, which 30 common shares had a fair market value of $2,000. John’s gross income for the current taxable year is as follows.
   a. None/Zero
   b. $990
   c. $2,000
   d. $1,700
   e. None of the above

579. Referring to Question 578, John’s adjusted basis for John’s common shares, after the distribution by S corporation, is as follows.
   a. None/Zero
b. $700  
c. $2,000  
d. $1,000  
e. None of the above

580. Referring to Question 578, S corporation gave John the check for $2,000 in return for all of John’s common shares, which common shares had a total fair market value of $2,000. John’s gross income for the current taxable year is as follows.
   a. None/Zero  
b. $990  
c. $2,000  
d. $1,000  
e. None of the above

581. Referring to Question 578, Mary (not Paul) owned the other 400 issued and outstanding common shares. S corporation gave John the check for $2,000 in return for all of John’s common shares, which common shares had a total fair market value of $2,000. John terminated all of John’s other relationships with S corporation. John’s gross income for the current taxable year is as follows.
   a. None/Zero  
b. $990  
c. $2,000  
d. $1,000  
e. None of the above

582. During the current taxable year, S corporation sold some land for $10,000 at a time when S corporation had an adjusted basis for the land of $3,000. Thereafter, S corporation gave John the check for $2,000, because John was a shareholder (the sole shareholder) of S corporation. Prior to the sale of the land, John’s adjusted basis for John’s shares was $1,000. John’s gross income for the current taxable year is as follows.
   a. None/Zero  
b. $7,000  
c. $10,000  
d. $1,000  
e. None of the above

583. Referring to Question 582, S corporation distributed the land to John (but not the check for $2,000), because John was a shareholder of S corporation. John’s gross income for the current taxable year is as follows.
   a. None/Zero  
b. $10,000  
c. $4,000  
e. None of the above

584. Referring to Question 582, John’s adjusted basis for the land is as follows.
   a. None/Zero  
b. $10,000  
c. $9,000  
d. $7,000  
e. None of the above

585. During the current taxable year, John owned 100 common shares of the 500 issued and outstanding common shares of C corporation, a C corporation, with $100,000 of earnings and profits at the beginning of the current taxable year. John’s adjusted basis for John’s 100 common shares was $1,000. Paul owned the other 400 issued and outstanding common shares and Paul’s adjusted basis for Paul’s 400 common shares was $4,000. During the current taxable year, C corporation sold all of C corporation’s assets for a net profit of $25,000, paid all of C corporation’s liabilities, and distributed the net cash, by checks, to John and Paul. Then C corporation terminated C corporation’s existence. As
part of the liquidation, C corporation gave John a check for $12,000, because John was a shareholder in C corporation. John’s gross income for the current taxable year is as follows.

a. None/Zero  
b. $10,000  
c. $11,000  
d. $12,000  
e. None of the above

586. Referring to Question 585, C corporation distributed to John only a duplicator which had a fair market value of $12,000 and which had been purchased by C corporation for $20,000 and which had been fully depreciated by C corporation. C corporation’s gross income and earnings and profits increased by $12,000 due to the distribution to John.

a. Yes/True  
b. No/False  
c. Need more information  
d. None of the above

587. Referring to Question 586, John’s adjusted basis for the duplicator is as follows.

a. None/Zero  
b. $11,000  
c. $12,000  
d. $10,000  
e. None of the above

588. During the current taxable year, John owned 100 common shares of the 500 issued and outstanding common shares of C corporation, a C corporation, with $100,000 of earnings and profits at the beginning of the current taxable year. C corporation operated, for over ten years, the following two businesses: an automobile sales business; and, a used parts for automobiles sales business. John’s adjusted basis for John’s 100 common shares was $1,000. Paul owned the other 400 issued and outstanding common shares and Paul’s adjusted basis for Paul’s 400 common shares was $4,000. During the current taxable year, and with respect to C corporation’s automobile parts business, C corporation sold all of the assets of that business for a net profit of $25,000, paid all of C corporation’s liabilities which were related to that business, and distributed the net cash, by checks, to John and Paul, pro rata. Then, C corporation terminated that business. As part of the liquidation, C corporation gave John a check for $12,000, because John was a shareholder in C corporation. John’s ordinary gross income for the current taxable year is as follows.

a. None/Zero  
b. $10,000  
c. $11,000  
d. $12,000  
e. None of the above

589. Referring to Question 588, C corporation distributed a duplicator to John (but not the check for $2,000) that had a fair market value of $12,000 and an adjusted basis to C corporation of $15,000. C corporation’s deduction for the current taxable year is as follows.

a. None/Zero  
b. $10,000  
c. $11,000  
d. $12,000  
e. None of the above

590. During the current taxable year, and after C corporation sold the automobile sales business and distributed the net proceeds to John and Paul, both of whom were shareholders for C Corporation, C corporation merged the other business, the automobile used parts sales business, into CC corporation. John’s adjusted basis for John’s 100 common shares was $1,000. Specifically, C corporation transferred all of C corporation’s then assets and liabilities to CC corporation. During the merger process, John received 100 common shares of CC corporation’s common shares and
Paul received 400 common shares of CC corporation’s common shares. John and Paul each transferred the common shares, which John and Paul owned in C corporation, to CC corporation. After all of this, C corporation ceased to exist under the applicable state law. As a general rule, C corporation will not recognize any gain or loss from this type of transaction. 

a. Yes/True  
b. No/False  
c. Need additional information  
d. None of the above  

591. Referring to Question 590, as a general rule, CC corporation will not recognize any gain or loss from this type of transaction. 

a. Yes/True  
b. No/False  
c. Need additional information  
d. None of the above 

592. Referring to Question 590, CC corporation’s adjusted basis for the assets which CC corporation received from C corporation is equal to the fair market value of the assets at the time of the transfer of the assets from C corporation to CC corporation. 

a. Yes/True  
b. No/False  
c. Need additional information  
d. None of the above 

593. Referring to Question 590, John’s adjusted basis for the common shares which John received from CC corporation is as follows. 

a. None/Zero  
b. $4,000  
c. $1,000  
d. $2,000  
e. None of the above 

594. Referring to Question 590, because C corporation ceased to exist as a result of the merger transaction, the liquidation of C corporation caused the earnings and profits of C corporation to cease to exist. 

a. Yes/True  
b. No/False  
c. Need additional information  
d. None of the above 

595. During the current taxable year, John owned 100 common shares of the 500 issued and outstanding common shares of C corporation, a C corporation, with $100,000 of earnings and profits at the beginning of the current taxable year. C corporation operated, for over ten years, the following two businesses: an automobile sales business; and, a used parts for automobiles sales business. John’s adjusted basis for John’s 100 common shares was $1,000. Paul owned the other 400 issued and outstanding common shares and Paul’s adjusted basis for Paul’s 400 common shares was $4,000. During the current taxable year, C corporation organized CC corporation and transferred all of the assets and liabilities of C corporation’s used automobile parts sales business to CC corporation and, in return, CC corporation transferred all of CC corporation’s common shares to C corporation. There were no other shareholders of CC corporation. Then, C corporation distributed all of C corporation’s common shares, with a fair market value of $12,000, of CC corporation to John and John transferred all of John’s C corporation common shares (with a fair market value of $12,000) to C corporation. Thereafter, John owned no common shares of C corporation, but John owned all of the common shares of CC corporation and Paul owned all of the common shares of C corporation, but no common shares of CC corporation. John’s ordinary gross income for the current taxable year is as follows. 

a. None/Zero  
b. $10,000
c. $11,000
d. $12,000
e. None of the above

596. Referring to Question 595, John’s adjusted basis for John’s common shares of CC corporation is as follows.
a. None/Zero
b. $4,000
c. $1,000
d. $12,000
e. None of the above

597. Referring to Question 595, some of C corporation’s earnings and profits must be transferred to CC corporation.
a. Yes/True
b. No/False
c. Need additional information
d. None of the above

598. During the current taxable year, Paul owned 100 common shares of FruitLoops Corporation, which was 100% of the common shares of FruitLoops Corporation, a corporation with accumulated earnings and profits of $350,000. Paul needed some money in order to repay a debt which Paul owed. Therefore, during the current taxable year, FruitLoops Corporation redeemed 10 of the common shares which Paul owned. Paul's adjusted basis for the 10 redeemed common shares was $2,000 and the common shares were redeemed at the fair price of $6,000. Paul's gross income for the current taxable year is as follows.
a. None/Zero
b. $6,000 ordinary income
c. $6,000 long term capital gain
d. $4,000 long term capital gain
e. None of the above

599. During the current taxable year, Paul owned, for many years, 150 common shares of SeeYouSoon Corporation, which was 50% of the common shares of SeeYouSoon Corporation, which had accumulated earnings and profits of $500,000. John owned the other 50% of the common shares. Paul needed some money in order to repay a debt which Paul owed. Therefore, during the current taxable year, SeeYouSoon Corporation redeemed all 150 of the common shares which Paul owned. Paul's adjusted basis for the 150 redeemed common shares was $7,000 and the common shares were redeemed at the fair price of $10,000. Paul's gross income for the current taxable year is as follows.
a. None/Zero
b. $6,500 ordinary income
c. $3,000 long term capital gain
d. $10,000 ordinary income
e. None of the above

600. Referring to Question 599, Paul sold to Mary 75 of the common shares which Paul owned for $10,000. Paul's adjusted basis for the 75 sold common shares was $3,500. Paul's gross income for the current taxable year is as follows.
a. None/Zero
b. $6,500 ordinary income
c. $6,500 long term capital gain
d. $10,000 ordinary income
e. None of the above

601. During the current taxable year, SnickelFritz Corporation had accumulated earnings and profits of $250,000 and SnickelFritz Corporation had the following assets and Mary owned all of the common shares of SnickelFritz Corporation, which common shares had been owned by Mary for over five years and which common shares had an adjusted basis to Mary of $50,000. Further, during the current taxable year, SnickelFritz Corporation completely
liquidated and, thereafter by selling some of SnickelFritz Corporation’s assets (and paying SnickelFritz Corporation’s liabilities) and by distributing the remaining net assets to Mary. Thereafter, Mary promptly began to use the land, which was next to Mary’s home, as a parking lot for Mary’s friends and relatives who visited Mary’s home, and Mary gave away the furniture inventory to the Jewish Community Center and the center promptly began using the furniture in the center.

<table>
<thead>
<tr>
<th>Type Of Property</th>
<th>Adjusted Basis</th>
<th>Fair Market Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>25,000</td>
<td>25,000</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>15,000</td>
<td>20,000</td>
</tr>
<tr>
<td>Business inventory consisting of various items of furniture</td>
<td>3,000</td>
<td>5,000</td>
</tr>
<tr>
<td>Equipment</td>
<td>20,000</td>
<td>20,000</td>
</tr>
<tr>
<td>Land</td>
<td>20,000</td>
<td>40,000</td>
</tr>
<tr>
<td>Goodwill</td>
<td>0</td>
<td>20,000</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>83000</strong></td>
<td><strong>130000</strong></td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td><strong>0</strong></td>
<td><strong>10,000</strong></td>
</tr>
</tbody>
</table>

Mary's ordinary gross income with respect to the liquidation distribution is as follows.

a. None/Zero
b. $70,000
c. $50,000
d. $20,000
e. None of the above

602. Referring to Question 601, Mary's ordinary gross income with respect to the liquidation distribution to Mary is as follows.

a. None/Zero
b. $100,000
c. $50,000
d. $60,000
e. None of the above

603. Referring to Question 601, Mary’s adjusted basis for the land is as follows.

a. None/Zero
b. $40,000
c. $20,000
d. $50,000
e. None of the above

604. During the current taxable year, HereWeGo Corporation has taxable income of $52,000. HereWeGo Corporation's income tax (prior to any credit) for the current taxable year is as follows.

a. None/Zero
b. $10,000
c. $7,650
d. $8,000
e. None of the above

605. Referring to Question 604, HereWeGo Corporation has taxable income of $600,000. HereWeGo Corporation's income tax (prior to any credit) for the current taxable year is as follows.

a. None/Zero
b. $100,000
c. $75,650  
d. $204,000  
e. None of the above  

606. During the current taxable year, SpringFever Corporation paid a gross salary of $50,000 to Paul. The amount of social security tax and hospital insurance tax which SpringFever Corporation must withhold from Paul’s gross salary for the current year is as follows.
   a. None/Zero  
   b. $3,825  
   c. $6,250  
   d. $2,765  
   e. None of the above  

607. Referring to Question 606, the amount of unemployment tax (prior to any credit) which SpringFever Corporation must withhold from Paul’s gross salary for the current year is as follows.
   a. None/Zero  
   b. $6,000  
   c. $600  
   d. $765  
   e. None of the above  

608. During the current taxable year, Paul had a net profit from Paul's sole proprietorship of $50,000, after taking into account all deductions. Paul's federal self-employment tax (for example, social security taxes and Medicare taxes) for the current taxable year is as follows.
   a. None/Zero  
   b. $7,650  
   c. $3,825  
   d. $6,200  
   e. None of the above  

609. During the current taxable year, John's employer, Jolly Corporation, which regularly sold furniture to customers, allowed John to purchase a table out of Jolly Corporation's inventory (which table had an adjusted basis of $5,000 and which table had a fair market value of $13,000) for $10,000, because John had worked so hard for Jolly Corporation during the last taxable year, and therefore, Jolly Corporation wanted to give John a bonus for the current taxable year. John paid for and received the table (with no restrictions attached) on November 1 of the current taxable year. John's ordinary gross income for the current taxable year with respect to the transfer to John is as follows.
   a. None/Zero  
   b. $7,000  
   c. $3,000  
   d. $5,000  
   e. None of the above  

610. Referring to Question 609, Jolly Corporation's ordinary gross income for the current taxable year with respect to the transfer to John is as follows.
   a. None/Zero  
   b. $8,000  
   c. $2,000  
   d. $7,000  
   e. None of the above  

611. Referring to Question 609, John’s adjusted basis for the property transferred to John is as follows.
   a. None/Zero  
   b. $10,000  
   c. $12,000
d. $13,000

e. None of the above

612. On January 1 of the current taxable year, John and Paul executed a general partnership agreement, which provided that John and Paul were equal partners in the partnership’s net assets and net profits (and net losses). John contributed land to the partnership, which land had an adjusted basis to John of $10,000 and fair market value of $15,000. Paul contributed cash to the partnership in the amount of $15,000. In return, John and Paul each received 50% of the equity in the partnership. The partnership’s gross income for the current taxable year is as follows.

a. None/Zero
b. $15,000
c. $30,000
d. $10,000
e. None of the above

613. Referring to Question 612, John’s adjusted basis for John’s partnership interest is as follows.

a. None/Zero
b. $10,000
c. $15,000
d. Need additional information
e. None of the above

614. Referring to Questions 612 and 613, would either of your answers change if John and Mary (instead of Paul) had organized a limited liability company, each contributing the amounts stated in Question 609?

a. Yes/True
b. No/False
c. Need additional information
d. None of the above

615. During the last taxable year, John and Mary were divorced and Mary was required to transfer some VeryWell Corporation common shares, with a fair market value of $10,000, and cash of $4,000 to John and in order to pay, by a court order, the legal fees which John incurred as a result of the divorce. Mary did not benefit from any of the lawyer’s advice. Therefore, Mary transferred the common shares to John and paid John’s lawyer $4,000 for the lawyer’s income tax advice. Mary’s ordinary expense or ordinary loss deduction for the current year is as follows.

a. None/Zero
b. $4,000
c. $14,000
d. $10,000
e. None of the above

616. Referring to Question 615, John’s gross income for the current taxable year is as follows.

a. None/Zero
b. $4,000
c. $5,000
d. $14,000
e. None of the above

617. During the last taxable year, Paul received a gross salary of $50,000 from Paul’s employer, GoForIt Corporation. In addition, GoForIt transferred to Paul 100 common shares of GoForIt Corporation which had a fair market value of $10,000, because Paul had worked so well for GoForIt Corporation. The only restriction with respect to the common shares was that Paul could not legally transfer the common shares to any other person for one year. During the current taxable year, Paul was paid a gross salary of $50,000 and the restriction on the transfer of the common shares expired and Paul sold the common shares to Peter for $12,000. Paul’s adjusted gross income for the current taxable year is as follows.

a. None/Zero
b. $50,000
c. $62,000
d. $52,000
e. None of the above

618. During the current taxable year, Mary organized Fair Corporation, transferred all of Mary's sole proprietorship assets (with a fair market value of $100,000 and a total adjusted basis of $25,000, all appreciated assets) to Fair Corporation, and Mary received, from Fair Corporation, in exchange for the assets, all of Fair Corporation's issued and outstanding common shares. One category of assets which Mary transferred to Fair Corporation was accounts receivable, which Mary had received in the ordinary course of operating Mary’s sole proprietorship and with respect to which Mary had an adjusted basis of $17,000 and which had a fair market value of $20,000. Mary's ordinary gross income for the current taxable year with respect to the transfer of the accounts receivable to Fair Corporation is as follows.
   a. None/Zero
   b. $17,000
c. $10,000
d. $20,000
e. None of the above

619. Referring to Question 618, Fair Corporation’s adjusted basis for the accounts receivable is as follows.
   a. None/Zero
   b. $17,000
c. $10,000
d. $20,000
e. None of the above

620. Referring to Question 618, Fair Corporation has an adjusted basis for the accounts receivable of $17,000 and the accounts receivable have a face value of $20,000. During the next taxable year, Fair Corporation collected the entire face amount of the accounts receivable. Fair Corporation's ordinary gross income for the next taxable year with respect to the collection of the accounts receivable is as follows.
   a. None/Zero
   b. $3,000
c. $20,000
d. $17,000
e. None of the above

621. Paul died on July 1 of the current taxable year. With respect to Paul's final taxable year (during the current taxable year), Paul had no gross income and Paul had a deductible short term capital loss carryover (from Paul's sales of securities in prior taxable years) of $10,000. During the first taxable year of Paul’s estate, the estate received $15,000 of short term capital gain gross income (from the estate's sales of securities) and $10,000 of dividends from the estate’s investments. The estate may deduct some of the $10,000 of capital losses on the estate’s fiduciary income tax return (IRS Form 1041).
   a. Yes/True
   b. No/False
c. Need additional information
d. None of the above

622. On January 2 of the last taxable year, Beverly sold some vacant land, which Beverly held as an investment for several years, to BostonTeaParty Corporation, the common shares of which were all owned by Peter. Beverly had an adjusted basis for the land of $30,000 and the land had a fair market value of $100,000. BostonTeaParty Corporation paid Beverly $10,000 as a downpayment and agreed to pay Beverly $10,000 on each January 2 for the next nine years. In addition, BostonTeaParty Corporation agreed to pay, on each January 2, interest of six percent on the unpaid principal of the sales price, beginning on January 2 of the current taxable year. Ignoring any real property taxes, Beverly’s gross income for the last taxable year is as follows.
   a. None/Zero
Referring to Question 622, Beverly’s gross income on January 2 of the current taxable year, when BostonTeaParty paid the required payments to Beverly is as follows.

a. None/Zero
b. $12,400
c. $13,400
d. $13,000
e. None of the above

Referring to Question 622, Beverly paid $5,000 of selling expenses to Paul because Paul, a real estate broker, helped Beverly sell the property to BostonTeaParty Corporation. Ignoring real property taxes, Beverly’s gross income on January 2 of the current taxable year, when BostonTeaParty Corporation pays the required payments to Beverly is as follows.

a. None/Zero
b. $12,400
c. $11,900
d. $12,100
e. None of the above

Paul was an employee and vice-president and sole owner of HippityHoppity Corporation, which manufactured bird feeders, owl boxes, bat boxes, bee hive supers, etc., 24 hours per day, and Paul generally worked during the day, but Paul was on call for solving problems 24 hours per day.

a. During the current taxable year, the in-house corporate lawyer for HippityHoppity Corporation drafted Paul’s last will and testament for no charge. The in-house counsel regularly did this type of drafting for all employees of HippityHoppity Corporation who wished to have the in-house lawyer draft the employee’s last will and testament, without any charge to the employee, as a fringe benefit to the employees. Had Paul had this drafting done by an outside lawyer, Paul would have been charged $500.

b. During the current taxable year, HippityHoppity Corporation paid all of the medical insurance premiums which were attributable to Paul's medical insurance, which medical insurance was part of a corporate medical reimbursement plan for all employees. The total of the premium payments was $2,000.

c. During the current taxable year, Paul flew twice to North Carolina on the private airplane of HippityHoppity Corporation. HippityHoppity Corporation allowed all of the employees, who wished to visit North Carolina, to ride on the airplane, for no charge, to and from North Carolina so that the traveling employees could do some sightseeing in North Carolina for the day when the airplane was in North Carolina. The airplane would depart Indiana very early on the morning of the travel day and return late in the afternoon on the same day. Therefore, the employees, except for those employees who went to North Carolina to examine possible furniture lines for HippityHoppity Corporation to sell in the future, would be able to do some sightseeing and other personal activities, for a significant part of the day. If the sightseeing employees had purchased a ticket on a commercial airline in order to go to North Carolina and back, the cost would have been $200.

Paul’s gross income for the current taxable year is as follows.

a. None/Zero
b. $2,900
c. $2,200
d. $900
  e. None of the above

626. Referring to Question 625, Paul was not furnished the fringe benefits which are stated above, but instead, Paul was furnished the following fringe benefits by HippityHoppity Corporation.

   a. During the current taxable year, Paul purchased numerous items from HippityHoppity Corporation's inventory, for use in Paul's forest and animal preserve, and, whenever Paul purchased such merchandise, Paul was allowed to purchase the merchandise at a discount. The retail price of the items which Paul purchased during the current taxable year was $4,000. The cost, to HippityHoppity Corporation of the items which Paul purchased from HippityHoppity Corporation, was $1,000. Paul was allowed to purchase these items for $600.

   b. During the current taxable year, Paul could use (as could any other employee) HippityHoppity Corporation's gym (in the basement of HippityHoppity Corporation's office building), free of charge, to work out on Monday through Thursday, each week. Had Paul joined a similar athletic/sports club in the city in which HippityHoppity Corporation's office building was located, Paul would have paid an annual membership fee of $500.

   c. During the current taxable year, because of the many problems which occurred during days and nights, Paul was required, as a condition of Paul's employment, to live at HippityHoppity Corporation's office building for six days each week. Paul was furnished both meals and lodging for this purpose, which meals had a fair market value of $7,000 and which lodging had a fair market value of $15,000 for the current taxable year.

Paul's gross income for the current taxable year is as follows.
   a. None/Zero
   b. $3,000
   c. $3,400
   d. $500
   e. None of the above

627. During the current taxable year, John had $10,000 of interest from Indiana Bank and $20,000 of dividends from Filly Corporation and $10,000 of interest from State of New York bonds. Mary had $5,000 of dividend income due to a distribution from a trust which was established by Mary’s father. John was 68 years of age and blind and Mary was 62 years of age and blind. John’s and Mary’s taxable income for the current taxable year is as follows.
   a. None/Zero
   b. $20,000
   c. $15,000
   d. $13,000
   e. None of the above

628. During the current taxable year, John had adjusted gross income of $100,000, without considering the following transactions and John made no election with respect to these facts. During the current taxable year, John made a charitable contribution of common shares which John had owned for 15 months, with an adjusted basis of $50,000 and a fair market value of $40,000. John's ordinary expense or ordinary loss deduction for the current taxable year with respect to the charitable contribution (considering all deduction limitations) is as follows.
   a. None/Zero
   b. $30,000
   c. $40,000
   d. $50,000
   e. None of the above

629. During the current taxable year, John had adjusted gross income of $100,000, without considering the following
transactions and John made no election was made with respect to these facts. During the current taxable year, John made a charitable contribution of common shares which John had owned for six months, with an adjusted basis of $30,000 and a fair market value of $40,000. John's ordinary expense or ordinary loss deduction for the current taxable year with respect to the charitable contribution (considering all deduction limitations) is as follows.

a. None/Zero
b. $30,000
c. $40,000
d. $10,000
e. None of the above

630. During the current taxable year, John had adjusted gross income of $100,000, without considering the following transactions and John made no election with respect to these facts. During the current taxable year, John made a charitable contribution of common shares which John had owned for two years, with an adjusted basis of $50,000 and a fair market value of $45,000. John's ordinary expense or ordinary loss deduction for the current taxable year with respect to the charitable contribution (considering all deduction limitations) is as follows.

a. None/Zero
b. $30,000
c. $45,000
d. $50,000
e. None of the above

631. During the current taxable year, John had adjusted gross income of $100,000, without considering the following transactions and John made no election with respect to these facts. During the current taxable year, John made a charitable contribution of common shares which John had owned for two months, with an adjusted basis of $55,000 and a fair market value of $60,000. John's charitable contribution carryover to next year (considering all deduction limitations) is as follows.

a. None/Zero
b. $25,000
c. $30,000
d. $5,000
e. None of the above

632. During the current taxable year, Peter borrowed, as an unsecured loan from a bank, $100,000, in order to invest in GoGo Corporation shares and in FooFoo Corporation shares. Peter kept the balance of the borrowed funds in a savings account. By the end of the current taxable year, Peter had paid interest on the debt of $7,000 and received dividends of $2,000 and interest of $2,000 and capital gains of $2,000. Peter wants to deduct all of the interest which Peter can during the current taxable year. Peter's ordinary expense or ordinary loss deduction for interest for the current taxable year (considering all deduction limitations) is as follows.

a. None/Zero
b. $4,000
c. $6,000
d. $7,000
e. None of the above

633. On January 1 of the current taxable year, Peter purchased a Courageous Corporation bond for $10,000 when the bond was issued. The bond matures on December 31 ten years from the bond's issue date, has a par value of $10,000, and has a stated interest rate of seven percent per year, which stated interest is paid each December 31. During the current taxable year, Peter received a check for the proper amount of the stated interest. Peter took all of the deductions (or gross income reductions) indicated by these facts, but Peter did not itemize Peter's deductions. Peter's gross income for the current taxable year is (approximately) as follows.

a. None/Zero
b. $700
c. $1,400
d. $2,100
634. Referring to Question 633, Peter's adjusted basis for the bond at the beginning of the next taxable year is (approximately) as follows.
   a. None/Zero 
   b. $9,300 
   c. $10,000 
   d. $10,700 
   e. None of the above 

635. Referring to Question 633, Peter owned the bond until the bond matured, at which time, Courageous Corporation redeemed the bond from Peter. Peter's gross income for the year in which the bond was redeemed with respect to the bond is (approximately) as follows.
   a. None/Zero 
   b. $700 
   c. $10,700 
   d. $10,000 
   e. None of the above 

636. On January 1 of the current taxable year, Peter purchased a Sushi Corporation bond for $11,000 when the bond was issued. The bond matures on December 31 ten years from the bond's issue date, has a par value of $10,000, and has a stated interest rate of five percent per year, which stated interest is paid each December 31. During the current taxable year, Peter received a check for the proper amount of the stated interest. Peter took all of the deductions (or gross income reductions) indicated by these facts, but Peter did not itemize Peter's deductions. Peter's gross income for the current taxable year is (approximately) as follows.
   a. None/Zero 
   b. $400 
   c. $500 
   d. $100 
   e. None of the above 

637. Referring to Question 636, Peter's adjusted basis for the bond at the beginning of the next taxable year is (approximately) as follows.
   a. None/Zero 
   b. $11,000 
   c. $10,000 
   d. $10,900 
   e. None of the above 

638. On January 1 of the current taxable year, Peter purchased a LoveyDovey Corporation bond for $8,000 when the bond was issued. The bond matures on December 31 ten years from the bond's issue date, has a par value of $10,000, and has a stated interest rate of eight percent per year, which stated interest is paid each December 31. During the current taxable year, Peter received a check for the proper amount of the stated interest. Peter took all of the deductions (or gross income reductions) indicated by these facts, but Peter did not itemize Peter's deductions. Peter's gross income for the current taxable year is (approximately) as follows.
   a. None/Zero 
   b. $800 
   c. $640 
   d. $1,000 
   e. None of the above 

639. Referring to Question 638, Peter's adjusted basis for the bond at the beginning of the next taxable year is (approximately) as follows.
   a. None/Zero
b. $8,000
c. $8,200
d. $10,000
e. None of the above

640. Referring to Question 638, Peter owned the bond until the bond matured, at which time, LoveyDovey Corporation redeemed the bond from Peter. Peter's gross income for the year in which the bond was redeemed with respect to the bond is (approximately) as follows.
   a. None/Zero
   b. $2,000
c. $1,000
d. $10,000
e. None of the above

641. On January 1 of two taxable years ago, Peter purchased a Moogoogaipan Corporation bond for $20,000 when the bond was issued. The bond was to mature on December 31, ten years from the bond's issue date, had a par value of $20,000, and had a stated interest rate of ten percent per year, which stated interest was to be paid each December 31. From the date of Peter's acquisition of the bond through Peter's disposition of the bond (a period of three years), Peter has not received a payment for any of the interest with respect to the bond. On December 31 of the current taxable year, Peter sold the bond to Paul for $15,000. Peter took all of the deductions (or reductions, prior to gross income) indicated by these facts. Peter's long term capital loss for the current taxable year is as follows.
   a. None/Zero
   b. $5,000
c. $9,000
d. $11,000
e. None of the above

642. Referring to Question 641, Peter's ordinary income for the current taxable year.
   a. None/Zero
   b. $4,000
c. $5,000
d. $6,000
e. None of the above

643. On January 1 of the current taxable year, Peter purchased a GetALong Corporation bond for $10,000 when the bond was issued. The bond was to mature on December 31, ten years from the bond's issue date, had a par value of $10,000 and had a stated interest rate of six percent per year, which stated interest was to be paid each December 31. During the current taxable year, Peter did not receive a check for any of the stated interest and on January 15 of the next taxable year the bond became worthless. Peter took all of the deductions (or reductions, prior to gross income) indicated by these facts. Peter's long term capital loss for the next taxable year is as follows.
   a. None/Zero
   b. $600
c. $10,000
d. $10,600
e. None of the above

644. On January 1 of the last taxable year, Peter purchased a HavingFun Corporation bond for $10,000 when the bond was issued. The bond was to mature on December 31, ten years from the bond's issue date, had a par value of $10,000, and had a stated interest rate of five percent per year, which stated interest was to be paid each December 31 and the interest was paid to Peter on December 31 of the last taxable year. On January 4 of the current taxable year, Peter sold the bond to Paul for $11,000. Peter's long term capital gain gross income for the current taxable year is (approximately) as follows.
   a. None/Zero
   b. $1,000
645. On December 1 of the current taxable year, Paul purchased a YourOk Corporation bond for $10,000 when the bond was issued. The bond was to mature on December 31, ten years from the bond's issue date, had a par value of $10,000, and had a stated interest rate of five percent per year, which stated interest was to be paid each December 31. During the current taxable year, Paul did not receive a check for any of the stated interest and the bond became worthless during January of next taxable year. Paul took all of the deductions (or reductions, prior to gross income) indicated by these facts. Paul's long term capital loss for the next taxable year is as follows.
   a. None/Zero
   b. $10,000
   c. $10,500
   d. $11,000
   e. None of the above

646. Paul made many purchases and sales of common shares over the LuckyStock Exchange as an investor for many years. During the current taxable year, Paul had capital gains of $5,000 and capital losses of $45,000. During each year for ten years prior to the current taxable year, Paul had capital gains of $5,000 and a gross salary of $100,000. For each year for 30 years after the current taxable year, Paul had capital gains of $5,000 and a gross salary of $100,000. Paul made all elections which were available to Paul and the current taxable year is 1997. The last taxable year (chronologically) during which Paul may deduct any part of Paul’s capital losses is as follows.
   a. None/Zero
   b. 1996
   c. 2001
   d. 2002
   e. None of the above

647. On January 1 of the current taxable year, John's mother gave John 1,000 common shares of CornedBeef&Cabbage Corporation. John's mother purchased the common shares four taxable years ago for a gross purchase price of $50,000 and John's mother also paid purchase expenses of $5,000. John's mother did not owe any gift taxes as a result of the gift. At the date of the gift, the common shares had a fair market value of $100,000. John held the common shares until April 1 of the current taxable year, at which time John sold the common shares to Paul for a gross sales price of $100,000. John paid selling expenses of $5,000. John's long term capital gain gross income for the current taxable year is as follows.
   a. None/Zero
   b. $50,000
   c. $45,000
   d. $40,000
   e. None of the above

648. Referring to Question 646.E, John sold the common shares to Paul for a gross sales price of $40,000 and John paid selling expenses of $5,000. John's long term capital loss for the current taxable year is as follows.
   a. None/Zero
   b. $20,000
   c. $25,000
   d. $30,000
   e. None of the above

649. On January 1 of the current taxable year, John's mother gave John 1,000 common shares of Starbuck Corporation. John's mother purchased the common shares for a gross purchase price of $50,000 and John's mother paid purchase expenses of $5,000 two taxable years ago. At the date of the gift, the common shares had a fair market value of $30,000 and the mother owed no gift taxes because of the gift. John held the common shares until April 1 of the current taxable year, at which time John sold the common shares to Paul for a gross sales price of $80,000. John also
paid selling expenses of $5,000. John's long term capital gain gross income for the current taxable year is as follows.
a. None/Zero  
b. $45,000  
c. $30,000  
d. $20,000  
e. None of the above

650. Referring to Question 649, John had sold the common shares to Paul on April 1 of the current taxable year, for a gross sales price of $20,000 and that John paid selling expenses of $5,000. John's long term capital loss for the current taxable year is as follows.
a. None/Zero  
b. $15,000  
c. $20,000  
d. $40,000  
e. None of the above

651. Referring to Question 649, John sold the common shares to Paul for a gross sales price of $40,000 and John paid selling expenses of $5,000. John's long term capital loss for the current taxable year is as follows.
a. None/Zero  
b. $20,000  
c. $25,000  
d. $30,000  
e. None of the above

652. Mary died on January 1 of the current taxable year, owning 1,000 common shares of Starbuck Corporation. Mary paid a gross purchase price of $120,000 for the common shares in December of the last taxable year, and the common shares had a fair market value of $100,000 at Mary's death and $70,000 on July 1 of the current taxable year. The executor of Mary’s estate elected to use the date of death values for estate tax purposes, and on May 1 of the current taxable year, the executor sold the common shares to Paul, for a gross sales price of $75,000, and the executor paid selling expenses of $5,000, which selling expenses were elected to be utilized in determining the gain or loss on the federal fiduciary income tax return (IRS Form 1041), rather than being deducted on the federal estate tax return (IRS Form 706). The estate’s long term capital loss for the current taxable year is as follows.
a. None/Zero  
b. $35,000  
c. $30,000  
d. $40,000  
e. None of the above

653. Referring to Question 652, the executor of Mary’s estate elected to deduct the selling expenses on the estate's federal estate tax return (IRS Form 706), rather than utilizing the selling expenses in determining the gain or loss on the estate's federal fiduciary income tax return (IRS Form 1041). The estate’s long term capital loss for the current taxable year with respect to the sale of the common shares to Paul is as follows.
a. None/Zero  
b. $25,000  
c. $30,000  
d. $35,000  
e. None of the above

654. Referring to Question 652, the executor of Mary’s estate elected to use the alternate valuation dates. The estate’s long term capital loss for the current taxable year with respect to the sale of the common shares to Paul is as follows.
a. None/Zero  
b. $25,000  
c. $5,000  
d. $30,000
655. Mary died on January 1 of the current taxable year, owning 1,000 common shares of Starbuck Corporation. Mary paid $20,000 for the common shares in December of the last taxable year, and the common shares had a fair market value of $30,000 at Mary's death and $42,000 on July 1 of the current taxable year. The executor of Mary’s estate elected to use the date of death values for estate tax purposes. Mary’s last will and testament devised $35,000 of cash to Paul, and on May 1 of the current taxable year, when the fair market value of the common shares was $35,000, the executor transferred the common shares to Paul, under an agreement under which Paul took the common shares in lieu of the cash devise. Mary’s estate’s long term capital gain for the current taxable year with respect to the transfer of the common shares to Paul is as follows.
   a. None/Zero
   b. $5,000
   c. $7,000
   d. $15,000
   e. None of the above

656. Two taxable years ago, John purchased some common shares for $50,000, and during the current taxable year, John sold the common shares to Sue for $70,000. John's long term capital gain gross income for the current taxable year is as follows.
   a. None/Zero
   b. $10,000
   c. $20,000
   d. $5,000
   e. None of the above

657. Referring to Question 656, John sold the common shares to Sue for $40,000. John's deductible long term capital loss for the current taxable year is as follows.
   a. None/Zero
   b. $3,000
   c. $5,000
   d. $10,000
   e. None of the above

658. During the current taxable year, John owned all of the common shares of GetYourActTogether Corporation and John sold some vacant land which John held as an investment for several years to GetYourActTogether Corporation for $10,000 (the fair market value of the land) at a time when John had an adjusted basis for the land of $15,000. John’s deductible long term capital loss for the current taxable year is as follows.
   a. None/Zero
   b. $5,000
   c. $10,000
   d. $15,000
   e. None of the above

659. During the current taxable year, John had an adjusted gross income of $50,000 (including, $2,000 of short term capital gains) without considering the following facts. John sold John’s common shares (which John had owned for many years) in Action Corporation to Sue for $10,000 (the fair market value of the stock) at a time when John had an adjusted basis for the stock of $14,000. John’s adjusted gross income for the current taxable year is as follows.
   a. None/Zero
   b. $46,000
   c. $47,000
   d. $50,000
   e. None of the above

660. During the current taxable year, John had an adjusted gross income of $50,000 (including, $2,000 of short term capital
gains) without considering the following facts. John sold John’s common shares (which John had owned for many years) in NiceAllTheTime Corporation to Peter for $20,000 (the fair market value of the stock) at a time when John had an adjusted basis for the stock of $14,000. John’s adjusted gross income for the current taxable year is as follows.

a. None/Zero  
b. $56,000  
c. $50,000  
d. $58,000  
e. None of the above

661. During the current taxable year, Mary died owning one whole (ordinary life) life insurance policy on Mary's life which had a face amount of $2,000,000 and which was payable, in lump sum, to Mary’s estate. The life insurance policy had been purchased by Mary, during the current taxable year, for $200,000, from Zesty Corporation of which Mary was president and which corporation was a C corporation, and which corporation had purchased the life insurance policy several taxable years ago from the issuing life insurance company, and which life insurance policy was payable, prior to the sale to Mary, to Zesty Corporation. Mary promptly changed the beneficiary designation of the life insurance policy in order to make Mary’s estate be the beneficiary. Initially, Zesty Corporation had purchased the life insurance policy for the benefit of Zesty Corporation, but then, when Mary decided to retire, Zesty Corporation sold the life insurance policy to Mary. Zesty Corporation had paid a total of $100,000 of premiums with respect to the life insurance policy, $10,000 of which was paid during the current taxable year, prior to the sale of the life insurance policy to Mary. Zesty Corporation capitalized each premium payment; that is, Zesty Corporation did not expense the premiums either for book purposes or for earnings and profit purposes. The Table 2001 cost with respect to the payment of the current taxable year's life insurance premium was $1,000. Zesty Corporation's gross income for the current taxable year with respect to the sale of the life insurance policy to Mary is as follows.

a. None/Zero  
b. $100,000  
c. $90,000  
d. $200,000  
e. None of the above

662. Referring to Question 661, Mary’s estate's gross income for the current taxable year with respect to the life insurance proceeds is as follows.

a. None/Zero  
b. $1,800,000  
c. $1,810,000  
d. None of the above

663. Referring to Question 661, Zesty Corporation did not sell the life insurance policy to Mary, Mary died, and Zesty Corporation received $2,000,000 from the life insurance company due to the life insurance policy. Zesty Corporation's gross income with respect to the receipt of the life insurance proceeds policy, is as follows.

a. None/Zero  
b. $2,000,000  
c. $1,900,000  
d. $1,910,000  
e. None of the above

664. During the current taxable year, Mary died while Rabbit Corporation owned one whole (ordinary life) life insurance policy on Mary's life which had a face amount of $2,000,000 and which was payable, in lump sum, to Rabbit Corporation, which received the proceeds. Rabbit Corporation had always been a C corporation. The life insurance policy had been purchased by Rabbit Corporation several taxable years ago, as a key person life insurance policy on Mary’s life, and Rabbit Corporation had paid $20,000 per year for ten years ($200,000) of life insurance premiums, all of which were capitalized. Rabbit Corporation's net increase in earnings and profits for the current taxable year with respect to the receipt of the life insurance proceeds policy is as follows.

a. None/Zero
b. $2,000,000

c. $200,000

d. $1,800,000

e. None of the above

665. During the current taxable year, Mary died owning one whole (ordinary life) life insurance policy on Mary's life which had a face amount of $2,000,000 and which was payable, in lump sum, to Mary's estate. The life insurance policy had been purchased by Mary, during the current taxable year, for $200,000, from Zesty Corporation of which Mary was president and which corporation had purchased the life insurance policy several taxable years ago from the issuing life insurance company, and which life insurance policy was payable, prior to the sale to Mary, to Zesty Corporation. Mary promptly changed the beneficiary designation of the life insurance policy in order to make Mary's estate be the beneficiary. Initially, Zesty Corporation had purchased the life insurance policy for the benefit of Zesty Corporation, but then, when Mary decided to retire, Zesty Corporation sold the life insurance policy to Mary. Zesty Corporation had paid a total of $100,000 of premiums with respect to the life insurance policy, $10,000 of which was paid during the current taxable year, prior to the sale of the life insurance policy to Mary. Zesty Corporation capitalized each premium payment; that is, Zesty Corporation did not expense the premiums either for book purposes or for earnings and profit purposes. The Table 2001 cost with respect to the payment of the current taxable year's life insurance premium was $1,000. Zesty Corporation's gross income for the current taxable year with respect to the sale of the life insurance policy to Mary is as follows.

a. None/Zero

b. $90,000

c. $100,000

d. $200,000

e. None of the above

666. Referring to Question 665, Mary’s estate's gross income for the current taxable year with respect to the life insurance proceeds is as follows.

a. None/Zero

b. $1,800,000

c. $1,810,000

d. $2,000,000

e. None of the above

667. Referring to Question 666, Zesty Corporation did not sell the life insurance policy to Mary, Mary died, and Zesty Corporation received $2,000,000 from the life insurance company due to the life insurance policy. Zesty Corporation's gross income, with respect to the receipt of the life insurance proceeds policy, is as follows.

a. None/Zero

b. $2,000,000

c. $1,900,000

d. $1,910,000

e. None of the above

668. Several taxable years ago, Mary acquired a whole (ordinary life) life insurance policy, as an owner, in the normal manner. The life insurance policy, with proceeds of $2,000,000, was payable to John, except as otherwise stated. Sable Corporation (which was Mary's employer) paid a total of $120,000 of premiums ($20,000 per year for six years, including the life insurance premium of the current taxable year, all of which Sable Corporation capitalized, rather than expensed, for book purposes and for earnings and profits purposes) with respect to the life insurance policy, which amount was the total amount paid as life insurance premiums with respect to the life insurance policy through the last taxable year. Mary had an agreement with Sable Corporation and with the life insurance company, which agreement provided that when Mary died, Sable Corporation would be repaid all of the premiums which Sable Corporation had paid on the life insurance policy and that this repayment would come from the proceeds of the life insurance policy. Thus, when Mary died during the current taxable year, Sable Corporation, received $120,000 of the life insurance proceeds and John received $1,880,000. The Table 2001 cost (of the $20,000 life insurance premium which Sable Corporation paid the last taxable year) was $1,000. Mary's ordinary gross income for the last taxable year with respect to the sale of the life insurance policy was $1,800,000. Zesty Corporation's gross income for the current taxable year with respect to the sale of the life insurance policy to Mary is as follows.

a. None/Zero

b. $90,000

c. $100,000

d. $200,000

e. None of the above
taxable year with respect to Sable Corporation's payment of the life insurance premium is as follows.

669. Referring to Question 668, Sable Corporation's ordinary expense or ordinary loss deduction for the last taxable year with respect to Sable Corporation's payment of the last taxable year's life insurance premium is as follows.

a. None/Zero
b. $975
c. $20,000
d. $1,000
e. None of the above

670. Referring to Question 668, Sable Corporation's gross income for the current taxable year with respect to the receipt of the $120,000 of life insurance proceeds is as follows.

a. None/Zero
b. $120,000
c. $100,000
d. $99,000
e. None of the above

671. Referring to Question 668, Sable Corporation paid, during the last taxable year, $19,000 of the last taxable year's life insurance premium and that Mary paid $1,000 of such life insurance premium, which latter amount which was equal to the Table 2001 cost. Also, Sable Corporation paid Mary a bonus, during the last taxable year, of $1,000 so that Mary could pay the Table 2001 cost. Mary's ordinary gross income for the last taxable year with respect to Sable Corporation's life insurance premium payment and Table 2001 cost and bonus payment is as follows.

a. None/Zero
b. $20,000
c. $1,000
d. $19,000
e. None of the above

672. Referring to Question 671, Sable Corporation's ordinary expense or ordinary loss deduction to Sable Corporation for the last taxable year is as follows.

a. None/Zero
b. $1,000
c. $19,000
d. $20,000
e. None of the above

673. During the current taxable year, Special Corporation paid a premium of $800 with respect to a group term life insurance policy which insured the life of John, an employee of Special Corporation, which policy was owned by John, and which policy was payable to John's estate as the beneficiary, with a face amount of $80,000. Special Corporation's ordinary expense or ordinary loss deduction for the current taxable year with respect to the payment of the life insurance premium is as follows.

a. None/Zero
b. $500
c. $300
d. $800
e. None of the above

674. Referring to Question 673, John's ordinary gross income for the current taxable year with respect to the payment of the
the life insurance premium is as follows.

675. During the current taxable year, Paul, age 58, was employed by Grits Corporation at a gross salary of $50,000 and during the current taxable year, Paul established a Traditional IRA and Grits Corporation contributed $2,000 to the Traditional IRA. Paul never participated in any other qualified retirement plan and no other person (other than Grits Corporation) contributed to Paul’s Traditional IRA. During the current taxable year, the earnings in Paul's Traditional IRA were $100. Paul's gross income for the current taxable year due to the contribution of the funds to Paul’s Traditional IRA is as follows.

a. None/Zero
b. $2,000
c. $100
d. $2,100
e. None of the above

676. Referring to Question 675, several years after Paul established the Traditional IRA, Paul withdrew $20,000 in order to purchase a home. Paul sold Paul’s prior home three years ago. Paul’s gross income due to the withdrawal of the funds is as follows.

a. $20,000
b. $10,000
c. $15,000
d. $2,000
e. None of the above

677. Referring to Question 676, the excise (or penalty) tax which may be imposed on Paul due to Paul’s withdrawal of the funds from Paul’s Traditional IRA is as follows.

a. $2,000
b. $1,000
c. $1,200
d. $600
e. None of the above

678. Referring to Question 675, Paul continued to work for Grits Corporation for ten more years and Grits Corporation continued to contribute to Paul’s Traditional IRA, and then, on January 1 of the current taxable year Paul retired at age 68 and Paul withdrew all of the funds from Paul’s Traditional IRA in lump sum. During each taxable year in which Paul had the Traditional IRA, Grits Corporation contributed $2,000 each year to Paul’s Traditional IRA (a total of $200,000) and each year the funds in Paul’s Traditional IRA earned over $190 of interest (a total of $4,000). Thus, a distribution was made to Paul in the amount a total of $204,000. Paul’s gross income for the taxable year in which Paul retired is as follows.

a. None/Zero
b. $200,000
c. $4,000
d. $204,000
e. None of the above

679. Referring to Question 678, the excise (or penalty) tax which may be imposed on Paul due to Paul’s withdrawal of the funds from Paul’s Traditional IRA is as follows.

a. None/Zero
b. $20,200
c. $20,000
680. Referring to Question 678, Paul was age 50 when Paul retired and withdrew the $204,000 of funds from Paul’s Traditional IRA. Paul’s gross income for the current taxable year is as follows.
   a. None/Zero
   b. $200,000
   c. $4,000
   d. $204,000
   e. None of the above

681. Referring to Question 680, the excise (or penalty) tax which may be imposed on Paul due to Paul’s withdrawal of the funds from Paul’s Traditional IRA is as follows.
   a. None/Zero
   b. $20,400
   c. $20,000
   d. $12,120
   e. None of the above

682. During the current taxable year, Paul, age 60, was employed by Fritz Corporation at a gross salary of $50,000 and during the current taxable year, Paul established a Roth IRA and contributed $2,000 to the Roth IRA. Paul never participated in any other qualified retirement plan and no other person (other than Paul) contributed to Paul’s Roth IRA. During the current taxable year, the earnings in Paul's Roth IRA were $100. Paul's ordinary expense or ordinary loss deduction for the current taxable year is as follows.
   a. None/Zero
   b. $2,000
   c. $100
   d. $1,000
   e. None of the above

683. Referring to Question 682, Paul's gross income for the current taxable year is as follows.
   a. None/Zero
   b. $50,000
   c. $50,100
   d. $100
   e. None of the above

684. Referring to Question 682, Paul continued to work for Fritz Corporation for ten more years and continued to contribute to Paul’s Roth IRA, and then, on January 1 of the current taxable year (which was such tenth year) Paul retired at age 70 and Paul withdrew all of the funds from Paul’s Roth IRA in lump sum. Paul never participated in any other qualified retirement plan and no other person (other than Paul) contributed to Paul’s Roth IRA. During each taxable year in which Paul had the Roth IRA, Paul contributed $2,000 to the Roth IRA (a total of $20,000) and each year the funds in Paul’s Roth IRA earned over $200 of interest (a total of $3,000). Thus, a distribution was made to Paul in the amount of $23,000. Almost all of the distribution from Paul’s Roth IRA is excludable from Paul’s gross income for the current taxable year.
   a. True/Yes
   b. False/No
   c. Need more information
   d. None of the above

685. During the current taxable year, Paul, age 58, was employed by Ritzee Corporation at a gross salary of $50,000 and during the current taxable year, Paul established an Education IRA and contributed $2,000 to the Education IRA. Paul never participated in any other qualified retirement plan and no other person (other than Paul) contributed to Paul’s Education IRA. During the current taxable year, the earnings in Paul's Education IRA were $100. Paul's ordinary
expense or ordinary loss deduction for the current taxable year is as follows.

a. None/Zero
b. $2,000
c. $100
d. $1,000
e. None of the above

686. Referring to Question 685, Paul continued to work for Ritzee Corporation for ten more years and continued to contribute to Paul’s Education IRA, and then, on January 1 of the current taxable year Paul had the funds in Paul’s Education IRA distributed to a certified college and the college used the funds to pay the tuition, fees, and books of Paul’s great-niece, who was then age 18. Paul never participated in any other qualified retirement plan and no other person (other than Paul) contributed to Paul’s Education IRA. During each taxable year in which Paul had the Education IRA, Paul contributed $2,000 to the Education IRA (a total of $20,000) and each year the funds in Paul’s Education IRA earned over $200 of interest (a total of $3,000). Thus, a distribution was made to the college in the amount of $23,000. Paul’s gross income (excluding Paul’s salary) for the current taxable year is as follows.

a. None/Zero
b. $20,000
c. $3,000
d. $23,000
e. None of the above

687. During April of the current taxable year, Mary died as an employee of Superman Corporation, which had established a corporate qualified retirement plan for Mary. The beneficiary of Mary's corporate qualified retirement account was John and John was entitled to receive a lump sum distribution under the retirement plan of $300,000 or to receive distributions in the form of an annuity. The retirement fund consisted of $250,000 of Superman Corporation contributions and $50,000 of earnings thereon. After John was promptly notified with respect to the amount of the distribution and John’s rights with respect to the distribution, John promptly established a Traditional IRA in John's name, made no contribution to the fund-to-be and told the trustee of Mary’s corporate qualified retirement fund to distribute the funds to the trustee of John's Traditional IRA, which the trustee did. Neither Mary nor John participated in any other qualified retirement plan and no other person (other than Superman Corporation) contributed to Mary’s qualified retirement fund. John had no earned income (of John’s own) during the current taxable year. John's gross income for the current taxable year is as follows.

a. None/Zero
b. $250,000
c. $300,000
d. $350,000
e. None of the above

688. Referring to Question 687, the amount of any excise (or penalty) tax which John must pay with respect to the distribution from Mary’s corporate qualified retirement fund is as follows.

a. None/Zero
b. $18,000
c. $25,000
d. $30,000
e. None of the above

689. Referring to Question 687, Peter (not John) was the beneficiary of Mary’s retirement fund and Peter did all of the things which John did (in Question 687) - - - so just substitute Peter for John. Peter's gross income for the current taxable year is as follows.

a. None/Zero
b. $250,000
c. $300,000
d. $350,000
e. None of the above
During the current taxable year, John was a beneficiary of an irrevocable trust which was established by John's father several taxable years ago, and during the current taxable year the trust had the following financial information. All of the gains and losses from the sales of assets were attributable to the principal of the trust. All of the other receipts and expenses were attributable to the net income of the trust. The trustee (which was the Indiana Bank) was the sole trustee and the trustee was required to distribute to John, each year, all of the trust's net book income, during John's life, which the trustee did, and then, at John's death, to distribute the remaining funds to Mary.

<table>
<thead>
<tr>
<th>Type Of Income Or Expense Or Cost Or Depreciation</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividends</td>
<td>30,000</td>
</tr>
<tr>
<td>Interest from Bank of Indiana</td>
<td>30,000</td>
</tr>
<tr>
<td>Capital gains</td>
<td>30,000</td>
</tr>
<tr>
<td>Capital losses</td>
<td>2,000</td>
</tr>
<tr>
<td>Administrative expenses attributable to book income</td>
<td>2,000</td>
</tr>
</tbody>
</table>

John's gross income for the current taxable year is as follows.

a. None/Zero
b. $50,000
c. $48,000
d. $58,000
e. None of the above

691. Referring to Question 690, the trustee's taxable income for the current taxable year is as follows.

a. None/Zero
b. $27,700
c. $27,000
d. $28,000
e. None of the above

692. Referring to Question 690, John's father had the power to revoke the terms of the trust agreement at any time; but nevertheless, the trustee followed the required terms of the trust agreement and distributed all of the net income (the net book income) of the trust to John, because John's father did not revoke the trust. John's father’s gross income for the current taxable year is as follows.

a. None/Zero
b. $90,000
c. $46,000
d. $48,000
e. None of the above

693. Referring to Question 690, John's father only had the power to change the beneficiaries of the trust at any time, but John’s father could not make John’s father a beneficiary of the trust. The trustee followed the required the original terms of the trust agreement and distributed all of the net income (the net book income) of the trust to John, because John’s father did not change the beneficiaries of the trust. John's gross income for the current taxable year is as follows.

a. None/Zero
b. $60,000
c. $40,000
d. $58,000
e. None of the above

694. During the current taxable year, John was a beneficiary of an irrevocable trust which was established by John's father several taxable years ago, and during the current taxable year the trust had the following financial information. All
of the gains and losses from the sales of assets were attributable to the principal of the trust. All of the other receipts and expenses were attributable to the net income of the trust. The trustee (which was the Indiana Bank) was the sole trustee and the trustee had the discretionary power to distribute to John any amount which the trustee wished to do so and to the extent that the trustee did not wish to do so, the trustee was to accumulate the remaining net income of the trust. However, during the current taxable year, the trustee was required to distribute to John the specific amount of $50,000 from the trust's principal (which was over $2,000,000) and the trustee was required to accumulate the net book income, along with the gains and losses from the sales of assets. Upon John's death, all of the remaining funds in the trust were to be distributed to Mary.

<table>
<thead>
<tr>
<th>Type Of Income Or Expense Or Cost Or Depreciation</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividends</td>
<td>25,000</td>
</tr>
<tr>
<td>Interest Bank of Indiana</td>
<td>25,000</td>
</tr>
<tr>
<td>Capital gains</td>
<td>25,000</td>
</tr>
<tr>
<td>Capital losses</td>
<td>8,000</td>
</tr>
<tr>
<td>Administrative expenses attributable to book income</td>
<td>8,000</td>
</tr>
</tbody>
</table>

John's gross income for the current taxable year is as follows.

a. None/Zero
b. $100,000
c. $92,000
d. $84,000
e. None of the above

695. Alan died on July 1 of the current taxable year and the executor of Alan's estate assembled the following information about Alan’s final taxable year: Alan earned and received $5,000 of fees and Alan earned, but not actually or constructively received by Alan, fees of $7,000. Also, the executor assembled the following information about the estate’s first taxable year: received Alan’s fees of $7,000 and received dividends of $6,000 not actually or constructively received or accrued by Alan. The executor of Alan’s estate also determined that Alan had, in Alan’s final taxable year, $2,000 of charitable contributions (of cash) which exceeded the 50% charitable contribution limitation. Alan's gross income for the current taxable year is as follows.

a. None/Zero
b. $5,000
c. $7,000
d. $13,000
e. None of the above

696. Referring to Question 695, Alan’s estate’s taxable income for the estate’s first taxable year is as follows.

a. None/Zero
b. $10,400
c. $5,400
d. $12,400
e. None of the above

697. During the last taxable year, John died, leaving John’s entire estate to Mary. During the current taxable year, the estate had the following financial information. All of the gains and losses from the sales of assets were attributable to the principal of the estate. All of the other receipts and expenses were attributable to the net income of the estate. The executor (which was the Indiana Bank) was the sole executor of the estate and the executor was required to distribute 50% of the estate’s net book income to Mary for the current taxable year and the executor was required to accumulate the remaining net book income, along with the gains and losses from the sales of assets. Upon the termination of the estate, all of the remaining funds of the estate were to be distributed to Mary.

<table>
<thead>
<tr>
<th>Type Of Income Or Expense Or Cost Or Depreciation</th>
<th>Amount</th>
</tr>
</thead>
</table>

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Dividends 25,000
Interest from Bank of Indiana 25,000
Capital gains 25,000
Capital losses 8,000
Administrative expenses attributable to book income 8,000

Mary's gross income for the current taxable year is as follows.
a. None/Zero
b. $50,000
c. $21,000
d. $59,000
e. None of the above

698. Referring to Question 1, the estate’s taxable income for the current taxable year is as follows.
a. None/Zero
b. $58,400
c. $41,400
d. $37,400
e. None of the above

699. During the last taxable year, John died, leaving John’s entire estate to Mary. During the current taxable year, the estate had the following financial information. All of the gains and losses from the sales of assets were attributable to the principal of the estate. All of the other receipts and expenses were attributable to the net income of the estate. The executor (which was the Indiana Bank) was the sole executor of the estate and the executor was required to distribute to Mary for the current taxable year the specific amount of $75,000 from the trust's principal (which was over $2,000,000) and the executor was required to accumulate the net book income, along with the gains and losses from the sales of assets. Upon the termination of the estate, all of the remaining funds of the estate were to be distributed to Mary.

<table>
<thead>
<tr>
<th>Type Of Income Or Expense Or Cost Or Depreciation</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividends</td>
<td>25,000</td>
</tr>
<tr>
<td>Interest from Bank of Indiana</td>
<td>25,000</td>
</tr>
<tr>
<td>Capital gains</td>
<td>25,000</td>
</tr>
<tr>
<td>Capital losses</td>
<td>8,000</td>
</tr>
<tr>
<td>Administrative expenses attributable to book income</td>
<td>8,000</td>
</tr>
</tbody>
</table>

Mary's gross income for the current taxable year is as follows.
a. None/Zero
b. $17,000
c. $75,000
d. $67,000
e. None of the above

700. During December of the last taxable year, Peter, who was president of AlmostThrough Corporation, read in the newspaper that the State of Indiana was going to condemn some land which was owned by and used for business by AlmostThrough Corporation. Therefore, during June of the current taxable year, AlmostThrough Corporation purchased some new and similar land for $2,000,000. During December of the current taxable year, the State of Indiana condemned AlmostThrough Corporation’s old land and paid AlmostThrough Corporation $700,000 for the old land and AlmostThrough Corporation paid AlmostThrough Corporation’s lawyer $20,000 for the condemnation
representation. Peter determined that the adjusted basis of the condemned land was $100,000. AlmostThrough Corporation's gross income for the current taxable year is as follows (ignoring real property taxes).

701. Referring to Question 700, AlmostThrough Corporation's adjusted basis for the new land which AlmostThrough Corporation acquired during the current taxable year is as follows.

a. None/Zero  
b. $2,000,000  
c. $1,400,000  
d. $1,420,000  
e. None of the above

702. Referring to Question 700, AlmostThrough Corporation purchased the new land for $400,000. AlmostThrough Corporation's gross income for the current taxable year is as follows.

a. None/Zero  
b. $280,000  
c. $400,000  
d. $600,000  
e. None of the above

703. Referring to Question 700, AlmostThrough Corporation's adjusted basis for the new land is as follows.

a. None/Zero  
b. $100,000  
c. $400,000  
d. $300,000  
e. None of the above

704. During the current taxable year, Peter owned all of the following assets and Peter transferred the assets to Recycle Corporation, a newly organized corporation for this purpose, and which corporation will be a C corporation. In return for the transfer of these assets, Recycle Corporation issued 600 common shares of Recycle Corporation to Peter. Also, Recycle Corporation issued 300 common shares to Paul in return for Paul's transfer to Recycle Corporation of some vacant land, with an adjusted basis of $5,000 to Paul and with a fair market value of $30,000. In addition, Recycle Corporation issued 100 common shares to Paul because of services which Paul rendered to organize Recycle Corporation. Thus, Peter and Paul will be the only initial shareholders of Recycle Corporation, with Peter owning 600 common shares and Paul owning 400 common shares. Peter has owned the cash, accounts receivable, and inventory for less than two months, but Peter has owned the other assets for more than two years. Peter has estimated the amount of Peter's goodwill, and Paul and Recycle Corporation accept the estimate. Peter has taken $15,000 of depreciation deductions with respect to the equipment.

<table>
<thead>
<tr>
<th>Asset</th>
<th>Adjusted Basis</th>
<th>Fair Market Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>5,000</td>
<td>5,000</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>2,000</td>
<td>5,000</td>
</tr>
<tr>
<td>Inventory</td>
<td>3,000</td>
<td>20,000</td>
</tr>
<tr>
<td>Equipment</td>
<td>25,000</td>
<td>20,000</td>
</tr>
<tr>
<td>Goodwill</td>
<td>0</td>
<td>10,000</td>
</tr>
</tbody>
</table>

The total amount of Peter's and Paul's gross income for the current taxable year as a result of the incorporation is as follows.
705. Referring to Question 704, Peter's adjusted basis for the common shares which Peter received is as follows.
   a. None/Zero
   b. $9,000
   c. $10,000
   d. $5,000
   e. None of the above

706. Referring to Question 704, Recycle Corporation's adjusted basis for the goodwill which Peter transferred to Recycle Corporation is as follows.
   a. None/Zero
   b. $15,000
   c. $25,000
   d. $35,000
   e. None of the above

707. Referring to Question 704, Paul's adjusted basis for the common shares which Paul received for the land is as follows.
   a. None/Zero
   b. $5,000
   c. $10,000
   d. $15,000
   e. None of the above

708. Referring to Question 704, Paul's adjusted basis for the common shares which Paul received for Paul’s services is as follows.
   a. None/Zero
   b. $5,000
   c. $10,000
   d. $30,000
   e. None of the above

709. During the current taxable year, John was the sole owner (as John had been for several years) of the common shares (which was the only issued and outstanding shares) in Apple Corporation, which corporation had elected income tax treatment under Subchapter S during Apple Corporation's first taxable year. At the beginning of the current taxable year, the adjusted basis for John's shares was $40,000. John worked for Apple Corporation. In addition to the data which is stated below, John had gross salary of $20,000 from Apple Corporation and Mary had gross salary of $50,000 from ZoomZoom Corporation. Also, during the current taxable year, Apple Corporation had gross receipts of $350,000, cost of goods sold of $50,000, taxable interest income of $10,000, and operational expenses of $50,000 (which amount includes John's gross salary of $20,000). Also, during the current taxable year, Apple Corporation distributed $20,000 to John with respect to John's common shares and Mary had an short term capital loss of $10,000. John's and Mary's gross income for the current taxable year is as follows.
   a. None/Zero
   b. $320,000
   c. $330,000
   d. $340,000
   e. None of the above

710. Referring to Question 709, John's and Mary's gross income for the current taxable year was $200,000. John’s and Mary’s adjusted gross income for the current taxable year is as follows.
711. Referring to Question 709, Apple Corporation’s net profit for the current taxable year was $300,000 and Apple Corporation distributed to John $10,000. John's adjusted basis for John's common shares at the end of the current taxable year is as follows.
   a. None/Zero
   b. $40,000
   c. $330,000
   d. $340,000
   e. None of the above

712. Referring to Question 711, John did not work for Apple Corporation and John did not receive a gross salary from Apple Corporation and Apple Corporation’s net profit was $300,000 and Apple Corporation did not distribute anything to John. John's adjusted basis for John's common shares at the end of the current taxable year is as follows.
   a. None/Zero
   b. $40,000
   c. $330,000
   d. $340,000
   e. None of the above

713. Referring to Question 709, Apple Corporation's net loss was $300,000. John's and Mary's gross income for the current taxable year is as follows.
   a. None/Zero
   b. $20,000
   c. $70,000
   d. $90,000
   e. None of the above

714. Referring to Question 713, John's and Mary's gross income for the current taxable year was $300,000. John’s and Mary’s adjusted gross income for the current taxable year is as follows.
   a. None/Zero
   b. $290,000
   c. $300,000
   d. $277,000
   e. None of the above

715. Referring to Question 713, John's adjusted basis for John's common shares at the end of the current taxable year is as follows.
   a. None/Zero
   b. $40,000
   c. $20,000
   d. $240,000
   e. None of the above

716. During the current taxable year, Beverly was the sole shareholder in four corporations (Winter Corporation, Spring Corporation, Summer Corporation, and Fall Corporation). Winter Corporation and Spring Corporation and Summer Corporation were S corporations. Fall Corporation was a C corporation. Beverly had an adjusted basis for the common shares which Beverly owned in each of the four corporations of $50,000 ($50,000 per corporation).

   a. With respect to Winter Corporation, Beverly worked for Winter Corporation and received a gross
salary from Winter Corporation of $10,000. During the current taxable year, Winter Corporation sold computers and had a net profit of $150,000 (after deducting Beverly's gross salary).

b. With respect to Spring Corporation, Beverly did not work for Spring Corporation and did not receive a gross salary from Spring Corporation. During the current taxable year, Spring Corporation sold porch furniture and had a net profit of $40,000.

c. With respect to Summer Corporation, Beverly did not work for Summer Corporation and did not receive a gross salary from Summer Corporation. During the current taxable year, Summer Corporation sold and repaired bicycles and had a net loss of $20,000.

d. With respect to Fall Corporation, Beverly worked for Fall Corporation and received a gross salary from Fall Corporation of $20,000. During the current taxable year, Fall Corporation had earnings and profits of $200,000 distributed $10,000 to Beverly with respect to Beverly's shares.

Beverly's gross income for the current taxable year is as follows.

a. None/Zero
b. $240,000
c. $230,000
d. $210,000
e. None of the above

717. Referring to Question 716, Beverly's adjusted gross income for the current taxable year is as follows.

a. None/Zero
b. $240,000
c. $210,000
d. $220,000
e. None of the above

718. Referring to Question 716, Beverly's adjusted basis for Beverly's common shares of Winter Corporation at the end of the current taxable year is as follows.

a. None/Zero
b. $250,000
c. $100,000
d. $200,000
e. None of the above

719. Referring to Question 716, Beverly's adjusted basis for Beverly's common shares of Spring Corporation at the end of the current taxable year is as follows.

a. None/Zero
b. $90,000
c. $200,000
d. $140,000
e. None of the above

720. Referring to Question 716, Beverly's adjusted basis for Beverly's common shares of Summer Corporation at the end of the current taxable year is as follows.

a. None/Zero
b. $30,000
c. $70,000
d. $50,000
e. None of the above

721. Referring to Question 716, Beverly's adjusted basis for the common shares of Fall Corporation at the end of the
current taxable year is as follows.

a. None/Zero
b. $40,000
c. $20,000
d. $50,000
e. None of the above

722. During the current taxable year, SniffYourselfAway, LLC operated a business which sold illegal drugs, primarily, cocaine. Peter was the sole member of SniffYourselfAway, LLC and Peter fully participated in the business operations of SniffYourselfAway, LLC. During the current taxable year, SniffYourselfAway, LLC received $500,000 from sales of cocaine and SniffYourselfAway, LLC paid, in order to operate the business, the following expenses. In addition, a bank in the Bahamas deposited $100,000 in a bank account which SniffYourselfAway, LLC owned in that bank and the Bahamian bank paid interest of $10,000 with respect to the money in the bank account.

<table>
<thead>
<tr>
<th>Type Of Expense Or Cost Or Depreciation</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of goods sold</td>
<td>20,000</td>
</tr>
<tr>
<td>Rent for office</td>
<td>20,000</td>
</tr>
<tr>
<td>Airplane and automobile expenses</td>
<td>20,000</td>
</tr>
<tr>
<td>Accounting fees</td>
<td>20,000</td>
</tr>
<tr>
<td>Criminal fines</td>
<td>20,000</td>
</tr>
<tr>
<td>Bribes to various public officials</td>
<td>20,000</td>
</tr>
<tr>
<td>Telephone</td>
<td>20,000</td>
</tr>
<tr>
<td>Utilities</td>
<td>20,000</td>
</tr>
<tr>
<td>Wages paid to cocaine salespersons</td>
<td>20,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>180,000</strong></td>
</tr>
</tbody>
</table>

Peter’s adjusted gross income for the current taxable year is as follows.

a. None/Zero
b. $510,000
c. $390,000
d. $490,000
e. None of the above

723. Referring to Question 722, SniffYourselfAway, LLC did not operate a drug sales business. Instead, SniffYourselfAway, LLC sold rare books which were stolen from valuable collections of wealthy individuals. So forget “cocaine” and remember “rare books”. Peter’s adjusted gross income for the current taxable year is as follows.

a. None/Zero
b. $510,000
c. $390,000
d. $480,000
e. None of the above

724. On January 1 of the current taxable year, Delivery Corporation acquired a new truck from Seller Corporation. In order to acquire the new truck, Delivery Corporation gave Seller Corporation cash of $900,000 and a used truck, with a fair market value of $300,000, which Delivery Corporation had used as a delivery truck for eight years. Eight years ago, Delivery Corporation purchased Delivery Corporation’s truck for $600,000 and had taken $400,000 of depreciation deductions with respect to the truck. Seller Corporation owned the new truck for seven months as inventory with an adjusted basis of $500,000. Seller Corporation's ordinary gross income for the current taxable year
725. Referring to Question 724, Seller Corporation's adjusted basis for the truck received from Delivery Corporation is as follows.
   a. None/Zero
   b. $1,100,000
   c. $500,000
   d. $300,000
   e. None of the above

726. Referring to Question 724, Delivery Corporation's gross income for the current taxable year is as follows.
   a. None/Zero
   b. $250,000
   c. $450,000
   d. $650,000
   e. None of the above

727. Referring to Question 724, Delivery Corporation's adjusted basis for the new truck is as follows.
   a. None/Zero
   b. $1,000,000
   c. $500,000
   d. $1,100,000
   e. None of the above

728. On July 5 of the current taxable year, Paul sold 100 common shares of the Woodchuck Corporation for $40,000. Paul received the 100 common shares, as a share dividend, on January 2 of the current taxable year when these (new) common shares had a total fair market value of $30,000. The share dividend was a 100% share dividend of common shares with respect to 100 common shares and the new common shares had the same terms as the original common shares and Paul was not granted any election with respect to the receipt of such share dividend. Paul had purchased the original common shares four taxable years ago for $10,000. Paul’s gross income for the current taxable year with respect to the share dividend is as follows.
   a. None/Zero
   b. $30,000
   c. $10,000
   d. $40,000
   e. None of the above

729. Referring to Question 728, Paul's long term capital gain gross income for the current taxable year with respect to the sale of the new common shares is as follows.
   a. None/Zero
   b. $35,000
   c. $30,000
   d. $10,000
   e. None of the above

730. On July 5 of the current taxable year, Paul sold 200 common shares of Wood Corporation for $40,000. Paul received the 200 common shares on October 1 of the last taxable year when these (new) common shares had a total fair market value of $20,000. The dividend was a 100% share dividend of common shares on 200 common shares and the new common shares had the same terms as the original common shares. However, just prior to the distribution of the new
common shares to Paul, Paul had an election to either receive such share dividend or to receive $20,000 of cash, and Paul chose to receive the share dividend. Paul purchased the original common shares five taxable years ago for $20,000. Paul's gross income for the last taxable year with respect to the share dividend is as follows.

a. None/Zero
b. $20,000
c. $10,000
d. $40,000
e. None of the above

731. Referring to Question 730, Paul's short term capital gain gross income for the current taxable year with respect to the sale of the new common shares is as follows.

a. None/Zero
b. $20,000
c. $10,000
d. $40,000
e. None of the above

732. On May 5 of the current taxable year, Paul sold 100 common shares of DoingFine Corporation for $10,000. Paul received 200 common shares (which included the 100 common shares which Paul sold) on November 10 of the last taxable year as a two for one stock split, when DoingFine Corporation required Paul to turn in (to DoingFine Corporation) 100 common shares which Paul then owned in DoingFine Corporation in return for the 200 new common shares in DoingFine Corporation. The 100 common shares which Paul initially owned were purchased on February 9, two taxable years ago, by Paul for $10,000. The fair market value of the 200 new common shares which Paul received on November 10 of the last taxable year was $20,000. Paul's gross income for the last taxable year with respect to the share split is as follows.

a. None/Zero
b. $5,000
c. $10,000
d. $20,000
e. None of the above

733. Referring to Question 732, Paul's long term capital gain gross income for the current taxable year with respect to the sale of the new common shares is as follows.

a. None/Zero
b. $10,000
c. $5,000
d. $15,000
e. None of the above

734. During the current taxable year, John sold 100 common shares of YaHoo Corporation for $50,000, which John had purchased two taxable years ago for $200,000 as an investment. The common shares were qualified as section 1244 stock. John's ordinary expense or ordinary loss deduction for the current taxable year (considering all deduction limitations) is as follows.

a. None/Zero
b. $100,000
c. $150,000
d. $75,000
e. None of the above

735. Referring to Question 734, John sold the common shares for $300,000. John's ordinary gross income for the current taxable year is as follows.

a. None/Zero
b. $50,000
c. $100,000
d. $75,000  
e. None of the above

736. During the current taxable year, all of John's common shares of Nice Corporation, which John had purchased two taxable years ago for $50,000, became worthless. The common shares were qualified as section 1244 stock. John's long term capital loss for the current taxable year is as follows.
   a. None/Zero  
b. $3,000  
c. $25,000  
d. $50,000  
e. None of the above

737. On December 10 of the current taxable year, Mary sold 100 common shares of Friendly Corporation for $125,000. Mary had purchased the common shares many taxable years ago for $100,000. In addition to the sale of the Friendly Corporation common shares, Mary had a gross salary of $100,000. On January 2 of the next taxable year, Mary purchased 100 common shares of Friendly Corporation for $120,000. Mary's gross income for the current taxable year is as follows.
   a. None/Zero  
b. $125,000  
c. $200,000  
d. $225,000  
e. None of the above

738. On December 10 of the current taxable year, Paul sold 100 common shares of Friendly Corporation for $200,000. Paul had purchased the common shares ten taxable years ago for $225,000. In addition to the sale of the Friendly Corporation common shares, Paul had a gross salary of $200,000 for the current taxable year. Then, on January 5 of the next taxable year, Paul purchased 100 common shares of Friendly Corporation for $230,000. Paul's adjusted gross income for the current taxable year is as follows.
   a. None/Zero  
b. $175,000  
c. $200,000  
d. $197,000  
e. None of the above

739. During the current taxable year, Paul was an employee and vice-president of TipToe Corporation, which manufactured sailboats and because Paul did such a great job as an employee, Paul was given an option to purchase, during the current taxable year, 100 common shares of TipToe Corporation for $100 per share at a time when the common shares were selling for $400. The option was not part of an incentive stock option plan and the option had no readily ascertainable value and the only restrictions with respect to the option was that Paul could not transfer the option to any other person and the only restrictions with respect to the common shares was that Paul could not transfer the common shares to any person for the three-year period following the transfer of the common shares to Paul and if Paul terminated Paul's employment with TipToe Corporation for any reason during the three-year period, then Paul had to transfer (return) the common shares to TipToe Corporation and TipToe Corporation would pay Paul $100 per share for each of the 100 common shares. During the first day of the first taxable year after the three-year period ended, the common shares had a fair market value of $900 per share and later in that taxable year, Paul sold the 100 common shares to Peter for $1,000 per share. Paul’s long term capital gain gross income for the taxable year in which Paul sold the common shares to Peter is as follows.
   a. None/Zero  
b. $10,000  
c. $90,000  
d. $80,000  
e. None of the above

740. Two taxable years ago, KnockThemDead Corporation gave Paul an incentive stock option to purchase 100 common
shares of KnockThemDead Corporation for $100 per share, which was the current fair market value of the common shares at the time when Paul was granted the option. During January of the current taxable year, when each common share had a fair market value of $200, Paul exercised Paul's option and purchased the 100 common shares. Paul had the right to sell the common shares at any time after two years after Paul exercised the option and Paul sold the common shares to Peter for $400 three taxable years after Paul exercised the option. Paul’s gross income for the taxable year two taxable years ago is as follows.

a. None/Zero
b. $1,000
c. $10,000
d. $20,000
e. None of the above

741. Referring to Question 740, Paul’s ordinary gross income with respect to the third taxable year after Paul exercised the option is as follows.

a. None/Zero
b. $30,000
c. $10,000
d. $20,000
e. None of the above

742. Paul was an employee and vice-president of TapALittleTune Corporation, which manufactured sailboats and because Paul did such a great job as an employee, Paul was granted, during the current taxable year, the right, by TapALittleTune Corporation, to purchase 100 shares of common stock of TapALittleTune Corporation for $1,000, at any time during the next five years, which Paul did, during the next taxable year. The option was not part of an incentive stock option plan and the option had no readily ascertainable value and the only restrictions with respect to the option was that Paul could not transfer the option to any other person and the only restriction with respect to the common shares was that Paul could not transfer the common shares to any person for the five-year period following the transfer of the common shares to Paul. During the next taxable year when Paul exercised the option and acquired the common shares, the common shares had a fair market value of $150,000, free of all restrictions. During the first day of the first taxable year after the five-year period, the common shares had a fair market value of $250,000. Paul’s ordinary gross income for the current taxable year is as follows.

a. None/Zero
b. $150,000
c. $140,000
d. $130,000
e. None of the above

743. Referring to Question 742, Paul’s long term capital gain gross income for the next taxable year is as follows.

a. None/Zero
b. $150,000
c. $140,000
d. $130,000
e. None of the above

744. Referring to Question 742, Paul’s gross income for the first taxable year after the five-year period is as follows.

a. None/Zero
b. $150,000
c. $140,000
d. $240,000
e. None of the above

745. Referring to Question 742, Paul sold the common shares to Beverly one year after the end of the five-year period for $300,000 per share. Paul's gross income for the first taxable year after the five-year period is as follows.

a. None/Zero
b. $300,000  
c. $290,000  
d. $150,000  
e. None of the above

746. During the current taxable year, John owned 500 common shares of C Corporation for many years and Paul owned 500 common shares of C Corporation for many years, which common shares were all of the issued and outstanding shares of C Corporation. John’s adjusted basis for the 500 common shares was $5,000. John worked full time for C Corporation and John continued to do so for many years after the current taxable year. During the current taxable year, C Corporation, with $100,000 of earnings and profits at the beginning of the current taxable year and $100,000 of earnings and profits at the end of the current taxable year, distributed to John a check for $2,000 in return for one of John’s common shares, which one common share had a fair market value of $2,000. John’s ordinary gross income for the current taxable year is as follows.
   a. None/Zero  
   b. $1,990  
   c. $2,000  
   d. $1,000  
   e. None of the above

747. Referring to Question 746, John’s adjusted basis for John’s remaining common shares is as follows.
   a. None/Zero  
   b. $4,990  
   c. $2,000  
   d. $5,000  
   e. None of the above

748. Referring to Question 746, C Corporation gave John the check for $6,000 in return for all of John’s common shares, which common shares had a total fair market value of $6,000. John’s ordinary gross income for the current taxable year is as follows.
   a. None/Zero  
   b. $5,000  
   c. $2,000  
   d. $1,000  
   e. None of the above

749. During the current taxable year, Beverly owned 500 common shares of C Corporation for many years and Rebecca owned 500 common shares of C Corporation for many years, which common shares were all of the issued and outstanding shares of C Corporation. Beverly’s adjusted basis for the 500 common shares was $6,000. Beverly worked full time for C Corporation and Beverly continued to do so for many years after the current taxable year. During the current taxable year, C Corporation, with $100,000 of earnings and profits at the beginning of the current taxable year and $100,000 of earnings and profits at the end of the current taxable year, distributed to Beverly a check for $10,000 in return for all of Beverly’s common shares, which common shares had a fair market value of $10,000. Beverly’s long term capital gain gross income for the current taxable year is as follows.
   a. None/Zero  
   b. $10,000  
   c. $4,000  
   d. $6,000  
   e. None of the above

750. During the current taxable year, Paul owned 500 common shares of C Corporation for many years, which common shares were all of the issued and outstanding shares of C Corporation. Paul’s adjusted basis for the 500 common shares was $5,000. Paul worked full time for C Corporation and Paul continued to do so for many years after the current taxable year. During the current taxable year, C Corporation, with no earnings and profits at the beginning of the current taxable year and with no earnings and profits at the end of the current taxable year, sold some land for
$10,000 at a time when C Corporation had an adjusted basis for the land of $13,000. Thereafter, C Corporation gave Paul a check for $2,000 (at a time when C Corporation had no current earnings and profits), because Paul was a shareholder of C Corporation. Paul’s gross income for the current taxable year is as follows.

a. None/Zero  
b. $3,000  
c. $2,000  
d. $1,000  
e. None of the above  

751. Referring to Question 750, Paul’s adjusted basis for Paul’s common shares, after the distribution by C Corporation, is as follows.

a. None/Zero  
b. $7,000  
c. $3,000  
d. $5,000  
e. None of the above