STUDENT EXAMINATION NUMBER ________________

INDIANA UNIVERSITY
SCHOOL OF LAW - INDIANAPOLIS
530 WEST NEW YORK STREET
INDIANAPOLIS, INDIANA 46202-3225

FINAL EXAMINATION
(NUMBER 001)

FOR

INCOME TAXATION OF CORPORATIONS AND SHAREHOLDERS (DN869)

GIVEN BY

LAWRENCE A. JEGEN, III
PROFESSOR OF LAW
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STUDENT STATEMENT WHICH MUST BE SIGNED BEFORE A COURSE GRADE WILL BE ISSUED FOR ANY UNIVERSITY PURPOSE

I am a student in one of Professor Jegen’s tax courses, which course was given during the ______ semester, __________, and I am about to take the final examination in this course. It is my understanding that some students in this course may take this final examination before I take this examination and that some students in this course may take this examination after I take this examination. Therefore, I hereby acknowledge that one of the conditions for allowing me to take this examination at a time of my choice is that I have not communicated, prior to now, directly or indirectly, in any manner, with any person (other than Professor Jegen and a proctor, if any, of this examination) who had knowledge about any question in this examination and that I have not received, prior to now, directly or indirectly, in any manner, from any person (other than Professor Jegen and a proctor, if any, of this examination) any information about any question in this examination. I also hereby acknowledge that one of the conditions for allowing me to take this examination at a time of my choice is that I will not communicate, while I take this examination or after I take this examination until __________, __________, directly or indirectly, in any manner, with any person (other than Professor Jegen and a proctor, if any, of this examination) any information about any question in this examination. In summary, I hereby state, unequivocally, that I did not and will not receive any such information and that I have not and will not communicate any such information until __________, __________.

I am executing this student statement without any reservation whatsoever and without attempting to construe this student statement in a manner so as to avoid the purpose for which this student statement is being signed. It is my understanding that I will receive a course grade of F, for this course, if I execute this student statement and it is later determined that this student statement is not true with respect to me. *

I also understand that I must sign this student statement and Professor Jegen must receive the signed student statement before any grade will be issued to me with respect to such course.

Date Of Signing __________________________ Signature Of Student Who Is Taking This Examination __________________________

Examination Number __________________________ Printed Name __________________________

* Professor Jegen's statement to students: Before you take this examination, remove this student statement from this examination document and insert the above-requested information and deliver the statement to Professor Jegen or a proctor. If you are unable to truthfully execute this student statement, then you should not execute this student statement, and you will not be penalized for not doing so, and then, you should not take this examination and you should take the examination which is to be given for the next course which is offered and which covers the general material of such course.
WARNING

SOME OF THE ANSWERS WHICH ARE MARKED AS BEING THE CORRECT ANSWERS IN THIS EXAMINATION ARE NOT, IN FACT, CORRECT. THE REASON FOR THIS IS BECAUSE NEW AND UPDATED ASSUMPTIONS HAVE BEEN INCLUDED IN THIS EXAMINATION AND SOME OF THE APPLICABLE LAW HAS CHANGED SINCE THIS EXAMINATION WAS GIVEN.

INSTRUCTIONS FOR THIS EXAMINATION

1. Do Not Take This Examination Until You Have Signed The "Student Statement". The Student Statement immediately follows the Table Of Contents. You must sign such statement and give your signed student statement either to Professor Jegen or a proctor prior to taking this examination.

2. Times And Dates For Taking Examination. You may participate in this examination for a period of six hours.

3. Place For Taking Examination. You are to take this examination in the law school building in the room assigned by Professor Jegen or a proctor unless you are assigned a different location by an appropriate representative of the administration of the law school.

4. Pages And Parts Of This Examination Document. There are ___ pages in this examination document and there are three parts to this examination document. The first part consists of page____ through page ___ and consists of a coversheet, a table of contents, a student statement, and instructions for taking this examination. The second part consists of page ____ through page ____ and consists of the first 200 multiple choice questions. The third part consists of page ____ through page ____ and consists of the second 200 multiple choice questions.

5. Numbers And Types Of Examination Questions And Recording Your Answers Thereto. There are 400 multiple choice questions in this examination document. There are no essay questions in this examination document. There are 200 multiple choice questions in part two and 200 multiple choice questions in part three. Each of the answers to the 400 multiple choice questions in this examination document has one point assigned to it. Record your answers to 400 multiple choice questions on the two pre-printed computer answer sheets which are attached to this examination document. The first 200 multiple choice questions are to be answered on Answer Sheet A. The second 200 multiple choice questions are to be answered on Answer Sheet B.

6. Your Examination Number. Your examination number is the examination number which has been assigned to you by an appropriate representative of the administration of the law school. If you do not have an assigned examination number, then use your social security number. Record your examination number on the first page of each of the three units of this examination document in the upper right hand corner of the first page. You do not have to put your examination number on any other page of this examination document. Also, record your examination number on each side of the two pre-printed computer answer sheets at the top of each side. Also, record your examination number on the lower left of the front of each of the two computer answer sheets, starting at the left side box on the lower left area of the pre-printed computer answer sheets under the title: IDENTIFICATION NUMBER. Also, on the front side of one of the answer sheets, at the very top margin area, record: the course number (869); the answer sheet designation (A); and, your exam number. Do the same thing to the other side of that answer sheet. Then, on the front and back sides of the other two answer sheets, record the same information, except make one of those answer sheets (B) and the other one (C).

7. Pencils, Pens, Typewriters, Computers, And Calculators. You must use only the pencils distributed during this examination period to record your answers on the pre-printed computer answer sheets. You may use a simple calculator.

8. Reference Materials. You may not use any reference materials or paper other than those included in or with
this examination document. You may not have any notes, blue books, scratch paper, computation sheets, other sheets of paper, etc. in this examination classroom - - - other than the examination materials which are distributed to you by an examination proctor.

9. **Stapling Examination Parts.** Avoid having the pages of this examination document separated from the staple which holds the pages together. However, if the pages do become separated from the staple, then have Professor Jegen or a proctor, if any, of this examination, restaple the pages when you are finished taking the examination.

10. **Leaving Examination Room Prior To Finishing Examination.** Do not leave the examination room to which you are assigned, at any time, with any part of this examination document.

11. **Finishing Examination.** Hand in the entire examination document and your answers to the examination questions when or before your examination period ends. However, some good advice is: if you hand in your documents prior to the end of your examination period, then do not stay in areas such as the lounge, cafeteria, etc. It would be best to leave the law school building at that time or, for example, to wait for your friends in the law school library, to avoid putting yourself in a situation which could be interpreted as though you were discussing this examination document with an individual who is still taking this examination or who is going to take this examination.

12. **Extra Credit Assignment.** If you have been asked to prepare a response to an extra credit problem which is to be handed in during the examination period, then hand in the response at the time when you hand in the entire examination document and your answers thereto.

13. **References In Examination Document To Sections And Regulations.** Each reference, in this examination document, to a “section” is a reference to a section of the Internal Revenue Code of 1986 and each reference to a “regulation” is to a regulation of the U.S. Treasury Regulations.

14. **“Yes” Or “No” Answers Equal “True” Or “False” Answers.** If a question’s possible answers include a yes or a no as an answer choice, it might be easier for you to answer the question by thinking of the word yes as being equivalent to the word true and the word no as being equivalent to the word false (and vice versa).

15. **Assumptions Concerning Applicable Law.** Except as otherwise stated, the law which is applicable to the facts is the law which is in effect at the time when you take this examination. Except as otherwise stated, all of the facts and questions involve only federal laws.

16. **Assumptions Concerning Relationships Between And Among Individuals.** Except as otherwise stated, all of the individual referred to in this examination document are alive and are adults who are over the age of 21 years and under the age of 50 years. John and Mary are married to each other and John and Mary file joint income tax returns and have two children, who are: Sue (a minor, age 12, and a dependent child, who lives with John and Mary); and, Peter (an unmarried adult, over the age of 21 years, and a nondependent child, who does not live with John and Mary). Further, Beverly is unmarried (Beverly and Beverly's former spouse, Alan, were divorced four taxable years ago) and Beverly has one minor, age 12, dependent child, Rebecca, who lives with Beverly. Alan has never remarried, though Alan is living with Clara. Except as otherwise stated, no one else is married or otherwise related to an individual whose name is used in this examination document. Paul is not (and never has been) married and Paul has no children but Paul has a nephew, Tom, and a niece, Katherine, and one great-nephew (Tom’s child), and six great-nieces (Katherine’s children). Except as otherwise stated, no individual has health problems and no child is physically or mentally challenged for health reasons.

17. **Assumptions Concerning Residencies Of Individuals.** Except as otherwise stated, each individual is a resident of the State of Indiana.

18. **Assumptions Concerning Self-Employments And Employments.** Except as otherwise stated, each individual
who is working in a business is self-employed and is not also an employee of another business. Therefore, the self-employed individual’s business is a sole proprietorship. If the facts state that an individual has salary income, then that individual is an employee and is not self-employed (unless the facts state otherwise). Except as otherwise stated, no one under the age of 21 years is either a self-employed individual or an employee. Except as otherwise stated or except where there is reference to an individual’s business inventory, no individual is a dealer and each individual, who works, works very hard, full-time, with respect to the business with which such individual is associated.

19. Assumptions Concerning Transactions. Except as otherwise stated, each business transaction is motivated by a bona fide business purpose of the parties to the transaction and each business transaction has been properly approved by the governing body of and by the owners of the business entity.

20. Assumptions Concerning Elections By Partnerships And Limited Liability Companies. Except as otherwise stated, no partnership nor limited liability company has elected to be treated as a corporation for federal income purposes.

21. Assumptions Concerning Attendance At Meals And Other Events. Except as otherwise stated, John and/or Mary, as the case may be, attended the meal or entertainment or other event which is involved in the particular paragraph.

22. Assumptions Concerning Gifts. Except as otherwise stated, no individual made any gifts prior to the gift and/or death transfer which is being presented by the particular paragraph.

23. Assumptions Concerning Estate's Actions. Except as otherwise stated, the personal representative of a decedent's probate estate collected all of the estate’s property and income and paid all of the estate’s claims, expenses, etc. promptly.

24. Assumptions Concerning The Tax Laws And Minimizing Taxes. Assume that each person will do what is lawfully necessary in order to minimize that person's taxes. If a particular paragraph makes it clear that an individual has made, for example, gifts prior to the transaction involved, then assume that such donor and/or the donor's spouse and/or the decedent’s personal representative did (or will do) everything (for example, made the appropriate elections) which the donor and/or the donor's spouse and/or the personal representative could have done in order to minimize the, for example, prior gift tax for the particular prior gift and/or the prior estate tax for the particular prior death transfer involved. In recording your answers, first take into account the clear statements in the Internal Revenue Code. If the Internal Revenue Code is not clear with respect to a particular point, then use Professor Jegen’s information or interpretation, even if that information or interpretation conflicts with information or interpretations of the Internal Revenue Service.

25. Assumptions Concerning Types Of Property. Except as otherwise stated, all assets are capital assets held for more than 12 months. Except as otherwise stated, assets are held by the owners thereof for the normal reasons why such taxpayers hold such assets, for example: houses are held as personal residences; stocks and bonds are held as investments; and, machinery, equipment, and inventory are held as business assets.

26. Assumptions Concerning Ownership And Location Of Property. Except as otherwise stated or as provided under the laws of the State of Indiana, the taxpayer who made a gift or who made a death transfer owns all of the interests in the property involved and the taxpayer contributed the entire purchase price of the property involved and all of the property is permanently located in the State of Indiana.

27. Assumptions Concerning Types Of Transfers. Except as otherwise stated, if an asset is transferred for value, the transfer is quid pro quo, except in the case in which the facts are presenting, for example, a gift or a death transfer, a transfer for support, or unreasonable compensation.

28. Assumptions Concerning Terms "Given To" And "Devised To". Except as otherwise stated, whenever the facts state that property was "given to" (or a similar reference) or "devised to" (or a similar reference) a
particular person, the property was so given by a gift or devise, respectively.

29. Assumptions Concerning Basis Of Property. Except as otherwise stated or unless the term would clearly be improperly used, the term “adjusted basis” is used for both the terms “basis” and “adjusted basis” and the term “basis” is used for both the terms “basis” and “adjusted basis”.

30. Assumptions Concerning Liability For Obligations. Except as otherwise stated, John and/or Mary are (or is) solely liable for each obligation involved.

31. Assumptions Concerning Methods Of Accounting And Periods Of Accounting. Except as otherwise stated, all facts pertain to taxpayers who use the cash method of accounting and the calendar year, unless, for example, the taxpayer operates a business with inventories, in which case, assume that such taxpayer properly uses the accrual method of accounting. Thus, if the facts do not state that the person has inventories or if it is not clear that the type of business would have inventories, then assume that the individual uses the cash method of accounting. The basic taxable year involved in each fact paragraph is the “current taxable year”. Therefore, a taxable year which is immediately prior to the current taxable year is referred to as “last taxable year” and a taxable year which is immediately after the current taxable year is referred to as “next taxable year”.

32. Assumptions Concerning Term “Value”. Except as otherwise stated, the fair market values of the assets in each estate are constant from the date of the decedent’s death through the end of the administration of the estate. Whenever the term “value” is used, such term refers to the fair market value of the asset or assets involved. Except as otherwise stated, each of the values which is stated in the facts is the total value of the particular asset (which is involved) unreduced by any other person's interest or by any exclusion under the estate tax law. Whenever the term “value” is used (without the words “fair market” before it), such term shall refer to the fair market value of the property involved using the “willing seller / willing seller” test.

33. Assumptions Concerning Computations Of Time. If a computation involves an allocation which depends upon a period of time, such as the income tax deductions for section 164 real property taxes or for the gross income or income tax deduction from interest on a loan or for the gross income from the amortization of bond premium, then make the allocation by using whole months, not days, unless the significance of the question is dependent upon the number of days which are involved; for example, whether or not long term capital gain results from the question.

34. Assumptions Concerning Amount Of Gross Income, Deduction, Credit, And Tax. Except as otherwise stated, each applicable question is directed to the maximum amount of gross income or deduction or credit or tax; however, with respect to deduction questions, do not consider the standard deductions or the personal exemptions unless the problem clearly involves the standard deductions and/or personal exemptions.

35. Assumptions Concerning Transactions During A Particular Taxable Year. The only transactions which occur during a particular taxable year are the ones which are referred to in the particular paragraph, and, except as otherwise stated, all of the facts occur during the current taxable year.

36. Assumptions Concerning The Components Of Adjusted Gross Income. Except as otherwise stated, whenever an amount of adjusted gross income is stated (before any other possible adjustments to that amount of adjusted gross income), that stated amount of adjusted gross income consists only of ordinary income and ordinary deductions.

37. Assumptions Concerning Itemized Deductions. Except as otherwise stated, all individuals take the allowable standard deduction for the current taxable year. However, all individuals have deducted, for federal income tax purposes, their itemizable deductions in prior years. If it is clear that a particular question requires you to determine whether or not a particular individual should itemize the individual's income tax deductions or to deduct the standard deduction, for income tax purposes for the year involved in the question, then make the proper determination for the particular individual.
38. **Assumptions Concerning Rounding Of Decimals.** If a computation involves the computation of a decimal then "round" the decimal to two places (hundredths). For example, round the decimal .42972 to .4297 or 42.97% and round the decimal .42975 to .4298 or 42.98%.

39. **Assumptions Concerning Term "Gross Sales Price".** The term "gross sales price" refers to a sales price before taking into account any cost of goods sold or any selling expenses.

40. **Assumptions Concerning Interest On Deferred Payments.** Except as otherwise stated, each transaction which involves a deferred payment of principal has the proper interest (using the applicable federal rate) associated with the transaction. That is, there is no unstated interest involved in this examination and if you are asked a question about the amount of gross income which a person has due to a deferred payment, do not consider interest unless the question specifically asks for the amount of interest involved in the transaction.

41. **Assumptions Concerning Term “Ordinary Expense Or Ordinary Loss Deduction”.** Except as otherwise stated, whenever the term “ordinary expense or ordinary loss deduction” is used, such term refers to each type of ordinary income tax deduction, including, but not limited to, business expenses and charitable contributions whether or not the deduction is deductible in arriving at or from adjusted gross income. Though standard deductions and personal exemptions are ordinary income tax deductions, the term does not refer to those two types of deductions nor does the term refer to any income tax capital loss deductions.

42. **Assumptions Concerning Amount Of Deduction Which Is Allowable.** Except as otherwise stated, do not impose any percentage or fixed dollar amount (for example, the amount of the standard deductions or personal exemptions or the limitations on casualty losses or the two percent limitation with respect to miscellaneous deductions) or other limitation which may be applicable to a particular deduction or to several deductions. For example, with respect to capital losses do not impose any deduction limitation which is based on the amount of capital gains, unless the question states otherwise or indicates otherwise by asking, for example, about the amount of adjusted gross income or about the amount of a capital loss carryover. And, with respect to itemizable deductions or other deductions below adjusted gross income, do not impose any deduction limitation which is based on adjusted gross income or a fixed dollar amount (for example, the amount of the standard deductions or personal exemptions or the limitations on casualty losses), unless the question states or indicates otherwise. However, whenever a question requests a computation of, for example, gross income or adjusted gross income or taxable income or whenever a question specifically states the amount of an individual’s adjusted gross income, then all of the appropriate percentage and/or fixed dollar amounts should be imposed, including, but not limited to, the standard deductions and personal exemptions and limitations on casualty losses).

43. **Assumptions Concerning Life Insurance Policies.** Except as otherwise stated, all life insurance policies are whole life insurance policies. Except as otherwise stated, the owner of each life insurance policy paid all of the life insurance premiums.

44. **Assumptions Concerning Qualified Retirement Plans.** Some general information about qualified retirement plans is as follows.

<table>
<thead>
<tr>
<th>Type Of Qualified Retirement Plan</th>
<th>Amount Or Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contribution deduction limitation to a traditional individual retirement account (IRA)</td>
<td>4,000</td>
</tr>
<tr>
<td>Contribution deduction limitations to a self-employment retirement account (H.R. 10 Plan) - defined contribution plan</td>
<td>The lesser of 100% of compensation and $40,000</td>
</tr>
<tr>
<td>Penalty with respect to over contributions</td>
<td>6%</td>
</tr>
<tr>
<td>Penalty with respect to unacceptable withdrawals</td>
<td>10%</td>
</tr>
</tbody>
</table>
45. **Assumptions Concerning Standard Deductions.** Each standard deduction is as follows.

<table>
<thead>
<tr>
<th>Personal Or Domestic Status</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Married spouses filing joint income tax returns or surviving spouse</td>
<td>10,000</td>
</tr>
<tr>
<td>Head of household</td>
<td>8,000</td>
</tr>
<tr>
<td>Single individual</td>
<td>5,000</td>
</tr>
<tr>
<td>Married filing separately</td>
<td>5,000</td>
</tr>
<tr>
<td>Additional - blind</td>
<td>1,000</td>
</tr>
<tr>
<td>Additional - age 65 or older</td>
<td>1,000</td>
</tr>
<tr>
<td>Amount of the floor of the unearned income of a child under the age 18 which may be income taxed at the parents’ income tax rate ($850) plus the amount of the child’s standard deduction which the child may allocate for kiddie tax purposes ($850)</td>
<td>1,700</td>
</tr>
</tbody>
</table>

46. **Assumptions Concerning Personal Exemptions.** Each personal exemption is as follows.

<table>
<thead>
<tr>
<th>Type Of Person</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual</td>
<td>3,000</td>
</tr>
<tr>
<td>Estate</td>
<td>600</td>
</tr>
<tr>
<td>Simple trust</td>
<td>300</td>
</tr>
<tr>
<td>Complex trust</td>
<td>100</td>
</tr>
</tbody>
</table>

47. **Assumptions Concerning Expensing Of Tangible Personal Property, Depreciation, Depletion, And Amortization.** The deduction categories for expensing of tangible personal property, depreciation, and amortization are as follows.

<table>
<thead>
<tr>
<th>Type Of Property</th>
<th>Amount, Period, Or Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tangible personal property</td>
<td>105,000</td>
</tr>
<tr>
<td>Computer software and race horses</td>
<td>Three years</td>
</tr>
<tr>
<td>Automobiles, light trucks, computers, and other mechanical items</td>
<td>Five years</td>
</tr>
<tr>
<td>Other tangible personal property, such as, heavy trucks, office equipment, such as, furniture, manufacturing equipment, rental equipment, etc.</td>
<td>Seven years</td>
</tr>
<tr>
<td>Customer lists, goodwill, and covenants not to compete</td>
<td>15 years</td>
</tr>
<tr>
<td>Residential real property</td>
<td>27.5 years</td>
</tr>
<tr>
<td>Other real property</td>
<td>39 years</td>
</tr>
<tr>
<td>Depletion - timber</td>
<td>Cost</td>
</tr>
<tr>
<td>Business organization costs</td>
<td>60 months</td>
</tr>
</tbody>
</table>

Except as otherwise stated, no fiduciary establishes a reserve for depreciation.

48. **Assumptions Concerning Travel.** Whenever it is stated that a taxpayer "traveled" to a particular location,
assume that the travel expenses were incurred during a period during which the taxpayer stayed overnight away from home.

49. **Assumption Concerning The Mileage Rates For Income Tax Deductions For Using A Personal Automobile.** The standard mileage rates for use of a personal automobile are as follows.

<table>
<thead>
<tr>
<th>Mileage Rate Description</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business mileage rate per mile</td>
<td>44.5 cents</td>
</tr>
<tr>
<td>Charitable mileage rate per mile</td>
<td>14 cents</td>
</tr>
<tr>
<td>Medical mileage rate per mile</td>
<td>18 cents</td>
</tr>
<tr>
<td>Moving mileage rate per mile</td>
<td>18 cents</td>
</tr>
</tbody>
</table>

50. **Assumptions Concerning Amortization Of Basis Of An Annuity Over Payments Received.** Except as otherwise stated, the Internal Revenue Service table with respect to the recovering of the basis of an annuity is as follows.

<table>
<thead>
<tr>
<th>Age Of Annuitant On Annuity Starting Date</th>
<th>Number Of Anticipated Monthly Payments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not more than 55</td>
<td>360</td>
</tr>
<tr>
<td>55 through 60</td>
<td>310</td>
</tr>
<tr>
<td>61 through 65</td>
<td>260</td>
</tr>
<tr>
<td>66 through 70</td>
<td>210</td>
</tr>
<tr>
<td>71 and over</td>
<td>160</td>
</tr>
</tbody>
</table>

51. **Assumptions Concerning Net Operating Losses.** Net operating losses may be carried back for two years (if so elected) and carried forward for 20 years.

52. **Assumptions Concerning Type Of Corporations.** Except as otherwise stated, each corporation is a domestic, for-profit, C corporation doing lawful business only in the United States Of America. If a particular set of facts involves an S corporation, the facts will generally state that fact by referring to the corporation’s name as “S corporation” or by stating that the corporation is an “S corporation”. However, whenever a particular corporation’s name is “C Corporation” or “CC Corporation” or “CCC Corporation”, then that particular corporation is a C corporation and not an S corporation.

53. **Assumptions Concerning Corporate Shares And Corporate Stock.** Except as otherwise stated, the terms “common shares” and “common stock” are used interchangeably and all common shares and common stock are voting shares and voting stock. Except as otherwise stated, no for-profit corporation has any preferred shares issued and outstanding and if a for-profit corporation has or issues preferred shares, then the preferred shares are nonvoting preferred shares. Except as otherwise stated, no shares of stock qualify as section 1202 stock or as section 1244 stock. Except as otherwise stated, no individual owns common shares or preferred shares of a corporation which employs the individual and, except as otherwise stated, no individual is a partner in a partnership or a member of a limited liability company or a beneficiary of a trust or an estate.

54. **Assumptions Concerning Earnings And Profits Of Corporations.** Except as otherwise stated, each corporation has sufficient legal earnings and profits for state corporation law purposes in order to make a lawful distribution with respect to the recipient’s shares. Except as otherwise stated, each corporation has sufficient tax earnings and profits in order to make a distribution, by the corporation with respect to the corporation’s common shares and preferred shares, a taxable dividend to the recipient-shareholder. Except as otherwise stated, an S corporation has no earnings and profits, instead S corporations only have capital accounts. However, a distribution with respect to a C corporation’s common shares or preferred shares is not considered to be a taxable dividend if the facts make clear that the distribution is not a taxable dividend.
because the distribution is part of a partial liquidation of the corporation or is not a taxable dividend because
the distribution is part of a complete liquidation of the corporation or is not a taxable dividend because the
distribution is part of a reorganization or other corporate transaction.

55. **Assumptions Concerning Transactions Of Business.** Except as otherwise stated: each business transaction
has a proper business purpose; a proper business plan; all businesses continue after any type of transfer of
the businesses; and, no corporate shares are listed on any security exchange.

56. **Assumptions Concerning Banks And Trustees.** Except as otherwise stated, Indiana Bank (which is also
referred to as “the bank”) is a state bank which is chartered in the State of Indiana and is located in
Indianapolis, Indiana and is the sole trustee of each trust and is involved in each banking transaction and is
the custodian in each custodianship.

57. **Assumptions Concerning Income Tax Exempt Organizations.** Except as otherwise stated, if the name of an
organization indicates that the organization is a charitable organization, then the organization is a corporation
and is a fully qualified charitable organization for both federal and state tax purposes under section 501(c)(3).
However, a corporation is not a charitable organization if the corporation has common shares issued and
outstanding.

58. **Assumptions Concerning All Individuals’ Regular Income Tax Rates.** Except as otherwise stated, the regular
individual income tax rates and the levels at which such rates are applied are as stated in the following table.
However, the highest income rates which are applicable to general dividends and to general net capital gain
rate is 5% (in the 10% and the 15% income tax brackets) and 15%. (in all higher income tax brackets) and the
highest income tax rate which is applied to gains from the dispositions of collectibles is 28% and the highest
income tax rate which is applied to the recapture of depreciation from the dispositions of real property is 25%.

<table>
<thead>
<tr>
<th>Income Tax Rates For -</th>
<th>Income Tax Rates For -</th>
<th>Income Tax Rates For -</th>
<th>Income Tax Rates For -</th>
</tr>
</thead>
<tbody>
<tr>
<td>Married Individuals</td>
<td>Heads Of Households</td>
<td>Single Individuals</td>
<td>Married Individuals</td>
</tr>
<tr>
<td>Filing Joint Income</td>
<td></td>
<td>Filing Separate Income</td>
<td></td>
</tr>
<tr>
<td>Tax Returns</td>
<td></td>
<td>Tax Returns</td>
<td></td>
</tr>
<tr>
<td>Flat amount = 0 + 10%</td>
<td>Flat amount = 0 + 10%</td>
<td>Flat amount = 0 + 10%</td>
<td>Flat amount = 0 + 10%</td>
</tr>
<tr>
<td>up to 14,600</td>
<td>up to 10,450</td>
<td>up to 7,300</td>
<td>up to 7,300</td>
</tr>
<tr>
<td>Flat amount = 1,460 +</td>
<td>Flat amount = 1,045 +</td>
<td>Flat amount = 730 +</td>
<td>Flat amount = 730 +</td>
</tr>
<tr>
<td>15% of amount over</td>
<td>15% of amount over</td>
<td>15% of amount over</td>
<td>15% of amount over</td>
</tr>
<tr>
<td>14,600 but not over</td>
<td>10,450 but not over</td>
<td>7,300 but not over</td>
<td>7,300 but not over</td>
</tr>
<tr>
<td>59,400</td>
<td>39,800</td>
<td>29,700</td>
<td>29,700</td>
</tr>
<tr>
<td>Flat amount = 8,180 +</td>
<td>Flat amount = 5,447.50 +</td>
<td>Flat amount = 4,090 +</td>
<td>Flat amount = 4,090 +</td>
</tr>
<tr>
<td>25% of amount over</td>
<td>25% of amount over</td>
<td>25% of amount over</td>
<td>25% of amount over</td>
</tr>
<tr>
<td>59,400 but not over</td>
<td>39,800 but not over</td>
<td>29,700 but not over</td>
<td>29,700 but not over</td>
</tr>
<tr>
<td>119,950</td>
<td>102,800</td>
<td>71,950</td>
<td>59,975</td>
</tr>
<tr>
<td>Flat amount = 23,317.50 + 28% of</td>
<td>Flat amount = 21,197.50 + 28% of</td>
<td>Flat amount = 14,652.50 + 28% of</td>
<td>Flat amount = 11,658.75 + 28% of</td>
</tr>
<tr>
<td>amount over 119,950 but not over 182,800</td>
<td>amount over 102,800 but not over 166,450</td>
<td>amount over 71,950 but not over 150,150</td>
<td>amount over 59,975 but not over 91,400</td>
</tr>
<tr>
<td>Flat amount = 40,915.50 + 33% of</td>
<td>Flat amount = 39,019.50 + 33% of</td>
<td>Flat amount = 36,548.50 + 33% of</td>
<td>Flat amount = 20,457.75 + 33% of</td>
</tr>
<tr>
<td>amount over 182,800 but not over 326,450</td>
<td>amount over 166,450 but not over 326,450</td>
<td>amount over 150,150 but not over 326,450</td>
<td>amount over 91,400 but not over 163,225</td>
</tr>
</tbody>
</table>
59. **Assumptions Concerning Fiduciaries’ Income Tax Rates.** Except as otherwise stated, the regular fiduciary income tax rates and the levels at which such rates are applied are as stated in the following table. However, the highest income rates which are applicable to general dividends and to general net capital gain rate is 5% (in the 10% and the 15% income tax brackets) and 15% (in all higher income tax brackets) and the highest income tax rate which is applied to gains from the dispositions of collectibles is 28% and the highest income tax rate which is applied to the recapture of depreciation from the dispositions of real property is 25%.

<table>
<thead>
<tr>
<th>Taxable income not over 2,000</th>
<th>15% of such amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Over 2,000 but not over 4,700</td>
<td>300 plus 25% of the excess over 2,000</td>
</tr>
<tr>
<td>Over 4,700 but not over 7,150</td>
<td>975 plus 28% of the excess over 4,700</td>
</tr>
<tr>
<td>Over 7,150 but not over 9,750</td>
<td>1,661 plus 33% of the excess over 7,150</td>
</tr>
<tr>
<td>Over 9,750</td>
<td>2,519 plus 35% of the excess over 9,750</td>
</tr>
</tbody>
</table>

60. **Assumptions Concerning All Individuals Alternative Minimum Tax Rates.** Except as otherwise stated, the individual alternative minimum tax rates and the levels at which such rates are applied are as stated in the following table.

<table>
<thead>
<tr>
<th>Alternative minimum taxable income not over 175,000</th>
<th>26% of such amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Over 175,000</td>
<td>28% of the excess over 175,000</td>
</tr>
</tbody>
</table>

61. **Assumptions Concerning Corporate Income Tax Rates.** Except as otherwise stated, the corporate income tax rates are as follows.

<table>
<thead>
<tr>
<th>Taxable income not over 50,000</th>
<th>15% of such amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Over 50,000 but not over 75,000</td>
<td>7,500 plus 25% of the excess over 50,000</td>
</tr>
<tr>
<td>Over 75,000</td>
<td>13,750 plus 34% of the excess over 75,000</td>
</tr>
<tr>
<td>On taxable income over 100,000 but not over 335,000</td>
<td>A surtax of 5%</td>
</tr>
<tr>
<td>The accumulated earnings tax and the personal holding company tax</td>
<td>15%</td>
</tr>
</tbody>
</table>

62. **Assumptions Concerning Employment Tax Rates.** For the taxable period involved, the employment tax information is as follows.

<table>
<thead>
<tr>
<th>Employment Tax Information</th>
<th>Amount Or Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base amount for retirement insurance (FICA)</td>
<td>92,400</td>
</tr>
<tr>
<td>Retirement insurance portion of FICA - tax rate for self-employed individuals</td>
<td>12.4%</td>
</tr>
<tr>
<td>Hospital insurance portion of FICA (Medicare Part A) - tax rate for self-employed individuals</td>
<td>2.9%</td>
</tr>
<tr>
<td>Retirement insurance portion of FICA - tax rate for employer’s portion</td>
<td>6.2%</td>
</tr>
<tr>
<td>Retirement insurance portion of FICA - tax rate for employee’s portion</td>
<td>6.2%</td>
</tr>
<tr>
<td>------------------------------------------------</td>
<td>------</td>
</tr>
<tr>
<td>Base amount for hospital insurance (Medicare Part A)</td>
<td>Unlimited</td>
</tr>
<tr>
<td>Hospital insurance portion of FICA (Medicare Part A) - tax rate for employer’s portion</td>
<td>1.45%</td>
</tr>
<tr>
<td>Hospital insurance portion of FICA (Medicare Part A) - tax rate for employee’s portion</td>
<td>1.45%</td>
</tr>
<tr>
<td>Base amount for unemployment insurance (FUTA)</td>
<td>$7,000</td>
</tr>
<tr>
<td>Unemployment insurance (FUTA) tax rate for employer before credits</td>
<td>6.2%</td>
</tr>
<tr>
<td>Percent used to determine net profit for self-employed individuals</td>
<td>92.35%</td>
</tr>
</tbody>
</table>

63. Assumptions Concerning Phaseout Of Gift And Estate Tax Rates.

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount free of gift tax</th>
<th>Amount free of estate tax and GST tax</th>
<th>Gift tax rate</th>
<th>Estate and GST tax rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>$11,000 (per donee per year of present interests) plus $1,000,000 more during life</td>
<td>$1,500,000 each minus amount up to $1,000,000 used (of the gift tax $1,000,000) during life</td>
<td>47%</td>
<td>47%</td>
</tr>
<tr>
<td>2006</td>
<td>$12,000 (per donee per year of present interests) plus $1,000,000 more during life</td>
<td>$2,000,000 each minus amount up to $1,000,000 used (of the gift tax $1,000,000) during life</td>
<td>46%</td>
<td>46%</td>
</tr>
<tr>
<td>2007</td>
<td>$12,000 (per donee per year of present interests) plus $1,000,000 more during life</td>
<td>$2,000,000 each minus amount up to $1,000,000 used (of the gift tax $1,000,000) during life</td>
<td>45%</td>
<td>45%</td>
</tr>
<tr>
<td>2008</td>
<td>$12,000 (per donee per year of present interests) plus $1,000,000 more during life</td>
<td>$2,000,000 each minus amount up to $1,000,000 used (of the gift tax $1,000,000) during life</td>
<td>45%</td>
<td>45%</td>
</tr>
<tr>
<td>2009</td>
<td>$12,000 (per donee per year of present interests) plus $1,000,000 more during life</td>
<td>$3,500,000 each minus amount up to $1,000,000 used (of the gift tax $1,000,000) during life</td>
<td>45%</td>
<td>45%</td>
</tr>
</tbody>
</table>
For gifts made after 12/31/09, the gift tax is not repealed, but continues due to the provisions of HR1836.

For decedents dying after 12/31/09, there is no estate tax or generation skipping transfer tax imposed on death transfers. However, these taxes are repealed only for the year 2010.

**2010**

For gifts made after 12/31/09, the highest gift tax rate is the same as the highest individual income rate, for example, 35% under HR1836. The top income tax rate is reduced to 35% in 2006.

**-0-**

For decedents dying after 12/31/09, there is no estate tax nor generation skipping transfer tax imposed on death transfers. However, these taxes are repealed, only for the year 2010.

**2011**

Gift tax continues, with changes, due to the Congressional Budget Act of 1974.

Due to the congressional budget act of 1974, estate, and generation skipping tax provisions will revert to the pre-HR1836 provisions (for example, the 55% rate) unless congress provides otherwise.

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* Beginning in 2002, the exclusion rose from $10,000 to $11,000 and beginning in 2006 the exclusion rose from $11,000 to $12,000 due to IRC section 2503(b), which provides that the $10,000 exclusion is to be increased by a cost of living adjustment which is to be equal to the percentage increase in the average Consumer Price Index for all urban consumers over the average consumer price index for all urban consumers in the base year of 1997. The average increase is measured as of the close of the 12-month period which ends on August 31st of each year. If the cost of living adjustment is not a multiple of $1,000, then the adjustment is to be rounded to the next lowest multiple of $1,000 and the Bureau of Labor Statistics now indicate that the average consumer price index for the period which ended on August 31, 2001 over the 1997 base year results in the exclusion being increased by $1,000 to $11,000, beginning on January 1, 2002 and again increased by $1,000 to $12,000 beginning on January 1, 2006.

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### 64. Assumption Concerning The 2005 Federal Gift Tax And Estate Tax Rates

<table>
<thead>
<tr>
<th>If The Amount With Respect To Which The Tentative Tax To Be Computed Is:</th>
<th>The Tentative Tax Is:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not over $10,000</td>
<td>18% of such amount</td>
</tr>
<tr>
<td>Over $10,000 but not over $20,000</td>
<td>$1,800 plus 20% of the excess of such amount over $10,000</td>
</tr>
<tr>
<td>Over $20,000 but not over $40,000</td>
<td>$3,800 plus 22% of the excess of such amount over $20,000</td>
</tr>
<tr>
<td>Over $40,000 but not over $60,000</td>
<td>$8,200 plus 24% of the excess of such amount over $40,000</td>
</tr>
<tr>
<td>Over $60,000 but not over $80,000</td>
<td>$13,000 plus 26% of the excess of such amount over $60,000</td>
</tr>
<tr>
<td>Amount Range</td>
<td>Tax Calculation</td>
</tr>
<tr>
<td>------------------------------------</td>
<td>---------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Over $80,000 but not over $100,000</td>
<td>$18,200 plus 28% of the excess of such amount over $80,000</td>
</tr>
<tr>
<td>Over $100,000 but not over $150,000</td>
<td>$23,800 plus 30% of the excess of such amount over $100,000</td>
</tr>
<tr>
<td>Over $150,000 but not over $250,000</td>
<td>$38,800 plus 32% of the excess of such amount over $150,000</td>
</tr>
<tr>
<td>Over $250,000 but not over $500,000</td>
<td>$70,800 plus 34% of the excess of such amount over $250,000</td>
</tr>
<tr>
<td>Over $500,000 but not over $750,000</td>
<td>$155,800 plus 37% of the excess of such amount over $500,000</td>
</tr>
<tr>
<td>Over $750,000 but not over $1,000,000</td>
<td>$248,300 plus 39% of the excess of such amount over $750,000</td>
</tr>
<tr>
<td>Over $1,000,000 but not over $1,250,000</td>
<td>$345,800 plus 41% of the excess of such amount over $1,000,000</td>
</tr>
<tr>
<td>Over $1,250,000 but not over $1,500,000</td>
<td>$448,300 plus 43% of the excess of such amount over $1,250,000</td>
</tr>
<tr>
<td>Over $1,500,000 but not over $2,000,000</td>
<td>$555,800 plus 45% of the excess of such amount over $1,500,000</td>
</tr>
<tr>
<td>Over $2,000,000 but not over $2,500,000</td>
<td>$780,800 plus 47% of the excess of such amount over $2,000,000</td>
</tr>
</tbody>
</table>

65. Assumptions Concerning Current Gift And Estate Tax Rates.

<table>
<thead>
<tr>
<th>Amount Range</th>
<th>Tax Calculation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not over $10,000</td>
<td>18% of such amount</td>
</tr>
<tr>
<td>Over $10,000 but not over $20,000</td>
<td>$1,800 plus 20% of the excess of such amount over $10,000</td>
</tr>
<tr>
<td>Over $20,000 but not over $40,000</td>
<td>$3,800 plus 22% of the excess of such amount over $20,000</td>
</tr>
<tr>
<td>Over $40,000 but not over $60,000</td>
<td>$8,200 plus 24% of the excess of such amount over $40,000</td>
</tr>
<tr>
<td>Over $60,000 but not over $80,000</td>
<td>$13,000 plus 26% of the excess of such amount over $60,000</td>
</tr>
<tr>
<td>Over $80,000 but not over $100,000</td>
<td>$18,200 plus 28% of the excess of such amount over $80,000</td>
</tr>
<tr>
<td>Over $100,000 but not over $150,000</td>
<td>$23,800 plus 30% of the excess of such amount over $100,000</td>
</tr>
<tr>
<td>Over $150,000 but not over $250,000</td>
<td>$38,800 plus 32% of the excess of such amount over $150,000</td>
</tr>
</tbody>
</table>
### Assumptions Concerning Credits - In General

Except as otherwise stated, in making your computations do not take into account any credit and, if a particular paragraph involves a credit, no person has used any portion of a credit in the past. However, if a particular paragraph makes it clear that an individual has made, for example, gifts prior to the transaction involved, then assume that such donor and/or the donor's spouse and/or the decedent's estate's personal representative did (or will do) everything (for example, made the appropriate elections) which the donor and/or the donor's spouse and/or the personal representative could have done in order to minimize the, for example, prior gift tax for the particular prior gift and/or the prior estate tax for the particular prior death transfer involved.

### Assumptions Concerning Income Tax Credits

<table>
<thead>
<tr>
<th>Type Of Credit</th>
<th>Amount Or Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Child</td>
<td>500</td>
</tr>
<tr>
<td>Adoption</td>
<td>11,000</td>
</tr>
<tr>
<td>Hope</td>
<td>1,500</td>
</tr>
<tr>
<td>Lifetime learning</td>
<td>2,000</td>
</tr>
<tr>
<td>Old building</td>
<td>10%</td>
</tr>
<tr>
<td>Certified historic building</td>
<td>20%</td>
</tr>
</tbody>
</table>

### Assumptions Concerning Credit For Estate Tax On Prior Transfers Against Estate Tax

<table>
<thead>
<tr>
<th>Second Death Is Within The Following Number Of Years After First Death</th>
<th>Credit Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Two years</td>
<td>100%</td>
</tr>
<tr>
<td>Over two years but not over four years</td>
<td>80%</td>
</tr>
<tr>
<td>Over four years but not over six years</td>
<td>60%</td>
</tr>
<tr>
<td>Time Period</td>
<td>Tax Rate</td>
</tr>
<tr>
<td>-------------------------------------</td>
<td>----------</td>
</tr>
<tr>
<td>Over six years but not over eight years</td>
<td>40%</td>
</tr>
<tr>
<td>Over eight years but not over ten years</td>
<td>20%</td>
</tr>
</tbody>
</table>

69. **Assumptions Concerning Estate's Actions.** Except as otherwise stated, the personal representative of a decedent's probate estate collected all of the estate’s property and income and paid all of the estate’s claims, expenses, etc. promptly.

70. **Assumptions Concerning Estate Tax Valuations.** Except as otherwise stated, the personal representative of an estate elected to value the property in the estate, for federal estate tax purposes, at the date of death values, and each of the values which is stated in such facts is the total value of the particular asset (which is involved) unreduced by any other person's interest or by any other exclusion under the estate tax law. Except as otherwise stated, each personal representative collected all of the estate's property and income and paid all of the estate's claims, expenses, etc. promptly.

71. **Assumptions Concerning Income And Estate Tax Deductions.** Except as otherwise stated, the personal representative of each estate elected to deduct all allowable deductions of the estate on the federal estate tax return (IRS Form 706), rather than the estate’s income tax return (IRS Form 1041).

72. **Assumptions Concerning The Generation-Skipping Transfer Tax Exemption.** Except as otherwise stated, assume that each individual used the individual's generation-skipping transfer tax exemption at the individual's first opportunity.
1. 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 $2,000 and which table had a fair market value of $10,000) 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 paragraph 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 paragraph 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. None of the above

5. Referring to paragraph 4, 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. $100
   C. None of the above

6. Mary was a dealer in grain. During December of last year, when Peter attained age 25 years, Mary formed Free Limited Liability Company to sell grain through Free Limited Liability Company. In forming Free Limited Liability Company, Mary transferred to Free Limited Liability Company cash of $100,000 and a building (which Mary had not depreciated), with an adjusted basis of $20,000 and a fair market value of $100,000. In return for these two assets, Mary acquired a 50% interest in Free Limited Liability Company's net profit and a 50% interest in Free Limited Liability Company's capital. Thereafter, Mary had Free Limited Liability Company transfer, through a legal conveyance to Peter, the other 50% interest in Free Limited Liability Company's net profit and the other 50% interest in Free Limited Liability Company's capital for no consideration. Free Limited Liability Company did not do any business during last year, but during the
current taxable year, Free Limited Liability Company had a net profit of $100,000, all of which was from fees from the sale of grain, with all of Free Limited Liability Company work being done by Mary, Peter, and a secretary in a rented office. Mary was paid a gross salary from Free Limited Liability Company of $30,000 and Peter was paid a gross salary of $20,000. Mary'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

7. Referring to paragraph 6, Peter's gross income for last year is as follows.

A. None/Zero
B. $20,000
C. $50,000
D. $70,000
E. None of the above

8. Referring to paragraph 6, Mary had Free Limited Liability Company issue a check in the amount of $50,000 to Peter, which $50,000 was for 50% of Free Limited Liability Company's net profit for the current taxable year. Peter'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

9. 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

10. Referring to paragraph 9, 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

11. Referring to paragraph 9, 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
12. Referring to paragraph 9, when Mary organized Fair Corporation, Mary received all of Fair Corporation's common shares, with a fair market value of $80,000, and a promissory note, issued by Fair Corporation, with a face amount of and a fair market value of $20,000. Mary's gross income with respect to the corporate organization is as follows.
A. None/Zero
B. $20,000
C. $100,000
D. $80,000
E. None of the above

13. Referring to paragraph 12, Mary's adjusted basis for the common shares is as follows.
A. None/Zero
B. $50,000
C. $60,000
D. $200,000
E. None of the above

14. Referring to paragraph 12, Mary's adjusted basis for the promissory note is as follows.
A. None/Zero
B. $20,000
C. $80,000
D. $50,000
E. None of the above

15. 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 $10,000 and a fair market value of $20,000. John's ordinary expense or ordinary loss deduction for the current taxable year with respect to the charitable contribution (taking into account any applicable percent limitations) is as follows.
A. None/Zero
B. $20,000
C. $10,000
D. $5,000
E. None of the above

16. 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 $10,000 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 (taking into account any applicable percent limitations) is as follows.
A. None/Zero
B. $30,000
C. $40,000
D. $10,000
E. None of the above

17. 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 is as follows.

A. None/Zero
B. $4,000
C. $6,000
D. $7,000
E. None of the above

18. 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):

A. None/Zero
B. $700
C. $1,400
D. $2,100
E. None of the above

19. Referring to paragraph 18, Peter's adjusted basis for the bond at the beginning of the next taxable year is (approximately):

A. None/Zero
B. $9,300
C. $10,000
D. $10,700
E. None of the above

20. Referring to paragraph 18, 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):

A. None/Zero
B. $700
C. $10,700
D. $10,000
E. None of the above

21. On January 1 of the current taxable year, Peter purchased a Hooray 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):

A. None/Zero
B. $400
C. $500
D. $100
E. None of the above

22. Referring to paragraph 21, Peter's adjusted basis for the bond at the beginning of the next taxable year is (approximately):

A. None/Zero
23. 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):
   A. None/Zero
   B. $800
   C. $640
   D. $1,000
   E. None of the above

24. Referring to paragraph 23, Peter's adjusted basis for the bond at the beginning of the next taxable year is (approximately):
   A. None/Zero
   B. $8,000
   C. $8,200
   D. $10,000
   E. None of the above

25. Referring to paragraph 23, 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):
   A. None/Zero
   B. $2,000
   C. $1,000
   D. $10,000
   E. None of the above

26. On January 1 of two taxable years ago, Peter purchased a Frivolous 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

27. Referring to paragraph 26, 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
28. 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 deduction for the next taxable year is as follows.
A. None/Zero
B. $600
C. $10,000
D. $10,600
E. None of the above

29. 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 last 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):
A. None/Zero
B. $500
C. $1,000
D. $1,500
E. None of the above

30. John normally has the 28% income tax rate applied to John's taxable income. John wants to save more taxes and make more money. Therefore, John should purchase a State of California bond for a par value and a purchase value of $10,000 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 $10,000 and which has a stated interest rate of eight percent.
A. Yes
B. No

31. 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 mid-term capital loss deduction 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

32. During the current taxable year, John had $200,000 of ordinary gross income without considering any (or the effect of any) of the following capital gains and capital losses from John's investments. With respect to John's capital gains and capital losses, John had: $50,000 of long term capital gain gross income and $50,000 of short term capital gain gross income and $15,000 of long term capital loss and $15,000 of short term capital loss. John's gross income for the current taxable year is as follows.
A. None/Zero
B. $300,000
C. $270,000
D. $200,000
E. None of the above

33. Referring to paragraph 32, John's adjusted gross income for the current taxable year (taking into account any applicable percent limitations) is as follows.
   A. None/Zero
   B. $300,000
   C. $270,000
   D. $200,000
   E. None of the above

34. Referring to paragraph 32, the amount of John's capital loss carryover to the next taxable year is as follows.
   A. None/Zero
   B. $3,000
   C. $15,000
   D. $30,000
   E. None of the above

35. Referring to paragraph 32, the 20% capital gains income tax rate is based on the amount of:
   A. None/Zero
   B. $35,000
   C. $70,000
   D. $270,000
   E. None of the above

36. During the current taxable year, John had $200,000 of ordinary gross income without considering any (or the effect of any) of the following capital gains and capital losses from John's investments. With respect to John's capital gains and capital losses, John had: $50,000 of long term capital gain gross income and $50,000 of short term capital gain gross income and no long term capital loss and no short term capital loss. John's gross income for the current taxable year is as follows.
   A. None/Zero
   B. $100,000
   C. $300,000
   D. $200,000
   E. None of the above

37. Referring to paragraph 36, John's adjusted gross income for the current taxable year (taking into account any applicable percent limitations) is as follows.
   A. None/Zero
   B. $100,000
   C. $200,000
   D. $300,000
   E. None of the above

38. Referring to paragraph 36, the amount of John's capital loss carryover to the next taxable year is as follows.
   A. None/Zero
   B. $3,000
   C. $50,000
   D. $100,000
   E. None of the above

39. Referring to paragraph 36, the 20% capital gains income tax rate is based on the amount of:
   A. None/Zero
   B. $50,000
40. During the current taxable year, John had $200,000 of ordinary gross income without considering any (or the effect of any) of the following capital gains and capital losses from John's investments. With respect to John's capital gains and capital losses, John had: $50,000 of long term capital gain gross income and $50,000 of short term capital gain gross income and no long term capital loss and $60,000 of short term capital loss. John's gross income for the current taxable year is as follows.
   A. None/Zero
   B. $300,000
   C. $100,000
   D. $75,000
   E. None of the above

41. Referring to paragraph 40, John's adjusted gross income for the current taxable year (taking into account any applicable percent limitations) is as follows.
   A. None/Zero
   B. $300,000
   C. $240,000
   D. $250,000
   E. None of the above

42. Referring to paragraph 40, the amount of John's capital loss carryover to the next taxable year is as follows.
   A. None/Zero
   B. $3,000
   C. $10,000
   D. $50,000
   E. None of the above

43. Referring to paragraph 40, the 20% capital gains income tax rate is based on the amount of:
   A. None/Zero
   B. $40,000
   C. $50,000
   D. $100,000
   E. None of the above

44. During the current taxable year, John had $200,000 of ordinary gross income without considering any (or the effect of any) of the following capital gains and capital losses from John's investments. With respect to John's capital gains and capital losses, John had: $50,000 of long term capital gain gross income and $50,000 of short term capital gain gross income and $60,000 of long term capital loss and no short term capital loss. John's gross income for the current taxable year is as follows.
   A. None/Zero
   B. $200,000
   C. $240,000
   D. $300,000
   E. None of the above

45. Referring to paragraph 44, John's adjusted gross income for the current taxable year (taking into account any applicable percent limitations) is as follows.
   A. None/Zero
   B. $300,000
   C. $200,000
   D. $240,000
46. Referring to paragraph 44, the amount of John's capital loss carryover to the next taxable year is as follows.
   A. None/Zero
   B. $3,000
   C. $10,000
   D. $50,000
   E. None of the above

47. Referring to paragraph 44, the 20% capital gains income tax rate is based on the amount of:
   A. None/Zero
   B. $10,000
   C. $50,000
   D. $40,000
   E. None of the above

48. During the current taxable year, John had $200,000 of ordinary gross income without considering any (or the
effect of any) of the following capital gains and capital losses from John's investments. With respect to John's
capital gains and capital losses, John had: $50,000 of long term capital gain gross income and $50,000 of
short term capital gain gross income and no long term capital loss and $140,000 of short term capital loss.
John's gross income for the current taxable year is as follows.
   A. None/Zero
   B. $200,000
   C. $250,000
   D. $300,000
   E. None of the above

49. Referring to paragraph 48, John's adjusted gross income for the current taxable year (taking into account any
applicable percent limitations) is as follows.
   A. None/Zero
   B. $110,000
   C. $197,000
   D. $200,000
   E. None of the above

50. Referring to paragraph 48, the amount of John's capital loss carryover to the next taxable year is as follows.
   A. None/Zero
   B. $3,000
   C. $37,000
   D. $137,000
   E. None of the above

51. Referring to paragraph 48, the 20% capital gains income tax rate is based on the amount of:
   A. None/Zero
   B. $50,000
   C. $137,000
   D. $87,000
   E. None of the above

52. During the current taxable year, John had $200,000 of ordinary gross income without considering any (or the
effect of any) of the following capital gains and capital losses from John's investments. With respect to John's
capital gains and capital losses, John had: $50,000 of long term capital gain gross income and $50,000 of
short term capital gain gross income and $140,000 of long term capital loss and no of short term capital loss.
John's gross income for the current taxable year is as follows.
A. None/Zero
B. $300,000
C. $160,000
D. $250,000
E. None of the above

53. Referring to paragraph 52, John's adjusted gross income for the current taxable year (taking into account any applicable percent limitations) is as follows.
A. None/Zero
B. $160,000
C. $197,000
D. $250,000
E. None of the above

54. Referring to paragraph 52, the amount of John's capital loss carryover to the next taxable year is as follows.
A. None/Zero
B. $3,000
C. $37,000
D. $90,000
E. None of the above

55. Referring to paragraph 52, the 20% capital gains income tax rate is based on the amount of:
A. None/Zero
B. $50,000
C. $90,000
D. $40,000
E. None of the above

56. During the current taxable year, John had $200,000 of ordinary gross income without considering any (or the effect of any) of the following capital gains and capital losses from John's investments. With respect to John's capital gains and capital losses, John had: $50,000 of long term capital gain gross income and $50,000 of short term capital gain gross income and $70,000 of long term capital loss and $70,000 of short term capital loss. John's gross income for the current taxable year is as follows.
A. None/Zero
B. $160,000
C. $300,000
D. $197,000
E. None of the above

57. Referring to paragraph 56, John's adjusted gross income for the current taxable year (taking into account any applicable percent limitations) is as follows.
A. None/Zero
B. $160,000
C. $197,000
D. $300,000
E. None of the above

58. Referring to paragraph 56, the amount of John's capital loss carryover to the next taxable year is as follows.
A. None/Zero
B. $20,000
C. $37,000
D. $47,000
E. None of the above
59. Referring to paragraph 56, the 20% capital gains income tax rate based is on the amount of:
   A. None/Zero
   B. $20,000
   C. $17,000
   D. $37,000
   E. None of the above

60. During the current taxable year, John had $200,000 of ordinary gross income without considering any (or the
effect of any) of the following capital gains and capital losses from John's investments. With respect to John's
capital gains and capital losses, John had: no long term capital gain and no short term capital gain and
$100,000 of long term capital loss and no short term capital loss. John's adjusted gross income for the current
taxable year is as follows.
   A. None/Zero
   B. $197,000
   C. $200,000
   D. $100,000
   E. None of the above

61. During the current taxable year, John had $200,000 of ordinary gross income without considering any (or the
effect of any) of the following capital gains and capital losses from John's investments. With respect to John's
capital gains and capital losses, John had: $50,000 of long term capital gain gross income and no short term
capital gain gross income and $20,000 long term capital loss $20,000 of short term capital loss. John's gross
income for the current taxable year is as follows.
   A. None/Zero
   B. $230,000
   C. $250,000
   D. $210,000
   E. None of the above

62. Referring to paragraph 61, John's adjusted gross income for the current taxable year (taking into account any
applicable percent limitations) is as follows.
   A. None/Zero
   B. $230,000
   C. $250,000
   D. $210,000
   E. None of the above

63. Referring to paragraph 61, John's capital loss carryover to the next taxable year is as follows.
   A. None/Zero
   B. $3,000
   C. $17,000
   D. $20,000
   E. None of the above

64. Referring to paragraph 61, the 20% capital gains income tax rate is based on the amount of:
   A. None/Zero
   B. $30,000
   C. $7,000
   D. $10,000
   E. None of the above

65. 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.

66. During the current taxable year, John had $200,000 of gross income without considering any (or the effect of any) of the following capital gains and capital losses from John's investments. With respect to John's capital gains and capital losses, John had: $50,000 of long term capital gain gross income and $50,000 of short term capital gain gross income and $20,000 of long term capital loss deduction and $120,000 of short term capital loss deduction. John's gross income for the current taxable year is as follows.
A. None/Zero
B. $230,000
C. $300,000
D. $160,000
E. None of the above.

67. Referring to paragraph 66, John's adjusted gross income for the current taxable year is as follows.
A. None/Zero
B. $197,000
C. $227,000
D. $300,000
E. None of the above.

68. Referring to paragraph 66, the amount of John's capital loss carryover to the next taxable year is as follows.
A. None/Zero
B. $40,000
C. $37,000
D. $67,000
E. None of the above.

69. During the current taxable year, John had $200,000 of gross income without considering any (or the effect of any) of the following capital gains and capital losses from John's investments. With respect to John's capital gains and capital losses, John had: no long term capital gain gross income and no short term capital gain gross income and $40,000 of long term capital loss deduction and $40,000 of short term capital loss deduction. John's gross income for the current taxable year is as follows.
A. None/Zero
B. $157,000
C. $120,000
D. $200,000
E. None of the above.

70. Referring to paragraph 69, John's adjusted gross income for the current taxable year is as follows.
A. None/Zero
B. $160,000
C. $157,000
D. $197,000
E. None of the above

71. Referring to paragraph 69, the amount of John's capital loss carryover to the next taxable year is as follows.
A. None/Zero
B. $3,000
C. $77,000
D. $80,000
E. None of the above

72. Referring to paragraph 69, the 20% capital gains income tax rate is based on the amount of:
A. None/Zero
B. $3,000
C. $40,000
D. $77,000
E. None of the above

73. 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 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

74. 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 (form 1041), rather than being deducted on the federal estate tax return (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

75. 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

76. Referring to paragraph 75, John sold the common shares to Sue for $30,000. John's long term capital loss for the current taxable year is as follows.
A. None/Zero
B. $3,000
77. 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 P.S. 58 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
C. $95,000
D. $100,000
E. None of the above

78. Referring to paragraph 77, 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. $900,000
C. $905,000
D. None of the above

79. Referring to paragraph 77, 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

80. Referring to paragraph 77, 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

81. Referring to paragraph 77, Zesty Corporation's ordinary expense or ordinary loss deduction for last year with respect to the life insurance policy premium payment by Zesty Corporation is as follows.
82. Referring to paragraph 77, 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

83. Referring to paragraph 82, Peter elected to receive the life insurance proceeds of the life insurance policy by receiving $55,000, 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 life insurance proceeds is as follows.
   A. None/Zero
   B. $50,000
   C. $49,750
   D. $54,750
   E. None of the above

84. 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 last 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 P.S. 58 cost (included in the $10,000 life insurance premium which Sable Corporation paid last year) was $500. Mary's ordinary gross income for last 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

85. Referring to paragraph 84, Sable Corporation's ordinary expense or ordinary loss deduction for last year with respect to Sable Corporation's payment of last 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
86. Referring to paragraph 84, 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

87. Referring to paragraph 84, Sable Corporation paid, during last year, $9,500 of last year's life insurance premium and that Mary paid $500 of such life insurance premium, which latter amount which was equal to the P.S. 58 cost. Also, Sable Corporation paid Mary a bonus, during last year, of $500 so that Mary could pay the P.S. 58 cost. Mary's ordinary gross income for last year with respect to Sable Corporation's life insurance premium payment and P.S. 58 cost and bonus payment is as follows.
   A. None/Zero
   B. $500
   C. $9,500
   D. $10,000
   E. None of the above

88. Referring to paragraph 87, Sable Corporation's ordinary expense or ordinary loss deduction to Sable Corporation for last year is as follows.
   A. None/Zero
   B. $500
   C. $9,500
   D. $10,000
   E. None of the above

89. 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. The P.S. 58 cost of the premium was $60. 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

90. Referring to paragraph 89, 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. $60
   C. $600
   D. $10
   E. None of the above

91. John had a gross salary of $100,000 during the current taxable year and John was covered by ChewChew Corporation's qualified retirement fund which ChewChew Corporation maintained for John and other employees of ChewChew Corporation. 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
92. During the current taxable year, Paul was employed by Rich 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 Rich 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

93. Referring to paragraph 92, Paul's gross income for the current taxable year is as follows.
A. None/Zero
B. $800
C. $40,000
D. $40,800
E. None of the above

94. 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 qualified retirement fund which PastaAndRedWine Corporation maintained for John and other employees of PastaAndRedWine Corporation. 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

95. 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

96. During April of the current taxable year, Beverly died, while working for StraightArrow Corporation. 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 StraightArrow Corporation's 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'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

97. During the current taxable year, Mary, who was president of GefilteFish Corporation and who received a gross salary of $50,000, was asked, by GefilteFish Corporation board of director's to attend a meeting of GefilteFish Corporation's salespersons 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 GefilteFish Corporation 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

98. Referring to paragraph 97, Mary's and John's adjusted 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

99. During the current taxable year, Paul's ordinary gross income was $200,000, all of which was salary as an employee of ThingsAreGoingWell Corporation, without considering the following transactions. In addition, Paul paid business entertainment expenses of $6,000, $3,000 of which was reimbursed by ThingsAreGoingWell's clients. Paul's gross income for the current taxable year (taking into account any applicable percent limitations) is as follows.
A. None/Zero
B. $200,000
C. $203,000
D. $197,000
E. None of the above

100. Referring to paragraph 99, Paul's adjusted gross income for the current taxable year (taking into account any applicable percent limitations) is as follows.
A. None/Zero
B. $203,000
C. $200,000
D. $197,000
E. None of the above
101. Referring to paragraph 99, Paul's adjusted gross income is $200,000, and therefore, Paul’s taxable income for the current taxable year (taking into account any applicable percent limitations) is as follows.
   A. None/Zero
   B. $191,500
   C. $196,000
   D. $192,000
   E. None of the above

102. During the current taxable year, Paul received 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 as part of Paul's efforts to sell sole food to restaurants.

<table>
<thead>
<tr>
<th>Payment</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office rent for employment</td>
<td>$500</td>
</tr>
<tr>
<td>Publications for sole food recipes</td>
<td>500</td>
</tr>
<tr>
<td>Supplies for employment</td>
<td>500</td>
</tr>
<tr>
<td>Entertainment of clients, $2,000 of which was reimbursed by Paul's employer</td>
<td>2,500</td>
</tr>
</tbody>
</table>

Paul's gross income for the current taxable year with respect to these facts (taking into account any applicable percent limitations) is as follows.
   A. None/Zero
   B. $122,000
   C. $120,000
   D. $118,000
   E. None of the above

103. Referring to paragraph 102, Paul’s adjusted gross income (taking into account any applicable percent limitations) is as follows.
   A. None/Zero
   B. $120,000
   C. $122,000
   D. $118,000
   E. None of the above

104. Referring to paragraph 102, Paul’s taxable income (taking into account any applicable percent limitations) is as follows.
   A. None/Zero
   B. $115,500
   C. $114,000
   D. $112,000
   E. None of the above

105. 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 the president and the vice-presidents of HippityHoppity Corporation, without any charge to the employee. 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 (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.

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.

d. 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

106. 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

107. Referring to paragraph 106, 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

108. 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

109. Referring to paragraph 108, Paul’s gross income for the current taxable year is  
A. None/Zero  
B. $15,000  
C. $5,000  
D. $7,500  
E. None of the above

110. Referring to paragraph 108, might the exercise of Paul's stock option subject Paul to the alternative minimum tax?  
A. Yes  
B. No

111. 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

112. Referring to paragraph 111, 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

113. 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. $5,000
E. None of the above

114. Referring to paragraph 113, 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

115. Referring to paragraph 113, 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

116. Referring to paragraph 113, 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

117. Referring to paragraph 113, 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. $30,000
E. None of the above

118. During the current taxable year, Peter owned all of the following assets and Peter and Paul transferred these assets to HoHoHo Partnership, which partnership was organized for this purpose. Paul transferred $150,000 of cash to HoHoHo Partnership. In return for the transfer of these assets, HoHoHo Partnership issued general partner 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 HoHoHo Partnership 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>
</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

119. Referring to paragraph 118, Peter's adjusted basis for Peter’s interest in HoHoHo Partnership is as follows.
A. None/Zero
B. $95,000
C. $150,000
D. $155,000
E. None of the above

120. Referring to paragraph 118, HoHoHo Partnership’s adjusted basis for the inventory which Peter transferred to HoHoHo Partnership is as follows.
A. None/Zero
B. $20,000
C. $30,000
D. $35,000
E. None of the above

121. Referring to paragraph 118, Paul’s gross income for the current taxable year as a result of these transfers is as follows.
A. None/Zero
B. $10,000
C. $35,000
D. $40,000
E. None of the above

122. Referring to paragraph 118, Paul's adjusted basis for Paul’s interest in HoHoHo Partnership is as follows.
A. None/Zero
B. $95,000
C. $100,000
D. $150,000
E. None of the above

123. 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

124. 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

125. Referring to paragraph 124, Charming Corporation had gross income of $4,000,000 for last year. Charming Corporation's taxable income for last year is as follows.
A. None/Zero
B. $3,405,000
C. $3,605,000
D. $3,465,000
126. Referring to paragraph 124, 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

127. Referring to paragraph 124, Charming Corporation had taxable income of $1,200,000 for last 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

128. Referring to paragraph 124, 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

129. Referring to paragraph 124, 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

130. 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. $262,500  
C. $396,000  
D. $595,000  
E. None of the above

131. 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 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. $305,000
C. $325,000  
D. $345,000  
E. None of the above

132. Referring to paragraph 131, John's and Mary's adjusted gross income for the current taxable year is as follows.  
A. None/Zero  
B. $305,000  
C. $325,000  
D. $345,000  
E. None of the above

133. Referring to paragraph 131, John's adjusted basis for John's common shares at the end of the current taxable year is as follows.  
A. None/Zero  
B. $225,000  
C. $195,000  
D. $215,000  
E. None of the above

134. Referring to paragraph 131, 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. $100,000  
C. $455,000  
D. $405,000  
E. None of the above

135. Referring to paragraph 134, John's and Mary's adjusted gross income for the current taxable year is as follows.  
A. None/Zero  
B. $100,000  
C. $90,000  
D. $405,000  
E. None of the above

136. Referring to paragraph 134, 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

137. During the current taxable year, Mary 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. Mary had an adjusted basis for the common shares which Mary owned in each of the four corporations of $100,000 ($100,000 per corporation).  

a. With respect to Winter Corporation, Mary 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 Mary's gross
b. With respect to Spring Corporation, Mary 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, Mary 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, Mary 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 Mary with respect to Mary's shares.

Mary'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

138. Referring to paragraph 137, Mary'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

139. Referring to paragraph 137, Mary's adjusted basis for Mary'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

140. Referring to paragraph 137, Mary's adjusted basis for Mary'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

141. Referring to paragraph 137, Mary's adjusted basis for Mary'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

142. Referring to paragraph 137, Mary'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

143. 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

144. 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>
</tbody>
</table>
| Traffic tickets, generally, as a result of exciting "getaways:"
|                                                | 20,000 |
| Lawyer fees to represent HaveSomeFun Corporation and the dancers in criminal court cases which resulted from such dancing and other activities | 20,000 |
| Accounting fees                               | 20,000 |
| Criminal fines                                | 20,000 |
| Bribes to various public officials            | 20,000 |
| Telephone                                     | 20,000 |
| Utilities                                     | 20,000 |
| Fees paid to dancers                          | 20,000 |

HaveSomeFun Corporation's gross income for the current taxable year is as follows.  
A. None/Zero  
B. $480,000  
C. $500,000  
D. $360,000  
E. None of the above

145. Referring to paragraph 144, HaveSomeFun's adjusted gross income for the current taxable year is as follows.  
A. None/Zero  
B. $340,000  
C. $320,000  
D. $300,000  
E. None of the above
146. 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

147. Referring to paragraph 146, 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

148. 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

149. Referring to paragraph 148, 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

150. 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
151. Referring to paragraph 150, 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

152. During the current taxable year, John sold 100 common shares of Nice 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 for the current taxable year is as follows.
   A. None/Zero
   B. $25,000
   C. $3,000
   D. None of the above

153. Referring to paragraph 152, 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. None of the above

154. 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. None of the above

155. 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.
   A. None/Zero
   B. $50,000
   C. $25,000
   D. $150,000
   E. None of the above

156. Referring to paragraph 155, 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. None of the above

157. 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

158. 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 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

159. 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

160. Referring to paragraph 159, 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

161. Referring to paragraph 159, 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

162. Referring to paragraph 159, 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

163. Referring to paragraph 159, 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

164. Referring to paragraph 159, 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

165. Referring to paragraph 159, 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

166. Referring to paragraph 165, 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

167. 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 Hotshot 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, GoodLuck 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

168. Referring to paragraph 167, 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

169. Referring to paragraph 167, 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

170. Referring to paragraph 167, 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

171. Referring to paragraph 167, GoodLuck Corporation's gross income as the result of these facts is as follows.

A. None/Zero
B. $30,000
C. $275,000
172. Referring to paragraph 167, GoodLuck Corporation's accumulated earnings and profits just after the corporate division is as follows.
   A. None/Zero
   B. $120,000
   C. $240,000
   D. $400,000
   E. None of the above

173. During the current taxable year, John owned 100 common shares of FruitLoops Corporation for over two years, which was 100% of the common shares of FruitLoops Corporation, a C corporation which had accumulated earnings and profits of $400,000. John needed some money in order to repay a debt which John owed to Beverly, because John was concerned that if he did not pay the debt promptly, Beverly would force John into bankruptcy. Therefore, FruitLoops Corporation redeemed, during the current taxable year, 50 of the common shares which John owned. John's adjusted basis for the 50 redeemed common shares was $100 per common share. The common shares were redeemed at the fair price of $400 per common share. John's gross income for the current taxable year is as follows.
   A. None/Zero
   B. $15,000 ordinary income
   C. $15,000 long term capital gain
   D. $20,000 long term capital gain
   E. None of the above

174. Referring to paragraph 173, John first sold 10 common shares to Paul for $400 per share. John had an adjusted basis for these 10 common shares of $100 per common share. Then, FruitLoops Corporation redeemed 50 common shares from John for $400 per common share. John had an adjusted basis for these 50 common shares of $100 per common share. John’s gross income for the current taxable year is as follows.
   A. None/Zero
   B. $3,000 ordinary income
   C. $3,000 long term capital gain
   D. $4,000 long term capital gain
   E. None of the above

175. Referring to paragraph 173, John first sold 10 common shares to Sue for $400 per share. John had an adjusted basis for these 10 shares of $100 per common share. Then, FruitLoops Corporation redeemed 90 common shares from John for $400 per common share. John had an adjusted basis for these 90 common shares of $100 per common share. John’s gross income for the current taxable year is as follows.
   A. None/Zero
   B. $30,000 ordinary income
   C. $40,000 ordinary income
   D. $28,000 long term capital gain
   E. None of the above

176. Referring to paragraph 175, John first sold 10 common shares to Sue for $400 per share. John had an adjusted basis for these 10 shares of $100 per common share. Then, FruitLoops Corporation redeemed 90 common shares from John for $400 per common share. John had an adjusted basis for these 90 common shares of $100 per common share. John’s gross income for the current taxable year is as follows.
   A. None/Zero
   B. $36,000 ordinary income
   C. $40,000 ordinary income
   D. $40,000 long term capital gain
   E. None of the above
177. During the current taxable year, John owned 100 common shares of FruitLoops Corporation and Paul owned 100 common shares of FruitLoops Corporation. Both John and Paul owned the common shares for over two years. FruitLoops Corporation was a C corporation which had accumulated earnings and profits of $400,000. John needed some money in order to repay a debt which John owed to Beverly, because John was concerned that if John did not pay the debt promptly, Beverly would force John into bankruptcy. Therefore, FruitLoops Corporation redeemed, during the current taxable year, 35 of the common shares which John owned. John's adjusted basis for the 35 redeemed common shares was $100 per common share. The common shares were redeemed at the fair price of $400 per common share. John's gross income for the current taxable year is as follows.
A. None/Zero
B. $10,500 long term capital gain
C. $14,000 long term capital gain
D. $10,500 long term capital gain
E. None of the above

178. 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. 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

179. Referring to paragraph 174, 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

180. Referring to paragraph 174, 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.
181. During the current taxable year, John owned 100 common shares of SwedishMeatBall Corporation for over two years, which John had purchased for $50 per common share. SwedishMeatBall Corporation had no other shares issued and outstanding and SwedishMeatBall Corporation was a C corporation which had accumulated earnings and profits of $400,000 both for the current taxable year and the next taxable year. During January of the current taxable year, SwedishMeatBall Corporation distributed 100 preferred shares, which preferred shares had a par value of $100 per preferred share, of SwedishMeatBall Corporation to John as a share dividend to John. John had no election with respect to the preferred shares. At the time when John received the preferred shares, both the common shares and the preferred shares of SwedishMeatBall Corporation had a fair market value of $100 per share. During December of the next taxable year, John sold the preferred shares to Paul for $90 per preferred share. John's gross income for the current taxable year is as follows.

A. None/Zero
B. $10,000
C. $5,000
D. $7,500
E. None of the above

182. Referring to paragraph 181, John’s gross income for the next taxable year is as follows.

A. None/Zero
B. $9,000
C. $6,500
D. $1,000
E. None of the above

183. During the current taxable year, John organized GreatAthletes Corporation as a personal service C corporation and as part of the organization, John transferred assets to the corporation which assets had a fair market value of $100,000 and which assets had a basis of $50,000. For John's assets, John received: 100 common shares, which common shares represented 100% of the ownership interests in GreatAthletes Corporation; and, GreatAthletes Corporation bonds with a par value of $100,000 and a fair market value of $90,000 and a stated interest rate of 10%. The following statement is false.

A. GreatAthletes Corporation is entitled to an income tax deduction for all interest payments which GreatAthletes pays with respect to the bonds.
B. When GreatAthletes repays the debt, John will not recognize any gross income, other than (possibly) interest income.
C. GreatAthletes Corporation may accumulate earnings and profits in order to discharge the all of the indebtedness but some portion of the accumulations may cause GreatAthletes Corporation to be subject to the accumulated earnings tax.
D. John will recognize some gross income when John transfers the assets to GreatAthletes Corporation and receives the common shares and the bonds.
E. GreatAthletes Corporation will recognize some gross income when GreatAthletes Corporation receives the assets from John.

184. On January 1 of the current taxable year, MyBeautifulBalloon Corporation was organized and, in so doing, incurred organization expenses in the amount of $6,000. MyBeautifulBalloon Corporation's ordinary expense or ordinary loss deduction for the current taxable year is as follows.

A. None/Zero
B. $6,000
C. $1,200
D. $400
185. Salsa Corporation was organized ten taxable years ago and during the current taxable year, Salsa Corporation was a C corporation with the following financial information. At the beginning of the current taxable year, Salsa Corporation had $500,000 of accumulated earnings and profits. Other financial information about Salsa 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>Federal income taxes</td>
<td>600,000</td>
</tr>
<tr>
<td>Other expenses</td>
<td>200,000</td>
</tr>
<tr>
<td>Cash distributions to shareholders</td>
<td>200,000</td>
</tr>
</tbody>
</table>

The total of Salsa Corporation's accumulated earnings at the end of the current taxable year is as follows.
A. None/Zero
B. $2,500,000
C. $1,900,000
D. $2,100,000
E. None of the above

186. At the beginning of the current taxable year, GoodGracious Corporation had a deficit of $100,000. During the current taxable year, GoodGracious Corporation had gross income of $120,000 and expenses of $110,000. In addition, GoodGracious Corporation distributed cash of $6,000 to Beverly, who was the only shareholder of GoodGracious Corporation. Beverly adjusted basis for Beverly's common shares in GoodGracious Corporation was $25,000. Beverly's gross income for the current taxable year is as follows.
A. None/Zero
B. $10,000
C. $6,000
D. $3,000
E. None of the above

187. At the beginning of the current taxable year, GoodGracious Corporation had accumulated earnings and profits of $100,000. During the current taxable year, GoodGracious Corporation had gross income of $120,000 and expenses of $130,000. In addition, GoodGracious Corporation distributed cash of $6,000 to Beverly, who was the only shareholder of GoodGracious Corporation. Beverly's adjusted basis for Beverly's common shares in GoodGracious Corporation was $25,000. Beverly's gross income for the current taxable year is as follows.
A. None/Zero
B. $10,000
C. $6,000
D. $3,000
E. None of the above

188. At the beginning of the current taxable year, Burritos Corporation had a deficit of $100,000. During the current taxable year, Burritos Corporation had gross income of $120,000 and expenses of $130,000. In addition, Burritos Corporation distributed cash of $6,000 to Beverly, who was the only shareholder of
Burritos Corporation. Beverly's adjusted basis for Beverly's common shares in GoodGracious Corporation was $25,000. Beverly's gross income for the current taxable year is as follows.
A. None/Zero
B. $10,000
C. $6,000
D. $3,000
E. None of the above

189. Referring to paragraph 188, Beverly's adjusted basis for Beverly's common shares at the end of the current taxable year is as follows.
A. None/Zero
B. $19,000
C. $15,000
D. $25,000
E. None of the above

190. At the beginning of the current taxable year, CharlieRiches Corporation had accumulated earnings and profits of $100,000. During the current taxable year, CharlieRiches Corporation had gross income from fees for selling trees, as a tree distributor and not as a tree grower, of $100,000 and expenses of $30,000, including depreciation. In addition, CharlieRiches Corporation distributed a truck with an adjusted basis to CharlieRiches Corporation of $6,000 to Beverly, who was the sole shareholder of CharlieRiches Corporation. CharlieRiches Corporation purchased the truck four taxable years ago for $10,000 and took $4,000 of depreciation deductions with respect to the truck. At the time when CharlieRiches Corporation distributed the truck to Beverly, the truck had a fair market value of $8,000. CharlieRiches Corporation's gross income for the current taxable year is as follows.
A. None/Zero
B. $78,000
C. $72,000
D. $70,000
E. None of the above

191. Referring to paragraph 190, Beverly's gross income for the current taxable year is as follows.
A. None/Zero
B. $8,000
C. $2,000
D. $6,000
E. None of the above

192. Referring to paragraph 190, Beverly's adjusted basis for the truck is as follows.
A. None/Zero
B. $8,000
C. $2,000
D. $6,000
E. None of the above

193. During the current taxable year, Mary bought some material for $100,000, made some Christmas decorations which then had a fair market value of $150,000, transferred the decorations to the MerryChristmas Corporation, under a section 351 transaction, for 100% of MerryChristmas Corporation’s common shares, had the MerryChristmas Corporation be a C corporation, and two years later, during the Christmas season, sold all of Mary’s common shares in MerryChristmas Corporation to MerrierThanYou Corporation. It is more likely, than not, that Mary has created a collapsible corporation.
A. Yes
B. No
194. The number of years (under the general statute of limitations) which the Internal Revenue Service has, after a corporation files the corporation’s income tax return (Form 1120), to assess additional income tax against the corporation with respect to the year with respect to which such income tax return is filed is as follows.
   A. Unlimited
   B. Two
   C. Three
   D. Six
   E. None of the above

195. The number of years (under the special statute of limitations) which the Internal Revenue Service has, after a corporation files the corporation’s income tax return (Form 1120), to assess additional income tax against the corporation with respect to the corporation's omission of 25% of the gross income stated on the corporation’s income tax return is as follows.
   A. Unlimited
   B. Two
   C. Three
   D. Six
   E. None of the above

196. The number of years (under the special statute of limitations) which the Internal Revenue Service has, after a corporation files the corporation’s income tax return (Form 1120), to assess additional income tax against the corporation with respect to the corporation's commission of fraud with respect to the corporation's filed income tax return is as follows.
   A. Unlimited
   B. Two
   C. Three
   D. Six
   E. None of the above

197. The number of years (under the special statute of limitations) which the Internal Revenue Service has to assess income tax against a corporation with respect to the corporation's failure to file a required income tax return is as follows.
   A. Unlimited
   B. Two
   C. Three
   D. Six
   E. None of the above

198. The number of days (in general) which a corporation has in order to file a protest with an Appeals Office of the Internal Revenue Service from the date stated on the letter which notifies the corporation of the corporation's appellate rights.
   A. Unlimited
   B. 20
   C. 30
   D. 60
   E. 90

199. Referring to Question 198, the period of time for the corporation to file a protest may be extended for a reasonable period of time by the IRS.
   A. Yes/True
   B. No/False
   C. Need more information
   D. None of the above
200. The number of days which a corporation has in order to file a petition with the United States Tax Court from the date stated on the letter (the statutory notice of deficiency) which notifies the corporation of the corporation's rights to file such petition is as follows.
   A. Unlimited
   B. 20
   C. 30
   D. 60
   E. 90

201. Referring to Question 200, the period of time for the corporation to file a petition may be extended for a reasonable period of time by the United States Tax Court.
   A. Yes/True
   B. No/False
   C. Need more information
   D. None of the above

202. As a general rule, if a corporation prepares and files an income tax return negligently, and as a result of the corporation's negligence or disregard of rules or regulations, the corporation does not pay all of the income tax which the corporation owes, then the corporation may be subject to a civil penalty (on the portion of the underpayment) which is as follows.
   A. 10%
   B. 20%
   C. 25%
   D. 75%
   E. None of the above

203. As a general rule, if a corporation prepares and files an income tax return fraudulently, and as a result of the corporation's fraud, the corporation does not pay all of the income tax which the corporation owes, then the corporation may be subject to a civil penalty (on the portion of the underpayment attributable to fraud) which is as follows.
   A. 10%
   B. 20%
   C. 25%
   D. 75%
   E. None of the above

204. If a corporation files a claim for refund with the IRS and claim is denied by the IRS, then the corporation may commence a suit in any one of the following courts in order to have the issue adjudicated:
   a. The United States Tax Court
   b. A United States District Court
   c. The United States Court Of Claims
   A. Yes/True
   B. No/False
   C. Need more information
   D. None of the above

205. Each of the three courts stated in Question 204 has jurisdiction to conduct a trial of an individual who has been indicted for criminal tax evasion.
   A. Yes/True
   B. No/False
   C. Need more information
   D. None of the above