STUDENT EXAMINATION NUMBER ________________

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

FINAL EXAMINATION
(NUMBER 002)

FOR

INCOME TAXATION OF CORPORATIONS AND SHAREHOLDERS (DN869)

GIVEN BY

LAWRENCE A. JEGEN, III
PROFESSOR OF LAW
TABLE OF CONTENTS

TABLE OF CONTENTS ................................................................. -2-
WARNING ................................................................................... -5-
Do Not Take This Examination Until You Have Signed The "Student Statement" ...................... -5-
Times And Dates For Taking Examination ............................................................................... -5-
Place For Taking Examination .............................................................................................. -5-
Pages And Parts Of This Examination Document ................................................................... -5-
Numbers And Types Of Examination Questions And Recording Your Answers Thereto .......... -5-
Your Examination Number ................................................................................................. -5-
Pencils, Pens, Typewriters, Computers, And Calculators ...................................................... -5-
Reference Materials ............................................................................................................ -5-
Stapling Examination Parts .................................................................................................. -6-
Leaving Examination Room Prior To Finishing Examination ................................................ -6-
Finishing Examination ........................................................................................................ -6-
Extra Credit Assignment ....................................................................................................... -6-
References In Examination Document To Sections And Regulations ..................................... -6-
“Yes” Or “No” Answers Equal “True” Or “False” Answers .................................................. -6-
Assumptions Concerning Applicable Law .............................................................................. -6-
Assumptions Concerning Relationships Between And Among Individuals .......................... -6-
Assumptions Concerning Residencies Of Individuals .......................................................... -6-
Assumptions Concerning Self-Employments And Employments ........................................... -6-
Assumptions Concerning Transactions .................................................................................. -7-
Assumptions Concerning Elections By Partnerships And Limited Liability Companies .......... -7-
Assumptions Concerning Attendance At Meals And Other Events ....................................... -7-
Assumptions Concerning Gifts ............................................................................................... -7-
Assumptions Concerning Estate's Actions ............................................................................. -7-
Assumptions Concerning The Tax Laws And Minimizing Taxes ........................................... -7-
Assumptions Concerning Types Of Property .......................................................................... -7-
Assumptions Concerning Ownership And Location Of Property .......................................... -7-
Assumptions Concerning Types Of Transfers ......................................................................... -7-
Assumptions Concerning Terms "Given To" And "Devised To" ................................................ -7-
Assumptions Concerning Basis Of Property ......................................................................... -8-
Assumptions Concerning Liability For Obligations ................................................................ -8-
Assumptions Concerning Methods Of Accounting And Periods Of Accounting ................... -8-
Assumptions Concerning Term “Value” .................................................................................. -8-
Assumptions Concerning Computations Of Time .................................................................... -8-
Assumptions Concerning Amount Of Gross Income, Deduction, Credit, And Tax ................ -8-
Assumptions Concerning Transactions During A Particular Taxable Year .............................. -8-
Assumptions Concerning The Components Of Adjusted Gross Income ................................ -8-
Assumptions Concerning Itemized Deductions ..................................................................... -8-
Assumptions Concerning Rounding Of Decimals ................................................................... -9-
Assumptions Concerning Term "Gross Sales Price" ............................................................... -9-
Assumptions Concerning Interest On Deferred Payments .................................................... -9-
Assumptions Concerning Term “Ordinary Expense Or Ordinary Loss Deduction” ............... -9-
Assumptions Concerning Amount Of Deduction Which Is Allowable .................................... -9-
Assumptions Concerning Life Insurance Policies ................................................................... -9-
Assumptions Concerning Qualified Retirement Plans ........................................................... -9-
Assumptions Concerning Standard Deductions ...................................................................... -10-
Assumptions Concerning Personal Exemptions ...................................................................... -10-
Assumptions Concerning Expensing Of Tangible Personal Property, Depreciation, Depletion, And Amortization ................................................................. -10-
Assumptions Concerning Travel ............................................................................................ -10-
Assumption Concerning The Mileage Rates For Income Tax Deductions For Using A Personal Automobile
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 except for 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 Jeges or a proctor, if any, of this examination, reattach 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 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. 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>
<tr>
<td>Except as otherwise stated, no fiduciary establishes a reserve for depreciation.</td>
<td></td>
</tr>
</tbody>
</table>

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 Type</th>
<th>Rate per Mile</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business mileage</td>
<td>44.5 cents</td>
</tr>
<tr>
<td>Charitable mileage</td>
<td>14 cents</td>
</tr>
<tr>
<td>Medical mileage</td>
<td>18 cents</td>
</tr>
<tr>
<td>Moving mileage</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 as 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></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Flat amount = 0 + 10% up to 14,600</td>
<td>Flat amount = 0 + 10% up to 10,450</td>
<td>Flat amount = 0 + 10% up to 7,300</td>
<td>Flat amount = 0 + 10% up to 7,300</td>
</tr>
<tr>
<td>Flat amount = 1,460 + 15% of amount over 14,600 but not over 59,400</td>
<td>Flat amount = 1,045 + 15% of amount over 10,450 but not over 39,800</td>
<td>Flat amount = 730 + 15% of amount over 7,300 but not over 29,700</td>
<td>Flat amount = 730 + 15% of amount over 7,300 but not over 29,700</td>
</tr>
<tr>
<td>Flat amount = 8,180 + 25% of amount over 59,400 but not over 119,950</td>
<td>Flat amount = 5,447.50 + 25% of amount over 39,800 but not over 102,800</td>
<td>Flat amount = 4,090 + 25% of amount over 29,700 but not over 71,950</td>
<td>Flat amount = 4,090 + 25% of amount over 29,700 but not over 59,975</td>
</tr>
<tr>
<td>Flat amount = 23,317.50 + 28% of amount over 119,950 but not over 182,800</td>
<td>Flat amount = 21,197.50 + 28% of amount over 102,800 but not over 166,450</td>
<td>Flat amount = 14,652.50 + 28% of amount over 71,950 but not over 150,150</td>
<td>Flat amount = 11,658.75 + 28% of amount over 59,975 but not over 91,400</td>
</tr>
<tr>
<td>Flat amount = 40,915.50 + 33% of amount over 182,800 but not over 326,450</td>
<td>Flat amount = 39,019.50 + 33% of amount over 166,450 but not over 326,450</td>
<td>Flat amount = 36,548.50 + 33% of amount over 150,150 but not over 326,450</td>
<td>Flat amount = 20,457.75 + 33% of 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>2005</td>
<td>Amount free of gift tax</td>
</tr>
<tr>
<td>------</td>
<td>-------------------------</td>
</tr>
<tr>
<td>2005</td>
<td>$11,000 (per donee per year of present interests) plus $1,000,000 more during life</td>
</tr>
<tr>
<td>2006</td>
<td>$12,000 (per donee per year of present interests) plus $1,000,000 more during life</td>
</tr>
<tr>
<td>2007</td>
<td>$12,000 (per donee per year of present interests) plus $1,000,000 more during life</td>
</tr>
<tr>
<td>2008</td>
<td>$12,000 (per donee per year of present interests) plus $1,000,000 more during life</td>
</tr>
<tr>
<td>2009</td>
<td>$12,000 (per donee per year of present interests) plus $1,000,000 more during life</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.

**2010**

- 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.

35% 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.

**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.

* 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.

### 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>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>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>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>
Over $250,000 but not over $500,000 $70,800 plus 34% of the excess of such amount over $250,000
Over $500,000 but not over $750,000 $155,800 plus 37% of the excess of such amount over $500,000
Over $750,000 but not over $1,000,000 $248,300 plus 39% of the excess of such amount over $750,000
Over $1,000,000 but not over $1,250,000 $345,800 plus 41% of the excess of such amount over $1,000,000
Over $1,250,000 but not over $1,500,000 $448,300 plus 43% of the excess of such amount over $1,250,000
Over $1,500,000 but not over $2,000,000 $555,800 plus 45% of the excess of such amount over $1,500,000
Over $2,000,000 but not over $2,500,000 $780,800 plus 47% of the excess of such amount over $2,000,000
Over $2,500,000 $1,025,800 plus 49% of the excess of such amount over $2,500,000

66. **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.

67. **Assumptions Concerning Income Tax Credits.** The income tax credits are as follows.

<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>

68. **Assumptions Concerning Credit For Estate Tax On Prior Transfers Against Estate Tax.** The federal credit for estate tax on prior transfers against estate tax is determined as follows.

<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>
</tbody>
</table>

Copyright ©1986 Through 2006, Professor Jegen’s Taxsite
| Over six years but not over eight years | 40% |
| Over eight years but not over ten years | 20% |

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. YouGotIt Corporation’s taxable income is $54,000. YouGotIt Corporation’s income tax (prior to any credit) for the current taxable year is as follows.
   A. None/Zero
   B. $7,500
   C. $8,500
   D. $18,360
   E. None of the above

2. Robin Corporation's taxable income is $100,000 and Robin Corporation’s income tax (after all credits) is $20,000. Robin Corporation's effective income tax rate (after all credits) is as follows.
   A. None/Zero
   B. 26.67%
   C. 20%
   D. 15%
   E. None of the above

3. BlueJay Corporation's taxable income is $50,000. BlueJay Corporation’s marginal income tax rate (prior to any credit) is as follows.
   A. None/Zero
   B. 15%
   C. 25%
   D. 34%
   E. None of the above

4. HereWeGo Corporation’s taxable income is $501,000. HereWeGo Corporation's income tax (prior to any credit) for the current taxable year is as follows.
   A. None/Zero
   B. $335,000
   C. $175,650
   D. $200,000
   E. None of the above

5. During the current taxable year, SpringFever Corporation paid a salary of $10,000 to Paul. The amount of social security tax and hospital insurance tax which SpringFever Corporation must withhold from Paul’s salary for the current year is as follows.
   A. None/Zero
   B. $700
   C. $600
   D. $765
   E. None of the above

6. Referring to Question 5, the amount of unemployment tax (prior to any credit) which SpringFever Corporation must withhold from Paul’s salary for the current year is as follows.
   A. None/Zero
   B. $700
   C. $600
   D. $765
   E. None of the above

7. Referring to Question 5, the amount of unemployment tax (prior to any credit) which SpringFever
Corporation must pay, as SpringFever Corporation’s share, with respect to the payment of Paul’s salary for the current year is as follows.
A. None/Zero
B. $434
C. $600
D. $765
E. None of the above

8. The maximum personal holding tax rate is as follows.
A. None/Zero
B. 38.6%
C. 20%
D. 15%
E. None of the above

9. The maximum accumulated earnings tax rate is as follows.
A. None/Zero
B. 38.6%
C. 20%
D. 15%
E. None of the above

10. In general, the maximum income tax rate which may be imposed on the unrelated business taxable income of an otherwise tax exempt corporation is as follows.
A. None/Zero
B. 39.67%
C. 34%
D. 25%
E. None of the above

Is There Any Gross Income Or Deduction? If So, Whose Is It?

11. During the current taxable year, John's employer, Jolly Corporation, which regularly sold furniture to customers, allowed John to purchase a table out of Jolly Corporation's inventory (which table had an adjusted basis of $5,000 and which table had a fair market value of $12,000) for $10,000, because John had worked so hard for Jolly Corporation during the last taxable year, and therefore, Jolly Corporation wanted to give John a bonus for the current taxable year. John paid for and received the table (with no restrictions attached) on November 1 of the current taxable year. John's ordinary gross income for the current taxable year with respect to the transfer to John is as follows.
A. None/Zero
B. $7,000
C. $2,000
D. $5,000
E. None of the above

12. Referring to Question 11, Jolly Corporation's ordinary gross income for the current taxable year with respect to the transfer to John is as follows.
A. None/Zero
B. $5,000
C. $2,000
D. $7,000
E. None of the above

13. Referring to Question 11, John’s adjusted basis for the property transferred to John is as follows.
14. 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 shares 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

15. Referring to Question 14, 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

16. Mary was a dealer in grain. During December of the last taxable year, when Peter attained age 25 years, Mary formed Free, LLC to sell grain through Free, LLC. In forming Free, LLC, Mary transferred to Free, LLC cash of $250,000 and a building (which Mary had not depreciated), with an adjusted basis of $40,000 and a fair market value of $250,000. In return for these two assets, Mary acquired a 70% interest in Free, LLC’s net profit and a 70% interest in Free, LLC's capital. Thereafter, Mary had Free, LLC transfer, through a legal conveyance to Peter, the remaining 30% interest in Free, LLC's net profit and the remaining 30% interest in Free, LLC's capital for no consideration. Free, LLC did not do any business during the last taxable year, but during the current taxable year, Free, LLC had a net profit of $200,000, all of which was from fees from the sale of grain, with all of Free, LLC work being done by Mary, Peter, and a secretary in a rented office. Mary was paid a gross salary from Free, LLC 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. $130,000
C. $170,000
D. $30,000
E. None of the above

17. Referring to Question 16, Peter's gross income for the last taxable year is as follows.

A. None/Zero
B. $60,000
C. $90,000
D. $144,000
E. None of the above

18. Referring to Question 16, Mary had Free, LLC issue a check in the amount of $60,000 to Peter, which $60,000 was for 30% of Free, LLC’s net profit for the current taxable year. Peter's gross income for the current taxable year is as follows.

A. None/Zero
B. $60,000
C. $80,000
D. $224,000
E. None of the above
19. During the current taxable year, Mary organized Fair Corporation, transferred all of Mary's sole proprietorship assets (with a fair market value of $100,000 and a total adjusted basis of $25,000, all appreciated assets) to Fair Corporation, and Mary received, from Fair Corporation, in exchange for the assets, all of Fair Corporation's issued and outstanding common shares. One category of assets which Mary transferred to Fair Corporation was accounts receivable, which Mary had received in the ordinary course of operating Mary’s sole proprietorship and with respect to which Mary had an adjusted basis of $17,000 and which had a fair market value of $20,000. Mary's ordinary gross income for the current taxable year with respect to the transfer of the accounts receivable to Fair Corporation is as follows.
   A. None/Zero
   B. $17,000
   C. $95,000
   D. $20,000
   E. None of the above

20. Referring to Question 19, Fair Corporation’s adjusted basis for the accounts receivable is as follows.
   A. None/Zero
   B. $17,000
   C. $10,000
   D. $20,000
   E. None of the above

21. Referring to Question 19, Fair Corporation had an adjusted basis for the accounts receivable of $17,000 and that the accounts receivable has a face value of $20,000 and that during the next taxable year, Fair Corporation collected the entire face amount of the accounts receivable ($20,000). Fair Corporation's ordinary gross income for the next taxable year with respect to the collection of the accounts receivable is as follows.
   A. None/Zero
   B. $3,000
   C. $20,000
   D. $17,000
   E. None of the above

22. Referring to Question 19, 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

23. Referring to Question 22, Mary's adjusted basis for the common shares is as follows.
   A. None/Zero
   B. $25,000
   C. $60,000
   D. $200,000
   E. None of the above

24. Referring to Question 22, Mary's adjusted basis for the promissory note is as follows.
   A. None/Zero
   B. $20,000
   C. $80,000
   D. $50,000
25. During the current taxable year, Peter borrowed, as an unsecured loan from a bank, $100,000, in order to invest in GoGo Corporation shares and in FooFoo Corporation shares. Peter kept the balance of the borrowed funds in a savings account. By the end of the current taxable year, Peter had paid interest on the debt of $7,000 and received dividends of $2,000 and interest of $2,000 and capital gains of $2,000. Peter wants to deduct all of the interest which Peter can during the current taxable year. Peter's ordinary expense or ordinary loss deduction for interest for the current taxable year (considering all deduction limitations) is as follows.

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

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

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

27. Referring to Question 26, Peter's adjusted basis for the bond at the beginning of the next taxable year is (approximately) as follows.

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

28. Referring to Question 26, Peter owned the bond until the bond matured, at which time, Courageous Corporation redeemed the bond from Peter. Peter's gross income for the year in which the bond was redeemed with respect to the bond is (approximately) as follows.

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

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

A. None/Zero  
B. $400  
C. $500
30. Referring to Question 29, Peter's adjusted basis for the bond at the beginning of the next taxable year is (approximately) as follows.
   A. None/Zero
   B. $11,000
   C. $10,000
   D. $10,900
   E. None of the above

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

32. Referring to Question 31, Peter's adjusted basis for the bond at the beginning of the next taxable year is (approximately) as follows.
   A. None/Zero
   B. $8,000
   C. $8,200
   D. $10,000
   E. None of the above

33. Referring to Question 31, Peter owned the bond until the bond matured, at which time, LoveyDovey Corporation redeemed the bond from Peter. Peter's gross income for the year in which the bond was redeemed with respect to the bond is (approximately) as follows.
   A. None/Zero
   B. $2,000
   C. $1,000
   D. $10,000
   E. None of the above

34. On January 1 of two taxable years ago, Peter purchased a Moogoogaipan Corporation bond for $20,000 when the bond was issued. The bond was to mature on December 31, ten years from the bond's issue date, had a par value of $20,000, and had a stated interest rate of ten percent per year, which stated interest was to be paid each December 31. From the date of Peter's acquisition of the bond through Peter's disposition of the bond (a period of three years), Peter has not received a payment for any of the interest with respect to the bond. On December 31 of the current taxable year, Peter sold the bond to Paul for $15,000. Peter took all of the deductions (or reductions, prior to gross income) indicated by these facts. Peter's long term capital loss for the current taxable year is as follows.
   A. None/Zero
   B. $5,000
   C. $9,000
   D. $11,000
   E. None of the above
35. Referring to Question 34, 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

36. 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

37. On January 1 of the last taxable year, Peter purchased a HavingFun Corporation bond for $10,000 when the
bond was issued. The bond was to mature on December 31, ten years from the bond's issue date, had a
par value of $10,000, and had a stated interest rate of five percent per year, which stated interest was to be paid
each December 31 and the interest was paid to Peter on December 31 of the last taxable year. On January
4 of the current taxable year, Peter sold the bond to Paul for $11,000. Peter's long term capital gain gross
income for the current taxable year is (approximately) as follows.
   A. None/Zero
   B. $1000
   C. $10,000
   D. $10,500
   E. None of the above

38. Peter normally has the 28% income tax rate applied to Peter's taxable income. Peter wants to save more taxes
and make more money. Therefore, Peter should purchase a State of California bond for a par value and a
purchase value of $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/True
   B. No/False

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

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

41. 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 six months, with an adjusted basis of $30,000 and a fair market value $40,000. John's ordinary expense or ordinary loss deduction for the current taxable year with respect to the charitable contribution (considering all deduction limitations) is as follows.
   A. None/Zero
   B. $30,000
   C. $40,000
   D. $10,000
   E. None of the above

42. During the current taxable year, Here’sLookingAtYouKid Corporation had gross income of $100,000 and deductible expenses of $30,000, not including a charitable contribution of $10,000 of cash which Here’sLookingAtYouKid Corporation made during the current taxable year to TheFriendlyChristiansJewsAndMuslemsOfTheWorldCharitableOrganization Corporation. Here’sLookingAtYouKid Corporation’s taxable income for the current taxable year is as follows.
   A. None/Zero
   B. $70,000
   C. $63,000
   D. $60,000
   E. None of the above

Capital Gains And Capital Losses - In General

43. During the current taxable year, Peter had $200,000 of ordinary gross income without considering any (or the effect of any) of the following capital gains and capital losses from Peter's investments. With respect to Peter's capital gains and capital losses, Peter 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 deduction and $15,000 of short term capital loss deduction. Peter'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

44. Referring to Question 43, Peter's adjusted gross income for the current taxable year (considering all deduction limitations) is as follows.
   A. None/Zero
   B. $300,000
   C. $270,000
   D. $200,000
45. Referring to Question 43, the amount of Peter'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

46. Referring to Question 43, the 20% capital gains income tax rate is based on the following amount.
   A. None/Zero
   B. $35,000
   C. $70,000
   D. $270,000
   E. None of the above

47. During the current taxable year, Peter had $200,000 of ordinary gross income without considering any (or the effect of any) of the following capital gains and capital losses from Peter's investments. With respect to Peter's capital gains and capital losses, Peter 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 deduction and no short term capital loss deduction. Peter'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

48. Referring to Question 47, Peter's adjusted gross income for the current taxable year (considering all deduction limitations) is as follows.
   A. None/Zero
   B. $100,000
   C. $200,000
   D. $300,000
   E. None of the above

49. Referring to Question 47, the amount of Peter'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

50. Referring to Question 47, the 20% capital gains income tax rate is based on the following amount.
   A. None/Zero
   B. $50,000
   C. $100,000
   D. $300,000
   E. None of the above

51. During the current taxable year, Peter had $200,000 of ordinary gross income without considering any (or the effect of any) of the following capital gains and capital losses from Peter's investments. With respect to Peter's capital gains and capital losses, Peter 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 deduction and $60,000 of short term capital loss deduction. Peter's gross income for the current taxable year is as follows.
52. Referring to Question 51, Peter's adjusted gross income for the current taxable year (considering all deduction limitations) is as follows.
A. None/Zero
B. $300,000
C. $200,000
D. $250,000
E. None of the above

53. Referring to Question 51, the amount of Peter'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

54. Referring to Question 51, the 20% capital gains income tax rate is based on the following amount.
A. None/Zero
B. $40,000
C. $50,000
D. $100,000
E. None of the above

55. During the current taxable year, Peter had $200,000 of ordinary gross income without considering any (or the effect of any) of the following capital gains and capital losses from Peter's investments. With respect to Peter's capital gains and capital losses, Peter 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 deduction and no short term capital loss deduction. Peter'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

56. Referring to Question 55, Peter's adjusted gross income for the current taxable year (considering all deduction limitations) is as follows.
A. None/Zero
B. $300,000
C. $200,000
D. $240,000
E. None of the above

57. Referring to Question 55, the amount of Peter'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
58. Referring to Question 55, the 20% capital gains income tax rate is based on the following amount.
   A. None/Zero
   B. $10,000
   C. $50,000
   D. $40,000
   E. None of the above

59. During the current taxable year, Peter had $200,000 of ordinary gross income without considering any (or
the effect of any) of the following capital gains and capital losses from Peter's investments. With respect to
Peter's capital gains and capital losses, Peter 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 deduction and $140,000 of short
term capital loss deduction. Peter's gross income for the current taxable year is as follows.
   A. None/Zero
   B. $200,000
   C. $250,000
   D. $110,000
   E. None of the above

60. Referring to Question 59, Peter's adjusted gross income for the current taxable year (considering all deduction
limitations) is as follows.
   A. None/Zero
   B. $110,000
   C. $197,000
   D. $200,000
   E. None of the above

61. Referring to Question 59, the amount of Peter's capital loss carryover to the next taxable year is as follows.
   A. None/Zero
   B. $3,000
   C. $87,000
   D. $137,000
   E. None of the above

62. Referring to Question 59, the 20% capital gains income tax rate is based on the following amount.
   A. None/Zero
   B. $50,000
   C. $137,000
   D. $87,000
   E. None of the above

63. During the current taxable year, Peter had $200,000 of ordinary gross income without considering any (or
the effect of any) of the following capital gains and capital losses from Peter's investments. With respect to
Peter's capital gains and capital losses, Peter 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 deduction and $140,000 of short
term capital loss deduction. Peter'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

64. Referring to Question 63, Peter's adjusted gross income for the current taxable year (considering all deduction
limitations) is as follows.
   A. None/Zero
65. Referring to Question 63, the amount of Peter'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

66. Referring to Question 63, the 20% capital gains income tax rate is based on the following amount.
   A. None/Zero
   B. $50,000
   C. $90,000
   D. $40,000
   E. None of the above

67. During the current taxable year, Peter had $200,000 of ordinary gross income without considering any (or
    the effect of any) of the following capital gains and capital losses from Peter's investments. With respect to
    Peter's capital gains and capital losses, Peter 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 deduction and $70,000
    of short term capital loss deduction. Peter'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

68. Referring to Question 67, Peter's adjusted gross income for the current taxable year (considering all deduction
    limitations) is as follows.
   A. None/Zero
   B. $160,000
   C. $197,000
   D. $300,000
   E. None of the above

69. Referring to Question 67, the amount of Peter'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

70. Referring to Question 67, the 20% capital gains income tax rate based is on the following amount.
   A. None/Zero
   B. $20,000
   C. $17,000
   D. $37,000
   E. None of the above

71. During the current taxable year, Peter had $200,000 of ordinary gross income without considering any (or
    the effect of any) of the following capital gains and capital losses from Peter's investments. With respect to
Peter's capital gains and capital losses, Peter had: no long term capital gain and no short term capital gain and $100,000 of long term capital loss deduction and no short term capital loss deduction. Peter'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

72. During the current taxable year, Peter had $200,000 of ordinary gross income without considering any (or the effect of any) of the following capital gains and capital losses from Peter's investments. With respect to Peter's capital gains and capital losses, Peter 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 deduction $20,000 of short term capital loss deduction. Peter'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

73. Referring to Question 72, Peter's adjusted gross income for the current taxable year (considering all deduction limitations) is as follows.
A. None/Zero
B. $230,000
C. $250,000
D. $210,000
E. None of the above

74. Referring to Question 72, Peter'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

75. Referring to Question 72, the 20% capital gains income tax rate is based on the following amount.
A. None/Zero
B. $30,000
C. $7,000
D. $10,000
E. None of the above

76. 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 2000. The last taxable year (chronologically) during which Paul may deduct any part of Paul’s capital losses is as follows.
A. None/Zero
B. 2002
C. 2005
D. 2006
E. None of the above
77. 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 no capital gains and a gross salary of $100,000. Paul made all elections which were available to Paul and the current taxable year is 2000. The last taxable year (chronologically) during which Paul may deduct any part of Paul’s capital losses is as follows.
   A. None/Zero
   B. 2007
   C. 2013
   D. 2021
   E. None of the above

78. During the current taxable year, Peter had $200,000 of gross income without considering any (or the effect of any) of the following capital gains and capital losses from Peter's investments. With respect to Peter's capital gains and capital losses, Peter 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. Peter'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

79. Referring to Question 78, Peter'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

80. Referring to Question 78, the amount of Peter'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

81. During the current taxable year, Peter had $200,000 of gross income without considering any (or the effect of any) of the following capital gains and capital losses from Peter's investments. With respect to Peter's capital gains and capital losses, Peter 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. Peter'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

82. Referring to Question 81, Peter's adjusted gross income for the current taxable year is as follows.
   A. None/Zero
   B. $160,000
   C. $157,000
83. Referring to Question 81, the amount of Peter'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

84. Referring to Question 81, the 20% capital gains income tax rate is based on the following amount:
   A. None/Zero
   B. $3,000
   C. $40,000
   D. $77,000
   E. None of the above

85. During the current taxable year, John sold 100 common shares of YaHoo Corporation for $50,000, which
    John had purchased two taxable years ago for $200,000 as an investment. The common shares were qualified
    as section 1244 stock. John's ordinary expense or ordinary loss deduction for the current taxable year
    (considering all deduction limitations) is as follows.
    A. None/Zero
    B. $100,000
    C. $150,000
    D. None of the above

86. Referring to Question 85, John sold the common shares for $300,000. John's ordinary gross income for the
    current taxable year is as follows.
    A. None/Zero
    B. $150,000
    C. $100,000
    D. None of the above

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

88. Six taxable years ago, Paul purchased some common shares for $50,000 which qualified for treatment under
    section 1202. During the current taxable year, Paul sold the common shares for $150,000. Paul's long term
    capital gain gross income for the current taxable year is as follows.
    A. None/Zero
    B. $25,000
    C. $50,000
    D. $100,000
    E. None of the above

89. Referring to Question 88, Paul sold the common shares for $30,000. Paul's long term capital loss for the
    current taxable year is as follows.
90. 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

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

Gifts Of Corporate Shares Followed By Sales Or Exchanges Of The Shares

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

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

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

95. Referring to Question 94, John had sold the common shares to Paul on April 1 of the current taxable year, for a gross sales price of $20,000 and that John paid selling expenses of $5,000. John's long term capital loss for the current taxable year is as follows.
A. None/Zero
B. $15,000
C. $20,000
D. $40,000
E. None of the above

96. Referring to Question 94, John sold the common shares to Paul for a gross sales price of $40,000 and John paid selling expenses of $5,000. John's long term capital loss for the current taxable year is as follows.
A. None/Zero
B. $20,000
C. $25,000
D. $30,000
E. None of the above

Dispositions Of Corporate Shares By An Estate

97. Mary died on January 1 of the current taxable year, owning 1,000 common shares of Starbuck Corporation. Mary paid a gross purchase price of $120,000 for the common shares in December, of the last taxable year, and the common shares had a fair market value of $100,000 at Mary's death and $70,000 on July 1 of the current taxable year. The executor of Mary’s estate elected to use the date of death values for estate tax purposes, and on May 1 of the current taxable year, the executor sold the common shares to Paul, for a gross sales price of $75,000, and the executor paid selling expenses of $5,000, which selling expenses were elected to be utilized in determining the gain or loss on the federal fiduciary income tax return (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. $35,000
C. $30,000
D. $40,000
E. None of the above

98. 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
99. Referring to Question 98, John sold the common shares to Sue for $40,000. John's long term capital loss for the current taxable year is as follows.
   A. None/Zero
   B. $3,000
   C. $5,000
   D. $10,000
   E. None of the above

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

101. Referring to Question 100, Mary's estate's gross income for the current taxable year with respect to the life insurance proceeds is as follows.
   A. None/Zero
   B. $1,800,000
   C. $1,810,000
   D. None of the above

102. Referring to Question 100, Zesty Corporation did not sell the life insurance policy to Mary, Mary died, and Zesty Corporation received $2,000,000 from the life insurance company due to the life insurance policy. Zesty Corporation's gross income with respect to the receipt of the life insurance proceeds policy, is as follows.
   A. None/Zero
   B. $2,000,000
   C. $1,900,000
   D. $1,910,000
   E. None of the above

103. Referring to Question 100, 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

104. Referring to Question 100, 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.

A. None/Zero  
B. $50,000  
C. $55,000  
D. $55,500  
E. None of the above

105. Referring to Question 100, 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 $2,000,000 of the life insurance policy's proceeds during the current taxable year. Peter's ordinary gross income for the current taxable year with respect to the receipt of the life insurance proceeds is as follows.

A. None/Zero  
B. $1,900,000  
C. $1,895,000  
D. $1,995,000  
E. None of the above

106. Referring to Question 105, Peter elected to receive the life insurance proceeds of the life insurance policy by receiving $105,000, 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. $100,000  
C. $99,750  
D. $104,750  
E. None of the above

107. During the current taxable year, Mary died while PeterRabbit Corporation owned one whole (ordinary life) life insurance policy on Mary's life which had a face amount of $2,000,000 and which was payable, in lump sum, to PeterRabbit Corporation, which received the proceeds. PeterRabbit Corporation had always been an C corporation. The life insurance policy had been purchased by PeterRabbit Corporation several taxable years ago, as a key person life insurance policy on Mary’s life, and PeterRabbit Corporation had paid $20,000 per year for ten years ($200,000) of life insurance premiums, none of which were capitalized (that is, all of these premiums reduced PeterRabbit Corporation’s earnings and profits). PeterRabbit Corporation's net increase in earnings and profits for the current taxable year with respect to the receipt of the life insurance proceeds policy is as follows.

A. None/Zero  
B. $2,000,000  
C. $200,000  
D. $1,800,000  
E. None of the above

108. Referring to Question 107, PeterRabbit Corporation's ordinary expense or ordinary loss deduction for the last
taxable year with respect to the payment of the life insurance policy premium payment is as follows.
A. None/Zero
B. $200,000
C. $100,000
D. $20,000
E. None of the above

109. Referring to Question 107, Peter purchased the life insurance policy for $180,000 from PeterRabbit Corporation, and that Peter promptly changed the beneficiary designation of the life insurance policy to be Peter, and that Peter paid one life insurance policy premium, of $15,000, with respect to the life insurance policy prior to Mary's death. Then, after all of this, Mary died during the current taxable year and Peter received the $2,000,000 of the life insurance policy's proceeds during the current taxable year. Peter's ordinary gross income for the current taxable year with respect to the receipt of the life insurance proceeds is as follows.
A. None/Zero
B. $1,820,000
C. $1,985,000
D. $1,805,000
E. None of the above

110. Referring to Question 109, Peter elected to receive the life insurance proceeds of the life insurance policy by receiving $210,000, each year, for a period of 20 years, beginning the next taxable year. Peter's ordinary gross income for the next taxable year with respect to the receipt of the $210,000 is as follows.
A. None/Zero
B. $115,000
C. $100,000
D. $185,000
E. None of the above

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

112. Referring to Question 111, Sable Corporation's ordinary expense or ordinary loss deduction for the last taxable year with respect to Sable Corporation's payment of the last taxable year's life insurance premium is as follows.
A. None/Zero
B. $21,000

Copyright ©1986 Through 2006, Professor Jegen's Taxsite
C. $1,000
D. $20,000
E. None of the above

113. Referring to Question 111, Sable Corporation's gross income for the current taxable year with respect to the receipt of the $120,000 of life insurance proceeds is as follows.
A. None/Zero
B. $120,000
C. $20,000
D. $21,000
E. None of the above

114. Referring to Question 111, Sable Corporation paid, during the last taxable year, $19,000 of the last taxable year's life insurance premium and that Mary paid $1,000 of such life insurance premium, which latter amount which was equal to the Table 2001 cost. Also, Sable Corporation paid Mary a bonus, during the last taxable year, of $1,000 so that Mary could pay the Table 2001 cost. Mary's ordinary gross income for the last taxable year with respect to Sable Corporation's life insurance premium payment and Table 2001 cost and bonus payment is as follows.
A. None/Zero
B. $1,000
C. $19,000
D. $20,000
E. None of the above

115. Referring to Question 114, Sable Corporation's ordinary expense or ordinary loss deduction to Sable Corporation for the last taxable year is as follows.
A. None/Zero
B. $1,000
C. $19,000
D. $20,000
E. None of the above

116. 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 Table 2001 cost of the premium was $600. 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

117. Referring to Question 116, 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. $10
C. $60
D. $600
E. None of the above

Retirement Plans And Trusts
118. John had a gross salary of $50,000 during the current taxable year and John was covered by John's corporate employer's qualified retirement fund, which ChewChew Corporation maintained for John. Mary was not employed, but worked at home to maintain John's and Mary's home. Mary had a basic individual retirement account which Mary established for Mary. Mary may contribute to Mary's basic individual retirement account and deduct for income tax purposes:
   A. None/Zero
   B. $1,000
   C. $2,000
   D. $4,000
   E. None of the above

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

120. Referring to Question 119, Paul's gross income for the current taxable year is as follows.
   A. None/Zero
   B. $1,000
   C. $50,000
   D. $60,000
   E. None of the above

121. Referring to Question 119, Paul continued to work for Grits Corporation for ten more years and continued to contribute to Paul’s retirement plan fund, and then, Paul retired at age 68 and Paul withdrew all of the funds from Paul’s retirement fund in lump sum, in the amount of $200,000, during the current taxable year. Paul's gross income for the current taxable year, due to the withdrawal of funds only, is as follows.
   A. None/Zero
   B. $200,000
   C. $100,000
   D. $50,000
   E. None of the above

122. John, age 40, who had a gross salary of $150,000 during each of several prior years and during the current taxable year, retired during the current taxable year, due to a permanent disability which prevented John from working any more, from PastaAndRedWine Corporation and withdrew $25,000, during the current taxable year, from John's corporate employer's qualified retirement fund, which PastaAndRedWine Corporation maintained for John. John's retirement fund, to which John had not made any contribution, had a fair market value of $700,000 when John retired and the withdrawn amount was computed by a qualified actuary to be the correct amount. John's gross income for the current taxable year is as follows.
   A. None/Zero
   B. $150,000
   C. $175,000
   D. $50,000
   E. None of the above

123. On April 1 of the current taxable year, Paul was employed by Sauerkraut Corporation at an annual gross salary of $65,000 and Paul needed money in order to purchase a house, and thus, Paul withdrew $20,000 from
Paul's basic individual retirement account which was maintained for Paul at a bank and which was contributed
to solely by Paul and Paul deducted all of Paul's contributions to the basic individual retirement account. Paul
did not have any other retirement plan during the current taxable year. Paul had never had an interest in a
residence (house and land) before. Paul's gross income for the current taxable year is as follows.
A. None/Zero
B. $75,000
C. $65,000
D. $85,000
E. None of the above

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

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

126. During December of the last taxable year, Peter, who was president of AlmostThrough Corporation, read in
the newspaper that the State of Indiana was going to condemn some land which was owned by and used for
business by AlmostThrough Corporation. Therefore, during June of the current taxable year, AlmostThrough
Corporation purchased some new and similar land for $500,000. During December of the current taxable
year, the State of Indiana condemned AlmostThrough Corporation’s old land and paid AlmostThrough
Corporation $700,000 for the old land. Peter determined that the adjusted basis of the condemned land was
$100,000. AlmostThrough Corporation's gross income for the current taxable year is as follows.
A. None/Zero
B. $600,000
C. $400,000
D. $200,000

Involuntary Conversions - Condemnations
127. Referring to Question 126, AlmostThrough Corporation's adjusted basis for the new land which
AlmostThrough Corporation acquired during the current taxable year is as follows.
A. None/Zero
B. $100,000
C. $700,000
D. $500,000
E. None of the above

128. Referring to Question 126, AlmostThrough Corporation purchased the new land three years after the current
taxable year. AlmostThrough Corporation's adjusted basis for the new land which AlmostThrough
Corporation purchased three years after the current taxable year is as follows.
A. None/Zero
B. $200,000
C. $700,000
D. $500,000
E. None of the above

129. Referring to Question 126, AlmostThrough Corporation purchased the new land for $1,000,000. AlmostThrough
Corporation's adjusted basis for the new land is as follows.
A. None/Zero
B. $100,000
C. $400,000
D. $1,000,000
E. None of the above

Employee Business Expenses; Reimbursed and Unreimbursed

130. 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

131. Referring to Question 130, 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

132. During the current taxable year, Paul's ordinary gross income was $200,000, all of which is ordinary income
from Paul's business as an employee, without considering the following transactions. In addition, Paul paid business entertainment expenses of $6,000, $3,000 of which was reimbursed Paul's employer's clients. Paul's gross income for the current taxable year (considering all deduction limitations) is as follows.

A. None/Zero  
B. $200,000  
C. $203,000  
D. $197,000  
E. None of the above

133. Referring to Question 132, Paul's adjusted gross income for the current taxable year (considering all deduction limitations) is as follows.

A. None/Zero  
B. $203,000  
C. $200,000  
D. $197,000  
E. None of the above

134. Referring to Question 132, Paul's adjusted gross income is $200,000, and therefore, Paul’s taxable income for the current taxable year (considering all deduction limitations) is as follows.

A. None/Zero  
B. $192,000  
C. $196,000  
D. $193,500  
E. None of the above

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

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

Paul's gross income for the current taxable year with respect to these facts (considering all deduction limitations) is as follows.

A. None/Zero  
B. $124,000  
C. $120,000  
D. $122,000  
E. None of the above

136. Referring to Question 135, Paul’s adjusted gross income (considering all deduction limitations) is as follows.

A. None/Zero  
B. $122,000  
C. $124,000  

Copyright ©1986 Through 2006, Professor Jegen’s Taxsite
137. Referring to Question 135, Paul’s taxable income (considering all deduction limitations) is as follows.
A. None/Zero  
B. $101,480  
C. $99,900  
D. $100,000  
E. None of the above

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

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

c. During the current taxable year, Paul (as could any other employee) could use HippityHoppy Corporation's gym (in the basement of HippityHoppy 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 HippityHoppy Corporation's office building was located, Paul would have paid an annual membership fee of $1,000.

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

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

A. None/Zero  
B. $30,000  
C. $50,000  
D. $80,000  
E. None of the above

Referring to Question 139, Paul's gross income for the first taxable year after the end of the five-year period is as follows.

A. None/Zero  
B. $30,000  
C. $50,000  
D. $80,000  
E. None of the above

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

A. None/Zero  
B. $1,000  
C. $10,000  
D. $20,000  
E. None of the above

Referring to Question 141, Paul’s gross income for the current taxable year is

A. None/Zero  
B. $1,000  
C. $10,000  
D. $20,000  
E. None of the above

Referring to Question 141, might the exercise of Paul's stock option subject Paul to the alternative minimum tax?

A. Yes/True  
B. No/False

Two taxable years ago, KnockThemDead Corporation gave Paul a stock option (which was not a qualified stock option) which allowed Paul the right to purchase 100 common shares of KnockThemDead Corporation for $100 per share, which was the current fair market value of the common shares at the time when Paul was granted the option. At the time when Paul received the stock option, the stock option had not ascertainable value. During January of the current taxable year, when each common share had a fair market value of $200,
Paul exercised Paul's option and purchased the 100 common shares for $100 per share. Paul had the right to sell the common shares at any time after two years after Paul exercised of the option. Paul’s gross income for the taxable year two taxable years ago is as follows.
A. None/Zero
B. $1,000
C. $10,000
D. $20,000
E. None of the above

145. Referring to Question 144, Paul’s gross income for the current taxable year is as follows.
A. None/Zero
B. $1,000
C. $10,000
D. $20,000
E. None of the above

146. 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 common shares of TapALittleTune Corporation for $100 per share, at any time during the next five (5) years, which Paul did, during the next taxable year. The option was not part of an incentive stock option plan and the option had no readily ascertainable value and the only restrictions with respect to the option was that Paul could not transfer the option to any other person and the only restriction with respect to the common shares was that Paul could not transfer the common shares to any person for the five-year period following the transfer of the common shares to Paul. During the next taxable year when Paul exercised the option and acquired the common shares, the common shares had a fair market value of $1,500 per share, free of all restrictions. During the first day of the first taxable year after the five-year period, the common shares had a fair market value of $2,500 per share. Paul wishes to report as little gross income as Paul may during the current taxable year and during the next taxable year. Paul’s gross income for the current taxable year is as follows.
A. None/Zero
B. $150,000
C. $140,000
D. $240,000
E. None of the above

147. Referring to Question 146, Paul's gross income for the next taxable year is as follows.
A. None/Zero
B. $150,000
C. $140,000
D. $240,000
E. None of the above

148. 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>Asset</td>
<td>Adjusted Basis</td>
<td>Fair Market Value</td>
</tr>
<tr>
<td>---------------</td>
<td>----------------</td>
<td>-------------------</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

149. Referring to Question 148, 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

150. Referring to Question 148, 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

151. Referring to Question 148, 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

152. Referring to Question 148, 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

Organizing Corporations

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

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

154. Referring to Question 153, 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

155. Referring to Question 153, 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

156. Referring to Question 153, Paul's adjusted basis for the 300 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

157. Referring to Question 153, Paul's adjusted basis for the 100 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
158. Referring to Question 153, Paul received the 400 common shares solely because Paul had the initial ideas about forming Recycle Corporation and because Paul performed all of the groundwork with respect to the formation of Recycle Corporation. 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. $100,000
   C. $40,000
   D. $55,000
   E. None of the above

159. Referring to Question 158, Peter's adjusted basis for the 600 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

160. Referring to Question 158, 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

161. Referring to Question 158, Paul's adjusted basis for the 400 common shares which Paul received is as follows.
   A. None/Zero
   B. $15,000
   C. $25,000
   D. $35,000
   E. None of the above

162. Referring to Question 153, during a taxable year ten years after Peter and Paul incorporated Recycle Corporation, Peter transferred some land to Recycle Corporation in return for 100 common shares of Recycle Corporation. At the time when Peter transferred the land to Recycle Corporation, the land had a fair market value of $10,000 (as did the 100 common shares) and Peter had an adjusted basis of $2,000 for the land. Peter's gross income for the taxable year in which Peter transferred the land as follows.
   A. None/Zero
   B. $2,000
   C. $10,000
   D. $8,000
   E. None of the above

163. Referring to Question 162, Peter's adjusted basis for the common shares which Peter received is as follows.
   A. None/Zero
   B. $2,000
   C. $10,000
   D. $8,000
   E. None of the above

164. Referring to Question 162, Recycle Corporation's adjusted basis for the land which Peter transferred to Recycle Corporation is as follows.
165. Referring to Question 153, on the day on which Peter received the 600 common shares of Recycle Corporation, Peter gave 300 of the common shares to Sue as a present. 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

166. Referring to Question 165, Peter's adjusted basis for the 600 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

167. Referring to Question 165, Paul's adjusted basis for the 400 common shares which Paul received is as follows.
A. None/Zero
B. $5,000
C. $10,000
D. $15,000
E. None of the above

168. Referring to Question 165, Sue's gross income for the current taxable year is as follows.
A. None/Zero
B. $60,000
C. $30,000
D. $17,500
E. None of the above

169. Referring to Question 153, on the day on which Peter received the 600 common shares of Recycle Corporation, Peter transferred 300 of the common shares to John because 30 days prior to the incorporation of Recycle Corporation, John and Peter had signed a contract that Peter would transfer the 300 shares to John in return for cash of $30,000. 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

170. Referring to Question 169, Peter's adjusted basis for the 600 common shares which Peter received is as follows.
A. None/Zero
B. $30,000
C. $35,000
D. $40,000
171. Referring to Question 169, Paul's adjusted basis for the 400 common shares which Paul received is as follows.
A. None/Zero
B. $35,000
C. $30,000
D. $15,000
E. None of the above

172. During the current taxable year, John organized GreatAthletes Corporation as a personal service 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.

173. Two years ago, Mary bought some material for $100,000, made some Christmas decorations which then had a fair market value of $150,000, and transferred the decorations to the MerryChristmas Corporation, under a section 351 transaction, for 100% of MerryChristmas Corporation’s common shares. During the current taxable year, during the Christmas season, Mary sold all of Mary’s common shares of MerryChristmas Corporation to MerrierThanYou Corporation for $175,000. Mary’s gross income during the current taxable year is as follows.
A. $175,000 of long term capital gain
B. $75,000 of long term capital gain
C. $25,000 of long term capital gain
D. $150,000 of long term capital gain
E. None of the above

Organizing Limited Liability Companies

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

<table>
<thead>
<tr>
<th>Asset</th>
<th>Adjusted Basis</th>
<th>Fair Market Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>30,000</td>
<td>30,000</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>20,000</td>
<td>30,000</td>
</tr>
<tr>
<td>Asset</td>
<td>Adjusted Basis</td>
<td>Fair Market Value</td>
</tr>
<tr>
<td>------------</td>
<td>----------------</td>
<td>-------------------</td>
</tr>
<tr>
<td>Inventory</td>
<td>30,000</td>
<td>60,000</td>
</tr>
<tr>
<td>Equipment</td>
<td>15,000</td>
<td>10,000</td>
</tr>
<tr>
<td>Goodwill</td>
<td>0</td>
<td>20,000</td>
</tr>
<tr>
<td>Totals</td>
<td>95,000</td>
<td>150,000</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

175. Referring to Question 174, Peter's adjusted basis for Peter’s interest in YoHoHeaveHo, LLC is as follows.
A. None/Zero
B. $95,000
C. $150,000
D. $155,000
E. None of the above

176. Referring to Question 174, YoHoHeaveHo, LLC’s adjusted basis for the inventory which Peter transferred to YoHoHeaveHo, LLC is as follows.
A. None/Zero
B. $20,000
C. $30,000
D. $35,000
E. None of the above

177. Referring to Question 174, 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

178. Referring to Question 174, Paul's adjusted basis for Paul’s interest in YoHoHeaveHo, LLC is as follows.
A. None/Zero
B. $95,000
C. $100,000
D. $150,000
E. None of the above

179. During the current taxable year, Beverly was the sole shareholder of Chuckle Corporation, which was organized by Beverly on July 1 of the current taxable year. During Chuckle Corporation's first taxable period (the short period of July 1 through December 31), Chuckle Corporation borrowed $60,000, had no receipts and had a net loss of $25,000. Also, during such first taxable period, Chuckle Corporation distributed to Beverly, as a shareholder, cash of $30,000. Beverly's adjusted basis for Beverly's common shares at the beginning of the short taxable period was $25,000. Beverly's gross income for the current taxable year is as follows.
A. None/Zero
B. $5,000
Operating C Corporations

180. Charming Corporation was organized ten taxable years ago and during the current taxable year, Charming Corporation had the following financial information. Charming Corporation used the accrual method of accounting as its accounting method, and, at the beginning of the current taxable year, Charming Corporation had $400,000 of accumulated earnings and profits. Beverly was the sole shareholder of Charming Corporation and Beverly's adjusted basis for Beverly's shares was $50,000 at the beginning of the current taxable year. Other financial information about Charming Corporation for the current taxable year is as follows.

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

Charming Corporation's gross income for the current taxable year is as follows.
A. None/Zero
B. $3,400,000
C. $4,100,000
D. $4,400,000
E. None of the above

181. Referring to Question 180, Charming Corporation had gross income of $4,000,000 for the current taxable year. Charming Corporation's taxable income for the current taxable year is as follows.
A. None/Zero
B. $3,520,000
C. $3,295,000
D. $3,100,000
E. None of the above

182. Referring to Question 180, Beverly's gross income for the current taxable year is as follows.
A. None/Zero
B. $190,000
C. $290,000
D. $300,000
E. None of the above

183. Referring to Question 180, Charming Corporation had taxable income of $1,500,000 for the current taxable year.
year. Charming Corporation's income tax (prior to any credit) for the current taxable year is as follows.
A. None/Zero
B. $510,000
C. $594,000
D. $463,500
E. None of the above

184. Referring to Question 180, Charming Corporation had taxable income of $60,000 for the current taxable year. Charming Corporation's income tax (prior to any credit) for the current taxable year is as follows.
A. None/Zero
B. $20,400
C. $15,000
D. $10,000
E. None of the above

185. Referring to Question 180, 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

186. During the current taxable year, Smart Corporation, which was a manufacturing corporation, had $3,000,000 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. $412,500
C. $935,000
D. $1,089,000
E. None of the above

187. 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
E. None of the above

188. Salsa Corporation was organized ten taxable years ago and during the current taxable year, Salsa Corporation had 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 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>Item</td>
<td>Amount</td>
</tr>
<tr>
<td>-----------------------------</td>
<td>--------</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

189. 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 piece of land with an adjusted basis to CharlieRiches Corporation of $6,000 to Beverly, who was the sole shareholder of CharlieRiches Corporation. At the time when CharlieRiches Corporation distributed the land to Beverly, the land 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. $74,000
D. $72,000
E. None of the above

190. Referring to Question 189, 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

191. Referring to Question 189, Beverly's adjusted basis for the land is as follows.
A. None/Zero
B. $8,000
C. $2,000
D. $6,000
E. None of the above

192. During the current taxable year, LatterDaySaintsChurch Corporation owned a large paved area in downtown Indianapolis, Indiana and rented the marked parking spaces to members of the general public for a fair rental value on a daily basis to park the general public’s automobiles. In return for the rent, the parkers received rental spaces, 24-hour security services, jump starts, key cuttings, and tow services so that local business persons could park automobiles. The gross income from this activity, during the current taxable year, was $100,000 and the expenses which were attributable to this activity was $30,000. LatterDaySaintsChurch Corporation’s income tax for the current taxable year is as follows.
A. None/Zero
B. $6,250
C. $23,800
D. $12,500
E. None of the above
193. During the current taxable year, SeventhDayAdventistChurch Corporation owned a large piece of vacant land near downtown Minneapolis, Minnesota and, under a lease agreement with MakeSomeScratch Corporation, SeventhDayAdventistChurch Corporation allowed MakeSomeScratch Corporation to pave the land and to rent marked parking spaces to members of the general public for a fair rental value on a daily basis to park the general public’s automobiles. In return for the 15% of the gross annual rent which MakeSomeScratch Corporation received, SeventhDayAdventistChurch Corporation allowed MakeSomeScratch Corporation to provide the parkers with the parking spaces, 24-hour security services, jump starts, key cuttings, and tow services. During the current taxable year, SeventhDayAdventistChurch Corporation received 15% of the gross rent, specifically, 15% of $200,000 (or $30,000). SeventhDayAdventistChurch Corporation’s income tax for the current taxable year is as follows.

A. None/Zero
B. $34,000
C. $13,600
D. $6,000
E. None of the above

194. During the current taxable year, HaveOneOnTheHouse Corporation, a family owned corporation, brewed beer, as HaveOneOnTheHouse Corporation had done for over 50 years, as a small brewery in a middle sized city, and at the end of the current taxable year, HaveOneOnTheHouse Corporation had the following position statement. HaveOneOnTheHouse Corporation had a significant amount of liquid assets, because the family believed that there were some excellent investment opportunities which HaveOneOnTheHouse Corporation might invest in. This position statement is representative of the position statements which HaveOneOnTheHouse Corporation has had for over five years, because HaveOneOnTheHouse Corporation has not paid a dividend for over eight years.

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash on hand</td>
<td>1,000</td>
</tr>
<tr>
<td>Cash in banks</td>
<td>500,000</td>
</tr>
<tr>
<td>Marketable securities</td>
<td>2,000,000</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>100,000</td>
</tr>
<tr>
<td>Inventory</td>
<td>100,000</td>
</tr>
<tr>
<td>Tangible personal property</td>
<td>100,000</td>
</tr>
<tr>
<td>Building</td>
<td>400,000</td>
</tr>
<tr>
<td>Land</td>
<td>400,000</td>
</tr>
<tr>
<td>Goodwill</td>
<td>100,000</td>
</tr>
<tr>
<td>Total assets</td>
<td>3,701,000</td>
</tr>
<tr>
<td>Liabilities</td>
<td>100,000</td>
</tr>
<tr>
<td>Equity - common shares</td>
<td>100,000</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>3,501,000</td>
</tr>
</tbody>
</table>

HaveOneOnTheHouse Corporation is subject to the accumulated earnings tax for the current taxable year.

A. Yes/True
B. No/False

195. Referring to Question 194, if HaveOneOnTheHouse Corporation is subject to the accumulated earnings tax,
then the amount of the accumulated earnings tax is as follows.
A. None/Zero
B. $325,100
C. $487,650
D. $650,200
E. None of the above

Operating S Corporations

196. Several taxable years ago, RollerCoaster Corporation, an S corporation, purchased a truck for $10,000 for use in RollerCoaster Corporation’s business. The truck had an adjusted basis of $2,000 (after deducting $8,000 depreciation expenses) and had a fair market value of $6,000. During the current taxable year, RollerCoaster Corporation distributed the truck to John, who owned all of the common shares of RollerCoaster Corporation’s common shares, as a legal dividend. John’s adjusted basis for the common shares just prior to the current taxable year was $10,000. RollerCoaster Corporation’s gross income for the current year as a result of the distribution of the truck to John is as follows.
A. None/Zero
B. $4,000
C. $6,000
D. $8,000
E. None of the above

197. Referring to Question 196, John’s gross income for the current taxable year is as follows.
A. None/Zero
B. $2,000
C. $6,000
D. $10,000
E. None of the above

198. Referring to Question 196, John’s basis for the truck is as follows.
A. None/Zero
B. $2,000
C. $6,000
D. $10,000
E. None of the above

199. Several taxable years ago, GiddyUpGo Corporation, an S corporation, purchased a truck for $10,000 for use in GiddyUpGo Corporation’s business. The truck had an adjusted basis of $2,000 (after deducting $8,000 depreciation expenses) and a fair market value of $1,000. During the current taxable year, GiddyUpGo Corporation distributed the truck to John, who owned all of the common shares of GiddyUpGo Corporation, as a legal dividend. GiddyUpGo Corporation’s ordinary expense or ordinary loss deduction for the current year as a result of the distribution of the truck to John is as follows.
A. None/Zero
B. $1,000
C. $2,000
D. $9,000
E. None of the above

200. Referring to Question 199, John’s gross income for the current taxable year is as follows.
A. None/Zero
B. $1,000
C. $2,000
D. $9,000
E. None of the above
QUESTIONS ONE THROUGH 200 - USE ANSWER SHEET B

Operating S Corporations - Continued

1. Referring to Question 199 above, John’s basis for the truck is as follows.
   A. None/Zero
   B. $1,000
   C. $2,000
   D. $9,000
   E. None of the above

2. During the current taxable year, John owned all of the common shares of in Apple Corporation, an S corporation. 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

3. Referring to Question 2, 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

4. Referring to Question 2, 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

5. Referring to Question 2, 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

6. Referring to Question 5, 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
7. Referring to Question 5 above, 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

8. During the current taxable year, Beverly was the sole shareholder in four corporations (Winter Corporation, Spring Corporation, Summer Corporation, and Fall Corporation). Winter Corporation and Spring Corporation and Summer Corporation were S corporations. Beverly had an adjusted basis for the common shares which Beverly owned in each of the four corporations of $100,000 ($100,000 per corporation).
   a. With respect to Winter Corporation, Beverly worked for Winter Corporation and received a gross salary from Winter Corporation of $20,000. During the current taxable year, Winter Corporation sold computers and had a net profit of $100,000 (after deducting Beverly's gross salary).
   b. With respect to Spring Corporation, Beverly did not work for Spring Corporation and did not receive a salary from Spring Corporation. During the current taxable year, Spring Corporation sold porch furniture and had a net profit of $100,000.
   c. With respect to Summer Corporation, Beverly did not work for Summer Corporation and did not receive a salary from Summer Corporation. During the current taxable year, Summer Corporation sold and repaired bicycles and had a net loss of $100,000.
   d. With respect to Fall Corporation, Beverly worked for Fall Corporation and received a gross salary from Fall Corporation of $20,000. During the current taxable year, Fall Corporation had earnings and profits of $200,000 distributed $10,000 to Beverly with respect to Beverly's shares.

Beverly's gross income for the current taxable year is as follows.
   A. None/Zero
   B. $240,000
   C. $250,000
   D. $150,000
   E. None of the above

9. Referring to Question 8, Beverly's adjusted gross income for the current taxable year is as follows.
   A. None/Zero
   B. $240,000
   C. $250,000
   D. $150,000
   E. None of the above

10. Referring to Question 8, Beverly's adjusted basis for Beverly's common shares of Winter Corporation at the end of the current taxable year is as follows.
    A. None/Zero
    B. $100,000
    C. $200,000
    D. $220,000
    E. None of the above
11. Referring to Question 8, Beverly's adjusted basis for Beverly's common shares of Spring Corporation at the end of the current taxable year is as follows.
A. None/Zero
B. $100,000
C. $200,000
D. $50,000
E. None of the above

12. Referring to Question 8, Beverly's adjusted basis for Beverly's common shares of Summer Corporation at the end of the current taxable year is as follows.
A. None/Zero
B. $100,000
C. $200,000
D. $50,000
E. None of the above

13. Referring to Question 8, Beverly's adjusted basis for the common shares of Fall Corporation at the end of the current taxable year is as follows.
A. None/Zero
B. $100,000
C. $110,000
D. $130,000
E. None of the above

Operating Limited Liability Companies

14. Throughout the current taxable year, Peter owned a ten percent equity interest in AllMostOver, LLC, which 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

Operating Illegally

15. During the current taxable year, SniffYourselfAway, LLC operated a business which sold illegal drugs, primarily, cocaine. During the current taxable year, SniffYourselfAway, LLC received $500,000 from sales of cocaine and SniffYourselfAway, LLC paid, in order to operate the business, the following expenses.

<table>
<thead>
<tr>
<th>Payment</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of goods sold</td>
<td>20,000</td>
</tr>
<tr>
<td>Rent for office</td>
<td>20,000</td>
</tr>
<tr>
<td>Rent for taxies and limousines</td>
<td>20,000</td>
</tr>
<tr>
<td>Traffic tickets, generally, as a result of exciting &quot;getaways&quot;</td>
<td>20,000</td>
</tr>
<tr>
<td>Lawyer fees to represent SniffYourselfAway, LLC and the cocaine salespersons in criminal court cases which resulted from sales of cocaine</td>
<td>20,000</td>
</tr>
<tr>
<td>Accounting fees</td>
<td>20,000</td>
</tr>
<tr>
<td>Criminal fines</td>
<td>20,000</td>
</tr>
<tr>
<td>Bribery to various public officials</td>
<td>20,000</td>
</tr>
<tr>
<td>------------------------------------</td>
<td>--------</td>
</tr>
<tr>
<td>Telephone</td>
<td>20,000</td>
</tr>
<tr>
<td>Utilities</td>
<td>20,000</td>
</tr>
<tr>
<td>Commissions to salespersons</td>
<td>20,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>200,000</strong></td>
</tr>
</tbody>
</table>

SniffYourselfAway, LLC'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

16. Referring to Question 15, the amount of ordinary income which SniffYourselfAway, LLC passed through to SniffYourselfAway, LLC’s members for the current taxable year is as follows.
A. None/Zero
B. $380,000
C. $320,000
D. $300,000
E. None of the above

17. TrumpDeDumpCasino Corporation, which is an unlicensed gambling business, has the following financial information for the current taxable year: interest on General Motor Corporation bond - $100,000; net income from blackjack - $100,000; net income from roulette - $100,000; net income from slot machines - $100,000; net losses from horse betting - $350,000. TrumpDeDumpCasino Corporation’s taxable income for the current taxable year is as follows.
A. None/Zero
B. $200,000
C. $100,000
D. $300,000
E. None of the above

Casual Sales And Exchanges Of Business, Investment, And Personal Tangible Personal Property

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

19. Referring to Question 18, Dealer, Inc.’s adjusted basis for the box sealing machine which Dealer, Inc. received from Packing Corporation is as follows.
A. None/Zero
20. Referring to Question 18, Packing Corporation's gross income for the current taxable year is as follows.
   A. None/Zero
   B. $250,000
   C. $450,000
   D. $650,000
   E. None of the above

21. Referring to Question 18, Packing Corporation's adjusted basis for the box sealing machine which Packing Corporation received from Dealer, Inc. is as follows.
   A. None/Zero
   B. $1,000,000
   C. $500,000
   D. $1,100,000
   E. None of the above

22. During the current taxable year, Peter owned all of the common shares of Buddha Corporation and Peter sold some land, which Peter had been holding as an investment for seven years, to Buddha Corporation for $100,000 at a time when Peter’s adjusted basis for the land was $90,000. Peter recognized a capital gain of $10,000 due to the sale of the land.
   A. Yes/True
   B. No/False

23. During the current taxable year, Beverly owned all of the common shares of HolyRoller Corporation and Beverly sold some land, which Beverly had been holding as an investment for seven years, to HolyRoller Corporation for $100,000 at a time when Beverly’s adjusted basis for the land was $110,000. Beverly recognized a capital loss of $10,000 due to the sale of the land.
   A. Yes/True
   B. No

24. 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 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

25. Referring to Question 24, John’s gross income for the next taxable year is as follows.
   A. None/Zero
26. John and Paul each own 100 common shares of the only 200 common shares which are issued and outstanding in HoleyMoley Corporation, which corporation had $4,000 of current earnings and profits and no accumulated earnings and profits) and John and Paul each paid $1,000 for their separate 100 common shares four years ago. Paul and John each received a distribution of $1,000 on January 1 of the current taxable year and $1,000 on April 15 of the current taxable year and $1,000 on December 1 of the current taxable year. During the current taxable year, John and Paul each have gross income as follows.
A. None/Zero
B. $2,000
C. $9,000
D. $1,000
E. None of the above

27. 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 $15,000 to Beverly, who was the only shareholder of GoodGracious Corporation. Beverly’s adjusted basis for Beverly's common shares of GoodGracious Corporation was $25,000 prior to any distribution by GoodGracious Corporation. Beverly's gross income for the current taxable year is as follows.
A. None/Zero
B. $10,000
C. $8,000
D. $15,000
E. None of the above

28. At the beginning of the current taxable year, GoodGraces Corporation had accumulated earnings and profits of $100,000. During the current taxable year, GoodGraces Corporation had gross income of $120,000 and expenses of $130,000. In addition, GoodGraces Corporation distributed cash of $15,000 to Beverly, who owned all of the common shares of GoodGraces Corporation. Beverly's adjusted basis for Beverly's common shares of GoodGraces Corporation was $25,000. Beverly's gross income for the current taxable year is as follows.
A. None/Zero
B. $10,000
C. $8,000
D. $15,000
E. None of the above

29. At the beginning of the current taxable year, GoodTraces Corporation had accumulated earnings and profits of $2,000 and during the current taxable year, GoodTraces had current earnings and profits of $10,000. On April 1 of the current taxable year, GoodTraces Corporation distributed cash of $15,000 to Beverly, who has been the only shareholder of GoodTraces Corporation for several years. Beverly’s adjusted basis for Beverly’s common shares at the beginning of the current taxable year was $4,000. Thereafter, Beverly sold Beverly’s common shares of GoodTraces Corporation to Peter for $50,000 during the current taxable year. Thereafter, GoodTraces Corporation distributed $15,000 of cash to Peter during the current taxable year. Beverly’s ordinary gross income for the current taxable year is as follows.
A. None/Zero
B. $5,000
C. $7,000
D. $2,000
E. None of the above
30. Referring to Question 29, Beverly’s long term capital gain gross income for the current year is as follows.
   A. None/Zero
   B. $4,000
   C. $50,000
   D. $54,000
   E. None of the above

31. Referring to Question 29, Peter’s ordinary gross income for the current year is as follows.
   A. None/Zero
   B. $5,000
   C. $7,000
   D. $2,000
   E. None of the above

32. Referring to Question 29, Peter’s adjusted basis for the common shares which Peter purchased from Beverly
   is as follows.
   A. None/Zero
   B. $40,000
   C. $35,000
   D. $50,000
   E. None of the above

33. 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 of GoodGracious Corporation,
at the beginning of the current taxable year, was $25,000. Beverly's gross income for the current taxable year
is as follows.
   A. None/Zero
   B. $25,000
   C. $6,000
   D. $19,000
   E. None of the above

34. Referring to Question 33, 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. $31,000
   D. $25,000
   E. None of the above

35. At the beginning of the current taxable year, GoodVibes Corporation had accumulated earnings and profits
of $6,000 and during the current taxable year, GoodVibes had current earnings and profits of $10,000. On
May 1 of the current taxable year, GoodVibes Corporation distributed cash of $10,000 to Peter, who had been
the only common shareholder of GoodVibes Corporation for several years. Peter’s adjusted basis for Peter’s
common shares at the beginning of the current taxable year was $4,000. In addition, on August 1 of the
current taxable year, GoodVibes Corporation distributed cash of $15,000 to Beverly, who has been the only
preferred shareholder of GoodVibes Corporation for several years. The preferred shares had a per share par
value of $150,000 and a dividend payment rate of ten percent and all of the dividends have been properly paid
in the past. Beverly’s adjusted basis for Beverly’s preferred shares at the beginning of the current taxable
year was $4,000. Beverly’s ordinary gross income for the current taxable year is as follows.
   A. None/Zero
36. Referring to Question 35, Peter’s ordinary gross income for the current taxable year is as follows.
   A. None/Zero
   B. $1,000
   C. $6,000
   D. $10,000
   E. None of the above

37. 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

38. Referring to Question 37, 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

39. 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

40. Referring to Question 39, 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
41. 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 of DoingFine Corporation. The 100 common shares which Paul initially owned were purchased on February 9, two taxable years ago, by Paul for $10,000. The fair market value of the 200 new common shares which Paul received on November 10 of the last taxable year was $20,000. Paul's gross income for the last taxable year with respect to the share split is as follows.
   A. None/Zero
   B. $5,000
   C. $10,000
   D. $20,000
   E. None of the above

42. Referring to Question 41, 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

43. The rules of attribution of section 318 apply to both section 302 redemptions and section 303 redemptions.
   A. Yes/True
   B. No/False

44. John and Paul each own 100 common shares of the only 200 common shares which are issued and outstanding in LateOwl Corporation, which corporation had $500,000 of current earnings and profits, and John and Paul each paid $1,000 for their separate 100 common shares four years ago. John is president of LateOwl Corporation and is paid a salary for being the president. If LateOwl Corporation redeems all of John’s 100 common shares for $10,000 and John continues to work as the president of LateOwl Corporation, then, the result to John is as follows.
   A. None/Zero
   B. $9,000 long term capital gain
   C. $9,000 ordinary income
   D. $10,000 ordinary income
   E. None of the above

45. Referring to Question 44, the redemption qualifies under both section 302(b)(2) and section 302(b)(3).
   A. Yes/True
   B. No/False

46. Referring to Question 44, the redemption does not qualify under either section 302(b)(2) or section 302(b)(3).
   A. Yes/True
   B. No/False

47. Peter and Sue each own 100 common shares of the only 200 common shares which are issued and outstanding in BrownEyesBlue Corporation, which corporation had $500,000 of current earnings and profits, and Peter and Sue each paid $1,000 for their separate 100 common shares four years ago. Peter is president of BrownEyesBlue Corporation and is paid a salary for being the president. If BrownEyesBlue Corporation redeems all of Peter’s 100 common shares for $10,000 and Peter continues to work as the president of BrownEyesBlue Corporation, then, the result to Peter is as follows.
   A. None/Zero
B. $9,000 long term capital gain
C. $9,000 ordinary income
D. $10,000 ordinary income
E. None of the above

48. Referring to Question 47, the redemption qualifies under both section 302(b)(2) and section 302(b)(3).
   A. Yes/True
   B. No/False

49. Referring to Question 47, the redemption does not qualify under either section 302(b)(2) or section 302(b)(3).
   A. Yes/True
   B. No/False

50. John, Peter, and Sue each own 100 common shares of the only 300 common shares which are issued and outstanding in DanPatch Corporation, which corporation had $500,000 of current earnings and profits, and John, Peter, and Sue each paid $1,000 for their separate 100 common shares four years ago. Peter is president of DanPatch Corporation and is paid a salary for being the president. If DanPatch Corporation redeems all of Sue’s 100 common shares for $10,000, then, the result to Sue is as follows.
   A. None/Zero
   B. $9,000 long term capital gain
   C. $9,000 ordinary income
   D. $10,000 ordinary income
   E. None of the above

51. Referring to Question 50, the redemption qualifies under both section 302(b)(2) and section 302(b)(3).
   A. Yes/True
   B. No/False

52. Referring to Question 50, the redemption does not qualify under either section 302(b)(2) or section 302(b)(3).
   A. Yes/True
   B. No/False

53. John and Peter each own 100 common shares of the only 200 common shares which are issued and outstanding in TaTa Corporation, which corporation had $500,000 of current earnings and profits, and John and Peter each paid $1,000 for their separate 100 common shares four years ago. John is president of TaTa Corporation and is paid a salary for being the president. If TaTa Corporation redeems all of John’s 100 common shares for $10,000 and John continues to work as the president of TaTa Corporation, then, the result to John is as follows.
   A. None/Zero
   B. $9,000 long term capital gain
   C. $9,000 ordinary income
   D. $10,000 ordinary income
   E. None of the above

54. Referring to Question 53, the redemption qualifies under both section 302(b)(2) and section 302(b)(3).
   A. Yes/True
   B. No/False

55. Referring to Question 53, the redemption does not qualify under either section 302(b)(2) or section 302(b)(3).
   A. Yes/True
   B. No/False

56. John and Peter each own 100 common shares of the only 200 common shares which are issued and outstanding in the LaLa Corporation, which corporation had $500,000 of current earnings and profits, and
John and Peter each paid $1,000 for their separate 100 common shares four years ago. John is president of LaLa Corporation and is paid a salary for being the president. If LaLa Corporation redeems all of John’s 100 common shares for $10,000, and John retires from LaLa Corporation and moves to the State of Florida and the redemption is not in avoidance of income tax, then, the result to John is as follows.
A. None/Zero
B. $9,000 long term capital gain
C. $9,000 ordinary income
D. $10,000 ordinary income
E. None of the above

57. Referring to Question 56, the redemption qualifies under both section 302(b)(2) and section 302(b)(3).
A. Yes/True
B. No/False

58. Referring to Question 56, the redemption does not qualify under either section 302(b)(2) or section 302(b)(3).
A. Yes/True
B. No/False

59. John and Peter each own 100 common shares of the only 200 common shares which are issued and outstanding in the EasyTime Corporation, which corporation had $500,000 of current earnings and profits, and John and Peter each paid $1,000 for their separate 100 common shares four years ago. John is president of EasyTime Corporation and is paid a salary for being the president. If John dies and devises all of John’s estate to Mary and if EasyTime Corporation redeems all of (John’s) 100 common shares from John’s estate for $10,000, then, without considering section 303, and the result to John’s estate is as follows.
A. None/Zero
B. $9,000 long term capital gain
C. $9,000 ordinary income
D. $10,000 ordinary income
E. None of the above

60. Referring to Question 59, the redemption qualifies under both section 302(b)(2) and section 302(b)(3).
A. Yes/True
B. No/False

61. Referring to Question 59, the redemption does not qualify under either section 302(b)(2) or section 302(b)(3).
A. Yes/True
B. No/False

62. John and Peter each own 100 common shares of the only 200 common shares which are issued and outstanding in DoALittleDance Corporation, which corporation had $500,000 of current earnings and profits, and John and Peter each paid $1,000 for their separate 100 common shares four years ago. John is president of DoALittleDance Corporation and is paid a salary for being the president. If John dies and devises all of John’s estate to Peter and if DoALittleDance Corporation redeems all of (John’s) 100 common shares from John’s estate for $10,000, then, without considering section 303, and the result to John’s estate is as follows.
A. None/Zero
B. $9,000 long term capital gain
C. $9,000 ordinary income
D. $10,000 ordinary income
E. None of the above

63. Referring to Question 62, the redemption qualifies under both section 302(b)(2) and section 302(b)(3).
A. Yes/True
B. No/False
64. Referring to Question 62, the redemption does not qualify under either section 302(b)(2) or section 302(b)(3).
   A. Yes/True
   B. No/False

65. John and Paul each own 100 common shares of the only 200 common shares which are issued and outstanding in SlowDancing Corporation, which corporation had $500,000 of current earnings and profits, and John and Paul each paid $1,000 for their separate 100 common shares four years ago. John is president of SlowDancing Corporation and is paid a salary for being the president. If SlowDancing Corporation redeems 50 of John’s 100 common shares for $5,000 and John continues to work as the president of SlowDancing Corporation, then, the result to John is as follows.
   A. None/Zero
   B. $4,500 long term capital gain
   C. $4,500 ordinary income
   D. $5,000 ordinary income
   E. None of the above

66. Referring to Question 65, the redemption qualifies under both section 302(b)(2) and section 302(b)(3).
   A. Yes/True
   B. No/False

67. Referring to Question 65, the redemption does not qualify under either section 302(b)(2) or section 302(b)(3).
   A. Yes/True
   B. No/False

68. John and Peter each own 100 common shares of the only 200 common shares which are issued and outstanding in Eagle Corporation, which corporation had $500,000 of current earnings and profits, and John and Peter each paid $1,000 for their separate 100 common shares four years ago. John is president of Eagle Corporation and is paid a salary for being the president. If Eagle Corporation redeems 50 of John’s 100 common shares for $5,000, and John retires from Eagle Corporation and moves to the State of Florida and the redemption is not in avoidance of income tax, then, the result to John is as follows.
   A. None/Zero
   B. $4,500 long term capital gain
   C. $4,500 ordinary income
   D. $5,000 ordinary income
   E. None of the above

69. Referring to Question 68, the redemption qualifies under both section 302(b)(2) and section 302(b)(3).
   A. Yes/True
   B. No/False

70. Referring to Question 68, the redemption does not qualify under either section 302(b)(2) or section 302(b)(3).
   A. Yes/True
   B. No/False

71. John and Peter each own 100 common shares of the only 300 common shares which are issued and outstanding in YourOnMyMind Corporation, which corporation had $500,000 of current earnings and profits, and John and Peter each paid $1,000 for their separate 100 common shares four years ago. The other 100 common shares is owned by a partnership in which John has a ten percent interest. John is president of YourOnMyMind Corporation and is paid a salary for being the president. If YourOnMyMind Corporation redeems all of John’s 100 common shares for $10,000, and John retires from YourOnMyMind Corporation and moves to the State of Florida and the redemption is not in avoidance of income tax, then, the result to John is as follows.
   A. None/Zero
   B. $9,000 long term capital gain
72. Referring to Question 71, the redemption qualifies under both section 302(b)(2) and section 302(b)(3).
   A. Yes/True
   B. No/False

73. Referring to Question 71, the redemption does not qualify under either section 302(b)(2) or section 302(b)(3).
   A. Yes/True
   B. No/False

74. John and Paul each own 100 common shares of the only 300 common shares which are issued and outstanding in Beagle Corporation, which corporation had $500,000 of current earnings and profits, and John and Paul each paid $1,000 for their separate 100 common shares four years ago. The other 100 common shares is owned by an irrevocable trust which John’s father established for John, with respect to which John has a life estate (with an actuarial value of 60%) and Paul has the remainder interest (with an actuarial value of 40%). John is president of Beagle Corporation and is paid a salary for being the president. If Beagle Corporation redeems all of John’s 100 common shares for $10,000, and John retires from Beagle Corporation and moves to the State of Florida and the redemption is not in avoidance of income tax, then, the result to John is as follows.
   A. None/Zero
   B. $9,000 long term capital gain
   C. $9,000 ordinary income
   D. $10,000 ordinary income
   E. None of the above

75. Referring to Question 74, the redemption qualifies under both section 302(b)(2) and section 302(b)(3).
   A. Yes/True
   B. No/False

76. Referring to Question 74, the redemption does not qualify under either section 302(b)(2) or section 302(b)(3).
   A. Yes/True
   B. No/False

77. John and Paul each own 100 common shares of the only 200 common shares which are issued and outstanding in GoldenFinch Corporation, an S corporation, and John and Paul each paid $1,000 for their separate 100 common shares four years ago. John is president of GoldenFinch Corporation and is paid a salary for being the president. If GoldenFinch Corporation redeems all of John’s 100 common shares for $10,000 and John continues to work as the president of GoldenFinch Corporation, then, the result to John is as follows.
   A. None/Zero
   B. $9,000 long term capital gain
   C. $9,000 ordinary income
   D. $10,000 ordinary income
   E. None of the above

78. Referring to Question 77, the redemption qualifies under both section 302(b)(2) and section 302(b)(3).
   A. Yes/True
   B. No/False

79. Referring to Question 77, the redemption does not qualify under either section 302(b)(2) or section 302(b)(3).
   A. Yes/True
   B. No/False
80. John and Peter each own 100 common shares of the only 200 common shares which are issued and outstanding in RosieOGrady Corporation, an S corporation, and John and Peter each paid $1,000 for their separate 100 common shares four years ago. John is president of RosieOGrady Corporation and is paid a salary for being the president. If RosieOGrady Corporation redeems all of John’s 100 common shares for $10,000 and John continues to work as the president of RosieOGrady Corporation, then the result to John is as follows.
A. None/Zero
B. $9,000 long term capital gain
C. $9,000 ordinary income
D. $10,000 ordinary income
E. None of the above

81. Referring to Question 80, the redemption qualifies under both section 302(b)(2) and section 302(b)(3).
A. Yes/True
B. No/False

82. Referring to Question 80, the redemption does not qualify under either section 302(b)(2) or section 302(b)(3).
A. Yes/True
B. No/False

83. During the current taxable year, John owned 100 common shares of FruitLoops Corporation, which was 100% of the common shares of FruitLoops Corporation, which corporation had accumulated earnings and profits of $350,000. John needed some money in order to repay a debt which John owed. Therefore, during the current taxable year, FruitLoops Corporation redeemed 50 of the common shares which John owned. John's adjusted basis for the 50 redeemed common shares was $2,500 and the common shares were redeemed at the fair price of $5,000. John's gross income for the current taxable year is as follows.
A. None/Zero
B. $2,500 long term capital gain
C. $5,000 ordinary income
D. $5,000 long term capital gain
E. None of the above

84. Referring to Question 83, John first sold ten common shares to Paul for $400 per share. John had an adjusted basis for these ten 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

85. Referring to Question 83, John first sold ten common shares to Paul for $400 per share. John had an adjusted basis for these ten common 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. $25,000 long term capital gain
E. None of the above

86. Referring to Question 83, John first sold 10 common shares to Sue for $400 per share. John had an adjusted
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

During the current taxable year, Paul owned 150 common shares of SeeYouSoon Corporation, which was 50% of the common shares of SeeYouSoon Corporation, which corporation had accumulated earnings and profits of $500,000. John owned the other 50% of the common shares. Paul needed some money in order to repay a debt which Paul owed. Therefore, during the current taxable year, SeeYouSoon Corporation redeemed all 150 of the common shares which Paul owned. Paul's adjusted basis for the 150 redeemed common shares was $7,000 and the common shares were redeemed at the fair price of $10,000. Paul's gross income for the current taxable year is as follows.
A. None/Zero
B. $3,000 long term capital gain
C. $3,000 ordinary income
D. $10,000 ordinary income
E. None of the above

Referring to Question 87, Paul sold to Mary 75 of the common shares which Paul owned for $10,000. Paul's adjusted basis for the 75 sold common shares was $3,500. Paul's gross income for the current taxable year is as follows.
A. None/Zero
B. $6,500 long term capital gain
C. $3,000 long term capital gain
D. $3,000 ordinary income
E. None of the above

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, which corporation 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 short term capital gain
C. $14,000 ordinary income
D. $10,500 long term capital gain
E. None of the above

John and Peter each own 100 common shares of the only 200 common shares which are issued and outstanding in Eagle Corporation, which corporation had $500,000 of current earnings and profits, and John and Peter each paid $1,000 for their separate 100 common shares four years ago. John is president of Eagle Corporation and is paid a salary for being the president. During the current taxable year, Eagle Corporation redeemed John’s 100 common shares, at one time during the current taxable year, under an agreement that obligated Eagle Corporation to pay John $10,000, payable at the rate of $1,000 per year for ten years, beginning with the current taxable year. John could not assign the payments under the agreement to any other person but John’s estate. John was to continue to be president of Eagle Corporation and the redemption is
not in avoidance of income tax. During the current taxable year, John had gross income as follows.

A. None/Zero
B. $9,000 long term capital gain
C. $9,000 of ordinary income
D. $1,000 of ordinary income
E. None of the above

91. Several taxable years ago, RollerCoaster Corporation purchased a truck for $10,000 for use in RollerCoaster Corporation’s business. The truck had an adjusted basis of $2,000 (after deducting $8,000 depreciation expenses) and had a fair market value of $6,000. During the current taxable year, RollerCoaster Corporation distributed the truck, as a legal dividend, to John, who owned all of the common shares of RollerCoaster Corporation which John purchased several years ago for $4,000. RollerCoaster Corporation had $100,000 of current earning and profits in the year of distribution. RollerCoaster Corporation’s gross income for the current year as a result of the distribution of the truck to John is as follows.

A. None/Zero
B. $4,000
C. $6,000
D. $8,000
E. None of the above

92. Referring to Question 91, John’s gross income for the current taxable year is as follows.

A. None/Zero
B. $2,000
C. $6,000
D. $10,000
E. None of the above

93. Referring to Question 91, John’s basis for the truck is as follows.

A. None/Zero
B. $2,000
C. $6,000
D. $10,000
E. None of the above

94. Several taxable years ago, GiddyUpGo Corporation purchased a truck for $10,000 for use in GiddyUpGo Corporation’s business. The truck had an adjusted basis of $2,000 (after deducting $8,000 depreciation expenses) and a fair market value of $1,000. During the current taxable year, GiddyUpGo Corporation distributed the truck, as a legal dividend, to John, who owned all of the common shares of GiddyUpGo Corporation which John had purchased several years for $400. GiddyUpGo Corporation had $100,000 of current earning and profits in the year of distribution. GiddyUpGo Corporation’s ordinary expense or ordinary loss deduction for the current year as a result of the distribution of the truck to John is as follows.

A. None/Zero
B. $1,000
C. $2,000
D. $9,000
E. None of the above

95. Referring to Question 94, John’s gross income for the current taxable year is as follows.

A. None/Zero
B. $1,000
C. $2,000
D. $9,000
E. None of the above
96. Referring to Question 94, John’s basis for the truck is as follows.
   A. None/Zero
   B. $1,000
   C. $2,000
   D. $9,000
   E. None of the above

97. Several taxable years ago, RollerDerby Corporation purchased a truck for $10,000 for use in Roller Derby Corporation’s business. The truck had an adjusted basis of $2,000 (after deducting $8,000 depreciation expenses) and had a fair market value of $6,000. During the current taxable year, RollerDerby Corporation distributed the truck to John, who owned 50% of the common shares of RollerDerby Corporation, which John had purchased several years ago for $4,000, in redemption of all of John’s common shares of RollerDerby Corporation, but not as part of a partial or complete liquidation of Roller Derby Corporation. RollerDerby Corporation had $100,000 of current earning and profits in the year of distribution. RollerDerby Corporation’s gross income for the current year as a result of the distribution of the truck to John is as follows.
   A. None/Zero
   B. $4,000
   C. $6,000
   D. $8,000
   E. None of the above

98. Referring to Question 97, John’s gross income for the current taxable year is as follows.
   A. None/Zero
   B. $2,000
   C. $6,000
   D. $10,000
   E. None of the above

99. Referring to Question 97, John’s basis for the truck is as follows.
   A. None/Zero
   B. $2,000
   C. $6,000
   D. $10,000
   E. None of the above

100. Several taxable years ago, Giddy Corporation purchased a truck for $10,000 for use in Giddy Corporation’s business. The truck had an adjusted basis of $2,000 (after deducting $8,000 depreciation expenses) and a fair market value of $1,000. During the current taxable year, Giddy Corporation distributed the truck to John, who owned 50% of the common shares of Giddy Corporation, which John purchased several years for $400, in redemption of all of John’s common shares of Giddy Corporation, but not as part of a partial or complete liquidation of Giddy Corporation. Giddy Corporation had $100,000 of current earning and profits in the year of distribution. Giddy Corporation’s ordinary expense or ordinary loss deduction for the current year as a result of the distribution of the truck to John is as follows.
   A. None/Zero
   B. $1,000
   C. $2,000
   D. $9,000
   E. None of the above

101. Referring to Question 100, John’s gross income for the current taxable year is as follows.
   A. None/Zero
   B. $600
   C. $1,000
D. $2,000
E. None of the above

102. Referring to Question 100, John’s basis for the truck is as follows.
A. None/Zero
B. $1,000
C. $2,000
D. $9,000
E. None of the above

103. Several taxable years ago, Muslem Corporation purchased some land for $100,000 for use in Muslem Corporation’s tractor sales business. Muslem Corporation paid $20,000 as a downpayment and borrowed $80,000. During the current taxable year, when the land had a fair market value of $150,000, Muslem Corporation distributed the land to Paul, who owned all of the common shares of Muslem Corporation which Paul had purchased several years ago for $10,000. During the current taxable year, Muslem Corporation had $100,000 of earning and profits and Paul agreed to pay the remaining mortgage debt of $60,000. Muslem Corporation’s gross income for the current year as a result of the distribution of the land to Paul is as follows.
A. None/Zero
B. $40,000
C. $60,000
D. $90,000
E. None of the above

104. Referring to Question 103, Paul’s gross income for the current taxable year is as follows.
A. None/Zero
B. $150,000
C. $90,000
D. $50,000
E. None of the above

105. Referring to Question 103, Paul’s basis for the land is as follows.
A. None/Zero
B. $150,000
C. $90,000
D. $50,000
E. None of the above

106. During the current taxable year, John owned all of the common shares of Alpha Corporation (which had earnings and profits for the current taxable year of $100,000 and no accumulated earnings and profits) and all of the common shares of Beta Corporation (which had earnings and profits for the current year of $20,000 and no accumulated earnings and profits). During the current taxable year, Beta Corporation purchased 50% of John’s Alpha Corporation for $40,000. John had an adjusted basis for John’s Alpha common shares of $10,000 and an adjusted basis for John’s Beta common shares of $10,000. John’s ordinary gross income for the current taxable year is as follows.
A. None/Zero
B. $35,000
C. $40,000
D. $20,000
E. None of the above

107. During the current taxable year, John died while owning 50% of the common shares of VeryNiceIndeed Corporation, specifically, 100 common shares which John purchased several years ago for $200,000. The other 100 common shares were owned, at John’s death, by Mary. John’s 100 common shares had a fair market value of $500,000 and VeryNiceIndeed Corporation had earnings and profits of $1,000,000. The
executor of John’s estate determined that some of the following information about John’s estate is: John’s
gross estate - $1,000,000; John’s liabilities - $10,000; John’s funeral expenses - $10,000; John’s federal estate
taxes - $10,000; John’s Indiana inheritance taxes - $10,000; and, John’s estate’s administration expenses -
$10,000. Within a year after John died, VeryNiceIndeed Corporation redeemed ten of John’s common shares
for the price of $50,000 in order that John’s estate could pay the liabilities, the funeral expenses, the estate
taxes, the inheritance taxes, and the administration expenses. John’s estate’s ordinary gross income for the
current taxable year is as follows.
A. None/Zero
B. $50,000
C. $40,000
D. $10,000
E. None of the above

108. Referring to Question 107, John’s estate was open for four years after John’s death, and during the fourth
year, just before John’s estate was closed, the ten common shares were redeemed from John’s estate by
VeryNiceIndeed Corporation for $50,000. John’s estate’s ordinary gross income for the current taxable year
is as follows.
A. None/Zero
B. $50,000
C. $40,000
D. $30,000
E. None of the above

109. Referring to Question 107, VeryNiceIndeed Corporation was an S corporation. John’s estate’s ordinary gross
income for the current taxable year is as follows.
A. None/Zero
B. $50,000
C. $40,000
D. $30,000
E. None of the above

110. During the current taxable year, John owned all of the common shares (specifically, 100 common shares
which John had purchased several years ago for $2,000) of Christian Corporation (which operated a real
property sales business and which had a total of earnings and profits of $100,000) and during the current
taxable year, Christian Corporation issued to John 100 preferred shares of Christian Corporation. John
estimated that the fair market value of the preferred shares, at the time when the preferred shares were issued
to John was $10,000 and that Christian Corporation’s total earnings and profits at that time were $100,000.
During the next taxable year, Christian Corporation had redeemed the 100 preferred shares from John for
$10,000, because John needed the money. During that next taxable year, Christian Corporation’s total
earnings and profits were $150,000. John’s gross income for the current taxable year is as follows.
A. None/Zero
B. $10,000
C. $100,000
D. $5,000
E. None of the above

111. Referring to Question 110, the 100 preferred shares had an adjusted basis to John of $10,000. John’s ordinary
income for the next taxable year is as follows.
A. None/Zero
B. $10,000
C. $100,000
D. $8,000
E. None of the above
112. Referring to Question 110, during the next taxable year, John sold the 100 preferred shares to Paul for $10,000 (instead of Christian Corporation). John’s ordinary income for the next taxable year is as follows.
   A. None/Zero
   B. $10,000
   C. $100,000
   D. $8,000
   E. None of the above

113. During the current taxable year, Jewish Corporation (which operated a home construction business and which had $300,000 of earnings and profits) distributed to John (who owned all of the common shares of Jewish Corporation which John had purchased several years ago for $50,000) land with an adjusted basis of $100,000 and a fair market value of $170,000, which land was subject to a liability of $200,000, which liability was assumed by John. John knew that the land had a fair market value of only $170,000, but John wanted the land and John knew that the creditors of Jewish Corporation would take the land from Jewish Corporation if John did not assume the debt. Jewish Corporation’s gross income for the current taxable year is as follows.
   A. None/Zero
   B. $30,000
   C. $70,000
   D. $100,000
   E. None of the above

114. Referring to Question 113, John’s basis for the land is as follows.
   A. None/Zero
   B. $200,000
   C. $170,000
   D. $100,000
   E. None of the above

115. During the current year, RaceCar Corporation operated a helmet manufacturing business, selling the helmets to wholesale companies, and operated a retail store business which sold automobile parts to the general public. Paul incorporated RaceCar Corporation 20 years ago, and then, eight years ago, RaceCar Corporation purchased the assets for the retail store business from AutoFix Corporation, a corporation which had been operating the retail store business prior to that time. In January of the current taxable year, RaceCar Corporation sold all of the assets of the retail store business to BuyEmUp Corporation for $200,000. At the time of the sale, RaceCar Corporation had an adjusted basis in the assets of the retail store business of $150,000 and none of the assets were sold at a loss. In June of the current taxable year, RaceCar Corporation distributed $200,000 of cash to Paul, who owned all of the common shares of RaceCar Corporation, and at that time Paul conveyed an appropriate number of shares of RaceCar Corporation to RaceCar Corporation, even though RaceCar Corporation was not required to do so. Throughout the current taxable year (and except for the distribution to Paul), RaceCar Corporation had earnings and profits of $900,000 and RaceCar Corporation had $100,000 of capital. At the time of the distribution to Paul, the $200,000 was equal to 50% of the net value of the assets of RaceCar Corporation. Paul’s adjusted basis for the 100 common shares which Paul owned was $10,000. As of now, RaceCar Corporation intends to continue to operate the racing helmet manufacturing business. RaceCar Corporation’s gross income for the current year as a result of the sale of the assets is as follows.
   A. None/Zero
   B. $50,000
   C. $25,000
   D. $200,000
   E. None of the above
A. None/Zero  
B. $195,000 long term capital gain  
C. $200,000 ordinary income  
D. $190,000 long term capital gain  
E. None of the above

117. Referring to Question 115, if Paul conveys any of Paul’s common shares of RaceCar Corporation to RaceCar Corporation, the number of common shares which Paul should convey is as follows.  
A. 100  
B. 75  
C. 50  
D. 25  
E. None of the above

118. Referring to Question 115, RaceCar Corporation purchased the assets of AutoFix Corporation two years prior to the distribution of the $200,000 to Paul. Paul’s gross income for the current taxable year is as follows.  
A. None/Zero  
B. $197,500 long term capital gain  
C. $200,000  
D. $200,000 ordinary income  
E. None of the above

119. Referring to Question 115, RaceCar Corporation did not purchase the assets of AutoFix Corporation, but instead, started the retail store business “from scratch” eight years ago. Paul’s gross income for the current taxable year is as follows.  
A. None/Zero  
B. $195,000 long term capital gain  
C. $200,000 long term capital gain  
D. $200,000 ordinary income  
E. None of the above

120. Referring to Question 115, RaceCar Corporation distributed the $200,000 to Paul at the rate of $20,000 per year for ten years, beginning with the current taxable year. Paul’s gross income for the current taxable year is as follows.  
A. None/Zero  
B. $20,000 long term capital gain  
C. $200,000 long term capital gain  
D. $200,000 ordinary income  
E. None of the above

121. Referring to Question 115, RaceCar Corporation’s earnings and profits would be reduced, due to the distribution to Paul, by the following amount.  
A. None/Zero  
B. $190,000  
C. $200,000  
D. $180,000  
E. None of the above

122. Referring to Question 115, RaceCar Corporation did not sell the retail store business assets to BuyEmUp Corporation, but instead, RaceCar Corporation distributed all of the assets of the retail store business to Paul, who intended to continue operating the retail store business. Paul’s gross income for the current taxable year is as follows.  
A. None/Zero  
B. $195,000 long term capital gain
C. $200,000 long term capital gain
D. $200,000 ordinary income
E. None of the above

123. Referring to Question 115, Paul’s total basis for the assets distributed to Paul is as follows.
A. None/Zero
B. $197,500
C. $200,000
D. $210,000
E. None of the above

124. Referring to Question 115, RaceCar Corporation did not sell the retail store business assets to BuyEmUp Corporation, but instead, RaceCar Corporation distributed all of the assets of the retail store business to Paul. The reason why Paul had RaceCar Corporation distribute all of the assets of the retail store business to Paul was because Peter was about to be married and Paul wanted to give Peter a nice wedding present, which Paul did, by giving Peter the title to all of the assets of the retail store business in June of the current year, shortly after Paul received the assets. Paul’s gross income for the current taxable year is as follows.
A. None/Zero
B. $197,500 long term capital gain
C. $200,000 long term capital gain
D. $200,000 ordinary income
E. None of the above

125. Referring to Question 124, Paul’s total basis for the assets distributed to Paul is as follows.
A. None/Zero
B. $197,500
C. $200,000
D. $210,000
E. None of the above

126. Referring to Question 124, Peter’s total basis for the assets given by Paul to Peter is as follows.
A. None/Zero
B. $197,500
C. $200,000
D. $210,000
E. None of the above

127. Referring to Question 115, RaceCar Corporation did not sell the retail store business assets to BuyEmUp Corporation, but instead, RaceCar Corporation distributed all of the assets of the retail store business to Paul, who intended to continue operating the retail store business. Notwithstanding any prior statement, one of the assets which was distributed to Paul was an automobile engine which RaceCar Corporation had in inventory and with respect to which RaceCar Corporation had an adjusted basis of $10,000 and which automobile engine had a fair market value of $8,000. RaceCar Corporation’s deductible loss due to the distribution of the automobile engine to Paul during the current taxable year is as follows.
A. None/Zero
B. $2,000 capital loss
C. $10,000 ordinary loss
D. $2,000 ordinary loss
E. None of the above

128. Referring to Question 127, Paul’s gross income for the current taxable year is as follows.
A. None/Zero
B. $2,000
C. $10,000
129. Referring to Question 115, RaceCar Corporation decided to completely liquidate both of the businesses over a four-year period. However, because of the large outstanding accounts receivable, some of which might not be paid, and because of the significant liability with respect to the failure of a helmet to protect an individual, RaceCar Corporation was uncertain as to the total amount of funds which would actually be distributed to the common shareholder of RaceCar Corporation. Further, RaceCar Corporation’s plan of liquidation was to sell all of the assets of RaceCar Corporation, separately or together, as offers were made by other persons for the purchase of such assets, so that only cash would be distributed to the common shareholder. No assets were sold to BuyEmUp Corporation. Under this plan, RaceCar Corporation began the liquidation process, selling the inventory of helmets to wholesale companies and to retail companies and selling automobile parts through the retail store business to the general public and during the current taxable year, RaceCar Corporation distributed to Paul $8,000. Paul’s gross income for the current taxable year is as follows.
   A. None/Zero
   B. $8,000
   C. $4,000
   D. $10,000
   E. None of the above

130. Referring to Question 129, during the next taxable year, Paul received $20,000. Paul’s gross income for the next taxable year is as follows.
   A. None/Zero
   B. $20,000
   C. $10,000
   D. $18,000
   E. None of the above

131. Referring to Question 129, during the final taxable year (four years after the current taxable year), Paul received the final liquidating distribution from RaceCar Corporation in the amount of $50,000. Paul’s gross income for the final taxable year is as follows.
   A. None/Zero
   B. $50,000
   C. $40,000
   D. $18,000
   E. None of the above

132. Referring to Question 129, during each year of the four-year period, RaceCar Corporation continued to manufacture helmets and sell and to purchase and sell automobile parts so that RaceCar Corporation would make a considerable amount of money during the process. Paul’s gross income for the current taxable year is as follows.
   A. None/Zero
   B. $8,000
   C. $4,000
   D. $10,000
   E. None of the above

133. Referring to Question 132, Paul’s gross income for the final taxable year of the process is as follows.
   A. None/Zero
   B. $50,000
   C. $10,000
   D. $40,000
   E. None of the above
134. Two years ago, Mary bought some silver for $100,000, made some Hanukkah decorations which then had a fair market value of $150,000, and transferred the decorations to the HappyHanukkah Corporation, under a section 351 transaction, for 100% of HappyHanukkah Corporation’s common shares. During January of the current taxable year, Mary completely liquidated HappyHanukkah Corporation at a time when the decorations had a fair market value of $175,000. Then, in October of the current year, Mary sold all of the decorations to Beverly for $178,000. HappyHanukkah Corporation’s gross income during the current taxable year is as follows.

A. $175,000 long term capital gain
B. $75,000 ordinary income
C. $25,000 long term capital gain
D. $150,000 long term capital gain
E. None of the above

135. Referring to Question 134, Mary’s gross income during the current taxable year is

A. $175,000 long term capital gain
B. $75,000 long term capital gain
C. $25,000 long term capital gain
D. $150,000 long term capital gain
E. None of the above

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

<table>
<thead>
<tr>
<th>Asset</th>
<th>Adjusted Basis</th>
<th>Fair Market Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>25,000</td>
<td>25,000</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>15,000</td>
<td>20,000</td>
</tr>
<tr>
<td>Inventory</td>
<td>20,000</td>
<td>50,000</td>
</tr>
<tr>
<td>Equipment</td>
<td>20,000</td>
<td>10,000</td>
</tr>
<tr>
<td>Land</td>
<td>20,000</td>
<td>80,000</td>
</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. $20,000
C. $30,000
D. $50,000
E. None of the above

137. Referring to Question 136, Mary's gross income with respect to the liquidation distribution to Mary is as follows.

A. None/Zero
B. $20,000
C. $30,000
D. $50,000
138. Referring to Question 136, Mary sold the inventory for $70,000 nine months after Mary received the inventory. Mary's gross income for the current taxable year as a result of the sale is as follows.
   A. None/Zero
   B. $20,000
   C. $30,000
   D. $40,000
   E. None of the above

139. Several taxable years ago, RollInTheHay Corporation purchased a truck for $10,000 for use in RollInTheHay’s business. The truck had an adjusted basis of $2,000 (after deducting $8,000 depreciation expenses) and had a fair market value of $6,000. During the current taxable year, RollInTheHay Corporation distributed the truck to John, who owned all of the common shares of RollInTheHay Corporation and who had purchased the common shares several years ago for $4,000, in partial liquidation of RollInTheHay Corporation. RollInTheHay Corporation had $100,000 of current earning and profits in the year of distribution. RollInTheHay Corporation’s gross income for the current year as a result of the distribution of the truck to John is as follows.
   A. None/Zero
   B. $4,000
   C. $6,000
   D. $8,000
   E. None of the above

140. Referring to Question 139, John’s gross income for the current taxable year is as follows.
   A. None/Zero
   B. $2,000
   C. $6,000
   D. $10,000
   E. None of the above

141. Referring to Question 139, John’s basis for the truck is as follows.
   A. None/Zero
   B. $2,000
   C. $6,000
   D. $10,000
   E. None of the above

142. Several taxable years ago, OverTheRainbow Corporation purchased a truck for $10,000 for use in its operations. The truck had an adjusted basis of $2,000 (after deducting $8,000 depreciation expenses) and a fair market value of $1,000. During the current taxable year, OverTheRainbow Corporation distributed the truck to John, who owned 50% of the common shares of OverTheRainbow Corporation and who had purchased the common shares several years ago for $400, in redemption of all of John’s common shares of OverTheRainbow Corporation and in partial liquidation of OverTheRainbow Corporation. OverTheRainbow Corporation had $100,000 of current earning and profits in the year of distribution. OverTheRainbow Corporation’s ordinary expense or ordinary loss deduction for the current year as a result of the distribution of the truck to John is as follows.
   A. None/Zero
   B. $1,000
   C. $2,000
   D. $9,000
   E. None of the above

143. Referring to Question 142, John’s gross income for the current taxable year is as follows.
A. None/Zero
B. $600
C. $2,000
D. $1,000
E. None of the above

144. Referring to Question 142, John’s basis for the truck is as follows.
A. None/Zero
B. $1,000
C. $2,000
D. $9,000
E. None of the above

Reorganizations Of Corporations And Some Related Transactions

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

146. Referring to Question 145, John's adjusted basis for the common shares which John received in Gentler Corporation from Kinder Corporation is as follows.
A. None/Zero
B. $80,000
C. $120,000
D. $60,000
E. None of the above
147. Referring to Question 145, Gentler Corporation's gross income for the current taxable year is as follows.
   A. None/Zero
   B. $150,000
   C. $200,000
   D. $500,000
   E. None of the above

148. Referring to Question 145, Gentler Corporation's adjusted basis for the assets which Gentler Corporation received from Kinder Corporation is as follows.
   A. None/Zero
   B. $500,000
   C. $555,000
   D. $150,000
   E. None of the above

149. Referring to Question 145, Kinder Corporation's gross income for the current taxable year is as follows.
   A. None/Zero
   B. $500,000
   C. $555,000
   D. $150,000
   E. None of the above

150. Referring to Question 145, after the merger, Gentler Corporation's total earnings and profits is as follows.
   A. None/Zero
   B. $350,000
   C. $245,000
   D. $175,000
   E. None of the above

151. Referring to Question 145, John received from Kinder Corporation, as part of the merger, $20,000 of cash and the common shares of Gentler Corporation, which shares had a fair market value of $400,000. John's capital gain gross income for the current taxable year is as follows.
   A. None/Zero
   B. $20,000
   C. $120,000
   D. $360,000
   E. None of the above

152. Referring to Question 151, John's adjusted basis for the common shares of Gentler Corporation which John received as a result of the merger is as follows.
   A. None/Zero
   B. $240,000
   C. $60,000
   D. $300,000
   E. None of the above

153. During the current taxable year and as part of a corporate division, Hotshot Corporation organized GoodLuck Corporation and transferred 70% of Hotshot Corporation's assets and 70% of Hotshots Corporation's liabilities to GoodLuck Corporation in exchange for 1,000 common shares of GoodLuck Corporation (which were all of the common shares of Good Luck Corporation). Mary owned, at that time, 70% of the common shares (700 of the 1,000 common shares) of Hotshot Corporation, which common shares (of Mary) had a fair market value of $2,100,000 (because Hotshot Corporation's fair market value was $3,000,000) and which common shares had an adjusted basis to Mary of $40,000 and which common shares had been owned by
Mary for over five years. Paul owned the other 30% (300 common shares) of Hotshot Corporation, which 300 common shares had a fair market value of $900,000. As part of the corporate division of Hotshot Corporation, Hotshot Corporation transferred 70% of Hotshot Corporation's assets and liabilities (which had a net fair market value of $2,100,000) to GoodLuck Corporation and GoodLuck Corporation issued 1,000 common shares of GoodLuck Corporation (which were all of GoodLuck Corporation's shares) to Hotshot Corporation in exchange such assets and liabilities. Just prior to the corporate division, Hotshot Corporation had $400,000 of accumulated earnings and profits. Thereafter, Hotshot Corporation transferred all of the GoodLuck Corporation common shares to Mary in exchange for the common shares of Hotshot Corporation which were owned by Mary. Then, under the provisions of the applicable corporate division laws, Hotshot Corporation and Good Luck Corporation existed as separate corporations, with Mary owning all of the common shares of GoodLuck Corporation (which then had a fair market value of $2,100,000) and with Paul owning all of the common shares of Hotshot Corporation (which then had a fair market value of $900,000). The adjusted basis of Hotshot Corporation's assets which Hotshot Corporation transferred to Good Luck Corporation was $325,000. Mary's gross income for the current taxable year with respect to the corporate division is as follows.

A. None/Zero  
B. $1,775,000  
C. $2,060,000  
D. $2,100,000  
E. None of the above

154. Referring to Question 153, Mary's adjusted basis for the common shares which Mary received in GoodLuck Corporation from Hotshot Corporation is as follows.

A. None/Zero  
B. $2,060,000  
C. $325,000  
D. $40,000  
E. None of the above

155. Referring to Question 153, Hotshot Corporation's gross income for the current taxable year with respect to the corporate division is as follows.

A. None/Zero  
B. $40,000  
C. $325,000  
D. $2,060,000  
E. None of the above

156. Referring to Question 153, GoodLuck Corporation's adjusted basis for the assets which GoodLuck Corporation received from Hotshot Corporation is as follows.

A. None/Zero  
B. $40,000  
C. $325,000  
D. $2,060,000  
E. None of the above

157. Referring to Question 153, GoodLuck Corporation's gross income as the result of these facts is as follows.

A. None/Zero  
B. $40,000  
C. $325,000  
D. $2,060,000  
E. None of the above

158. Referring to Question 153, GoodLuck Corporation's accumulated earnings and profits just after the corporate division is as follows.
A. None/Zero
B. $120,000
C. $280,000
D. $400,000
E. None of the above

159. The following is an example of a “spin-off”:
A. ChewChew Corporation owns all of the common shares of HeaveHo Corporation and ChewChew Corporation distributes all of the HeaveHo Corporation common shares to ChewChew Corporation’s shareholders, pro rata, and ChewChew Corporation’s shareholders transfer all of their ChewChew Corporation common shares to ChewChew Corporation
B. ChewChew Corporation owns all of the common shares of HeaveHo Corporation and ChewChew Corporation distributes all of the HeaveHo Corporation common shares to ChewChew Corporation’s shareholders, pro rata, and ChewChew Corporation’s shareholders do not transfer any of their ChewChew Corporation common shares to ChewChew Corporation
C. ChewChew Corporation owns all of the common shares of HeaveHo Corporation and ChewChew Corporation distributes all of the HeaveHo Corporation common shares to ChewChew Corporation’s shareholders, pro rata, and ChewChew Corporation’s shareholders transfer some of their ChewChew Corporation common shares to ChewChew Corporation
D. None of the above

160. In general, no gain or loss is recognized to the recipient shareholders upon the receipt of the spun-off common shares in a split-off.
A. Yes/True
B. No/False

161. The following is an example of a “split-off”:
A. ChewChew Corporation owns all of the common shares of HeaveHo Corporation and ChewChew Corporation distributes all of the HeaveHo Corporation common shares to ChewChew Corporation’s shareholders, pro rata, and ChewChew Corporation’s shareholders transfer all of their ChewChew Corporation common shares to ChewChew Corporation
B. ChewChew Corporation owns all of the common shares of HeaveHo Corporation and ChewChew Corporation distributes all of the HeaveHo Corporation common shares to ChewChew Corporation’s shareholders, pro rata, and ChewChew Corporation’s shareholders do not transfer any of their ChewChew Corporation common shares to ChewChew Corporation
C. ChewChew Corporation owns all of the common shares of HeaveHo Corporation and ChewChew Corporation distributes all of the HeaveHo Corporation common shares to ChewChew Corporation’s shareholders, pro rata, and ChewChew Corporation’s shareholders transfer some of their ChewChew Corporation common shares to ChewChew Corporation
D. None of the above

162. In general, no gain or loss is recognized to the recipient shareholders upon the receipt of the split-off common shares in a split-off.
A. Yes/True
B. No/False

163. The following is an example of a “split-up”:
A. ChewChew Corporation owns all of the common shares of HeaveHo Corporation and ChewChew Corporation distributes all of the HeaveHo Corporation common shares to ChewChew Corporation’s shareholders, pro rata, and ChewChew Corporation’s shareholders transfer all of their ChewChew Corporation common shares to ChewChew Corporation
B. ChewChew Corporation owns all of the common shares of HeaveHo Corporation and ChewChew Corporation distributes all of the HeaveHo Corporation common shares to ChewChew Corporation’s shareholders, pro rata, and ChewChew Corporation’s shareholders do not transfer any of their ChewChew Corporation common shares to ChewChew Corporation
C. ChewChew Corporation owns all of the common shares of HeaveHo Corporation and ChewChew Corporation distributes all of the HeaveHo Corporation common shares to ChewChew Corporation’s shareholders, pro rata, and ChewChew Corporation’s shareholders transfer some of their ChewChew Corporation common shares to ChewChew Corporation

D. None of the above

164. In general, no gain or loss is recognized to the recipient shareholders upon the receipt of the split-up common shares in a split-up.
A. Yes/True
B. No/False

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

166. Referring to Question 165, immediately after John received the 600 common shares of Gentler Corporation, John gave 300 common shares of Gentler Corporation to Sue and John sold 300 common shares of Gentler Corporation to Paul for $270,000. John’s gross income due to the sale of the common shares of Gentler Corporation to Paul is as follows.
A. $270,000 of ordinary income
B. $270,000 of long term capital gain
C. $210,000 of long term capital gain
D. $240,000 of long term capital gain
E. None of the above
During the current taxable year and as part of a corporate division, Hotshot Corporation organized GoodLuck Corporation and transferred 70% of Hotshot Corporation's assets and 70% of Hotshots Corporation's liabilities to GoodLuck Corporation in exchange for 1,000 common shares of GoodLuck Corporation (which were all of the common shares of Good Luck Corporation). Mary owned, at that time, 70% of the common shares (700 of the 1,000 common shares) of Hotshot Corporation, which common shares (of Mary) had a fair market value of $2,100,000 (because Hotshot Corporation's fair market value was $3,000,000) and which common shares had an adjusted basis to Mary of $40,000 and which common shares had been owned by Mary for over five years. Paul owned the other 30% (300 common shares) of Hotshot Corporation, which 300 common shares had a fair market value of $900,000. As part of the corporate division of Hotshot Corporation, Hotshot Corporation transferred 70% of Hotshot Corporation's assets and liabilities (which had a net fair market value of $2,100,000) to GoodLuck Corporation and GoodLuck Corporation issued 1,000 common shares of GoodLuck Corporation (which were all of GoodLuck Corporation's shares) to Hotshot Corporation in exchange such assets and liabilities. Just prior to the corporate division, Hotshot Corporation had $400,000 of accumulated earnings and profits. Thereafter, Hotshot Corporation transferred all of the GoodLuck Corporation common shares to Mary in exchange for the common shares of Hotshot Corporation which were owned by Mary. Then, under the provisions of the applicable corporate division laws, Hotshot Corporation and Good Luck Corporation existed as separate corporations, with Mary owning all of the common shares of GoodLuck Corporation (which then had a fair market value of $2,100,000) and with Paul owning all of the common shares of Hotshot Corporation (which then had a fair market value of $900,000). The adjusted basis of Hotshot Corporation's assets which Hotshot Corporation transferred to Good Luck Corporation was $325,000. This is an example of the following type of reorganization.
A. An “A” reorganization
B. A “B” reorganization
C. A “C” reorganization
D. A “D” reorganization
E. None of the above

During the current taxable year, Racey Corporation wants to acquire the net assets (which are appreciated in value, but which are fully depreciable for tax purposes) of Slow Corporation so that Slow Corporation can redepreciate the assets. John does not want to recognize any gain from the transaction and John is willing to take common shares of Racey Corporation. Paul owns 100% of the common shares of Racey Corporation and John owns 100% of the common shares of Slow Corporation. In general, from John’s standpoint, Racey Corporation and Slow Corporation should engage in the following type of transaction.
A. A “B” reorganization
B. A “C” reorganization
C. None of the above

Referring to Question 168, in general, from Racey Corporation’s standpoint, Racey Corporation should engage in the following type of transaction.
A. An “A” reorganization
B. A “B” reorganization
C. A “C” reorganization
D. A “D” reorganization
E. None of the above

Referring to Question 168, in general, an even better plan (than a plan of reorganization) for Racey Corporation (in order for Racey Corporation to implement Racey Corporation’s goal) would be for Racey Corporation to promptly acquire all of the common shares which John has in Slow Corporation, and then, to make an election under section 338.
A. Yes/True
B. No/False

Referring to Question 168, in general, an even better plan (than a plan of reorganization or coming within the scope of section 338) for Racey Corporation (in order for Racey Corporation to implement Racey
Corporation’s goal) would be for Racey Corporation to promptly acquire all of the common shares which John has in Slow Corporation and to liquidate Slow Corporation under section 337.
A. Yes/True
B. No/False

172. In general, the carryover provisions of section 381 through section 384 do not apply to the following transaction.
A. An “A” reorganization
B. A “B” reorganization
C. A “C” reorganization
D. A “D” reorganization
E. A section 338 transaction

173. During the current taxable year, Paul intends to open several pizza restaurants in and about the Indianapolis, Indiana area. If Paul incorporates the business of each restaurant separately, and if Paul owns all of the common shares of each corporation, then each corporation will be entitled to have $50,000 of taxable income at an income tax rate of 15%, but all taxable income over $50,000 would be income taxed at 34%.
A. Yes/True
B. No/False

174. Referring to Question 173, none of the corporations would be entitled to expense tangible personal property under section 179.
A. Yes/True
B. No/False

175. Referring to Question 173, each corporation would have to justify, with a business purpose, having all of the particular corporation’s earnings and profits in order to avoid having the accumulated earnings tax being imposed on all of the particular corporation’s earnings and profits.
A. Yes/True
B. No/False

176. Referring to Question 173, each corporation must use the accrual method of accounting even if the corporation did not have inventories.
A. Yes/True
B. No/False

177. Referring to Question 173, all of the corporations must be C corporations in order for the corporations to file consolidated income tax returns.
A. Yes/True
B. No/False

178. During the current year, SirensOnTheRocks Corporation owned, for many years, 150 of the common shares of SlipperyRocks Corporation and the general public owned the only other 50 issued and outstanding common shares of SlipperyRocks Corporation. SirensOnTheRocks Corporation may distribute the 150 common shares of SlipperyRocks Corporation to the common shareholders of SirensOnTheRocks Corporation and none of the shareholders of SirensOnTheRocks Corporation will recognize any gross income upon the receipt of the common shares of SlipperyRocks Corporation.
A. Yes/True
B. No/False

179. Referring to Question 178, if each of the shareholders of SirensOnTheRocks Corporation turns in some of his or her common shares of SirensOnTheRocks Corporation, then none of the shareholders of SirensOnTheRocks Corporation will recognize any gross income upon the receipt of the common shares of
SlipperyRocks Corporation.
A. Yes/True
B. No/False

180. During the current taxable year, CoolWater Corporation issued 100 common shares of CoolWater Corporation’s to Whoopy Corporation and Whoopy Corporation transferred 95% of Whoopy Corporation’s assets to Whoopy Corporation. Specifically, Whoopy Corporation had assets with a fair market value of $1,000,000 and liabilities of $20,000, and Whoopy Corporation transferred $950,000 of the assets to CoolWater Corporation and CoolWater Corporation assumed the $20,000 liability of Whoopy Corporation. Whoopy Corporation retained $50,000 of cash. Thereafter, CoolWater Corporation had a total of 300 issued and outstanding common shares. Both CoolWater Corporation and Whoopy Corporation had been operating retail clothing businesses. Immediately after these transfers, CoolWater Corporation had $2,500,000 of earnings and profits and Whoopy Corporation had $100,000 of earnings and profits. Shortly after these transfers, Whoopy Corporation distributed all of the CoolWater Corporation common shares (which Whoopy Corporation had received from CoolWater Corporation) to the shareholders of Whoopy Corporation. Thereafter, Whoopy Corporation used the $50,000 of retained cash for the following two purposes: Whoopy Corporation distributed $10,000 to the common shareholders of Whoopy Corporation; and, Whoopy Corporation used the remaining $40,000 in order to start operating a florist business. This transaction qualifies as a reorganization under section 368.
A. Yes/True
B. No/False

181. Referring to Question 180, when Whoopy Corporation common shareholders received the CoolWater Corporation common shares, the Whoopy Corporation common shareholders recognized ordinary dividend income.
A. Yes/True
B. No/False

182. Referring to Question 180, when Whoopy Corporation common shareholders received the cash distribution from Whoopy Corporation, the Whoopy Corporation common shareholders recognized ordinary dividend income.
A. Yes/True
B. No/False

183. During the current year, Fish Corporation transferred all of Fish Corporation’s assets to Dog Corporation. At that time, Fish Corporation’s assets had a fair market value of $1,000,000. In return, Dog Corporation issued to Fish Corporation, common shares of Dog Corporation, with a fair market value of $900,000, and Dog Corporation also transferred to Fish Corporation $100,000 of cash, which Fish Corporation was to use to pay all of Fish Corporation’s liabilities and to distribute any remaining amount to the common shareholders of Fish Corporation. In addition, Fish Corporation distributed all of the common shares of Dog Corporation (which had been distributed by Dog Corporation to Fish Corporation) to the shareholders of Fish Corporation. This transaction qualifies as a reorganization under section 368.
A. Yes/True
B. No/False

184. Referring to Question 183, Fish Corporation did not recognize any gain or loss when Fish Corporation received the common shares and the cash from Dog Corporation.
A. Yes/True
B. No/False

185. Referring to Question 183, Dog Corporation did not recognize any gain or loss when Dog Corporation received the assets from Fish Corporation.
A. Yes/True
B. No/False
186. Referring to Question 183, the shareholders of Fish Corporation did not recognize any gain or loss when the shareholders (of Fish Corporation) received the cash from Fish Corporation.
A. Yes/True
B. No/False

187. Referring to Question 183, the shareholders of Fish Corporation did not recognize any gain or loss when the shareholders (of Fish Corporation) received the common shares of Dog Corporation from Fish Corporation.
A. Yes/True
B. No/False

188. During the current year, Bird Corporation transferred all of Bird Corporation’s assets to Deer Corporation. At that time, Bird Corporation’s assets had a fair market value of $1,000,000. In return, Deer Corporation issued to Bird Corporation, common shares of Deer Corporation, with a fair market value of $900,000, and Deer Corporation also transferred to Bird Corporation $100,000 of cash, which Bird Corporation used to pay all of Bird Corporation’s liabilities ($60,000), and then, Bird Corporation distributed the remaining $40,000 of cash and all of the Deer Corporation common shares (which Bird Corporation received from Deer Corporation) to the common shareholders of Bird Corporation. This transaction qualifies as a reorganization under section 368.
A. Yes/True
B. No/False

189. Referring to Question 188, Bird Corporation did not recognize any gain or loss when Bird Corporation received the common shares and the cash from Deer Corporation.
A. Yes/True
B. No/False

190. Referring to Question 188, Deer Corporation did not recognize any gain or loss when Deer Corporation received the assets from Bird Corporation.
A. Yes/True
B. No/False

191. Referring to Question 188, the shareholders of Bird Corporation did not recognize any gain or loss when the shareholders (of Bird Corporation) received the cash from Bird Corporation.
A. Yes/True
B. No/False

192. Referring to Question 188, the shareholders of Bird Corporation did not recognize any gain or loss when the shareholders (of Bird Corporation) received the common shares of Deer Corporation from Bird Corporation.
A. Yes/True
B. No/False

193. During the current year, the common shareholders of Horse Corporation transferred all of Horse Corporation’s common shares to Cat Corporation. At that time, Horse Corporation’s assets had a fair market value of $1,000,000. In return, Cat Corporation issued to the common shareholders of Horse Corporation, some common shares of Cat Corporation, with a fair market value of $1,000,000. Thereafter, Cat Corporation treated Horse Corporation as a wholly owned subsidiary of Cat Corporation. This transaction qualifies as a reorganization under section 368.
A. Yes/True
B. No/False

194. Referring to Question 193, Cat Corporation did not recognize any gain or loss when Cat Corporation received the common shares from the shareholders of Horse Corporation.
A. Yes/True
195. Referring to Question 193, the shareholders of Horse Corporation did not recognize any gain or loss when
the shareholders (of Horse Corporation) received the common shares of Cat Corporation.
A. Yes/True
B. No/False

196. Referring to Question 193, if Cat Corporation paid the accounting fees of the shareholders of Horse
Corporation, which accounting fees were necessary for the shareholders of Horse Corporation to determine
the income tax result of the transaction, then this transaction would qualify as a reorganization under section
368.
A. Yes/True
B. No/False

197. During the current year, Sheep Corporation transferred newly issued common shares of Sheep Corporation
to Goat Corporation, so that, even though Sheep Corporation had other shareholders, Goat Corporation
owned 90% of the common shares of Sheep Corporation immediately after the transfer. At that time, Sheep
Corporation’s assets had a fair market value of $1,000,000. In return, Goat Corporation issued to Sheep
Corporation, some common shares of Goat Corporation, with a fair market value of $900,000. This
transaction qualifies as a reorganization under section 368.
A. Yes/True
B. No/False

198. Referring to Question 197, Sheep Corporation did not recognize any gain or loss when Sheep Corporation
received the common shares from Goat Corporation.
A. Yes/True
B. No/False

199. Referring to Question 197, Goat Corporation did not recognize any gain or loss when Goat Corporation
received the common shares from Sheep Corporation.
A. Yes/True
B. No/False

200. Referring to Question 197, Goat Corporation transferred both some common shares of Goat Corporation and
$100,000 of cash to Sheep Corporation. This transaction qualifies as a reorganization under section 368.
A. Yes/True
B. No/False