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STUDENT STATEMENT WHICH MUST BE SIGNED BEFORE A COURSE GRADE WILL BE ISSUED FOR ANY UNIVERSITY PURPOSE

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

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

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

Date Of Signing ____________________________________________________________
Signature Of Student Who Is Taking This Examination ______________________________

Examination Number __________________________ Printed Name _______________________

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

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

INSTRUCTIONS FOR THIS EXAMINATION

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

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

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

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

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

6. Your Examination Number. Your examination number is the examination number which has been assigned to you by an appropriate representative of the administration of the law school. If you do not have an assigned examination number, then use your social security number. Record your examination number on the front 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
9. **Stapling Examination Parts.** Avoid having the pages of this examination document separated from the staple which holds the pages together. However, if the pages do become separated from the staple, then have Professor Jegen or a proctor, if any, of this examination, restaple the pages when you are finished taking the examination.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

<table>
<thead>
<tr>
<th>Mileage Rate Per Mile</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Business</td>
<td>44.5</td>
</tr>
<tr>
<td>Charitable</td>
<td>14</td>
</tr>
<tr>
<td>Medical</td>
<td>18</td>
</tr>
<tr>
<td>Moving</td>
<td>18</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>Retirement insurance portion of FICA - tax rate for employee’s portion</td>
<td>6.2%</td>
</tr>
<tr>
<td>-----------------------------</td>
<td>------</td>
</tr>
<tr>
<td>Base amount for hospital insurance (Medicare Part A)</td>
<td>Unlimited</td>
</tr>
<tr>
<td>Hospital insurance portion of FICA (Medicare Part A) - tax rate for employer’s portion</td>
<td>1.45%</td>
</tr>
<tr>
<td>Hospital insurance portion of FICA (Medicare Part A) - tax rate for employee’s portion</td>
<td>1.45%</td>
</tr>
<tr>
<td>Base amount for unemployment insurance (FUTA)</td>
<td>$7,000</td>
</tr>
<tr>
<td>Unemployment insurance (FUTA) tax rate for employer before credits</td>
<td>6.2%</td>
</tr>
<tr>
<td>Percent used to determine net profit for self-employed individuals</td>
<td>92.35%</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>Amount free of gift tax</th>
<th>Amount free of estate tax and GST tax</th>
<th>Gift tax rate</th>
<th>Estate and GST tax rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>$11,000 (per donee per year of present interests) plus $1,000,000 more during life</td>
<td>$1,500,000 each minus amount up to $1,000,000 used (of the gift tax $1,000,000) during life</td>
<td>47%</td>
<td>47%</td>
</tr>
<tr>
<td>2006</td>
<td>$12,000 (per donee per year of present interests) plus $1,000,000 more during life</td>
<td>$2,000,000 each minus amount up to $1,000,000 used (of the gift tax $1,000,000) during life</td>
<td>46%</td>
<td>46%</td>
</tr>
<tr>
<td>2007</td>
<td>$12,000 (per donee per year of present interests) plus $1,000,000 more during life</td>
<td>$2,000,000 each minus amount up to $1,000,000 used (of the gift tax $1,000,000) during life</td>
<td>45%</td>
<td>45%</td>
</tr>
<tr>
<td>2008</td>
<td>$12,000 (per donee per year of present interests) plus $1,000,000 more during life</td>
<td>$2,000,000 each minus amount up to $1,000,000 used (of the gift tax $1,000,000) during life</td>
<td>45%</td>
<td>45%</td>
</tr>
<tr>
<td>2009</td>
<td>$12,000 (per donee per year of present interests) plus $1,000,000 more during life</td>
<td>$3,500,000 each minus amount up to $1,000,000 used (of the gift tax $1,000,000) during life</td>
<td>45%</td>
<td>45%</td>
</tr>
</tbody>
</table>
2010  For gifts made after 12/31/09, the gift tax is not repealed, but continues due to the provisions of HR1836.  
-0-  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.  
-0-  For decedents dying after 12/31/09, there is no estate tax nor generation skipping transfer tax imposed on death transfers. However, these taxes are repealed, only for the year 2010.

2011  Gift tax continues, with changes, due to the Congressional Budget Act of 1974.  
Due to the congressional budget act of 1974, estate, and generation skipping tax provisions will revert to the pre-HR1836 provisions (for example, the 55% rate) unless congress provides otherwise.

* 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.

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

<table>
<thead>
<tr>
<th>If The Amount With Respect To Which The Tentative Tax To Be Computed Is:</th>
<th>The Tentative Tax Is:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not over $10,000</td>
<td>18% of such amount</td>
</tr>
<tr>
<td>Over $10,000 but not over $20,000</td>
<td>$1,800 plus 20% of the excess of such amount over $10,000</td>
</tr>
<tr>
<td>Over $20,000 but not over $40,000</td>
<td>$3,800 plus 22% of the excess of such amount over $20,000</td>
</tr>
<tr>
<td>Over $40,000 but not over $60,000</td>
<td>$8,200 plus 24% of the excess of such amount over $40,000</td>
</tr>
<tr>
<td>Over $60,000 but not over $80,000</td>
<td>$13,000 plus 26% of the excess of such amount over $60,000</td>
</tr>
<tr>
<td>Amount Range</td>
<td>Tentative Tax Is:</td>
</tr>
<tr>
<td>------------------------------------</td>
<td>--------------------------------------------------------</td>
</tr>
<tr>
<td>Over $80,000 but not over $100,000</td>
<td>$18,200 plus 28% of the excess of such amount over $80,000</td>
</tr>
<tr>
<td>Over $100,000 but not over $150,000</td>
<td>$23,800 plus 30% of the excess of such amount over $100,000</td>
</tr>
<tr>
<td>Over $150,000 but not over $250,000</td>
<td>$38,800 plus 32% of the excess of such amount over $150,000</td>
</tr>
<tr>
<td>Over $250,000 but not over $500,000</td>
<td>$70,800 plus 34% of the excess of such amount over $250,000</td>
</tr>
<tr>
<td>Over $500,000 but not over $750,000</td>
<td>$155,800 plus 37% of the excess of such amount over $500,000</td>
</tr>
<tr>
<td>Over $750,000 but not over $1,000,000</td>
<td>$248,300 plus 39% of the excess of such amount over $750,000</td>
</tr>
<tr>
<td>Over $1,000,000 but not over $1,250,000</td>
<td>$345,800 plus 41% of the excess of such amount over $1,000,000</td>
</tr>
<tr>
<td>Over $1,250,000 but not over $1,500,000</td>
<td>$448,300 plus 43% of the excess of such amount over $1,250,000</td>
</tr>
<tr>
<td>Over $1,500,000 but not over $2,000,000</td>
<td>$555,800 plus 45% of the excess of such amount over $1,500,000</td>
</tr>
<tr>
<td>Over $2,000,000 but not over $2,500,000</td>
<td>$780,800 plus 47% of the excess of such amount over $2,000,000</td>
</tr>
<tr>
<td>Amount Or Percentage</td>
<td>Type Of Credit</td>
</tr>
<tr>
<td>----------------------</td>
<td>-----------------------------------------</td>
</tr>
<tr>
<td>500</td>
<td>Child</td>
</tr>
<tr>
<td>11,000</td>
<td>Adoption</td>
</tr>
<tr>
<td>1,500</td>
<td>Hope</td>
</tr>
<tr>
<td>2,000</td>
<td>Lifetime learning</td>
</tr>
<tr>
<td>10%</td>
<td>Old building</td>
</tr>
<tr>
<td>20%</td>
<td>Certified historic building</td>
</tr>
</tbody>
</table>

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>Amount Or Percentage</th>
<th>Type Of Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>100%</td>
<td>Second death</td>
</tr>
<tr>
<td>80%</td>
<td>Over two years</td>
</tr>
<tr>
<td>60%</td>
<td>Over four years</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.
| 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. During the current taxable year, YouAreOnYourWay Corporation’s taxable income was $54,000. YouAreOnYourWay 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. During the current taxable year, TheShipIsLeaving Corporation's taxable income was $100,000 and TheShipIsLeaving Corporation’s income tax (prior to any credit) was $20,000. TheShipIsLeaving Corporation's effective income tax rate (prior to any credit) is as follows.
   A. None/Zero
   B. 26.67%
   C. 20%
   D. 15%
   E. None of the above

3. 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 taxable year is as follows.
   A. None/Zero
   B. $700
   C. $600
   D. $765
   E. None of the above

4. Referring to Question 3, the amount of unemployment tax (prior to any credit) which SpringFever Corporation must withhold from Paul’s salary for the current taxable year is as follows.
   A. None/Zero
   B. $700
   C. $600
   D. $765
   E. None of the above

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

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

7. In general, the maximum income tax rate which generally is imposed on the unrelated business taxable income of an otherwise income tax exempt non-profit corporation is as follows.
   A. None/Zero
   B. 38.6%
8. 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

9. Referring to Question 8, 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

10. Referring to Question 8, Fair Corporation had an adjusted basis for the accounts receivable of $5,000 and the accounts receivable had a face value of $20,000 and 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. $15,000
    E. None of the above

11. Referring to Question 8, 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

12. Referring to Question 11, 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

13. Referring to Question 11, Mary's adjusted basis for the promissory note is as follows.
    A. None/Zero
B. $20,000  
C. $80,000  
D. $50,000  
E. None of the above

14. 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 investment 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 were the only initial shareholders of Recycle Corporation, with Peter owning 600 common shares and Paul owning 400 common shares. 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 taxable 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>20,000</td>
</tr>
<tr>
<td>Totals</td>
<td>35,000</td>
<td>70,000</td>
</tr>
</tbody>
</table>

In addition, Recycle Corporation assumed a business liability of Peter in the amount of $10,000. Peter'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

15. Referring to Question 14, 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

16. Referring to Question 14, 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

17. Referring to Question 14, 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

18. Referring to Question 14, 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

19. Referring to Question 14, 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

20. Referring to Question 14, 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. Both Peter and Paul will recognize gross income for the current taxable year as a result of the incorporation.
A. Yes/True
B. No/False
C. Need additional information
D. None of the above

21. Ten years after Peter and Paul incorporated Cardinal Corporation, Peter transferred some investment land (which Peter had owned for several taxable years) to Cardinal Corporation in return for 100 common shares of Cardinal Corporation. At the time when Peter transferred the land to Cardinal Corporation, Peter and Paul owned 600 common shares and 400 common shares, respectively, and the land had a fair market value of $10,000 and Peter had an adjusted basis of $2,000 for the land. Peter's long term capital gain for the taxable year in which Peter transferred the land is as follows.
A. None/Zero
B. $2,000
C. $10,000
D. $8,000
E. None of the above

22. Referring to Question 21, Cardinal Corporation's adjusted basis for the land which Peter transferred to Cardinal Corporation is as follows.
A. None/Zero
B. $2,000
C. $10,000
D. $8,000
E. None of the above

23. Referring to Question 21, Peter’s adjusted basis for the common shares which Cardinal Corporation transferred to Peter in exchange for the land is as follows.
24. Referring to Question 21, the land had an adjusted basis to Peter of $12,000. Peter’s deductible long term capital loss for the taxable year in which Peter transferred the land is as follows.

A. None/Zero  
B. $2,000  
C. $10,000  
D. $8,000  
E. None of the above

25. Referring to Question 21, Peter’s adjusted basis for the common shares which Cardinal Corporation transferred to Peter in exchange for the land is as follows.

A. None/Zero  
B. $2,000  
C. $10,000  
D. $8,000  
E. None of the above

26. During the current taxable year, SunFlower Corporation merged into WildFlower Corporation. Prior to the merger, SunFlower Corporation manufactured computers and Wildflower Corporation manufactured computer parts, selling almost all of the computer parts to SunFlower Corporation. However, prior to the merger, Wildflower Corporation decided to use only computer parts which were manufactured in certain foreign countries and after the merger, that is just what Wildflower Corporation does. After the merger, Wildflower Corporation retained all of SunFlower Corporation’s manufacturing equipment as backup equipment for use in the event that the foreign suppliers did not provide SunFlower Corporation with high quality equipment, but Wildflower Corporation did not continue to manufacture computer parts with SunFlower Corporation’s equipment. Wildflower Corporation met the “continuity of business enterprise” requirement according to the regulations which are applicable to section 368.

A. Yes/True  
B. No/False  
C. Need additional information  
D. None of the above

27. Referring to Question 26, prior to the merger, SunFlower Corporation sold all of SunFlower Corporation’s manufacturing equipment for $100,000. After the merger, Wildflower Corporation promptly used all of the $100,000 to purchase foreign made computer parts. Wildflower Corporation met the “continuity of business enterprise” requirement according to the regulations which are applicable to section 368.

A. Yes/True  
B. No/False  
C. Need additional information  
D. None of the above

28. During the current taxable year, Beverly owned all of the issued and outstanding common shares of Petunia Corporation, but Beverly did not own any common shares of Lilly Corporation. During the current taxable year, Petunia Corporation merged into Lilly Corporation and Beverly received some of Lilly Corporation’s common shares as part of the merger plan. Then, as part of the merger plan, Paul purchased all of Beverly’s common shares in Lilly Corporation. Then, as part of the merger plan, Lilly Corporation purchased from Paul all of the common shares which Paul owned in Lilly Corporation. The “continuity of interest” requirement has been met according to the regulations which are applicable to section 368.

A. Yes/True
29. During the current taxable year, SugarMaple Corporation transferred to VincaMinor Corporation the following securities, all of which were issued by SugarMaple Corporation: common shares; preferred shares; and, bonds. In return, VincaMinor Corporation transferred some newly authorized (by VincaMinor Corporation) common shares so that, thereafter, SugarMaple Corporation owned 90% of VincaMinor Corporation’s issued and outstanding common shares. In general, this type of transaction qualifies as a “B” reorganization under section 368.
A. Yes/True
B. No/False
C. Need additional information
D. None of the above

30. During the current taxable year, SugarMaple Corporation transferred to VincaMinor Corporation the following securities: common shares which were issued by SugarMaple Corporation; and, common shares which were issued by VincaMinor Corporation. In return, VincaMinor Corporation transferred 90% of VincaMinor Corporation’s net assets to SugarMaple Corporation. In general, this type of transaction qualifies as a “C” reorganization under section 368.
A. Yes/True
B. No/False
C. Need additional information
D. None of the above

31. During the current taxable year, SugarMaple Corporation transferred to VincaMinor Corporation the following securities: common shares which were issued by SugarMaple Corporation. In return, VincaMinor Corporation transferred 90% of VincaMinor Corporation’s assets to SugarMaple Corporation and, in addition, SugarMaple Corporation assumed 90% of VincaMinor Corporation liabilities which were secured by such 90% of VincaMinor Corporation’s assets. The assumed liabilities did not exceed either the adjusted basis or the fair market value of such 90% of VincaMinor Corporation’s assets. In general, this type of transaction qualifies as a “C” reorganization under section 368.
A. Yes/True
B. No/False
C. Need additional information
D. None of the above

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

33. Referring to Question 32, 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
34. 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

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

36. During the current taxable year, Here’sLookingAtYou 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’sLookingAtYou Corporation made during the current taxable year to FriendlyChristians Corporation. Here’sLookingAtYou Corporation’s taxable income for the current taxable year is as follows.
   A. $70,000
   B. $63,000
   C. $60,000
   D. $75,000
   E. None of the above

37. During the current taxable year, Beverly owned 100 of the issued and outstanding 1,000 common shares of Water Corporation and Paul owned 900 of the 1,000 issued and outstanding common shares of Water Corporation. Water Corporation owned 200 of the 4,000 issued and outstanding common shares of Fire Corporation and John owned 1,800 of the issued and outstanding common shares of Fire Corporation. Each of these two corporations had earnings and profits of $100,000. During the current taxable year, Water Corporation transferred to Beverly 20 of the common shares of Fire Corporation which Water Corporation then owned. At the time of the transfer of the Fire Corporation common shares to Beverly, Water Corporation’s adjusted basis for the 20 Fire Corporation common shares was $1,000 and the fair market value of the 20 Fire Corporation common shares was $10,000. Beverly’s gross income for the current taxable year is as follows.
   A. None/Zero
   B. $10,000
   C. $1,000
   D. $9,000
   E. None of the above

38. Referring to Question 37, Beverly’s adjusted basis for the Fire Corporation common shares is as follows.
A. None/Zero
B. $10,000
C. $1,000
D. $9,000
E. None of the above

39. Referring to Question 37, Water Corporation’s gross income for the current taxable year is as follows.
A. None/Zero
B. $10,000
C. $1,000
D. $9,000
E. None of the above

40. Referring to Question 37, during the next taxable year, Fire Corporation redeemed the 20 common shares of Fire Corporation’s common shares from Beverly for $12,000 (the then fair market value of the 20 common shares of Fire Corporation) under an agreement which was made with Beverly and Water Corporation and Fire Corporation during the current taxable year. Beverly’s gross income during the next taxable year is as follows.
A. None/Zero
B. $10,000
C. $2,000
D. $9,000
E. None of the above

41. During the current taxable year, Beverly had $200,000 of ordinary gross income without considering any (or the effect of any) of the following capital gains and capital losses from Beverly's investments. With respect to Beverly's capital gains and capital losses, Beverly had: $40,000 of long term capital gain gross income and $30,000 of short term capital gain gross income and no long term capital loss deduction and no short term capital loss deduction. Beverly's gross income for the current taxable year is as follows.
A. None/Zero
B. $200,000
C. $270,000
D. $230,000
E. None of the above

42. Referring to Question 41, Beverly's adjusted gross income for the current taxable year (considering all deduction limitations) is as follows.
A. None/Zero
B. $200,000
C. $270,000
D. $230,000
E. None of the above

43. Referring to Question 41, the 20% capital gains income tax rate is based on the following amount.
A. None/Zero
B. $70,000
C. $30,000
D. $40,000
E. None of the above

44. During the current taxable year, Beverly had $200,000 of ordinary gross income without considering any (or the effect of any) of the following capital gains and capital losses from Beverly's investments. With respect to Beverly's capital gains and capital losses, Beverly had: $30,000 of long term capital gain gross income and $40,000 of short term capital gain gross income and no long term capital loss deduction and $80,000 of
short term capital loss deduction. Beverly's gross income for the current taxable year is as follows.
A. None/Zero  
B. $200,00  
C. $190,000  
D. $270,000  
E. None of the above

45. Referring to Question 44, Beverly's adjusted gross income for the current taxable year (considering all deduction limitations) is as follows.
A. None/Zero  
B. $197,000  
C. $200,000  
D. $270,000  
E. None of the above

46. Referring to Question 44, the amount of Beverly's capital loss carryover to the next taxable year is as follows.
A. None/Zero  
B. $80,000  
C. $7,000  
D. $10,000  
E. None of the above

47. Referring to Question 44, the 20% capital gains income tax rate is based on the following amount.
A. None/Zero  
B. $100,000  
C. $40,000  
D. $30,000  
E. None of the above

48. During the current taxable year, Beverly had $200,000 of ordinary gross income without considering any (or the effect of any) of the following capital gains and capital losses from Beverly's investments. With respect to Beverly's capital gains and capital losses, Beverly 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 $42,000 of short term capital loss deduction. Beverly's gross income for the current taxable year is as follows.
A. None/Zero  
B. $300,000  
C. $200,000  
D. $240,000  
E. None of the above

49. Referring to Question 48, Beverly's adjusted gross income for the current taxable year (considering all deduction limitations) is as follows.
A. None/Zero  
B. $240,000  
C. $198,000  
D. $268,000  
E. None of the above

50. Referring to Question 48, the amount of Beverly's capital loss carryover to the next taxable year is as follows.
A. None/Zero  
B. $10,000  
C. $50,000  
D. $3,000  
E. None of the above
51. Referring to Question 48, 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

52. Paul made many purchases and sales of common shares over LuckyStock Exchange as an investor for many taxable years. During the current taxable year, Paul had capital gains of $5,000 and capital losses of $45,000. During each year for ten taxable 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 taxable 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 2001. The last taxable year (chronologically) during which Paul may deduct any part of Paul's capital losses is as follows.
   A. None/Zero
   B. 2008
   C. 2004
   D. 2006
   E. None of the above

53. Paul made many purchases and sales of common shares over the LuckyStock Exchange as an investor for many taxable years. During the current taxable year, Paul had capital gains of $5,000 and capital losses of $45,000. During each year for ten taxable 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 taxable 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 2001. The last taxable year (chronologically) during which Paul may deduct any part of Paul's capital losses is as follows.
   A. None/Zero
   B. 2012
   C. 2014
   D. 2021
   E. None of the above

54. 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. $50,000
   D. $150,000
   E. None of the above

55. Referring to Question 54, 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. $50,000
   E. None of the above

56. During the current taxable year, all of Paul's common shares of Nice Corporation, which Paul purchased two taxable years ago from Nice Corporation for $250,000, became worthless. The common shares were qualified
as section 1244 stock. Paul's long term capital loss for the current taxable year is as follows.
A. None/Zero  
B. $200,000  
C. $150,000  
D. $103,000  
E. None of the above

57. Referring to Question 56, Paul purchased Paul’s common shares from John. Therefore, Paul’s common shares are also section 1244 stock.
A. Yes/True  
B. No/False  
C. Need additional information  
D. None of the above

58. Referring to Question 56, Nice Corporation had already received consideration for the issuance of Nice Corporation’s common shares in the amount of $1,500,000 when Paul purchased Paul’s common shares from Nice Corporation. Paul’s common shares are not section 1244 stock.
A. Yes/True  
B. No/False  
C. Need additional information  
D. None of the above

59. During the current taxable year, Paul and John were the sole members of GiantPanda LLC, each having a 50% membership, and during the current taxable year GiantPanda LLC had a loss of $300,000 from the sale of section 1244 stock. During the current taxable year, Paul and John each had gross income of $200,000. Paul has an ordinary loss in the following amount.
A. None/Zero  
B. $100,000  
C. $150,000  
D. $50,000  
E. None of the above

60. Referring to Question 59, Paul has an ordinary loss carryover to the next taxable year in the following amount.
A. None/Zero  
B. $100,000  
C. $150,000  
D. $50,000  
E. None of the above

61. 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

62. Referring to Question 61, Paul sold the common shares for $30,000. Paul's long term capital loss for the current taxable year is as follows.
A. None/Zero  
B. $15,000  
C. $20,000
63. 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

64. 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

65. 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

66. While section 368 defines the term “reorganization” to include six types of corporate transactions, the regulations, which are applicable to section 368, expand the definition of the term “reorganization” to include three other types of corporate transactions in which no gain or loss is recognized to corporations.

A. Yes/True
B. No/False
C. Need additional information
D. None of the above

67. 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

68. During the current taxable year, Prissy Corporation had a long term capital loss of $50,000. For each year for the past six taxable years, Prissy Corporation had net capital gains of $5,000 and ordinary net operating income of $100,000. For the six taxable years after the current taxable year, Prissy Corporation had net capital gains of $5,000 and net operating income of $100,000. The amount of the capital loss of the current taxable year which Prissy Corporation may deduct in the year which is the third taxable year after the current taxable year is as follows.
A. None/Zero
B. $5,000
C. $8,000
D. $3,000
E. None of the above

69. During the current taxable year, Prissy Corporation had a long term capital loss of $50,000. For each year for the past six taxable years, Prissy Corporation had net capital gains of $5,000 and ordinary net operating income of $100,000. For the six taxable years after the current taxable year, Prissy Corporation had net capital gains of $5,000 and net operating income of $100,000. Prissy Corporation utilized all of the applicable carryback and carryforward provisions of the law. The amount of the capital loss of the current taxable year which Prissy Corporation may deduct in the year which is the sixth taxable year after the current taxable year is as follows.
A. None/Zero
B. $5,000
C. $8,000
D. $3,000
E. None of the above

70. During the current taxable year, John owned all of the issued and outstanding common shares of TeddyBear Corporation, which corporation had $100,000 of earnings and profits, and John transferred some land, which John owned, to TeddyBear Corporation, which TeddyBear Corporation intended to use in TeddyBear Corporation’s manufacturing business. John did not receive back anything from TeddyBear Corporation. At the time of the transfer of the land, John’s adjusted basis for the land was $10,000 and the fair market value of the land was $50,000. John’s gross income for the current taxable year is as follows.
A. None/Zero
B. $40,000
C. $50,000
D. $10,000
E. None of the above

71. Referring to Question 70, TeddyBear Corporation's adjusted basis for the land is as follows.
A. None/Zero
B. $40,000
C. $50,000
D. $10,000
E. None of the above

72. Referring to Question 70, John’s adjusted basis for the land was $60,000. John’s ordinary expense or ordinary loss deduction for the current taxable year is as follows.
A. None/Zero
73. Referring to Question 70, Teddy Bear Corporation’s adjusted basis for the land is as follows.
   A. None/Zero
   B. $10,000
   C. $50,000
   D. $60,000
   E. None of the above

74. Referring to Question 70, Teddy Bear Corporation paid John $50,000 for the land. John’s ordinary expense 
or ordinary loss deduction for the current taxable year is as follows.
   A. None/Zero
   B. $10,000
   C. $50,000
   D. $60,000
   E. None of the above

75. During the current taxable year, John owned all of the issued and outstanding common shares of Teddy 
   Corporation and all of the issued and outstanding common shares of Bear Corporation. Each of these two 
corporations had $100,000 of earnings and profits. During the current taxable year, Bear Corporation 
   transferred some land, which Bear Corporation owned, to Teddy Corporation, which Teddy Corporation 
   intended to use in Teddy Corporation’s manufacturing business. Bear Corporation did not receive back 
   anything from Teddy Corporation. At the time of the transfer of the land, Bear Corporation’s adjusted 
   basis for the land was $10,000 and the fair market value of the land was $50,000. Bear Corporation’s gross 
   income for the current taxable year is as follows.
   A. None/Zero
   B. $40,000
   C. $50,000
   D. $10,000
   E. None of the above

76. Referring to Question 75, Teddy Corporation transferred some land, which Teddy Corporation owned, to 
   Bear Corporation, which Bear Corporation intended to use in Bear Corporation’s manufacturing business. 
   At the time of the transfer of the land, Teddy Corporation’s adjusted basis for the land was $20,000 and the 
   fair market value of the land was $50,000. Teddy Corporation’s gross income for the current taxable year 
   is as follows.
   A. None/Zero
   B. $30,000
   C. $50,000
   D. $10,000
   E. None of the above

77. During the current taxable year, John owned all of the issued and outstanding common shares of Teddy 
   Corporation and all of the issued and outstanding common shares of Bear Corporation. Each of these two 
corporations had earnings and profits of $100,000. During the current taxable year, John transferred all of 
John’s common shares in Bear Corporation to Teddy Corporation in return for additional common shares of 
Teddy Corporation. At the time of the transfer of the Bear Corporation common shares to Teddy Corporation, 
John’s adjusted basis for the Bear Corporation common shares was $10,000 and the fair market value of the 
Bear Corporation common shares was $50,000. John’s gross income for the current taxable year is as 
follows.
   A. None/Zero
78. During the current taxable year, Teddy Corporation owned all of the issued and outstanding common shares of Bear Corporation and Paul owned all of the issued and outstanding common shares of Teddy Corporation. Each of these two corporations had earnings and profits of $100,000. During the current taxable year, Teddy Corporation transferred all of Teddy Corporation’s common shares in Bear Corporation to John. Teddy Corporation did not receive anything back from John. At the time of the transfer of the Bear Corporation common shares to John, Teddy Corporation’s adjusted basis for the Bear Corporation common shares was $10,000 and the fair market value of the Bear Corporation common shares was $50,000. John’s gross income for the current taxable year is as follows.

A. None/Zero
B. $50,000
C. $10,000
D. $40,000
E. None of the above

79. Referring to Question 78, John’s adjusted basis for the Bear Corporation common shares is as follows.

A. None/Zero
B. $50,000
C. $10,000
D. $40,000
E. None of the above

80. During the current taxable year, John owned one percent of the issued and outstanding common shares of Violet Corporation and Violet Corporation owned two percent of the issued and outstanding common shares of Rose Corporation. Each of these two corporations had earnings and profits of $100,000. During the current taxable year, Violet Corporation transferred to John all of the common shares of Rose Corporation which Violet Corporation then owned. At the time of the transfer of the Rose Corporation common shares to John, Violet Corporation’s adjusted basis for the Rose Corporation common shares was $10,000 and the fair market value of the Rose Corporation common shares was $50,000. John’s gross income for the current taxable year is as follows.

A. None/Zero
B. $50,000
C. $10,000
D. $40,000
E. None of the above

81. Referring to Question 80, John’s adjusted basis for the Rose Corporation common shares is as follows.

A. None/Zero
B. $50,000
C. $10,000
D. $40,000
E. None of the above

82. During the current taxable year, Paul owned all of the 1,000 issued and outstanding common shares of Snap Corporation, but during the current taxable year, Snap Corporation authorized another 100 common shares to be issued and Snap Corporation transferred these new 100 common shares to Dragon Corporation. At the time when Snap Corporation transferred these 100 common shares, Dragon Corporation had two assets and no liabilities and the two assets were two sections of land. In return for the Snap Corporation 100 common shares, Dragon Corporation transferred one of the sections of land to Snap Corporation, which Snap Corporation intended to use in Snap Corporation’s manufacturing business. Each of the these two
corporations had earnings and profits of $100,000. At the time of the transfer of Dragon Corporation’s land to Snap Corporation, the land which Dragon Corporation transferred to Snap Corporation and the land which Dragon Corporation retained had separate fair market values of $20,000 and adjusted bases of $5,000. Dragon Corporation’s gross income for the current taxable year is as follows.
A. None/Zero
B. $15,000
C. $5,000
D. $20,000
E. None of the above

83. Referring to Question 82, Snap Corporation’s gross income for the current taxable year is as follows.
A. None/Zero
B. $15,000
C. $5,000
D. $20,000
E. None of the above

84. Referring to Question 82, Dragon Corporation’s adjusted basis for the common shares which Dragon Corporation received from Snap Corporation is as follows.
A. None/Zero
B. $20,000
C. $15,000
D. $5,000
E. None of the above

85. Referring to Question 82, Snap Corporation’s adjusted basis for the land which Snap Corporation received from Dragon Corporation is as follows.
A. None/Zero
B. $20,000
C. $15,000
D. $5,000
E. None of the above

86. 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 ShortCut 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

87. John, age 40, who had a gross salary of $150,000 during each of several prior taxable 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
88. 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

89. John and Peter each own 100 common shares of the only 200 common shares which are issued and outstanding in RosieOGrady Corporation, a C corporation, and John and Peter each paid $1,000 for their separate 100 common shares four taxable 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

90. During December of the last taxable year, Peter, who was president of TheFirst100 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 TheFirst100 Corporation. Therefore, during June of the current taxable year, TheFirst100 Corporation purchased some new and similar land for $500,000. During December of the current taxable year, the State of Indiana condemned TheFirst100 Corporation’s old land and paid TheFirst100 Corporation $700,000 for the old land. Peter determined that the adjusted basis of the condemned land was $100,000. TheFirst100 Corporation's gross income for the current taxable year is as follows.
A. None/Zero
B. $600,000
C. $400,000
D. $200,000
E. None of the above

91. Referring to Question 90, TheFirst100 Corporation's adjusted basis for the new land which TheFirst100 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

92. Referring to Question 90, TheFirst100 Corporation purchased the new land three taxable years after the current taxable year. TheFirst100 Corporation's adjusted basis for the new land which TheFirst100 Corporation purchased four taxable years after the current taxable year is as follows.
93. Referring to Question 90, TheFirst100 Corporation purchased the new land for $1,000,000. TheFirst100 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

94. During the current taxable year, Peter owned all of the common shares of SkatingThroughLife Corporation and Peter sold some land, which Peter had been holding as an investment for seven taxable years, to SkatingThroughLife 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
C. Need additional information
D. None of the above

95. During the current taxable year, Beverly owned all of the common shares of RollerSkates Corporation and Beverly sold some land, which Beverly had been holding as an investment for seven taxable years, to RollerSkates 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/False
C. Need additional information
D. None of the above

96. Referring to Question 95, during the next taxable year, RollerSkates Corporation sold the land for $102,000. RollerSkates Corporation had gross income during the next taxable year of $2,000.
A. Yes/True
B. No/False
C. Need additional information
D. None of the above

97. During the current taxable year, Mary, who was president of GefilteFish Corporation and who received a gross salary of $50,000, was asked, by GefilteFish Corporation board of director's to attend a meeting of GefilteFish Corporation's salespersons in Dallas, Texas. Mary was told that all of Mary's reasonable expenses for the trip would be reimbursed. However, Mary was told that if Mary took John, who worked for the LollyGag Corporation for gross salary of $50,000, then Mary would not be reimbursed for John's expenses. Nevertheless, John went with Mary so that Mary would feel more comfortable during the various social functions, which were attended mostly by married couples. Thus, Mary was reimbursed by GefilteFish Corporation for a total of $2,000 of reasonable travel ($1,500 for lodging expenses and $500 for meal and business entertainment expenses, all of which were Mary's. John's travel expenses were $2,000, $500 of which were for meals of John. John paid for all of John's expenses. Mary's and John's gross income for the current taxable year is as follows.
A. None/Zero
B. $100,000
C. $101,000
D. $102,000
98. Referring to Question 97, Mary's and John's adjusted gross income for the current taxable year is as follows.
   A. None/Zero
   B. $100,000
   C. $101,000
   D. $102,000
   E. None of the above

99. During the current taxable year, Paul's ordinary gross income was $200,000, all of which was salary from Delightful Corporation, for which Paul worked as an employee, without considering the following transactions. In addition, Paul paid business entertainment expenses of $6,000, $3,000 of which was reimbursed by Delightful Corporation. 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

100. Referring to Question 99, 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

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

<table>
<thead>
<tr>
<th>Type Of Expense Or Cost Or Depreciation</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office rent for employment</td>
<td>10,000</td>
</tr>
<tr>
<td>Publications for share and bond investments</td>
<td>3,000</td>
</tr>
<tr>
<td>Income tax return preparation fee</td>
<td>1,000</td>
</tr>
<tr>
<td>Supplies for employment</td>
<td>5,000</td>
</tr>
<tr>
<td>Entertainment of clients, $2,000 of which was reimbursed by Paul's employer</td>
<td>5,000</td>
</tr>
<tr>
<td>Total</td>
<td>25,000</td>
</tr>
</tbody>
</table>

Paul's gross income for the current taxable year with respect to these facts (considering all deduction limitations) is as follows.
   A. None/Zero
   B. $122,000
   C. $120,000
   D. $115,000
   E. None of the above

102. Referring to Question 101, Paul’s gross income for the current taxable year is $100,000. Therefore, Paul’s adjusted gross income is as follows.
    A. None/Zero
103. Referring to Question 101, Paul’s adjusted gross income for the current taxable year is $100,000. Therefore, Paul’s taxable income is as follows.
A. None/Zero
B. $82,500
C. $76,500
D. $75,000
E. None of the above

104. 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

105. Referring to Question 104, 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

106. 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 taxable 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

107. Referring to Question 106, Paul’s gross income for the current taxable year is as follows.
A. None/Zero
B. $1,000
C. $10,000
108. Referring to Question 106, Paul's exercise of the stock option is subject to the alternative minimum tax.  
   A. Yes/True  
   B. No/False  
   C. Need additional information  
   D. None of the above

109. Two taxable years ago, WildTiger Corporation gave Paul a stock option (which was not a qualified stock option) which allowed Paul the right to purchase 100 common shares of WildTiger 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 taxable 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

110. Referring to Question 109, 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

111. Paul was an employee and vice-president of TapALittleTune Corporation, which manufactured sailboats and because Paul did such a great job as an employee, Paul was granted, during the current taxable year, the right, by TapALittleTune Corporation, to purchase 100 common shares of TapALittleTune Corporation for $100 per share, at any time during the next five (5) taxable 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

112. Referring to Question 111, Paul's gross income for the next taxable year is as follows.  
   A. None/Zero  
   B. $150,000  
   C. $140,000  
   D. $240,000
113. 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  
C. $30,000  
D. $35,000  
E. None of the above

114. Two taxable 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 ordinary income  
C. $25,000 of long term capital gain  
D. $150,000 of long term capital gain  
E. None of the above

115. 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>Income, Expense, Etc.</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

116. Referring to Question 115, 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

117. Referring to Question 115, 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

118. Referring to Question 115, Charming Corporation had taxable income of $1,500,000 for the current taxable year. Charming Corporation's income tax (prior to any credit) for the current taxable year is as follows.  
A. None/Zero  
B. $510,000  
C. $594,000  
D. $463,500  
E. None of the above

119. Referring to Question 115, 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

120. Referring to Question 115, 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

121. 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. $1,188,000  
C. $1,089,000  
D. $412,500  
E. None of the above

122. During the current taxable year, HaveOneOnTheHouse Corporation, a family owned corporation, brewed
beer, as HaveOneOnTheHouse Corporation had done for over 50 taxable 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 taxable years, because HaveOneOnTheHouse Corporation has not paid a dividend for over eight taxable years. Further, HaveOneOnTheHouse Corporation has not kept regular minutes of the board of directors’ meetings.

<table>
<thead>
<tr>
<th>Asset, Liability, Equity</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash on hand</td>
<td>1000</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>3701000</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>3501000</td>
</tr>
</tbody>
</table>

There is a very high probability that HaveOneOnTheHouse Corporation is subject to the accumulated earnings tax for the current taxable year.
A. Yes/True
B. No/False
C. Need additional information
D. None of the above

123. On 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>Income, Expense, Etc.</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>Cost of goods sold</td>
<td>1,000,000</td>
</tr>
<tr>
<td>Federal income taxes</td>
<td>600,000</td>
</tr>
<tr>
<td>Income, Expense, Etc.</td>
<td>Amount</td>
</tr>
<tr>
<td>---------------------------------------</td>
<td>--------</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

124. 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

125. Referring to Question 124, 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

126. Referring to Question 124, 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

127. During the current taxable year, LatterDaySaintsChurch Corporation, which qualified under section 501(c)(3) as an exempt organization, owned several hundred acres of farm land in northern Indiana and LatterDaySaintsChurch Corporation made the following arrangements with respect to the farm land. LatterDaySaintsChurch Corporation provided the land and the watering system and a workman of LatterDaySaintsChurch Corporation who lived in a house on the land and who helped to plant and care for the corn. A local farmer provided all of the necessary equipment to plant and care for and harvest the corn. LatterDaySaintsChurch Corporation and the local farmer split the cost of the seed, fertilizer, etc. Also, the local farmer arranged for the sale of the corn and made the delivery of the corn to the corn silos. The gross income from this activity, during the current taxable year, was $100,000 and the expenses which were attributable to this activity was $40,000. Therefore, LatterDaySaintsChurch Corporation and the local farmer each received $30,000 from this activity during the current taxable year. LatterDaySaintsChurch Corporation’s unrelated business taxable income for the current taxable year is as follows.
A. None/Zero
B. $100,000
C. $60,000
128. LatterDaySaintsChurch Corporation’s unrelated business taxable income for the current taxable year was $50,000. LatterDaySaintsChurch Corporation’s unrelated business income tax for the current taxable year is as follows.
A. None/Zero
B. $6,500
C. $19,800
D. $7,500
E. None of the above

129. During the current taxable year, SeventhDayAdventistChurch Corporation owned a large vacant lot 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 SeventhDayAdventistChurch 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 ($30,000). SeventhDayAdventistChurch Corporation’s unrelated business income tax for the current taxable year is as follows.
A. None/Zero
B. $4,500
C. $11,880
D. $11,500
E. None of the above

130. 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 taxable 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

131. Referring to Question 130, 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

132. Referring to Question 130, John’s adjusted basis for the truck is as follows.
A. None/Zero
B. $2,000
C. $6,000
D. $10,000
133. Several taxable years ago, GiddyUp&Go Corporation, an S corporation, purchased a truck for $10,000 for use in GiddyUp&Go 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, GiddyUp&Go Corporation distributed the truck to John, who owned all of the common shares of GiddyUp&Go Corporation, as a legal dividend. GiddyUp&Go Corporation’s ordinary expense or ordinary loss deduction for the current taxable 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

134. Referring to Question 133, 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

135. Referring to Question 133 above, John’s adjusted basis for the truck is as follows.
   A. None/Zero
   B. $1,000
   C. $2,000
   D. $9,000
   E. None of the above

136. 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

137. Referring to Question 136, 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

138. Referring to Question 136, 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
139. Referring to Question 136, 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. $450,000
D. $85,000
E. None of the above

140. Referring to Question 139, John's and Mary's gross income for the current taxable year is $120,000. Therefore, John's and Mary's adjusted gross income for the current taxable year is as follows.
A. None/Zero
B. $120,000
C. $110,000
D. $105,000
E. None of the above

141. Referring to Question 139, 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

142. 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 $150,000 (after deducting Beverly's gross salary).

b. With respect to Spring Corporation, Beverly did not work for Spring Corporation and did not receive a salary from Spring Corporation. During the current taxable year, Spring Corporation sold porch furniture and had a net profit of $40,000.

c. With respect to Summer Corporation, Beverly did not work for Summer Corporation and did not receive a salary from Summer Corporation. During the current taxable year, Summer Corporation sold and repaired bicycles and had a net loss of $120,000.

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

Beverly's gross income for the current taxable year is as follows.
A. None/Zero
B. $240,000
143. Referring to Question 142, 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

144. Referring to Question 142, 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. $250,000
   D. $220,000
   E. None of the above

145. Referring to Question 142, 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. $140,000
   D. $50,000
   E. None of the above

146. Referring to Question 142, 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

147. Referring to Question 142, 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

148. During the current taxable year, Beverly was the sole shareholder in and a fulltime employee of NightAndDay Corporation, which was an S corporation which manufactured electric fans. Beverly received a salary of $50,000 from NightAndDay Corporation and Beverly had an adjusted basis for the common shares which Beverly owned of $10,000. During the current taxable year, NightAndDay Corporation had a net operating loss of $11,000. Beverly's adjusted gross income for the current taxable year is as follows.
   A. None/Zero
   B. $50,000
   C. $42,000
   D. $40,000
   E. None of the above
149. Referring to Question 148, Beverly's adjusted basis for Beverly’s common shares at the end of the current taxable year is as follows.
   A. None/Zero
   B. $2,000
   C. $10,000
   D. $11,000
   E. None of the above

150. Referring to Question 148, during the current taxable year, NightAndDay Corporation had a net operating loss of $11,000 and NightAndDay Corporation distributed to Beverly, as a legal dividend, $4,000. Beverly’s adjusted gross income for the current taxable year is as follows.
   A. None/Zero
   B. $50,000
   C. $44,000
   D. $40,000
   E. None of the above

151. Referring to Question 150, Beverly's adjusted basis for Beverly’s common shares at the end of the current taxable year is as follows.
   A. None/Zero
   B. $2,000
   C. $10,000
   D. $52,000
   E. None of the above

152. During the current taxable year, John owned 100 common shares of SwedishMeatBall Corporation for over two taxable 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, to 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

153. Referring to Question 152, John’s gross income for the next taxable year is as follows.
   A. None/Zero
   B. $9,000
   C. $6,500
   D. $1,000
   E. None of the above

154. John and Paul each own 100 common shares of the only 200 common shares which are issued and outstanding in HoleGolfCourse 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 taxable 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

155. 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 Mary, who was the only shareholder of GoodGracious Corporation. Mary’s adjusted basis for Mary's common shares of GoodGracious Corporation was $25,000 prior to any distribution by GoodGracious Corporation. Mary's adjusted basis for Mary's common shares at the end of the current taxable year is as follows.
A. None/Zero
B. $20,000
C. $8,000
D. $15,000
E. None of the above

156. 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 Mary, who owned all of the common shares of GoodGraces Corporation. Mary's adjusted basis for Mary's common shares of GoodGraces Corporation was $25,000. Mary'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

157. 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 Peter, who has been the only shareholder of GoodTraces Corporation for several taxable years. Peter’s adjusted basis for Peter’s common shares at the beginning of the current taxable year was $4,000. Thereafter, Peter sold Peter’s common shares of GoodTraces Corporation to Paul for $50,000 during the current taxable year. Thereafter, GoodTraces Corporation distributed $15,000 of cash to Paul during the current taxable year. Peter’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

158. Referring to Question 157, Peter’s long term capital gain gross income for the current taxable year is as follows.
A. None/Zero
B. $4,000
C. $50,000
D. $54,000
E. None of the above

159. Referring to Question 157, Paul’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

160. Referring to Question 157, Paul’s adjusted basis for the common shares which Paul purchased from Peter is as follows.
A. None/Zero
B. $40,000
C. $35,000
D. $50,000
E. None of the above

161. 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 Peter, who was the only shareholder of Burritos Corporation. Peter's adjusted basis for Peter's common shares of Burritos Corporation, at the beginning of the current taxable year, was $25,000. Peter'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

162. Referring to Question 161, Peter's adjusted basis for Peter'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

163. 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 taxable 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 John, who has been the only preferred shareholder of GoodVibes Corporation for several taxable 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. John’s adjusted basis for John’s preferred shares at the beginning of the current taxable year was $4,000. John’s ordinary gross income for the current taxable year is as follows.
A. None/Zero
B. $6,000
C. $10,000
D. $15,000
E. None of the above

164. Referring to Question 163, 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
165. 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

166. Referring to Question 165, 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

167. 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

168. Referring to Question 167, 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

169. 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. $15,000
   E. None of the above
170. Referring to Question 169, 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

171. Two taxable years ago, Special Corporation purchased 100 common shares of GeneralMotors Corp. as an investment for $200,000. Special Corporation manufactured (then and now) perfumes and GeneralMotors Corp. manufactured (then and now) automobiles. During the current taxable year, Special Corporation distributed all of the common shares which Special Corporation owned in GeneralMotors Corp. to the common shareholders of Special Corporation. At the close of the current taxable year, Special Corporation had earnings and profits of $2,000,000 and GeneralMotors Corp. had earnings and profits of $200,000,000. At the time of the distribution of the common shares of GeneralMotors Corp., the common shares had a fair market value of $210,000 and Paul, one of the 100 common shareholders of Special Corporation, received some of the GeneralMotors Corp. common shares with a fair market value of $5,000 at a time when Paul’s adjusted basis for Paul’s Special Corporation common shares was $2,000 and at a time when the fair market value of Paul’s Special Corporation common shares $5,000. After the distribution of the common shares, both corporations continued to operate their separate businesses. Paul’s gross income for the current taxable year is as follows.
A. None/Zero
B. $1,000
C. $5,000
D. $2,000
E. None of the above

172. Referring to Question 171, Paul’s adjusted basis for Paul’s GeneralMotors Corp. common shares is as follows.
A. None/Zero
B. $3,000
C. $5,000
D. $1,000
E. None of the above

173. Referring to Question 171, Special Corporation’s gross income for the current taxable year is as follows.
A. None/Zero
B. $10,000
C. $200,000
D. $210,000
E. None of the above

174. Twenty taxable years ago, YouAreSpecial Corporation purchased all of the common shares of YouAreToo Corporation for $200,000. YouAreSpecial Corporation manufactured (then and now) perfumes and YouAreToo Corporation manufactured (then and now) insecticides. The two corporations had a great amount of research overlap and integration. Eventually, the perfume sales diminished when members of the public heard that YouAreToo Corporation was a subsidiary of YouAreSpecial Corporation. Therefore, during the current taxable year, YouAreSpecial Corporation distributed all of the common shares which YouAreSpecial Corporation owned in YouAreToo Corporation to the common shareholders of YouAreSpecial Corporation. At the close of the current taxable year, YouAreSpecial Corporation had earnings and profits of $2,000,000 and YouAreToo Corporation had earnings and profits of $2,000,000. At
the time of the distribution of the common shares of YouAreToo Corporation, the common shares had a fair market value of $210,000 and Paul, one of the 100 common shareholders of YouAreSpecial Corporation, received some of the YouAreToo Corporation common shares with a fair market value of $5,000 at a time when Paul’s adjusted basis for Paul’s YouAreSpecial Corporation common shares was $2,000 and at a time when the fair market value of Paul’s Special Corporation common shares $5,000. After the distribution of the common shares, both corporations continued to operate their separate businesses. Paul’s gross income for the current taxable year is as follows.

A. None/Zero  
B. $3,000  
C. $5,000  
D. $2,000  
E. None of the above

175. Referring to Question 174, Paul’s adjusted basis for Paul’s YouAreToo Corporation common shares is as follows.

A. None/Zero  
B. $3,000  
C. $5,000  
D. $1,000  
E. None of the above

176. Referring to Question 174, YouAreSpecial Corporation’s gross income for the current taxable year is as follows.

A. None/Zero  
B. $10,000  
C. $200,000  
D. $210,000  
E. None of the above

177. During the current taxable year, John owned 100 common shares of the 500 issued and outstanding common shares of C corporation. John’s adjusted basis for the 100 common shares was $1,000. Paul owned the other 400 issued and outstanding common shares and Paul’s adjusted basis for Paul’s 400 common shares was $4,000. C corporation, with $100,000 of earnings and profits at the beginning of the current taxable year, transferred to John a truck which had an adjusted basis to C corporation of $13,000 and a fair market value of $10,000, because John was a shareholder. John did not transfer anything to C corporation in return for the distribution. John’s gross income for the current taxable year is as follows.

A. None/Zero  
B. $9,000  
C. $2,000  
D. $10,000  
E. None of the above

178. Referring to Question 177, C corporation’s deduction for the current taxable year is as follows.

A. None/Zero  
B. $13,000  
C. $3,000  
D. $10,000  
E. None of the above

179. During the current taxable year, John owned 100 common shares of the 500 issued and outstanding common shares of C corporation. John’s adjusted basis for the 100 common shares was $1,000. Paul owned the other 400 issued and outstanding common shares and Paul’s adjusted basis for Paul’s 400 common shares was $4,000. C corporation, with $100,000 of earnings and profits at the beginning of the current taxable year, gave John a check for $2,000 in return for one of John’s common shares, which one common share had a fair
market value of $2,000. John’s gross income for the current taxable year is as follows.
A. None/Zero
B. $990
C. $2,000
D. $1,000
E. None of the above

180. Referring to Question 179, John’s adjusted basis for John’s remaining common shares is as follows.
A. None/Zero
B. $990
C. $2,000
D. $1,000
E. None of the above

181. Referring to Question 179, C corporation gave John the check for $2,000 in return for all of John’s common shares, which common shares had a total fair market value of $2,000. John’s gross income for the current taxable year is as follows.
A. None/Zero
B. $990
C. $2,000
D. $1,000
E. None of the above

182. Referring to Question 179, Mary (not Paul) owned the other 400 issued and outstanding common shares. C corporation gave John the check for $2,000 in return for all of John’s common shares, which common shares had a total fair market value of $2,000. John’s gross income for the current taxable year is as follows.
A. None/Zero
B. $990
C. $2,000
D. $1,000
E. None of the above

183. Referring to Question 179, C corporation, with no earnings and profits at the beginning of the current taxable year, sold some land for $10,000 at a time when C corporation had an adjusted basis for the land of $3,000. Thereafter, C corporation gave John the check for $2,000, because John was a shareholder of C corporation. John did not transfer anything to C corporation in return for the distribution. John’s gross income for the current taxable year is as follows.
A. None/Zero
B. $990
C. $2,000
D. $1,000
E. None of the above

184. Referring to Question 183, John’s adjusted basis for John’s common shares, after the distribution by C corporation, is as follows.
A. None/Zero
B. $990
C. $1,000
D. $2,000
E. None of the above

185. Referring to Question 183, C corporation distributed the land to John (but not the check for $2,000), because John was a shareholder of C corporation. John did not transfer anything to C corporation in return for the distribution. John’s gross income for the current taxable year is as follows.
186. Referring to Question 185, John’s adjusted basis for the land is as follows.
   A. None/Zero
   B. $10,000
   C. $9,000
   D. $7,000
   E. None of the above

187. Referring to Question 185, John’s adjusted basis for John’s common shares, after the distribution by C corporation, is as follows.
   A. None/Zero
   B. $10,000
   C. $1,000
   D. $2,000
   E. None of the above

188. During the current taxable year, John owned 100 common shares of the 500 issued and outstanding common shares of C corporation. John’s adjusted basis for the 100 common shares was $1,000. Paul owned the other 400 issued and outstanding common shares and Paul’s adjusted basis for Paul’s 400 common shares was $4,000. C corporation, had no earnings and profits at the beginning of the current taxable year, and C transferred some land to John, because John was a shareholder of C corporation, at a time when C corporation had an adjusted basis for the land of $13,000 and the fair market value of the land was $10,000. John did not transfer anything to C corporation in return for the distribution. John’s gross income for the current taxable year is as follows.
   A. None/Zero
   B. $9,000
   C. $13,000
   D. $10,000
   E. None of the above

189. Referring to Question 188, C corporation’s deduction for the current taxable year is as follows.
   A. None/Zero
   B. $3,000
   C. $13,000
   D. $10,000
   E. None of the above

190. Referring to Question 188, John’s adjusted basis for the land is as follows.
   A. None/Zero
   B. $3,000
   C. $13,000
   D. $10,000
   E. None of the above

191. During the current taxable year, John owned 100 common shares of the 100 issued and outstanding common shares of S corporation, an S corporation, with no earnings and profits at the beginning of the current taxable year. John’s adjusted basis for John’s 100 common shares was $1,000. During the current taxable year, S corporation gave John a check for $2,000, because John was a shareholder in S corporation. John did not transfer anything to S corporation in return for the distribution. John’s gross income for the current taxable year is as follows.
   A. None/Zero
   B. $10,000
   C. $13,000
   D. $2,000
   E. None of the above
year is as follows.
A. None/Zero
B. $990
C. $2,000
D. $1,000
E. None of the above

192. Referring to Question 191, S corporation gave John the check for $2,000 in return for one of John’s common shares, which one common share had a fair market value of $2,000. John’s gross income for the current taxable year is as follows.
A. None/Zero
B. $990
C. $2,000
D. $1,000
E. None of the above

193. Referring to Question 191, John’s adjusted basis for John’s common shares, after the distribution by S corporation, is as follows.
A. None/Zero
B. $990
C. $2,000
D. $1,000
E. None of the above

194. Referring to Question 191, S corporation gave John the check for $2,000 in return for all of John’s common shares, which common shares had a total fair market value of $2,000. John’s gross income for the current taxable year is as follows.
A. None/Zero
B. $990
C. $2,000
D. $1,000
E. None of the above

195. Referring to Question 191, John and Mary each owned 100 common shares in S Corporation and S corporation gave John a check for $2,000 in return for all of John’s common shares, which common shares had a total fair market value of $2,000. John’s gross income for the current taxable year is as follows.
A. None/Zero
B. $990
C. $2,000
D. $1,000
E. None of the above

196. Referring to Question 191, S corporation sold some land for $10,000 at a time when S corporation had an adjusted basis for the land of $3,000. Thereafter, S corporation gave John the check for $2,000, because John was a shareholder of S corporation. John did not transfer anything to S corporation in return for the distribution. John’s gross income for the current taxable year is as follows.
A. None/Zero
B. $7,000
C. $10,000
D. $1,000
E. None of the above

197. Referring to Question 196, S corporation distributed the land to John (but not the check for $2,000), because John was a shareholder of S corporation. John did not transfer anything to S corporation in return for the
distribution. John’s gross income for the current taxable year is as follows.
A. None/Zero  
B. $10,000  
C. $2,000  
D. $7,000  
E. None of the above

198. Referring to Question 197, John’s adjusted basis for the land is as follows.
A. None/Zero  
B. $10,000  
C. $9,000  
D. $7,000  
E. None of the above

199. During the current taxable year, Raven Corporation had 200 common shares issued and outstanding, 95 of which were owned by Paul and 105 of which were owned by Mary. During the current taxable year, Mary needed some money to pay for an emergency operation. Therefore, Raven Corporation redeemed ten of the common shares owned by Mary. This transaction will qualify for treatment under section 302(b)(1).
A. Yes/True  
B. No/False  
C. Need additional information  
D. None of the above

200. During the current taxable year, Raven Corporation had 200 common shares issued and outstanding, 10 of which were owned by Paul and 190 of which were owned by Mary. During the current taxable year, Mary needed some money to pay for an emergency operation. Therefore, Raven Corporation redeemed three of the common shares owned by Mary. This transaction will qualify for treatment under section 302(b)(1).
A. Yes/True  
B. No/False  
C. Need additional information  
D. None of the above
1. During the current taxable year, RightYouAre Corporation purchased all of the assets of GiveEmHell Corporation for $1,000,000 of cash. Both RightYouAre Corporation and GiveEmHell Corporation were manufacturers of bicycles. In allocating the purchase price of the purchased assets, among the assets purchased, RightYouAre Corporation must utilize the provisions of section 1060 and the applicable regulations. In so doing, RightYouAre Corporation must first allocate the $1,000,000 purchase price to the purchase of GiveEmHell Corporation’s cash and general deposit accounts. Thereafter, RightYouAre Corporation must allocate the remaining amount of the $1,000,000 purchase price among all of the other assets purchased, making certain that the allocation to a particular asset does not exceed the fair market value of the particular asset.
   A. Yes/True
   B. No/False
   C. Need additional information
   D. None of the above

2. Referring to Question 1, if any of the purchased price is allocable to the purchase of GiveEmHell Corporation, then RightYouAre Corporation may amortize the amount so allocated over 15 years, using section 197.
   A. Yes/True
   B. No/False
   C. Need additional information
   D. None of the above

3. Referring to Question 2, the allocation 15-period is the same period which corporations must use for the purchase of customer lists, covenants not to compete, and organizational expenses.
   A. Yes/True
   B. No/False
   C. Need additional information
   D. None of the above

4. During the current taxable year, Guppy Corporation owned all of the common shares of Salmon Corporation and during the current taxable year Salmon Corporation transferred all of Salmon Corporation assets and liabilities to Guppy Corporation. Thereafter, Guppy Corporation transferred the appropriate amount of Guppy Corporation common shares to the shareholders of Salmon Corporation. Thereafter, Salmon Corporation canceled Salmon Corporation’s issued and outstanding common share certificates, and thereafter, by state law, Salmon Corporation’s existence terminated. Then, as part of the plan of merger, Guppy Corporation redeemed the common shares of Guppy Corporation which were owned by the former common shareholders of Salmon Corporation. Salmon Corporation must recognize gain and loss with respect to the transfer of Salmon Corporation’s assets and liabilities to Guppy Corporation.
   A. Yes/True
   B. No/False
   C. Need additional information
   D. None of the above

5. Referring to Question 4, Salmon Corporation’s earnings and profits are considered to be transferred to Guppy Corporation.
   A. Yes/True
   B. No/False
   C. Need additional information
   D. None of the above

6. Referring to Question 4, Guppy Corporation will recognize gain when Guppy Corporation transfers Guppy Corporation common shares to the common shareholders of Salmon Corporation.
   A. Yes/True
7. During the current taxable year, John owned 100 common shares of the 500 issued and outstanding common shares of C corporation, a C corporation, with $100,000 of earnings and profits at the beginning of the current taxable year. John’s adjusted basis for John’s 100 common shares was $3,000. Paul owned the other 400 issued and outstanding common shares and Paul’s adjusted basis for Paul’s 400 common shares was $4,000. During the current taxable year, sold all of C corporation’s assets for a net profit of $25,000, paid all of C corporation’s liabilities, and distributed the net cash, by checks, to John and Paul. Then C corporation terminated C corporation’s existence. As part of the liquidation, John a check for $12,000, because John was a shareholder in C corporation. John did not transfer anything to C corporation in return for the distribution. John’s gross income for the current taxable year is as follows.
A. None/Zero
B. $10,000
C. $9,000
D. $12,000
E. None of the above

8. Referring to Question 7, C corporation distributed to John only a duplicator which had a fair market value of $12,000 and which had been purchased by C corporation for $20,000 and which had been fully depreciated by C corporation. C corporation’s gross income and earnings and profits increased by $12,000 due to the distribution to John.
A. Yes/True
B. No/False
C. Need additional information
D. None of the above

9. Referring to Question 8, John’s adjusted basis for the duplicator is as follows.
A. None/Zero
B. $11,000
C. $12,000
D. $10,000
E. None of the above

10. Referring to Question 7, C corporation did not distribute any cash, by checks, to John or Paul during the current taxable year. Instead, Corporation on December 1st of the current taxable year, C corporation distributed three promissory notes to John and three promissory notes to Paul, each payable consecutively over a three-year period, on January 1st of each taxable year, beginning on January 1st of the next taxable year. Each of the notes distributed to John had a face amount of $10,000 and a six percent annual interest rate and these notes had the following fair market values at the time of the distribution of the notes to John: note one - $10,000; note two - $9,900; and, note three - $9,800. And, when the first note was paid to John on January 1st of the next taxable year, John received a check for $10,050. John’s gross income for the current taxable year is as follows.
A. None/Zero
B. $29,700
C. $30,000
D. $10,000
E. None of the above

11. Referring to Question 10, John’s gross income for the next taxable year is as follows.
A. None/Zero
B. $9,050
C. $7,050
12. During the current taxable year, John owned 100 common shares of the 500 issued and outstanding common shares of C corporation, a C corporation, with $100,000 of earnings and profits at the beginning of the current taxable year. C corporation operated, for over ten years, the following two businesses: a camping supplies sales business; and, a travel agency. John’s adjusted basis for John’s 100 common shares was $1,000. Paul owned the other 400 issued and outstanding common shares and Paul’s adjusted basis for Paul’s 400 common shares was $4,000. During the current taxable year, and with respect to C corporation’s camping supplies sales business, C corporation sold all of the assets of that business for a net profit of $25,000, paid all of C corporation’s liabilities which were related to that business, and distributed the net cash, by checks, to John and Paul, pro rata. Then, C corporation terminated that business. As part of the liquidation, C corporation gave John a check for $12,000, because John was a shareholder of C corporation. John did not transfer anything to C corporation in return for the distribution. John’s ordinary gross income for the current taxable year is as follows.

A. None/Zero  
B. $10,000  
C. $11,000  
D. $12,000  
E. None of the above

13. Referring to Question 12, C corporation distributed a duplicator to John (but not the check for $2,000) that had a fair market value of $12,000 and an adjusted basis to C corporation of $15,000. C corporation’s deduction for the current taxable year is as follows.

A. None/Zero  
B. $10,000  
C. $11,000  
D. $12,000  
E. None of the above

14. Referring to Question 12, during the current taxable year and after C corporation sold the assets of the camping supplies sales business and distributed the net proceeds to John and Paul, C corporation merged the travel agency business into CC corporation. Specifically, C corporation transferred all of C corporation’s then assets and liabilities of the travel agency business to CC corporation. During the merger process, John received 100 common shares of CC corporation’s common shares and Paul received 400 common shares of CC corporation’s common shares and John and Paul each transferred the common shares, which John and Paul owned in C corporation, to CC corporation. After all of this, C corporation ceased to exist under the applicable state law. As a general rule, C corporation will not recognize any gain or loss from this type of transaction.

A. Yes/True  
B. No/False  
C. Need additional information  
D. None of the above

15. Referring to Question 14, as a general rule, CC corporation would not recognize any gain or loss from this type of transaction.

A. Yes/True  
B. No/False  
C. Need additional information  
D. None of the above

16. Referring to Question 14, CC corporation’s adjusted basis for the assets which CC corporation received from C corporation is equal to the fair market value of the assets at the time of the transfer of the assets from C corporation to CC corporation.
A. Yes/True  
B. No/False  
C. Need additional information  
D. None of the above

17. Referring to Question 14, John’s adjusted basis for the common shares which John received from CC corporation is as follows.  
A. None/Zero  
B. $4,000  
C. $1,000  
D. $2,000  
E. None of the above

18. Referring to Question 14, because C corporation ceased to exist as a result of the merger transaction, the liquidation of C corporation caused the earnings and profits of C corporation to cease to exist in any form.  
A. Yes/True  
B. No/False  
C. Need additional information  
D. None of the above

19. Referring to Question 14, CC corporation gave John a check for $4,000 (and not the common shares of CC corporation) in return for all of John’s common shares in C corporation and gave Paul 400 common shares of CC corporation’s common shares, with a fair market value of $16,000, for Paul’s common shares in C corporation. John’s ordinary gross income, as a result of this particular transaction, for the current taxable year is as follows.  
A. None/Zero  
B. $4,000  
C. $1,000  
D. $3,000  
E. None of the above

20. Referring to Question 19, Paul’s ordinary gross income, as a result of this particular transaction, for the current taxable year is as follows.  
A. None/Zero  
B. $15,000  
C. $16,000  
D. $14,000  
E. None of the above

21. During the current taxable year, John owned 100 common shares of the 500 issued and outstanding common shares of C corporation, a C corporation, with $100,000 of earnings and profits at the beginning of the current taxable year. C corporation operated, for over ten years, the following two businesses: an automobile sales business; and, a used parts for automobiles sales business. John’s adjusted basis for John’s 100 common shares was $1,000. Paul owned the other 400 issued and outstanding common shares and Paul’s adjusted basis for Paul’s 400 common shares was $4,000. During the current taxable year, C corporation organized CC corporation and transferred all of the assets and liabilities of C corporation’s used automobile parts sales business to CC corporation and, in return, CC corporation transferred all of CC corporation’s common shares to C corporation. There were no other shareholders of CC corporation. Then, C corporation distributed all of C corporation’s common shares, with a fair market value of $12,000, of CC corporation to John and John transferred all of John’s C corporation common shares (with a fair market value of $12,000) to C corporation. Thereafter, John owned no common shares of C corporation, but John owned all of the common shares of CC corporation and Paul owned all of the common shares of C corporation, but no common shares of CC corporation. John’s ordinary gross income for the current taxable year is as follows.  
A. None/Zero
22. Referring to Question 21, John’s adjusted basis for John’s common shares of CC corporation is as follows.
   A. None/Zero
   B. $4,000
   C. $1,000
   D. $12,000
   E. None of the above

23. Referring to Question 21, some of C corporation’s earnings and profits must be transferred to CC corporation.
   A. Yes/True
   B. No/False
   C. Need additional information
   D. None of the above

24. During the current taxable year, John and Paul each owned 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 taxable
    years ago. John was president of LateOwl Corporation and was paid a salary for being the president. During
    the current taxable year, LateOwl Corporation redeemed all of John’s 100 common shares for $10,000 and
    John continued to work as the president of LateOwl Corporation. The result to John due to the redemption
    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

25. Referring to Question 24, the redemption qualifies under both section 302(b)(2) and section 302(b)(3).
   A. Yes/True
   B. No/False
   C. Need additional information
   D. None of the above

26. During the current taxable year, Peter and Sue each own 100 common shares of the only 200 common
    shares which were issued and outstanding in BrownEyesBlue Corporation, which corporation had $500,000 of
    current earnings and profits. Peter and Sue each paid $1,000 for their separate 100 common shares four taxable
    years ago. Peter was president of BrownEyesBlue Corporation and was paid a salary for being the president.
    During the current taxable year, BrownEyesBlue Corporation redeemed all of Peter’s 100 common shares
    for $10,000 and Peter continued to work as the president of BrownEyesBlue Corporation. The result to Peter
    due to the redemption 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

27. Referring to Question 26, the redemption qualifies under both section 302(b)(2) and section 302(b)(3).
   A. Yes/True
   B. No/False
   C. Need additional information
28. During the current taxable year, John, Peter, and Sue each owned 100 common shares of the only 300 common shares which were issued and outstanding in DanPatch Corporation, which corporation had $500,000 of current earnings and profits. John, Peter, and Sue each paid $1,000 for their separate 100 common shares four taxable years ago. Peter was president of DanPatch Corporation and was paid a salary for being the president. During the current taxable year, DanPatch Corporation redeemed all of Sue’s 100 common shares for $10,000. The result to Sue due to the redemption 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

29. Referring to Question 28, the redemption qualifies under both section 302(b)(2) and section 302(b)(3).
   A. Yes/True
   B. No/False
   C. Need additional information
   D. None of the above

30. 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 taxable 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

31. John and Peter each own 100 common shares of the only 200 common shares which are issued and outstanding in the LaLaDeDo 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 taxable years ago. John is president of LaLaDeDo Corporation and is paid a salary for being the president. If LaLaDeDo Corporation redeems all of John’s 100 common shares for $10,000 and John retires from LaLaDeDo 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

32. 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 taxable 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, the result to John’s estate is as follows.
   A. None/Zero
   B. $9,000 long term capital gain
   C. $9,000 ordinary income
33. The rules of attribution of section 318 apply to all of the following sections: 302; 303; and, 304.
   A. Yes/True
   B. No/False
   C. Need additional information
   D. None of the above

34. 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 taxable 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, 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

35. 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 taxable 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

36. 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 taxable 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

37. 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 taxable 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
C. $9,000 ordinary income
D. $10,000 ordinary income
E. None of the above

38. 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 taxable 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

39. 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 taxable 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

40. 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 taxable 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

41. 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

42. Referring to Question 41, 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

43. Referring to Question 41, 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 40 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. $19,000
C. $15,000
D. $30,000
E. None of the above

44. Referring to Question 41, John first sold 10 common shares to Sue for $400 per share. John had an adjusted basis for these ten shares of $100 per common share. Then, FruitLoops Corporation redeemed 90 common shares from John for $400 per common share. These transactions were not done for income tax avoidance. 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. $28,000 ordinary income
C. $40,000 ordinary income
D. $40,000 long term capital gain
E. None of the above

45. 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

46. Referring to Question 45, 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
47. 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 taxable 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

48. 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 taxable 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 taxable years, beginning with the current taxable year. John could not assign the rights to the payments to any other person except to 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

49. 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 taxable 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 taxable 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

50. Referring to Question 49, 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

51. Referring to Question 49, John’s adjusted basis for the truck is as follows.
52. 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 taxable 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 taxable 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

53. Referring to Question 52, 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

54. Referring to Question 52, John’s adjusted basis for the truck is as follows.
A. None/Zero
B. $1,000
C. $2,000
D. $9,000
E. None of the above

55. 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 taxable 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. Corporation had $100,000 of current earning and profits in the year of distribution. RollerDerby Corporation’s gross income for the current taxable 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

56. Referring to Question 55, John’s gross income for the current taxable year is as follows.
A. None/Zero
B. $2,000
C. $6,000
D. $10,000
57. Referring to Question 55, John’s adjusted basis for the truck is as follows.
   A. None/Zero
   B. $2,000
   C. $6,000
   D. $10,000
   E. None of the above

58. 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, John and Paul each owned 50% of the common shares of Giddy Corporation. Paul and John each paid $400 for the shares several taxable years ago. During the current taxable year, Giddy Corporation distributed the truck to John, 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. John continued to be president of Giddy Corporation. Giddy Corporation’s ordinary expense or ordinary loss deduction for the current taxable 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

59. Referring to Question 58, 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

60. Referring to Question 58, John’s adjusted basis for the truck is as follows.
   A. None/Zero
   B. $1,000
   C. $2,000
   D. $9,000
   E. None of the above

61. Several taxable years ago, Mozart Corporation purchased some land for $100,000 for use in Mozart Corporation’s tractor sales business. Mozart 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, Mozart Corporation distributed the land to Paul, who owned all of the common shares of Mozart Corporation which Paul had purchased several taxable years ago for $10,000. During the current taxable year, Mozart Corporation had $100,000 of earning and profits and Paul agreed to pay the remaining mortgage debt of $60,000. Mozart Corporation’s gross income for the current taxable 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

62. Referring to Question 61, 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

63. Referring to Question 61, Paul’s adjusted basis for the land is as follows.  
A. None/Zero  
B. $150,000  
C. $90,000  
D. $50,000  
E. None of the above

64. During the current taxable year, John owned, for several taxable years, all of the common shares of Alpha Corporation and all of the common shares of Beta Corporation. Both of these corporations had earnings and profits of $50,000. During the current taxable year, Beta Corporation purchased 40% of John’s Alpha Corporation for $40,000. John had an adjusted basis for John’s Alpha Corporation common shares of $10,000 and an adjusted basis for John’s Beta Corporation common shares of $10,000. John’s ordinary gross income for the current taxable year is as follows.  
A. None/Zero  
B. $30,000  
C. $40,000  
D. $20,000  
E. None of the above

65. Referring to Question 64, Beta Corporation purchased 40% of John’s Alpha Corporation common shares for $60,000. John’s ordinary gross income for the current taxable year is as follows.  
A. None/Zero  
B. $60,000  
C. $40,000  
D. $50,000  
E. None of the above

66. Referring to Question 64, Alpha Corporation purchased all of John’s Beta Corporation common shares. 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

67. 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 taxable 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
68. Referring to Question 67, John’s estate was open for four taxable 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

69. Referring to Question 67, 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

70. During the current taxable year, John owned all of the common shares (specifically, 100 common shares which John had purchased several taxable years ago for $2,000) of OverTheRainbow 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, OverTheRainbow Corporation issued to John 100 preferred shares of OverTheRainbow 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 OverTheRainbow Corporation’s total earnings and profits at that time were $100,000. During the next taxable year, OverTheRainbow Corporation had redeemed the 100 preferred shares from John for $10,000, because John needed the money. During that next taxable year, OverTheRainbow 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

71. Referring to Question 70, 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

72. Referring to Question 70, during the next taxable year, John sold the 100 preferred shares to Paul for $10,000 (instead of OverTheRainbow 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

73. During the current taxable year, UnderTheRainbow 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 UnderTheRainbow Corporation which John had purchased several taxable 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 UnderTheRainbow
Corporation would take the land from UnderTheRainbow Corporation if John did not assume the debt.
UnderTheRainbow 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

74. Referring to Question 73, John’s adjusted basis for the land is as follows.
A. None/Zero
B. $200,000
C. $170,000
D. $100,000
E. None of the above

75. During the current taxable 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 taxable years ago, and then, eight taxable 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 taxable 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

76. Referring to Question 75, 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 ordinary income
D. $190,000 long term capital gain
E. None of the above

77. Referring to Question 75, if Paul conveys any of Paul’s common shares of RaceCar Corporation to RaceCar
Corporation, then 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

78. Referring to Question 75, RaceCar Corporation purchased the assets of AutoFix Corporation two taxable 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

79. Referring to Question 75, RaceCar Corporation did not purchase the assets of AutoFix Corporation, but instead, started the retail store business “from scratch” eight taxable 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

80. Referring to Question 75, RaceCar Corporation distributed the $200,000 to Paul at the rate of $20,000 per year for ten taxable years, beginning with the current taxable year. Paul’s gross income for the current taxable year is as follows.
   A. None/Zero
   B. $197,500 long term capital gain
   C. $15,000 long term capital gain
   D. $200,000 ordinary income
   E. None of the above

81. Referring to Question 75, 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

82. Referring to Question 75, 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

83. Referring to Question 82, Paul’s total adjusted 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

84. Referring to Question 75, RaceCar Corporation did not sell the retail store business assets to ButEmUp 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 taxable year, shortly after Paul received the assets. 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

85. Referring to Question 84, Paul’s total adjusted 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

86. Referring to Question 84, Peter’s total adjusted 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

87. Referring to Question 75, 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

88. Referring to Question 87, Paul’s gross income for the current taxable year is as follows.
   A. None/Zero
   B. $2,000
   C. $10,000
   D. $8,000
   E. None of the above

89. Referring to Question 87, 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 at a time when Paul’s adjusted basis for all of Paul’s common was $10,000. 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

90. Referring to Question 89, 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

91. Referring to Question 89, during the final taxable year (four taxable 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

92. Referring to Question 89, during each year of the four-year period, RaceCar Corporation continued to manufacture helmets and to sell these helmets and to purchase and sell automobile parts so that RaceCar Corporation would make a considerable amount of money during the process and the $8,000 distribution was pay to Paul at a time when Paul’s adjusted basis for all of Paul common shares was $10,000. 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

93. Referring to Question 92, 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

94. Two taxable 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 taxable 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

95. Referring to Question 94, Mary’s gross income during the current taxable year is as follows.
A. $175,000 long term capital gain
B. $78,000 ordinary income
C. $25,000 long term capital gain
D. $150,000 long term capital gain
E. None of the above

96. 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 taxable 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, Liability, Equity</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>
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<tr>
<td>Inventory</td>
<td>20,000</td>
<td>50,000</td>
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<tr>
<td>Equipment</td>
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<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

97. Referring to Question 96, Mary’s gross income with respect to the liquidation distribution to Mary is as follows.
A. None/Zero
B. $20,000
C. $30,000
D. $50,000
E. None of the above

98. Referring to Question 96, 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
99. 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 taxable 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 taxable 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

100. Referring to Question 99, 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

101. Referring to Question 99, John’s adjusted basis for the truck is as follows.

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

102. 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 taxable 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 taxable 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

103. Referring to Question 102, 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

104. Referring to Question 102, John’s adjusted basis for the truck is as follows.

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

105. During the current taxable year, Mary owned some of the issued and outstanding common shares of ShadowOfYourSmile Corporation, which corporation had many assets, one of which was some vacant land with an adjusted basis of $5,000 and a fair market value of $15,000. During the current taxable year, ShadowOfYourSmile Corporation had taxable income of $400,000 and earnings and profits of $2,000,000. During the current taxable year, Mary had taxable income of $400,000, all ordinary income and deductions. Mary’s adjusted basis for Mary’s common shares was $2,000 and the fair market value of Mary’s common shares was $22,000. Mary sold Mary’s common shares to Paul for $22,000. Mary’s income tax with respect to the sale of the common shares is as follows.  
A. None/Zero  
B. $7,920  
C. $4,400  
D. $4,000  
E. None of the above

106. Referring to Question 105, ShadowOfYourSmile Corporation sold the land to Paul for $15,000. ShadowOfYourSmile Corporation’s income tax with respect to the sale of the land is as follows.  
A. None/Zero  
B. $2,000  
C. $3,400  
D. $3,000  
E. None of the above

107. Referring to Question 105 and Question 106, ShadowOfYourSmile Corporation sold the land, with an adjusted basis of $5,000 to Paul for $15,000, and then, paid the federal income tax with respect to the sale of the land from the sale proceeds, and then, distributed the net proceeds (from the sale of the land and the payment of the income tax) to Mary, as a dividend. Mary’s net cash after both of these transactions is as follows.  
A. None/Zero  
B. $2,614  
C. $4,832  
D. $3,986  
E. None of the above

108. During the current taxable year, YourSmile Corporation, which corporation had many assets, one of which was some vacant land with an adjusted basis of $2,000 and a fair market value of $12,000. YourSmile Corporation generally had taxable income of $30,000 and during the current taxable year of YourSmile Corporation had earnings and profits of $100,000. During the current taxable year, YourSmile Corporation properly elected to be treated as an S corporation, beginning on January 1 of the next taxable year. During the next taxable year, YourSmile Corporation sold the land for $12,000. YourSmile Corporation’s income tax for the next taxable year, taking into account only the sale of the land, is as follows.  
A. None/Zero  
B. $2,000  
C. $1,500  
D. $3,400  
E. None of the above

109. During the current taxable year, 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 net fair market value was $500,000) and which common shares had a net adjusted basis to John of $60,000 and
which common shares were owned by John for over five taxable years. The other 40% (400 common shares) of Kinder Corporation was owned by Paul, which common shares (of Paul) had a net fair market value of $200,000 (because Kinder Corporation's net fair market value was $500,000) and which common shares had a net adjusted basis to Paul of $50,000 and which common shares had been owned by Paul for over five taxable years. The net fair market value of Gentler Corporation's 1,000 issued and outstanding common shares was also $500,000. During the current taxable year, Alan owned all of the 1,000 issued and outstanding common shares of Gentler Corporation, which common shares had a net fair market value of $500,000. Alan had a net adjusted basis of $40,000 for these 1,000 common shares. During the current taxable year, 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 and liabilities to Gentler Corporation. The net adjusted basis of Kinder Corporation's assets which Kinder Corporation transferred to Gentler Corporation was $200,000 and the net fair market value of the assets which Kinder Corporation transferred to Gentler Corporation was $500,000. The net adjusted basis of Gentler Corporation's assets, just prior to the receipt of the Kinder Corporation assets, was $300,000 and the net fair market value of the assets of Gentler Corporation, just prior to the receipt of the Kinder Corporation assets, was $500,000. Just prior to this transaction, Kinder Corporation and Gentler Corporation each had accumulated earnings and profits of $100,000. As part of this transaction, Gentler Corporation issued the new (and additional) 1,000 common shares of Gentler Corporation to Kinder Corporation in exchange for Kinder Corporation's net assets. Thereafter, Kinder Corporation transferred 600 common shares of Gentler Corporation to John (in exchange for John's 600 common shares of Kinder Corporation) and 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 state laws, Kinder Corporation ceased to exist. As a result of this transaction, the 2,000 common shares of Gentler Corporation were owned as follows: John owned 600 common shares (30%) of Gentler Corporation with a net fair market value of $300,000 and Paul owned 400 common shares (20%) of Gentler Corporation with a net fair market value of $200,000 and Alan owned 1,000 common shares (50%) of Gentler Corporation with a net fair market value of $500,000. Just prior to this transaction, Gentler Corporation operated several restaurants in the States of Indiana and Illinois and Kinder Corporation manufactured and distributed various frozen food products throughout the United States of America to home consumers and to restaurants. After this transaction, Gentler Corporation had a net fair market value of $1,000,000. This type of transaction is generally referred to as follows.

A. An A reorganization
B. A B reorganization
C. A C reorganization
D. A D reorganization
E. None of the above

110. Referring to Question 109, Kinder Corporation’s 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

111. Referring to Question 109, Gentler Corporation’s 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

112. Referring to Question 109, John's capital gain gross income for the current taxable year is as follows.
A. None/Zero
B. $50,000
113. Referring to Question 109, John's adjusted basis for the Gentler Corporation common shares is as follows.
   A. None/Zero
   B. $80,000
   C. $120,000
   D. $60,000
   E. None of the above

114. Referring to Question 109, Alan's adjusted basis for the Gentler Corporation common shares is as follows.
   A. None/Zero
   B. $50,000
   C. $60,000
   D. $40,000
   E. None of the above

115. Referring to Question 109, Gentler Corporation's net adjusted basis for the assets which Gentler Corporation received from Kinder Corporation is as follows.
   A. None/Zero
   B. $300,000
   C. $200,000
   D. $100,000
   E. None of the above

116. Referring to Question 109, after the transaction, Gentler Corporation's total earnings and profits is as follows.
   A. None/Zero
   B. $200,000
   C. $100,000
   D. $300,000
   E. None of the above

117. Referring to Question 109, if Kinder Corporation had a deficit instead of earnings and profits, then that deficit, under certain limitations, would carryover to Gentler Corporation to reduce Gentler Corporation's earnings and profits.
   A. Yes/True
   B. No/False
   C. Need additional information
   D. None of the above

118. Referring to Question 109, if Kinder Corporation had a net operating loss carryover, then that net operating loss carryover would have carried over to Gentler Corporation to reduce Gentler Corporation's taxable income.
   A. Yes/True
   B. No/False
   C. Need additional information
   D. None of the above

119. Referring to Question 109, with respect to the inventory of Kinder Corporation which was transferred to Gentler Corporation, Gentler Corporation must use the same method of accounting, for the purpose of accounting for such inventory, as Kinder Corporation used.
   A. Yes/True
   B. No/False
C. Need additional information
D. None of the above

120. Referring to Question 109, Paul only received from Kinder Corporation $100,000 of cash and 300 common shares of Gentler Corporation, which shares had a fair market value of $100,000. Paul'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

121. Referring to Question 120, this type of transaction is generally referred to as follows.
A. An A reorganization
B. A B reorganization
C. A C reorganization
D. A D reorganization
E. None of the above

122. Referring to Question 120, John's adjusted basis for the Gentler Corporation common shares is as follows.
A. None/Zero
B. $240,000
C. $60,000
D. $300,000
E. None of the above

123. Referring to Question 109, Kinder Corporation may make an election under section 332.
A. Yes/True
B. No/False
C. Need additional information
D. None of the above

124. Referring to Question 109, Kinder Corporation may make an election under section 338.
A. Yes/True
B. No/False
C. Need additional information
D. None of the above

125. Referring to Question 109, Gentler Corporation may make an election under section 338.
A. Yes/True
B. No/False
C. Need additional information
D. None of the above

126. Referring to Question 109, Paul only received from Kinder Corporation some land of Kinder Corporation with an adjusted basis to Kinder Corporation of $20,000 and a fair market value of $100,000 and 300 common shares of Gentler Corporation, which shares had a fair market value of $100,000. Paul'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
127. Referring to Question 126, Kinder Corporation’s gross income due to the distribution of the land to Paul is as follows.
   A. None/Zero
   B. $20,000
   C. $120,000
   D. $360,000
   E. None of the above

128. Referring to Question 109, Paul only received from Kinder Corporation some land of Kinder Corporation with an adjusted basis to Kinder Corporation of $120,000 and a fair market value of $100,000 and 300 common shares of Gentler Corporation, which shares had a fair market value of $100,000. Paul'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

129. Referring to Question 128, Kinder Corporation’s loss deduction due to the distribution of the land to Paul is as follows.
   A. None/Zero
   B. $20,000
   C. $120,000
   D. $360,000
   E. None of the above

130. Referring to Question 109, Gentler Corporation acquired all of the issued and outstanding common shares of Kinder Corporation by transferring 600 common shares of Gentler Corporation directly to John and by transferring 400 common shares of Gentler Corporation directly to Paul. This type of transaction is generally referred to as follows.
   A. An A reorganization
   B. A B reorganization
   C. A C reorganization
   D. A D reorganization
   E. None of the above

131. Referring to Question 130, John’s gross income for the current taxable year is as follows.
   A. None/Zero
   B. $240,000
   C. $60,000
   D. $300,000
   E. None of the above

132. Referring to Question 130, Gentler Corporation’s total adjusted basis for the common shares which Gentler Corporation received from John and Paul is as follows.
   A. None/Zero
   B. $240,000
   C. $60,000
   D. $300,000
   E. None of the above

133. Referring to Question 130, Paul’s adjusted basis for the Gentler Corporation common shares is as follows.
   A. None/Zero
   B. $240,000
134. Referring to Question 130, Gentler Corporation also issued a bond to John, at the time when John acquired John’s common shares in Gentler Corporation, which bond provided for the payment of annual interest of five percent and which bond had a par value of $10,000, in exchange for two bonds which had been issued to John by Kinder Corporation, at the time when John acquired John’s common shares in Kinder Corporation. Each of these two bonds provided for the payment of annual interest of five percent and each of these bonds had a par value of $5,000. John paid Kinder Corporation $5,000 for each of the bonds at the time when Gentler Corporation issued the bonds to John. During the current taxable year, John received the appropriate amount of interest from Kinder Corporation and the appropriate amount of interest from Gentler Corporation. John has gross income during the current taxable year, due to the exchange of the bonds, which is in excess of the interest which John was paid by Kinder Corporation and by Gentler Corporation.

A. Yes/True
B. No/False
C. Need additional information
D. None of the above

135. Referring to Question 134, the exchange of the bonds will prevent the corporate reorganization from qualifying as any type of reorganization which is listed in section 368(a).

A. Yes/True
B. No/False
C. Need additional information
D. None of the above

136. Referring to Question 130, Gentler Corporation also issued a bond to John, at the time when John acquired John’s common shares in Gentler Corporation, which bond provided for the payment of annual interest of five percent and which bond had a par value of $10,000, in exchange for two bonds which had been issued to John by Kinder Corporation, at the time when John acquired John’s common shares in Kinder Corporation. Each of these two bonds provided for the payment of annual interest of five percent and each of these bonds had a par value of $4,000. John paid Kinder Corporation $4,000 for each of the two bonds at the time when Gentler Corporation issued the bonds to John. John received the appropriate amount of interest from Kinder Corporation and from Gentler Corporation. John’s gross income (with considering any interest gross income) during the current taxable year due to the exchange of the bonds is as follows.

A. None/Zero
B. $2,000 of ordinary income
C. $2,000 of long term capital gain
D. $10,000 of ordinary income
E. None of the above

137. Referring to Question 136, the exchange of the bonds will prevent the corporate reorganization from qualifying as any type of reorganization which is listed in section 368(a).

A. Yes/True
B. No/False
C. Need additional information
D. None of the above

138. Referring to Question 130, Gentler Corporation may make an election under section 332.

A. Yes/True
B. No/False
C. Need additional information
D. None of the above
139. Referring to Question 130, immediately after Gentler Corporation acquired the common shares of Kinder Corporation from John and Paul, Gentler Corporation purchased all of Alan’s common shares in Gentler Corporation for $500,000. Alan’s long term capital gain for the current taxable year is as follows.
A. None/Zero  
B. $240,000  
C. $460,000  
D. $300,000  
E. None of the above

140. Referring to Question 109, Gentler Corporation acquired all of the issued and outstanding common shares of Kinder Corporation by transferring $300,000 of cash (by a good check) directly to John and by transferring $200,000 of cash (by a good check) directly to Paul in exchange for all of John’s and all of Paul’s common shares in Kinder Corporation. John’s ordinary gross income for the current taxable year is as follows.
A. None/Zero  
B. $240,000  
C. $60,000  
D. $300,000  
E. None of the above

141. Referring to Question 140, Gentler Corporation’s adjusted basis for the common shares which Gentler Corporation received from John and Paul is as follows.
A. None/Zero  
B. $240,000  
C. $60,000  
D. $300,000  
E. None of the above

142. Referring to Question 140, Gentler Corporation may make an election under section 332.
A. Yes/True  
B. No/False  
C. Need additional information  
D. None of the above

143. Referring to Question 140, Gentler Corporation may make an election under section 338.
A. Yes/True  
B. No/False  
C. Need additional information  
D. None of the above

144. Referring to Question 109, during the current taxable year, Gentler Corporation owned all of the common shares of Kinder Corporation and Gentler Corporation owned all of these common shares for over five taxable years prior to the current taxable year. Gentler Corporation’s net adjusted basis for the common shares which Gentler Corporation owned in Kinder Corporation was $100,000. During the current taxable year, Gentler Corporation liquidated (but did not dissolve Kinder Corporation) by taking 90% of Kinder Corporation’s net assets. Gentler Corporation retained all of Gentler Corporation’s common shares in Kinder Corporation. Thus, after this transaction was completed, Kinder Corporation was still in existence, still owning ten percent of Kinder Corporation’s net assets. This type of transaction is generally referred to as follows.
A. An A reorganization  
B. A B reorganization  
C. A C reorganization  
D. A D reorganization  
E. None of the above

145. Referring to Question 144, in order for this transaction to be listed as a reorganization in section 368(a),
Kinder Corporation’s existence must be terminated as part of the transaction.
A. Yes/True
B. No/False
C. Need additional information
D. None of the above

146. Referring to Question 144, Gentler Corporation may make an election under section 332.
A. Yes/True
B. No/False
C. Need additional information
D. None of the above

147. Referring to Question 144, Gentler Corporation may make an election under section 338.
A. Yes/True
B. No/False
C. Need additional information
D. None of the above

148. Referring to Question 144, after this transaction, Gentler Corporation continued to operate Gentler Corporation’s restaurants (and to establish more restaurants) and began preparing a variety of frozen foods for sale and Kinder Corporation began to operate an independent sales force for the purpose of advertising Gentler Corporation’s restaurants in the Midwest and for the purpose of selling Gentler Corporation’s frozen foods throughout the United States of America. In order to enable Kinder Corporation to successfully operate, Gentler Corporation loaned Kinder Corporation $500,000 with an annual interest rate of five percent. As a result of the loan, Kinder Corporation has gross income of $500,000.
A. Yes/True
B. No/False
C. Need additional information
D. None of the above

149. 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 taxable 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

150. Referring to Question 149, 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

151. Referring to Question 149, 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

152. Referring to Question 149, 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

153. Referring to Question 149, 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

154. Referring to Question 149, 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

155. Referring to Question 149, immediately after Mary received the 700 common shares of Gentler Corporation, Mary was told by a doctor that Mary had a serious heart problem. Therefore, Mary gave 300 common shares of Gentler Corporation to Sue and Mary sold 300 common shares of Gentler Corporation to Paul for $270,000. Mary’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
156. 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 taxable 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

157. 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. An A reorganization  
B. A B reorganization  
C. A C reorganization  
D. A D reorganization  
E. None of the above

158. Referring to Question 157, 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

159. Referring to Question 157, 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  
C. Need additional information
160. Referring to Question 157, 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
C. Need additional information
D. None of the above

161. In general, the carryover provisions of section 381 through section 384 do not apply to the following transactions.
A. An A reorganization
B. A B reorganization
C. A C reorganization
D. A D reorganization
E. A section 332 transaction

162. 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, income taxed, at an income tax rate of 15%.
A. Yes/True
B. No/False
C. Need additional information
D. None of the above

163. Referring to Question 162, none of the corporations would be entitled to expense tangible personal property under section 179.
A. Yes/True
B. No/False
C. Need additional information
D. None of the above

164. Referring to Question 162, each C corporation could avoid the accumulated earnings tax if each corporation kept the corporation’s earnings and profits below $250,000.
A. Yes/True
B. No/False
C. Need additional information
D. None of the above

165. Referring to Question 162, each corporation must use the accrual method of accounting even if the corporation did not have inventories.
A. Yes/True
B. No/False
C. Need additional information
D. None of the above

166. Referring to Question 162, all of the corporations must be either S corporations or all of the corporations must be C corporations.
A. Yes/True
B. No/False
C. Need additional information
167. During the current taxable year, SirensOnTheRocks Corporation owned, for many taxable 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
C. Need additional information
D. None of the above

168. Referring to Question 167, 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
C. Need additional information
D. None of the above

169. 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 CoolWater Corporation. Specifically, Whoopy Corporation had assets with a fair market value of $1,000,000 and liabilities of $20,000, and CoolWater 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. 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
C. Need additional information
D. None of the above

170. Referring to Question 169, 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
C. Need additional information
D. None of the above

171. Referring to Question 169, 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
C. Need additional information
D. None of the above

172. During the current taxable year, WhiteFish Corporation transferred all of WhiteFish Corporation’s assets to Dog Corporation. At that time, WhiteFish Corporation’s assets had a fair market value of $1,000,000. In return, Dog Corporation issued to WhiteFish Corporation, common shares of Dog Corporation, with a fair market value of $900,000, and Dog Corporation also transferred to WhiteFish Corporation $100,000 of cash, which WhiteFish Corporation was to use to pay all of WhiteFish Corporation’s liabilities and to distribute any remaining amount to the common shareholders of WhiteFish Corporation. In addition, WhiteFish Corporation distributed all of the common shares of Dog Corporation (which had been distributed by Dog Corporation to WhiteFish Corporation) to the shareholders of WhiteFish Corporation. This transaction qualifies as a reorganization under section 368.
A. Yes/True
B. No/False
C. Need additional information
D. None of the above

173. Referring to Question 172, WhiteFish Corporation did not recognize any gain or loss when WhiteFish Corporation received the common shares and the cash from Dog Corporation.
A. Yes/True
B. No/False
C. Need additional information
D. None of the above

174. Referring to Question 172, Dog Corporation did not recognize any gain or loss when Dog Corporation received the assets from WhiteFish Corporation.
A. Yes/True
B. No/False
C. Need additional information
D. None of the above

175. Referring to Question 172, the shareholders of WhiteFish Corporation did not recognize any gain or loss when the shareholders (of WhiteFish Corporation) received the cash from WhiteFish Corporation.
A. Yes/True
B. No/False
C. Need additional information
D. None of the above

176. Referring to Question 172, the shareholders of WhiteFish Corporation did not recognize any gain or loss when the shareholders (of WhiteFish Corporation) received the common shares of Dog Corporation from WhiteFish Corporation.
A. Yes/True
B. No/False
C. Need additional information
D. None of the above

177. During the current taxable 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
C. Need additional information
D. None of the above

178. Referring to Question 177, 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
C. Need additional information
D. None of the above

179. Referring to Question 177, Deer Corporation did not recognize any gain or loss when Deer Corporation received the assets from Bird Corporation.
A. Yes/True
B. No/False
C. Need additional information
D. None of the above

180. Referring to Question 177, 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
C. Need additional information
D. None of the above

181. Referring to Question 177, 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
C. Need additional information
D. None of the above

182. During the current taxable 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
C. Need additional information
D. None of the above

183. Referring to Question 182, 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
B. No/False
C. Need additional information
D. None of the above

184. Referring to Question 182, 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.
185. Referring to Question 182, 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
C. Need additional information
D. None of the above

186. During the current taxable 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
C. Need additional information
D. None of the above

187. Referring to Question 186, 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
C. Need additional information
D. None of the above

188. Referring to Question 186, 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
C. Need additional information
D. None of the above

189. Referring to Question 186, 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
C. Need additional information
D. None of the above

190. During the current taxable year, BlueBird Corporation owned all of the issued and outstanding common shares of Robin Corporation and during the current taxable year, BlueBird Corporation distributed all of the Robin Corporation common shares to the shareholders of BlueBird Corporation, pro rata. This type of corporate transaction is generally referred to as a “split off”.
A. Yes/True
B. No/False
C. Need additional information
D. None of the above
191. During the current taxable year, BlueBird Corporation owned all of the issued and outstanding common shares of Robin Corporation and during the current taxable year, BlueBird Corporation distributed all of the Robin Corporation common shares to the shareholders of BlueBird Corporation, pro rata. In return, all of the shareholders of BlueBird Corporation transferred to BlueBird Corporation a pro rata number of common shares in BlueBird Corporation to BlueBird Corporation. This type of corporate transaction is generally referred to as a “spin off”.
   A. Yes/True
   B. No/False
   C. Need additional information
   D. None of the above

192. During the current taxable year, BlackBird Corporation distributed 30% of BlackBird Corporation’s assets and liabilities to Hawk Corporation, in return for all of the authorized common shares of Hawk Corporation, and BlackBird Corporation distributed 70% of BlackBird Corporation’s assets and liabilities to Finch Corporation, in return for all of the authorized common shares of Finch Corporation, and thereafter, Blackbird Corporation distributed, pro rata, to the common shareholders of Blackbird Corporation, all of BlackBird Corporation’s common shares in Hawk Corporation and in Finch Corporation. This type of corporate transaction is generally referred to as a “split up”.
   A. Yes/True
   B. No/False
   C. Need additional information
   D. None of the above

193. WeAreThrough Corporation has 1,000 common shares authorized, with the following issued and outstanding 970 common shares and with 30 common shares being subject to an option to purchase, which option is held by Peter.

   John ............................................................................. 500
   Mary ............................................................................. 50
   Sue .............................................................................. 50
   Peter (who also has an option to purchase 30 common voting shares) ......................... 50
   John's brother ................................................................. 50
   John's mother (John's father is dead) ........................................................................ 50
   John's grandmother ............................................................. 50
   PS, a partnership which is owned 50% by Sue and 50% by Peter ..................................... 50
   C, a corporation which is owned 55% by Mary, 20% by Sue, 20% by Peter, and 5% by Paul ........................................................................................................ 20
   IT, an irrevocable trust which John's grandfather established, 35 taxable years ago, when John and Mary married, with the net income distributable to John for life and with the remainder of the trust being distributable to Mary or Mary's estate upon the death of John, and the present actuarial value of John's life estate being 60% and the present actuarial value of the remainder interest being 40% ...................................................................................... 50
   FE, John's father's estate, which estate was devised 45% to Mary and 50%
   to John and 5% to Peter and Sue, in equal shares) ................................................. 50

Under section 318, John is considered to own the following number of common shares of WeAreThrough Corporation.
   A. None/Zero
   B. 911
   C. 991
   D. 891
194. Referring to Question 193, Mary is considered to own the following common shares of WeAreThrough Corporation,
   A. None/Zero
   B. 841
   C. 991
   D. 891
   E. None of the above

195. Referring to Question 193, Peter is considered to own the following common shares of WeAreThrough Corporation.
   A. None/Zero
   B. 753.75
   C. 788.75
   D. 818.75
   E. None of the above

196. Referring to Question 193, PS (a partnership) is considered to own the following common shares of WeAreThrough Corporation.
   A. None/Zero
   B. 868.75
   C. 788.75
   D. 818.75
   E. None of the above

197. Referring to Question 193, C (a corporation) is considered to own the following common shares of WeAreThrough Corporation.
   A. None/Zero
   B. 991
   C. 941
   D. 881
   E. None of the above

198. Referring to Question 193, FE (John’s father’s estate) is considered to own the following common shares of WeAreThrough Corporation.
   A. None/Zero
   B. 895
   C. 941
   D. 891
   E. None of the above

199. Referring to Question 193, IT (an irrevocable trust) is considered to own the following common shares of WeAreThrough Corporation.
   A. None/Zero
   B. 891
   C. 895
   D. 841
   E. None of the above

200. Referring to Question 193, some common shares were redeemed by WeAreThrough Corporation from the following persons and the following common shares were, thereafter, owned by such following persons.

<table>
<thead>
<tr>
<th>Person</th>
<th>Number Of Shares</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
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</table>

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The redemption from John of John's common shares will qualify as a section 302(b)(2).

A. Yes/True

B. No/False