TABLE OF CONTENTS

TABLE OF CONTENTS .......................................................... -2-
WARNING ...................................................................... -5-
Do Not Take This Examination Until You Have Signed The "Student Statement" ............................................. -5-
Times And Dates For Taking Examination ................................. -5-
Place For Taking Examination .................................................. -5-
Pages And Parts Of This Examination Document ........................... -5-
Numbers And Types Of Examination Questions And Recording Your Answers Thereto ................................... -5-
Your Examination Number .................................................. -5-
Pencils, Pens, Typewriters, Computers, And Calculators ...................... -5-
Reference Materials .......................................................... -5-
Stamping Examination Parts ................................................... -6-
Leaving Examination Room Prior To Finishing Examination .................. -6-
Finishing Examination .................................................. -6-
Extra Credit Assignment ................................................... -6-
References In Examination Document To Sections And Regulations ....... -6-
“Yes” Or “No” Answers Equal “True” Or “False” Answers ............... -6-
Assumptions Concerning Applicable Law ..................................... -6-
Assumptions Concerning Relationships Between And Among Individuals ................................................ -6-
Assumptions Concerning Residencies Of Individuals ....................... -6-
Assumptions Concerning Self-Employments And Employments ............. -6-
Assumptions Concerning Transactions ......................................... -7-
Assumptions Concerning Elections By Partnerships And Limited Liability Companies .................................. -7-
Assumptions Concerning Attendance At Meals And Other Events ............. -7-
Assumptions Concerning Gifts ................................................ -7-
Assumptions Concerning Estate’s Actions ....................................... -7-
Assumptions Concerning The Tax Laws And Minimizing Taxes .................. -7-
Assumptions Concerning Types Of Property ................................... -7-
Assumptions Concerning Ownership And Location Of Property ................. -7-
Assumptions Concerning Types Of Transfers .................................... -7-
Assumptions Concerning Terms "Given To" And "Devised To" ................. -7-
Assumptions Concerning Basis Of Property ...................................... -8-
Assumptions Concerning Liability For Obligations ............................... -8-
Assumptions Concerning Methods Of Accounting And Periods Of Accounting ................................... -8-
Assumptions Concerning Term “Value” ........................................ -8-
Assumptions Concerning Computations Of Time ............................... -8-
Assumptions Concerning Amount Of Gross Income, Deduction, Credit, And Tax ......................................... -8-
Assumptions Concerning Transactions During A Particular Taxable Year ................................... -8-
Assumptions Concerning The Components Of Adjusted Gross Income ........... -8-
Assumptions Concerning Itemized Deductions .................................. -8-
Assumptions Concerning Rounding Of Decimals ............................... -9-
Assumptions Concerning Term "Gross Sales Price" .............................. -9-
Assumptions Concerning Interest On Deferred Payments ....................... -9-
Assumptions Concerning Term “Ordinary Expense Or Ordinary Loss Deduction” .................................. -9-
Assumptions Concerning Amount Of Deduction Which Is Allowable ............. -9-
Assumptions Concerning Life Insurance Policies .................................. -9-
Assumptions Concerning Qualified Retirement Plans ........................... -9-
Assumptions Concerning Standard Deductions ................................... -10-
Assumptions Concerning Personal Exemptions .................................... -10-
Assumptions Concerning Expensing Of Tangible Personal Property, Depreciation, Depletion, And Amortization ......... -10-
Assumptions Concerning Travel ................................................ -10-
Assumption Concerning The Mileage Rates For Income Tax Deductions For Using A Personal Automobile ......................... -10-
I am a student in one of Professor Jegen’s tax courses, which course was given during the _________ semester, _________, and I am about to take the final examination in this course. It is my understanding that some students in this course may take this final examination before I take this examination and that some students in this course may take this examination after I take this examination. Therefore, I hereby acknowledge that one of the conditions for allowing me to take this examination at a time of my choice is that I have not communicated, prior to now, directly or indirectly, in any manner, with any person (other than Professor Jegen and a proctor, if any, of this examination) who had knowledge about any question in this examination and that I have not received, prior to now, directly or indirectly, in any manner, from any person (other than Professor Jegen and a proctor, if any, of this examination) any information about any question in this examination. I also hereby acknowledge that one of the conditions for allowing me to take this examination at a time of my choice is that I will not communicate, while I take this examination or after I take this examination until _________, _________, directly or indirectly, in any manner, with any person (other than Professor Jegen and a proctor, if any, of this examination) any information about any question in this examination. In summary, I hereby state, unequivocally, that I did not and will not receive any such information and that I have not and will not communicate any such information until _________, _________.

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

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

_________________________________________  ______________________________________
Date Of Signing                                             Signature Of Student Who Is Taking This Examination

_________________________________________  ______________________________________
Examination Number                                           Printed Name

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

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

INSTRUCTIONS FOR THIS EXAMINATION

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

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

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

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

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

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

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

8. Reference Materials. You may not use any reference materials or paper other than those included in or with
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>
<tr>
<td>Except as otherwise stated, no fiduciary establishes a reserve for depreciation.</td>
<td></td>
</tr>
</tbody>
</table>

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

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

<table>
<thead>
<tr>
<th>Mode of Travel</th>
<th>Rate per Mile</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business</td>
<td>44.5 cents</td>
</tr>
<tr>
<td>Charitable</td>
<td>14 cents</td>
</tr>
<tr>
<td>Medical</td>
<td>18 cents</td>
</tr>
<tr>
<td>Moving</td>
<td>18 cents</td>
</tr>
</tbody>
</table>

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

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

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

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

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

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

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

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

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

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

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Flat amount = 0 + 10% up to 14,600</td>
<td>Flat amount = 0 + 10% up to 10,450</td>
<td>Flat amount = 0 + 10% up to 7,300</td>
<td>Flat amount = 0 + 10% up to 7,300</td>
</tr>
<tr>
<td>Flat amount = 1,460 + 15% of amount over 14,600 but not over 59,400</td>
<td>Flat amount = 1,045 + 15% of amount over 10,450 but not over 39,800</td>
<td>Flat amount = 730 + 15% of amount over 7,300 but not over 29,700</td>
<td>Flat amount = 730 + 15% of amount over 7,300 but not over 29,700</td>
</tr>
<tr>
<td>Flat amount = 8,180 + 25% of amount over 59,400 but not over 119,950</td>
<td>Flat amount = 5,447.50 + 25% of amount over 39,800 but not over 102,800</td>
<td>Flat amount = 4,090 + 25% of amount over 29,700 but not over 71,950</td>
<td>Flat amount = 4,090 + 25% of amount over 29,700 but not over 71,950</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>
Flat amount = 88,320 + 35% of amount over 326,450

Flat amount = 91,819.50 + 35% of amount over 326,450

Flat amount = 94,727.50 + 35% of amount over 326,450

Flat amount = 44,160 + 35% of amount over 163,225

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>Amount free of gift tax</td>
<td>Amount free of estate tax and GST tax</td>
</tr>
<tr>
<td>------------------------</td>
<td>--------------------------------------</td>
</tr>
<tr>
<td>2005 $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>
</tr>
<tr>
<td>2006 $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>
</tr>
<tr>
<td>2007 $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>
</tr>
<tr>
<td>2008 $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>
</tr>
<tr>
<td>2009 $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>
</tr>
<tr>
<td>Year</td>
<td>Description</td>
</tr>
<tr>
<td>------</td>
<td>-------------</td>
</tr>
<tr>
<td></td>
<td>For gifts made after 12/31/09, the gift tax is not repealed, but continues due to the provisions of HR1836.</td>
</tr>
<tr>
<td></td>
<td>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.</td>
</tr>
</tbody>
</table>

* 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>Taxable Amount</td>
</tr>
<tr>
<td>----------------------------------</td>
<td>---------------</td>
</tr>
<tr>
<td>$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>$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>$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>$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>$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>$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>$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>$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>$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>$2,000,000 but not over $2,500,000</td>
<td>$780,800 plus 47% of the excess of such amount over $2,000,000</td>
</tr>
</tbody>
</table>

65. Assumptions Concerning Current Gift And Estate Tax Rates.

<table>
<thead>
<tr>
<th>Amount Range</th>
<th>Taxable Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>$10,000</td>
<td>18% of such amount</td>
</tr>
<tr>
<td>$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>$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>$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>$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>$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>$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>$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>Over $2,500,000</td>
<td>$1,025,800 plus 49% of the excess of such amount over $2,500,000</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>Type Of Credit</th>
<th>Amount Or Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Child</td>
<td>500</td>
</tr>
<tr>
<td>Adoption</td>
<td>11,000</td>
</tr>
<tr>
<td>Hope</td>
<td>1,500</td>
</tr>
<tr>
<td>Lifetime learning</td>
<td>2,000</td>
</tr>
<tr>
<td>Old building</td>
<td>10%</td>
</tr>
<tr>
<td>Certified historic building</td>
<td>20%</td>
</tr>
</tbody>
</table>

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

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

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

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

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

72. **Assumptions Concerning The Generation-Skipping Transfer Tax Exemption.** Except as otherwise stated, assume that each individual used the individual's generation-skipping transfer tax exemption at the individual's first opportunity.
1. During the current taxable year, 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. Referring to Question 1, YouAreOnYourWay Corporation’s taxable income was $100,000. YouAreOnYourWay Corporation’s income tax (prior to any credit) for the current taxable year is as follows.
   A. None/Zero
   B. $34,000
   C. $20,100
   D. $22,250
   E. None of the above

3. Referring to Question 1, YouAreOnYourWay Corporation’s taxable income was $500,000. YouAreOnYourWay Corporation’s income tax (prior to any credit) for the current taxable year is as follows.
   A. None/Zero
   B. $170,000
   C. $170,500
   D. $150,300
   E. None of the above

4. During the current taxable year, ShapeUp Corporation's taxable income was $100,000 and ShapeUp Corporation’s income tax (prior to any credit) was $20,000. ShapeUp 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

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

6. Referring to Question 5, the amount of unemployment tax (prior to any credit) which SpringFever Corporation must withhold from Paul’s salary for the current taxable year is as follows.
   A. None/Zero
   B. $700
   C. $600
   D. $765
   E. None of the above
7. The current maximum personal holding company tax rate is as follows.
   A. None/Zero
   B. 38.6%
   C. 34%
   D. 15.0%
   E. None of the above

8. The current maximum accumulated earnings tax rate is as follows.
   A. None/Zero
   B. 38.6%
   C. 34%
   D. 15.0%
   E. None of the above

9. In general, the maximum income tax rate which 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%
   C. 34%
   D. 25%
   E. None of the above

10. During the current taxable year, Smart Corporation, which was a manufacturing corporation, had $3,000,000 of accumulated earnings and profits. The highest amount of accumulated earnings tax which Smart Corporation might owe for the current taxable year is as follows.
    A. None/Zero
    B. $412,500
    C. $935,000
    D. $1,061,500
    E. None of the above

11. LearnALot College’s unrelated business taxable income for the current taxable year was $50,000. LearnALot College’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

12. During the current taxable year, HebrewNumberOne Synagogue owned a large vacant lot near downtown Minneapolis, Minnesota and, under a lease agreement with MakeSomeScratch Corporation, HebrewNumberOne Synagogue 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 HebrewNumberOne Synagogue received, HebrewNumberOne Synagogue 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, HebrewNumberOne Synagogue received 15% of the gross rent, specifically, 15% of $200,000 ($30,000). HebrewNumberOne Synagogue’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
13. 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

14. Referring to Question 13, 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

15. Referring to Question 13, 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

16. Referring to Question 13, 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

17. Referring to Question 16, 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

18. Referring to Question 16, Mary's adjusted basis for the promissory note is as follows.
   A. None/Zero
   B. $20,000
19. 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>
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<tr>
<td>Inventory</td>
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<td>20,000</td>
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<tr>
<td>Equipment</td>
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<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>
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</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

20. Referring to Question 19, 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

21. Referring to Question 19, 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

22. Referring to Question 19, Paul's adjusted basis for the 300 common shares which Paul received for the land is as follows.

A. None/Zero
B. $5,000
23. Referring to Question 19, 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

24. Referring to Question 19, 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

25. Referring to Question 19, on the day on which Peter received the 600 common shares of Recycle Corporation, Peter transferred 300 of the common shares to Beverly because 30 days prior to the incorporation of Recycle Corporation, Beverly and Peter signed a contract that Peter would transfer the 300 shares (which were issued to Peter) to Beverly 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

26. 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

27. Referring to Question 26, 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

28. Referring to Question 26, 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

29. Referring to Question 26, 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. $12,000
E. None of the above

30. Referring to Question 29, 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

31. During the current taxable year, Paul organized Crow Corporation and transferred some land to Crow Corporation in return for all of Crow Corporation’s authorized common shares. At the time of the transfer, the land had a fair market value of $50,000 and an adjusted basis to Paul of $20,000. Just before Paul transferred the land to Crow Corporation, Paul borrowed $15,000 from the Indiana Bank and secured the debt with the land. At the time of the transfer of the land to Crow Corporation, Crow Corporation (with the consent of the Indiana Bank) assumed Paul’s mortgage debt of $15,000. Paul’s gross income for the current taxable year is as follows.
A. None/Zero
B. $30,000
C. $15,000
D. $20,000
E. None of the above

32. Referring to Question 31, Paul’s adjusted basis for Paul’s common shares is as follows.
A. None/Zero
B. $30,000
C. $35,000
D. $5,000
E. None of the above

33. During the current taxable year, Paul and Peter organized a corporation and Paul and Peter each acquired 50% of the common shares of the corporation. The corporation may elect to be treated (and to have Paul and Peter treated) under the IRC income tax provisions which are applicable to C corporations or under the IRC income tax provisions which are applicable to partnerships, without electing S corporation status.
A. Yes/True
B. No/False
C. Need more information
D. None of the above

34. During the current taxable year, Paul organized a limited liability company and Paul became the sole member of the limited liability company. The limited liability company may elect to be treated (and to have Paul treated) under the IRC income tax provisions which are applicable to limited liability companies or under the IRC income tax provisions which are applicable to a sole proprietorship of Paul.
A. Yes/True
B. No/False
C. Need more information
D. None of the above

35. During the current taxable year, Paul and Peter organized a limited liability company and Paul and Peter each acquired 50% of the memberships of the limited liability company. The limited liability company may elect to be treated (and to have Paul and Peter treated) under the IRC income tax provisions which are applicable to C corporations or under the IRC income tax provisions which are applicable to limited liability companies.
A. Yes/True
B. No/False
C. Need more information
D. None of the above

36. During the current taxable year, Paul organized a corporation and acquired 100% of the common shares of the corporation. The corporation may elect to be treated (and to have Paul treated) under the IRC income tax provisions which are applicable to C corporations or under the IRC income tax provisions which are applicable to S corporations.
A. Yes/True
B. No/False
C. Need more information
D. None of the above

37. On January 1 of the current taxable year, Alan organized BeautifulPeople Corporation and paid Peter, a lawyer, $2,000 as a fee for doing the legal work for the organization. The maximum amount of such fee which BeautifulPeople Corporation may deduct during the current taxable year is as follows.
A. None/Zero
B. $2,000
C. $1,000
D. $400
E. None of the above

38. Referring to Question 37, the payment which is not considered to be an organization expense is as follows.
A. Fee paid to accountant for determining the income tax consequences of the proposed organization of the corporation.
B. Fee paid to the State of Indiana in order to file the incorporating documents.
C. Fee paid to an officer for services to bring about the organization of the corporation.
D. Fee paid to lawyer to draft an employment contract for the individual who is to be the president of the corporation.
E. None of the above

39. Referring to Question 37, the answer would be the same if the entity were a partnership.
A. Yes/True
B. No/False
C. Need more information
D. None of the above

40. Referring to Question 38, the answer would be the same if the entity were a partnership.
A. Yes/True
B. No/False
C. Need more information
D. None of the above

41. Referring to Question 37, the answer would be the same if the entity were a limited liability company.
42. Referring to Question 38, the answer would be the same if the entity were a limited liability company.
A. Yes/True
B. No/False
C. Need more information
D. None of the above

43. The multiple corporation structure has many tax and nontax advantages and disadvantages. Each of the following general statements are true with respect to multiple corporations, except one. Which one?
A. Multiple corporations allow each corporation to use the separate income tax rate structure of 15%, 25%, and 34%.
B. Multiple corporations do not allow each corporation to have the base credit for the accumulated earnings tax.
C. Multiple corporations do not allow each corporation to fully utilize section 179 expensing.
D. Multiple corporations allow shareholders a greater degree of limited liability.
E. Some corporations, in the multiple corporation structure, might elect, separately, to be C corporations or S corporations.

44. 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

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

46. 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. None/Zero
B. $63,000
47. On July 5 of the current taxable year, Paul sold 100 common shares of the SamBass 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

48. Referring to Question 47, 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

49. On July 5 of the current taxable year, Paul sold 200 common shares of CowardlyLion 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

50. Referring to Question 49, 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

51. 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. MerryChristmas Corporation had no earnings and profits during the current taxable year. Mary’s gross income during the current taxable year is as follows.
A. None/Zero
B. $75,000 of ordinary income
C. $25,000 of long term capital gain and $50,000 of ordinary income
D. $50,000 of long term capital gain and $25,000 of ordinary income
E. None of the above

52. On May 5 of the current taxable year, Paul sold 100 common shares of CrazyHorse 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 CrazyHorse Corporation required Paul to turn in (to CrazyHorse Corporation) 100 common shares which Paul then owned in CrazyHorse Corporation in return for the 200 new common shares in CrazyHorse Corporation. The 100 common shares which Paul initially owned were purchased on February 9, two taxable years ago, by Paul for $10,000. The fair market value of the 200 new common shares which Paul received on November 10 of the last taxable year was $20,000. Paul's gross income for the last taxable year with respect to the share split is as follows.
A. None/Zero
B. $5,000
C. $10,000
D. $20,000
E. None of the above

53. Referring to Question 52, 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. $5,000
C. $10,000
D. $15,000
E. None of the above

54. On May 5 of the current taxable year, Paul sold 100 common shares of CrazyHorse 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 one for two stock reverse stock split, when CrazyHorse Corporation required Paul to turn in (to CrazyHorse Corporation) 400 common shares which Paul then owned in CrazyHorse Corporation in return for the 200 new common shares in CrazyHorse Corporation. The 400 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 $10,000. Paul's gross income for the last taxable year with respect to the reverse share split is as follows.
A. None/Zero
B. $5,000
C. $10,000
D. $20,000
E. None of the above

55. Referring to Question 54, 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. $5,000
C. $10,000
D. $15,000
E. None of the above

56. During the current taxable year, John sold 100 common shares of LoneRanger Corporation for $50,000, which John had purchased two taxable years ago for $200,000 as an investment. The common shares were qualified as section 1244 stock. John's ordinary expense or ordinary loss deduction (considering all deduction limitations) for the current taxable year is as follows.
A. None/Zero
57. Referring to Question 56, John sold the common shares for $300,000. John's ordinary gross income for the current taxable year is as follows.
A. None/Zero
B. $150,000
C. $100,000
D. Need additional information
E. None of the above

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

59. On December 10 of the current taxable year, Mary sold 100 common shares of MoeGreen Corporation for $125,000. Mary had purchased the common shares many taxable years ago for $100,000. In addition to the sale of the MoeGreen 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 MoeGreen 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

60. On December 10 of the current taxable year, Paul sold 100 common shares of BugsySiegel Corporation for $200,000. Paul had purchased the common shares ten taxable years ago for $225,000. In addition to the sale of the BugsySiegel 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 BugsySiegel 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

61. During the first taxable year, Beverly organized Purple Corporation and transferred $1,000,000 of cash to Purple Corporation in return for 1,000 common shares of Purple Corporation. During the second taxable year, Mary transferred $1,000,000 of cash to Purple Corporation in return for 1,000 common shares of Purple Corporation. During the third taxable year, Purple Corporation filed for bankruptcy and was determined that all of the common shares of Purple Corporation were worthless. During the third taxable year, the character of Beverly's realized loss is as follows.
A. $1,000,000 ordinary loss
B. $1,000,000 long term capital loss.
C. $100,000 ordinary loss and $850,000 long term capital loss
D. $50,000 ordinary loss and $950,000 long term capital loss
Referring to Question 61, during the third taxable year, the character of Mary’s realized loss is as follows.
A. $1,000,000 ordinary loss
B. $1,000,000 long term capital loss
C. $100,000 ordinary loss and $850,000 long term capital loss
D. $50,000 ordinary loss and $950,000 long term capital loss
E. None of the above

Which of the following statements is not true with respect to a C corporation issuing both common stock and debt to the organizers of the C corporation (instead of just issuing common stock to the organizers).
A. The C corporation might deduct the interest paid on the debt for income tax purposes.
B. The C corporation might repay some or all of the debt from the creditors without section 301 making the redemption payment a dividend to the creditors.
C. The C corporation might accumulate earnings and profits for the purpose of retiring the debt and, to that extent, avoid the accumulated earnings tax.
D. The C corporation might allocate some of the repayment of the debt to the C corporation’s earnings and profits, and thereby, reduce the Corporation’s accumulated earnings and profits.
E. The debt might provide the shareholders with some asset protection in the event that the C corporation became insolvent.

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. $200,000
C. $190,000
D. $270,000
E. None of the above

Referring to Question 64, 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

Referring to Question 64, 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

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 2003. The last taxable year (chronologically) during which Paul may deduct any part of Paul’s capital losses is as follows.
A. None/Zero
B. 2010
C. 2006
D. 2008
E. None of the above

68. 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

69. Referring to Question 68, 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

70. 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

71. Referring to Question 70, Paul purchased Paul's common shares from John, whose common shares were qualified as section 1244 stock. 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

72. Referring to Question 70, Nice Corporation had already received consideration for the issuance of Nice Corporation's common shares in the amount of $600,000 when Paul purchased Paul's common shares from Nice Corporation. Paul's common shares are section 1244 stock.
A. Yes/True
B. No/False
C. Need additional information
D. None of the above

73. 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. John has adjusted gross income for the current taxable year as follows.
A. None/Zero
B. $97,000
C. $150,000
D. $100,000
E. None of the above

74. Referring to Question 73, John 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

75. 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

76. 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

77. During the current taxable year, Ball Corporation was merged into Bat Corporation in a transaction which qualified as a reorganization under section 368. Both Ball Corporation and Bat Corporation were public corporations, the common stock of which were traded on the Indianapolis Stock Exchange. Paul worked for Ball Corporation for many years under an employment contract which paid Paul a reasonable salary of $200,000 each year. In addition, the contract stated that if Ball Corporation ever merged into another corporation, then Paul would be paid $1,100,000 as a bonus for that year in addition to that year’s salary. The $1,100,000 was to be paid whether or not the surviving corporation employed Paul to work for the surviving corporation. Ball Corporation may deduct, for income tax purposes, both the $200,000 payment to Paul and the $1,100,000 in the year in which Paul is paid these amounts by Ball Corporation.
A. Yes/True
B. No/False
C. Need more information
D. None of the above

78. 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.
79. 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 at the beginning of the current taxable year and $100,000 of earnings and profits at the end of the current taxable year. John’s adjusted basis for John’s common shares at the beginning of the current taxable year was $5,000. During the current taxable year, 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

80. Referring to Question 79, 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

81. Referring to Question 79, John’s adjusted basis for John’s common shares at the ending of the current taxable year is as follows.
   A. None/Zero  
   B. $40,000  
   C. $50,000  
   D. $10,000  
   E. None of the above

82. Referring to Question 79, TeddyBear Corporation paid John $50,000 for the land (which was the fair market value for the land). John's gross income for the current taxable year is as follows.
   A. None/Zero  
   B. $10,000  
   C. $50,000  
   D. $40,000  
   E. None of the above

83. Referring to Question 82, TeddyBear 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

84. Referring to Question 82, 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
B. $10,000
C. $50,000
D. $40,000
E. None of the above

85. Referring to Question 84, TeddyBear 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

86. In order for a debtor-creditor relationship (with respect to shareholders/creditors) to exist under section 385 various tests must be met. Are all of the following statements, tests which are generally used in order to determine a debtor-creditor relationship, with respect to a person who is also a shareholder of the corporation, for corporate tax purposes?
   a. There should be a written, unconditional promise to pay, on demand or on a specified date, a sum certain with fixed interest.
   b. The security should not be subordinated to any other debt of the corporation.
   c. The ratio of debt to equity should not be more than three to one, or more than four to one.
   d. The security should not be convertible into the stock of the corporation.
   e. The security holders should not hold the securities in proportion to the holder's stock interest.
   f. The promise should be made for adequate consideration.
   g. The security should provide a reasonable interest rate, and the interest should be payable regardless of the amount of the earnings and profits of the corporation.
   h. The holders of the security should have the unrestricted right to legally enforce payment on default.
   i. The holders of the security should not have voting rights, because of the holders' interests in the security.
   j. There should be a substantial investment in the stock of the corporation.
   k. There should be evidence that outside creditors would not have made loans under more favorable terms.
   l. The security holders should act as creditors, particularly, if the corporation defaults on payments of interest or principal.
   m. The corporation should keep adequate records about the security.
   n. The amount of capital and debt should be similar to the capital and debt of other businesses in the industry.
   o. If the loan is significant in amount, then the corporation should provide collateral for the loan.
   p. There should be a proper business purpose for the loan.
A. Yes/True
B. No/False
C. Need additional information
D. None of the above

87. For several years, Alan work very hard (by and for himself) to develop a new type of vacuum cleaner and during the current taxable year, Alan received a patent for the design. In all, Alan paid lawyers $40,000 for the legal work in order to obtain the patent and the fair market value of Alan’s services to develop the patent is $45,000. During the current taxable year, Alan organized the IndianaVacuum Corporation and transferred the patent to the corporation in return for 100 common shares of the corporation. Experts estimated that the patent had a current fair market value of $400,000. Alan’s gross income for the current taxable year is as follows.
A. None/Zero
B. $45,000
88. Referring to Question 87, Alan’s adjusted basis for Alan’s common shares is as follows.
   A. None/Zero
   B. $45,000
   C. $85,000
   D. $40,000
   E. None of the above

89. Referring to Question 87, IndianaVacuum Corporation’s gross income for the current taxable year is as follows.
   A. None/Zero
   B. $45,000
   C. $85,000
   D. $40,000
   E. None of the above

90. Referring to Question 87, IndianaVacuum Corporation’s adjusted basis for the patent is as follows.
   A. None/Zero
   B. $40,000
   C. $45,000
   D. $85,000
   E. None of the above

91. 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 $10,000, 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 exercised Paul's option and purchased the 100 common shares for $10,000 at a time when the 100 common shares had a fair market value of $20,000. Paul had the right to sell the common shares at any time after two taxable years after Paul exercised of the option and two years after Paul exercised the option, Paul sold the 100 common shares for $25,000. 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

92. Referring to Question 91, Paul’s gross income for the taxable year in which Paul exercised the option is as follows.
   A. None/Zero
   B. $1,000
   C. $10,000
   D. $20,000
   E. None of the above

93. Referring to Question 91, Paul’s gross income for the taxable year in which Paul sold the 100 common shares is as follows.
   A. $15,000 of long term capital gain
   B. $10,000 of ordinary income and $5,000 of long term capital gain
   C. $15,000 of ordinary income
   D. $10,000 of long term capital gain and $5,000 of ordinary income.
94. 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

95. Referring to Question 94, 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

96. On May 5 of the current taxable year, Paul sold 100 common shares of DoingFine Corporation for $10,000. Paul received 200 common shares (which included the 100 common shares which Paul sold) on November 10 of the last taxable year as a two for one stock split, when DoingFine Corporation required Paul to turn in (to DoingFine Corporation) 100 common shares which Paul then owned in DoingFine Corporation in return for the 200 new common shares of DoingFine Corporation. The 100 common shares which Paul initially owned were purchased on February 9, two taxable years ago, by Paul for $10,000. The fair market value of the 200 new common shares which Paul received on November 10 of the last taxable year was $20,000. Paul's gross income for the last taxable year with respect to the share split is as follows.
A. None/Zero  
B. $5,000  
C. $10,000  
D. $20,000  
E. None of the above

97. Referring to Question 96, 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

Operating Corporations

98. 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 at the beginning of the current taxable year. 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><strong>Total cash distributions to Beverly, as a shareholder</strong></td>
<td>100,000</td>
</tr>
</tbody>
</table>

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

A. None/Zero
B. $3,400,000
C. $4,100,000
D. $4,400,000
E. None of the above

99. Referring to Question 98, 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

100. Referring to Question 98, 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

101. 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. $935,000
C. $1,061,500
D. $412,500
E. None of the above

102. 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 Trafalgar, Indiana, 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 Stated At Fair Market Values</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

103. On Salsa Corporation was organized ten taxable years ago. 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>Life insurance proceeds received when president died</td>
<td>1,000,000</td>
</tr>
<tr>
<td>Cost of goods sold</td>
<td>1,000,000</td>
</tr>
<tr>
<td>Federal income taxes</td>
<td>600,000</td>
</tr>
<tr>
<td>Other expenses</td>
<td>200,000</td>
</tr>
</tbody>
</table>
Cash distributions to shareholders | Amount
--- | ---
Cash distributions to shareholders | 200,000

The Salsa Corporation's taxable income for the current taxable year is as follows.
A. None/Zero
B. $2,500,000
C. $1,960,000
D. $2,100,000
E. None of the above

104. Referring to Question 103, Salsa Corporation's accumulated earnings at the end of the current taxable year is as follows.
A. None/Zero
B. $2,400,000
C. $2,900,000
D. $2,100,000
E. None of the above

105. At the beginning of the current taxable year, CharlieRiches Corporation had earnings and profits of $100,000 and $100,000 of earnings and profits at the end of the current taxable year. 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. 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, because Beverly was a 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

106. Referring to Question 105, 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

107. Referring to Question 105, 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

108. During the current taxable year, Saints Church owned several hundred acres of farm land in northern Indiana and Saints Church made the following arrangements with respect to the farm land. Saints Church provided the land and the watering system and a workman of Saints Church 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. Saints Church 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, Saints Church and the local farmer each received $30,000.
from this activity during the current taxable year. Saints Church’s unrelated business taxable income for the current taxable year is as follows.
A. None/Zero
B. $100,000
C. $60,000
D. $30,000
E. None of the above

109. 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

110. Referring to Question 109, 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

111. Referring to Question 109, John's adjusted basis for John's common shares at the end of the current taxable year is as follows.
A. None/Zero
B. $225,000
C. $195,000
D. $215,000
E. None of the above

112. Referring to Question 109, John did not work for Apple Corporation and John did not receive a salary from Apple Corporation and Apple Corporation's operational expenses and the cost of goods sold was $365,000. 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

113. Referring to Question 112, 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
114. Referring to Question 112, 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

115. 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
   C. $250,000
   D. $150,000
   E. None of the above

116. Referring to Question 115, Beverly's adjusted gross income for the current taxable year is as follows.
   A. None/Zero
   B. $240,000
   C. $250,000
   D. $140,000
   E. None of the above

117. Referring to Question 115, 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

118. Referring to Question 115, 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

119. Referring to Question 115, 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

120. Referring to Question 115, 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

121. 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

122. Referring to Question 121, 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

123. During the current taxable year, John owned 100 common shares of SwedishMeatBall Corporation for over two taxable years, which John had purchased for $6,000. SwedishMeatBall Corporation had no other shares issued and outstanding and SwedishMeatBall Corporation had accumulated earnings and profits of $100,000 at the beginning of the current taxable year and $100,000 of earnings and profits at the end of the current taxable year. During March of the current taxable year, SwedishMeatBall Corporation distributed 100 preferred shares of SwedishMeatBall Corporation to John as a share dividend. John had no election with respect to the preferred shares. At the time when John received the preferred shares, the common shares and the preferred shares of SwedishMeatBall Corporation each had a fair market value of $10,000. During January of the next taxable year, John sold the preferred shares to Paul for $9,000. 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  

124. Referring to Question 123, John’s long term capital gain gross income for the next taxable year is as follows.  
A. None/Zero  
B. $9,000  
C. $6,000  
D. $1,000  
E. None of the above  

Share Purchase Agreements And Share Redemption Agreements  

125. 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  

126. Referring to Question 125, 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  

127. Referring to Question 125, the allocation 15-period is the same period which corporations must use for the amortization of purchases 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  

Mostly Nonliquidating Corporate Distributions  

128. During the current taxable year:  
   a. Beverly owned 100 of the issued and outstanding 1,000 common shares of Water Corporation with an adjusted basis to Beverly of $1,000.  
   b. Paul owned 900 of the 1,000 issued and outstanding common shares of Water Corporation, with an adjusted basis to Paul of $9,000.  
   c. Fire Corporation had 300 common shares issued and outstanding and Water Corporation owned 100 of the common shares and John owned the other 200 common shares.  
   d. Each of these two corporations had $100,000 of earnings and profits at the beginning of the current taxable year and $100,000 of earnings and profits at the end of the current taxable year.
e. Water Corporation transferred to Beverly (because Beverly was a shareholder of Water Corporation) 25 Fire Corporation common shares, which common shares had an adjusted basis to Water Corporation of $1,000 and a fair market value of $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

129. Referring to Question 128, 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

130. Referring to Question 128, 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

131. Referring to Question 128, during the next taxable year, Fire Corporation redeemed the 25 common shares of Fire Corporation’s common shares from Beverly for $12,000 (the then fair market value of the 25 common shares of Fire Corporation). Beverly’s gross income during the next taxable year is as follows.
A. None/Zero
B. $12,000
C. $10,000
D. $2,000
E. None of the above

132. During the current taxable year, Beverly owned all of the issued and outstanding common shares (100 common shares) of Left Corporation and Beverly owned all of the issued and outstanding common shares (100 common shares) of Right Corporation. Each unit of 100 common shares had a fair market value of $10,000 and Beverly’s adjusted basis for each unit was $1,000. Both Left Corporation and Right Corporation had $3,000 of earnings and profits at the beginning of the current taxable year and $3,000 of earnings and profits at the end of the current taxable year. During the current taxable year, Left Corporation purchased 50 common shares of Beverly’s Right Corporation common shares for $5,000, which common shares had an adjusted basis to Beverly of $500. Beverly’s gross income for the current taxable year is as follows.
A. None/Zero
B. $3,000 of ordinary income and $1,500 of capital gain
C. $4,500 of capital gains
D. $5,000 of ordinary income
E. None of the above

133. During the current taxable year, Mary died owning all of the issued and outstanding common shares (100 common shares) of Middle Corporation which common shares were valued in Mary’s estate at a fair market value of $100,000. Mary’s adjusted basis for the common shares was $10,000. Peter was the sole beneficiary of Mary’s estate. During the current taxable year, Middle Corporation redeemed all of Mary’s estate’s 100 common shares and paid Mary’s estate $100,000 for the common shares. Mary’s estate’s gross income for the current taxable year is as follows.
A. None/Zero
B. $100,000 of ordinary income  
C. $90,000 of capital gains  
D. $100,000 of capital gains  
E. None of the above  

134. Referring to Question 133, prior to Mary’s death, Mary owned 100 common shares of Middle Corporation and Peter owned 100 common shares of Middle Corporation and both Mary and Peter had a separate adjusted basis for the 100 common shares of $10,000. Mary’s estate’s gross income for the current taxable year is as follows. 
A. None/Zero  
B. $100,000 of ordinary income  
C. $90,000 of capital gains  
D. $100,000 of capital gains  
E. None of the above  

135. Referring to Question 133, prior to Mary’s death, Mary owned 100 common shares of Middle Corporation and Peter owned 100 common shares of Middle Corporation and both Mary and Peter had a separate adjusted basis for the 100 common shares of $10,000. Mary devised all of Mary’s estate to John. Mary’s estate’s gross income for the current taxable year is as follows. 
A. None/Zero  
B. $100,000 of ordinary income  
C. $90,000 of capital gains  
D. $100,000 of capital gains  
E. None of the above  

136. HereWeGo Corporation has 2,000 common shares authorized, with the following issued and outstanding common shares. 

<table>
<thead>
<tr>
<th>Shareholder</th>
<th>Shares</th>
</tr>
</thead>
<tbody>
<tr>
<td>John</td>
<td>500</td>
</tr>
<tr>
<td>Mary</td>
<td>50</td>
</tr>
<tr>
<td>Sue</td>
<td>50</td>
</tr>
<tr>
<td>Peter</td>
<td>50</td>
</tr>
<tr>
<td>JB (John's brother)</td>
<td>50</td>
</tr>
<tr>
<td>JM (John's mother)</td>
<td>50</td>
</tr>
<tr>
<td>JGM (John's grandmother)</td>
<td>50</td>
</tr>
<tr>
<td>PS (a partnership which is owned 50% by Sue and 50% by Peter)</td>
<td>50</td>
</tr>
<tr>
<td>C (a corporation which is owned 55% by Mary and 45% by Paul)</td>
<td>100</td>
</tr>
<tr>
<td>IT (an irrevocable trust which John's grandfather established, 35 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%)</td>
<td>50</td>
</tr>
<tr>
<td>FE (John's father's estate, which estate was devised 45% to Mary and 50% to John and 5% to Peter)</td>
<td>50</td>
</tr>
</tbody>
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Using the rules of attribution of section 318, John owns the following number of common shares of HereWeGo Corporation. 
A. 885  
B. 835  
C. 810  
D. 899  
E. 935
137. Referring to Question 136 and using the rules of attribution of section 318, Mary owns the following number of common shares of HereWeGo Corporation.
   A. 885
   B. 835
   C. 899
   D. 810
   E. 935

138. Referring to Question 136, Peter owns the following common shares of WeAreThrough Corporation.
   A. 885
   B. 835
   C. 935
   D. 899
   E. 810

139. 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. On January 1 of 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

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

141. Referring to Question 139, John’s 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

142. During the current taxable year, John owned 500 common shares of C Corporation for many years and Paul owned 500 common shares of C Corporation for many years, which common shares were all of the issued and outstanding shares of C Corporation. John’s adjusted basis for the 500 common shares was $5,000. John worked full time for C Corporation and John continued to do so for many years after the current taxable year. During the current taxable year, C Corporation, with $100,000 of earnings and profits at the beginning of the current taxable year and $100,000 of earnings and profits at the end of the current taxable year, distributed to John a check for $2,000 in return for one of John’s common shares, which one common share had a fair market value of $2,000. John’s ordinary gross income for the current taxable year is as follows.
   A. None/Zero
   B. $1,990
   C. $2,000
   D. $1,000
143. Referring to Question 142, John’s adjusted basis for John’s remaining common shares is as follows.
   A. None/Zero
   B. $4,990
   C. $2,000
   D. $5,000
   E. None of the above

144. Referring to Question 142, C Corporation gave John the check for $6,000 in return for all of John’s common shares, which common shares had a total fair market value of $6,000. John’s ordinary gross income for the current taxable year is as follows.
   A. None/Zero
   B. $5,000
   C. $2,000
   D. $1,000
   E. None of the above

145. During the current taxable year, Beverly owned 500 common shares of C Corporation for many years and Rebecca owned 500 common shares of C Corporation for many years, which common shares were all of the issued and outstanding shares of C Corporation. Beverly’s adjusted basis for the 500 common shares was $6,000. Beverly worked full time for C Corporation and Beverly continued to do so for many years after the current taxable year. During the current taxable year, C Corporation, with $100,000 of earnings and profits at the beginning of the current taxable year and $100,000 of earnings and profits at the end of the current taxable year, distributed to Beverly a check for $10,000 in return for all of Beverly’s common shares, which common shares had a fair market value of $10,000. Beverly’s long term capital gain gross income for the current taxable year is as follows.
   A. None/Zero
   B. $10,000
   C. $4,000
   D. $6,000
   E. None of the above

146. During the current taxable year, Paul owned 500 common shares of C Corporation for many years, which common shares were all of the issued and outstanding shares of C Corporation. Paul’s adjusted basis for the 500 common shares was $5,000. Paul worked full time for C Corporation and Paul continued to do so for many years after the current taxable year. During the current taxable year, C Corporation, with no earnings and profits at the beginning of the current taxable year and with no earnings and profits at the end of the current taxable year, sold some land for $10,000 at a time when C Corporation had an adjusted basis for the land of $13,000. Thereafter, C Corporation gave Paul a check for $2,000 (at a time when C Corporation had no current earnings and profits), because Paul was a shareholder of C Corporation. Paul’s gross income for the current taxable year is as follows.
   A. None/Zero
   B. $3,000
   C. $2,000
   D. $1,000
   E. None of the above

147. Referring to Question 146, Paul’s adjusted basis for Paul’s common shares, after the distribution by C Corporation, is as follows.
   A. None/Zero
   B. $7,000
   C. $3,000
   D. $5,000
148. During the current taxable year, Peter owned 500 common shares of C Corporation for many years and Beverly owned 500 common shares of C Corporation for many years, which common shares were all of the issued and outstanding shares of C Corporation. Peter’s adjusted basis for Peter’s 500 common shares was $6,000. Peter worked full time for C Corporation and Peter continued to do so for many years after the current taxable year. During the current taxable year, C Corporation, with $100,000 of earnings and profits at the beginning of the current taxable year and with $100,000 of earnings and profits at the end of the current taxable year, distributed some land to Peter at a time when the land had a fair market value of $10,000, because Peter was a shareholder of C Corporation. Peter’s gross income for the current taxable year is as follows.
A. None/Zero
B. $5,000
C. $4,000
D. $10,000
E. None of the above

149. Referring to Question 148, Peter’s adjusted basis for Peter’s common shares, after the distribution by C Corporation, is as follows.
A. None/Zero
B. $6,000
C. $10,000
D. $4,000
E. None of the above

150. Referring to Question 148, Peter’s adjusted basis for the land, after the distribution by C Corporation, is as follows.
A. None/Zero
B. $4,000
C. $6,000
D. $10,000
E. None of the above

151. During the current taxable year, John owned 500 common shares of S Corporation, an S Corporation, for many years and Paul owned 500 common shares of S Corporation for many years, which common shares were all of the issued and outstanding shares of S Corporation. John’s adjusted basis for the 500 common shares was $5,000. John worked full time for S Corporation and John continued to do so for many years after the current taxable year. During the current taxable year, S Corporation, with no earnings and profits at the beginning of the current taxable year and no earnings and profits at the end of the current taxable year, distributed to John a check for $2,000 in return for one of John’s common shares, which one common share had a fair market value of $2,000. John’s ordinary gross income for the current taxable year is as follows.
A. None/Zero
B. $1,990
C. $2,000
D. $1,000
E. None of the above

152. Referring to Question 151, John’s adjusted basis for John’s remaining common shares is as follows.
A. None/Zero
B. $4,990
C. $3,000
D. $5,000
E. None of the above
153. Referring to Question 151, S Corporation gave John the check for $6,000 in return for all of John’s common shares, which common shares had a total fair market value of $6,000. John’s ordinary gross income for the current taxable year is as follows.
   A. None/Zero
   B. $5,000
   C. $2,000
   D. $1,000
   E. None of the above

154. During the current taxable year, Beverly owned 500 common shares of S Corporation, an S Corporation, for many years and Rebecca owned 500 common shares of S Corporation for many years, which common shares were all of the issued and outstanding shares of S Corporation. Beverly’s adjusted basis for the 500 common shares was $6,000. Beverly worked full time for S Corporation and Beverly continued to do so for many years after the current taxable year. During the current taxable year, S Corporation, with no earnings and profits at the beginning of the current taxable year and no earnings and profits at the end of the current taxable year, distributed to Beverly a check for $10,000 in return for all of Beverly’s common shares, which common shares had a fair market value of $10,000. Beverly’s long term capital gain gross income for the current taxable year is as follows.
   A. None/Zero
   B. $10,000
   C. $4,000
   D. $6,000
   E. None of the above

155. During the current taxable year, Paul owned 500 common shares of S Corporation, an S Corporation, for many years, which common shares were all of the issued and outstanding shares of S Corporation. Paul’s adjusted basis for the 500 common shares was $5,000. Paul worked full time for S Corporation and Paul continued to do so for many years after the current taxable year. During the current taxable year, S Corporation, with no earnings and profits at the beginning of the current taxable year and with no earnings and profits at the end of the current taxable year, sold some land for $15,000 at a time when S Corporation had an adjusted basis for the land of $10,000. Thereafter, S Corporation distributed to Paul a check for $5,000, because Paul was a shareholder of S Corporation. Paul’s gross income for the current taxable year is as follows.
   A. None/Zero
   B. $3,000
   C. $2,000
   D. $1,000
   E. None of the above

156. Referring to Question 155, Paul’s adjusted basis for Paul’s common shares, after the distribution by S Corporation, is as follows.
   A. None/Zero
   B. $7,000
   C. $3,000
   D. $5,000
   E. None of the above

157. John and Paul each own 100 common shares of the 200 common shares which are issued and outstanding of HoleyGolfCourse 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

158. 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, because Mary was a 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 gross income for the current taxable year is as follows.
A. None/Zero
B. $15,000
C. $10,000
D. $20,000
E. None of the above

159. Referring to Question 158, 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. $10,000
D. $15,000
E. None of the above

160. GoodGraces Corporation had earnings and profits of $100,000 of earnings and profits at the beginning of the current taxable year. During the current taxable year, GoodGraces Corporation had gross income of $120,000 and expenses of $130,000. GoodGraces Corporation distributed cash of $15,000 to Mary, who owned all of the common shares of GoodGraces Corporation, because Mary was a shareholder of GoodGraces Corporation. Mary's adjusted basis for Mary's common shares of GoodGraces Corporation was $25,000 prior to any distribution by GoodGraces Corporation. 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

161. Referring to Question 160, Mary's adjusted basis for Mary’s common shares at the end of the current taxable year is as follows.
A. None/Zero
B. $15,000
C. $10,000
D. $25,000
E. None of the above

162. 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 and $100,000 of current earnings and profits at the end 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

163. Referring to Question 162, 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

164. 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, with net assets of over $10,000,000, 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 $22,000,000 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

165. Referring to Question 164, 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

166. Referring to Question 164, 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

167. 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. Both corporations had over $5,000,000 of net assets throughout the period involved. 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

168. Referring to Question 167, 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

169. Referring to Question 167, 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

170. During the current taxable year, John owned all of the common shares (1,000 common shares) of Chair Corporation which had $100,000 of earnings and profits at the beginning of the current taxable year and $100,000 of earnings and profits at the end of the current taxable year. During the current taxable year, John gave Peter 100 of John’s common shares. Then, Chair Corporation redeemed all of John’s remaining 900 common shares for the fair market value of such 900 common shares. The reason why John did this was because John wanted to retire during the next five years and allow Peter to continue to operate Chair Corporation. John’s adjusted basis for the 900 common shares was $1,000 and Chair Corporation paid John the fair market value of the common shares, specifically, $10,000. John did not retire during the current taxable year. John’s gross income due to the redemption is as follows.

A. $10,000 of ordinary income  
B. $10,000 of capital gain  
C. $9,000 of ordinary income  
D. $9,000 of capital gain  
E. None of the above

171. During the current taxable year, John owned 1,000 common shares of Chair Corporation which had $100,000 of earnings and profits at the beginning of the current taxable year and $100,000 of earnings and profits at the end of the current taxable year. During the current taxable year, John gave Peter 100 of John’s common shares. The reason why John did this was because John wanted to retire during the next five years and allow Peter to continue to operate Chair Corporation. John’s adjusted basis for the 1,000 common shares was $1,000 and the fair market value of John 1,000 common shares was $10,000. Thereafter, during the current taxable year, Peter was killed in an automobile accident and Peter’s last will and testament devised all of
Peter’s estate to Sue and Sue received Peter’s 100 common shares from Peter’s estate three years after the current taxable year and a time when John still had not retired, and in fact, John continued to work for Chair Corporation for ten more years, at which time, John sold all of John’s stock to Paul for $9,000. At the time when Peter died, Peter’s 100 common shares had a fair market value of $1,000. John did not retire during the current taxable year. John’s gross income due to the redemption is as follows.

A. $10,000 of ordinary income
B. $10,000 of capital gain
C. $9,000 of ordinary income
D. $9,000 of capital gain
E. None of the above

172. Referring to Question 171, John retired during the current taxable year after Chair Corporation paid John for John’s common shares. John’s gross income due to the redemption is as follows.

A. $10,000 of ordinary income
B. $10,000 of capital gain
C. $9,000 of ordinary income
D. $9,000 of capital gain
E. None of the above

173. During the current taxable year, John and Paul each owned 500 common shares of Desk Corporation which had $100,000 of earnings and profits at the beginning of the current taxable year and $100,000 of earnings and profits at the end of the current taxable year. During the current taxable year, Desk Corporation redeemed 100 of John’s common shares for $10,000, which was the fair market value of the 100 common shares. At the time of the redemption, the redeemed 100 common shares had an adjusted basis of $1,000 to John. John’s gross income due to the redemption is as follows.

A. $10,000 of ordinary income
B. $10,000 of capital gain
C. $9,000 of ordinary income
D. $9,000 of capital gain
E. None of the above

174. During the current taxable year, John and Paul each owned 500 common shares of Lamp Corporation which had $100,000 of earnings and profits at the beginning of the current taxable year and $100,000 of earnings and profits at the end of the current taxable year. During the current taxable year, Lamp Corporation redeemed 100 of John’s common shares for $10,000, which was the fair market value of the 100 common shares. At the time of the redemption, the redeemed 100 common shares had an adjusted basis of $1,000 to John. John’s gross income due to the redemption is as follows.

A. $10,000 of ordinary income
B. $10,000 of capital gain
C. $9,000 of ordinary income
D. $9,000 of capital gain
E. None of the above

175. During the current taxable year, John and Peter each owned 500 common shares of Table Corporation which had $100,000 of earnings and profits at the beginning of the current taxable year and $100,000 of earnings and profits at the end of the current taxable year. During the current taxable year, Table Corporation redeemed 400 of John’s common shares for $10,000, which was the fair market value of the 400 common shares. After the redemption, John retired from working at Table Corporation. John’s gross income due to the redemption is as follows.

A. $10,000 of ordinary income
B. $10,000 of capital gain
C. $9,000 of ordinary income
D. $9,000 of capital gain
176. During the current taxable year, John owned 900 common shares of Stool Corporation and Paul owned 100 common shares of Stool Corporation which had $100,000 of earnings and profits at the beginning of the current taxable year and $100,000 of earnings and profits at the end of the current taxable year. During the current taxable year, Stool Corporation redeemed 400 of John’s common shares for $10,000, which was the fair market value of the 400 common shares. At the time of the redemption, the redeemed 400 common shares had an adjusted basis of $1,000 to John. After the redemption, John retired from working at Table Corporation. John’s gross income due to the redemption is as follows.
A. $10,000 of ordinary income
B. $10,000 of capital gain
C. $9,000 of ordinary income
D. $9,000 of capital gain
E. None of the above

177. During the current taxable year, John owned 900 common shares of Dresser Corporation and Mary owned 100 common shares of Dresser Corporation which had $100,000 of earnings and profits at the beginning of the current taxable year and $100,000 of earnings and profits at the end of the current taxable year. During the current taxable year, Dresser Corporation redeemed 400 of John’s common shares for $10,000, which was the fair market value of the 400 common shares. At the time of the redemption, the redeemed 400 common shares had an adjusted basis of $1,000 to John. After the redemption, John retired from working at Table Corporation. John’s gross income due to the redemption is as follows.
A. $10,000 of ordinary income
B. $10,000 of capital gain
C. $9,000 of ordinary income
D. $9,000 of capital gain
E. None of the above

178. 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
D. $10,000
E. None of the above

179. Referring to Question 178, 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
180. Referring to Question 178, 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

181. 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 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 $100,000. 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

182. Referring to Question 181, 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

183. Referring to Question 181, 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

184. 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

185. 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 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

186. 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 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

187. 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 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

188. 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

Mostly Partial And Complete Liquidating Corporate Distributions

189. During the current taxable year, John owned 100 common shares of the 200 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 and with $100,000 of earnings and profits at the end 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 only other 100 issued and outstanding common shares and Paul’s adjusted basis for Paul’s 100 common shares was $1,000. During the current taxable year, and with respect to C Corporation’s automobile parts business, C Corporation sold all of the assets of that business for a net profit of $25,000, paid all of C Corporation’s liabilities which were related to that business, and distributed the net cash, by checks, to John and Paul, $10,000 to each, because John and Paul were the only shareholders of C Corporation. Paul’s ordinary gross income for the current taxable year is as follows.
A. None/Zero
B. $8,000
C. $4,000
190. Referring to Question 189, Paul’s adjusted basis for Paul’s common shares, after the distribution by C Corporation, is as follows.
A. None/Zero
B. $4,990
C. $3,000
D. $5,000
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 C Corporation, a C Corporation, with $100,000 of earnings and profits at the beginning of the current taxable year and with $100,000 of earnings and profits at the end of the current taxable year. C Corporation operated, for over ten years, an airplane sales business. John’s adjusted basis for John’s 100 common shares was $1,000. During the current taxable year, C Corporation sold all of the assets of C Corporation for a net profit of $25,000, paid all of C Corporation’s liabilities, and distributed the net cash of $50,000, by checks to John, because John was the only shareholder of C Corporation. John’s ordinary gross income for the current taxable year is as follows.
A. None/Zero
B. $8,000
C. $4,000
D. $12,000
E. None of the above

192. During the current taxable year, SnickelFritz Corporation had accumulated earnings and profits of $250,000 and SnickelFritz Corporation had the following assets and Mary owned all of the common shares of SnickelFritz Corporation, which common shares had been owned by Mary for over five years and which common shares had an adjusted basis to Mary of $50,000. Further, during the current taxable year, SnickelFritz Corporation completely liquidated by selling some of SnickelFritz Corporation’s assets (and paying SnickelFritz Corporation’s liabilities) and by distributing the remaining net assets to Mary. Thereafter, Mary promptly began to use the land, which was next to Mary’s home, as a parking lot for Mary’s friends and relatives who visited Mary’s home, and Mary gave away the furniture inventory to the Jewish Community Center and the center promptly began using the furniture in the center.

<table>
<thead>
<tr>
<th>Type Of Property</th>
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<th>Fair Market Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>25,000</td>
<td>25,000</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>15,000</td>
<td>20,000</td>
</tr>
<tr>
<td>Business inventory consisting of various items of furniture</td>
<td>3,000</td>
<td>5,000</td>
</tr>
<tr>
<td>Equipment</td>
<td>20,000</td>
<td>10,000</td>
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<tr>
<td>Land</td>
<td>20,000</td>
<td>40,000</td>
</tr>
<tr>
<td>Goodwill</td>
<td>0</td>
<td>20,000</td>
</tr>
<tr>
<td>Total assets</td>
<td>83,000</td>
<td>120,000</td>
</tr>
<tr>
<td>Liabilities</td>
<td>0</td>
<td>10,000</td>
</tr>
</tbody>
</table>

SnickelFritz Corporation's ordinary gross income with respect to the liquidation distribution of the furniture inventory to Mary is as follows.
A. None/Zero
B. $2,000
C. $5,000
193. Referring to Question 192, Mary’s ordinary gross income with respect to the liquidation distribution to Mary is as follows.
A. None/Zero
B. $100,000
C. $50,000
D. $60,000
E. None of the above

194. Referring to Question 192, Mary’s adjusted basis for the equipment is as follows.
A. None/Zero
B. $10,000
C. $20,000
D. $50,000
E. None of the above

195. During the current taxable year, John owned 100 common shares of the 200 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 and with $100,000 of earnings and profits at the end 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 only other 100 issued and outstanding common shares and Paul’s adjusted basis for Paul’s 100 common shares was $1,000. During the current taxable year, and with respect to C Corporation’s automobile parts business, C Corporation sold all of the assets of that business for a net profit of $25,000, paid all of C Corporation’s liabilities which were related to that business, and distributed the net cash, by checks, to John and Paul, $10,000 to each, because John and Paul were the only shareholders of C Corporation. Paul’s ordinary gross income for the current taxable year is as follows.
A. None/Zero
B. $8,000
C. $4,000
D. $12,000
E. None of the above

196. Referring to Question 195, Paul’s adjusted basis for Paul’s common shares, after the distribution by C Corporation, is as follows.
A. None/Zero
B. $8,000
C. $4,000
D. $12,000
E. None of the above

197. During the current taxable year, John owned 100 common shares of the 100 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 and with $100,000 of earnings and profits at the end of the current taxable year. C Corporation operated, for over ten years, an airplane sales business. John’s adjusted basis for John’s 100 common shares was $1,000. During the current taxable year, C Corporation sold all of the assets of C Corporation for a net profit of $25,000, paid all of C Corporation’s liabilities, and distributed the net cash of $50,000, by checks to John, because John was the only shareholder of C Corporation. John’s ordinary gross income for the current taxable year is as follows.
A. None/Zero
B. $8,000
C. $4,000
D. $12,000
E. None of the above

198. 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

199. Referring to Question 198, 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

200. Referring to Question 198, 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
1. Referring to Question 200, 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

2. Referring to Question 200, 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

3. Referring to Question 200, 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

4. Referring to Question 200, 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

5. 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

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

8. Referring to Question 5, 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

9. Referring to Question 8, John’s gross income for the next taxable year is as follows.
A. None/Zero
B. $9,050
C. $7,050
D. $10,050
E. None of the above

10. During the current taxable year, SnickelFritz Corporation had accumulated earnings and profits of $250,000 and SnickelFritz Corporation had the following assets and Mary owned all of the common shares of SnickelFritz Corporation, which common shares had been owned by Mary for over five years and which common shares had an adjusted basis to Mary of $50,000. Further, during the current taxable year, SnickelFritz Corporation completely liquidated by selling some of SnickelFritz Corporation’s assets (and paying SnickelFritz Corporation’s liabilities) and by distributing the remaining net assets to Mary. Thereafter, Mary promptly began to use the land, which was next to Mary’s home, as a parking lot for Mary’s friends and relatives who visited Mary’s home, and Mary gave away the furniture inventory to the Jewish Community Center and the center promptly began using the furniture in the center.

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<tr>
<td>Cash</td>
<td>25,000</td>
<td>25,000</td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>15,000</td>
<td>20,000</td>
</tr>
<tr>
<td>Inventory</td>
<td>3,000</td>
<td>5,000</td>
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<tr>
<td>Equipment</td>
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<td>20,000</td>
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<tr>
<td>Land</td>
<td>20,000</td>
<td>40,000</td>
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<tr>
<td>Goodwill</td>
<td>-0-</td>
<td>20,000</td>
</tr>
<tr>
<td>Liabilities</td>
<td>-0-</td>
<td>10,000</td>
</tr>
</tbody>
</table>

SnickelFritz Corporation's ordinary gross income with respect to the liquidation distribution of the furniture
inventory to Mary is as follows.
A. None/Zero
B. $2,000
C. $5,000
D. $3,000
E. None of the above

11. Referring to Question 10, Mary's ordinary gross income with respect to the liquidation distribution to Mary is as follows.
A. None/Zero
B. $100,000
C. $50,000
D. $60,000
E. None of the above

12. Referring to Question 10, Mary’s adjusted basis for the land is as follows.
A. None/Zero
B. $40,000
C. $20,000
D. $50,000
E. None of the above

Mostly Corporate Reorganizations And Related Transactions

13. During the current taxable year, John owned all of the issued and outstanding common shares of Sunset Corporation and all of the issued and outstanding common shares of Night Corporation. Each of these two corporations had $100,000 of earnings and profits at the beginning of the current taxable year and $100,000 of earnings and profits at the end of the current taxable year. During the current taxable year, Night Corporation transferred some land, which Night Corporation used in Night Corporation’s business, to Sunset Corporation, which Sunset Corporation intended to use in Sunset Corporation’s manufacturing business. Sunset Corporation paid Night Corporation $50,000 for the land, which was the fair market value of the land. At the time of the transfer of the land, Night Corporation’s adjusted basis for the land was $10,000. Night 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

14. Referring to Question 13, John’s gross income during the current taxable year is as follows.
A. None/Zero
B. $40,000
C. $50,000
D. $10,000
E. None of the above

15. Referring to Question 13, Sunset Corporation did not pay Night Corporation $50,000 for the land, but instead, Sunset Corporation transferred some land to Night Corporation, which Sunset Corporation used in Sunset Corporation’s business and which had a fair market value of $50,000 and an adjusted basis to Sunset Corporation of $20,000. Sunset Corporation’s gross income for the current taxable year is as follows.
A. None/Zero
B. $40,000
C. $50,000
D. $10,000
16. During the current taxable year, John owned all of the issued and outstanding common shares of Oak Corporation and all of the issued and outstanding common shares of Beech Corporation. Each of these two corporations had earnings and profits of $100,000 at the beginning of the current taxable year and $100,000 of earnings and profits at the end of the current taxable year. During the current taxable year, John transferred all of John’s common shares in Beech Corporation to Oak Corporation in return for additional common shares of Oak Corporation. Both the common shares which John transferred and received had a fair market value of $50,000. At the time of the transfer of the Beech Corporation common shares to Oak Corporation, John’s adjusted basis for the Beech Corporation common shares was $10,000. 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

17. Referring to Question 16, John’s adjusted basis for the new Oak Corporation common shares which John received is as follows.
   A. None/Zero
   B. $50,000
   C. $10,000
   D. $40,000
   E. None of the above

18. Referring to Question 16, Oak Corp’s adjusted basis for the Beech Corp’s common stock is as follows.
   A. None/Zero
   B. $50,000
   C. $10,000
   D. $40,000
   E. None of the above

19. During the current taxable year, River Corporation owned all of the 1,000 issued and outstanding common shares of Ocean Corporation and John owned all of the 1,000 issued and outstanding common shares of River Corporation. Each of these two corporations had earnings and profits of $100,000 at the beginning of the current taxable year and $100,000 of earnings and profits at the end of the current taxable year. John’s adjusted basis for John’s common shares in River Corporation was $100,000 and such common shares had a fair market value of $200,000. During the current taxable year, River Corporation transferred all of River Corporation’s common shares in Ocean Corporation to John. River Corporation did not receive anything back from John. At the time of the transfer of the Ocean Corporation common shares to John, River Corporation’s adjusted basis for the Ocean Corporation common shares was $10,000 and the fair market value of the Ocean 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. $100,000
   D. $200,000
   E. None of the above

20. Referring to Question 19, John’s adjusted basis for the Ocean Corporation common shares is as follows.
   A. None/Zero
   B. $50,000
   C. $10,000
   D. $25,000
21. Referring to Question 19, at the time when John received the Ocean Corporation common shares, John conveyed to River Corporation some (but not all) of John’s River Corporation’s common shares with a fair market value of $50,000 and with an adjusted basis to John of $40,000. 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

22. During the current taxable year, WayToGo Corporation’s taxable income was $120,000. WayToGo Corporation’s income tax (prior to any credit) for the current taxable year is as follows.
   A. None/Zero
   B. $30,050
   C. $29,050
   D. $31,300
   E. None of the above

23. During the current taxable year, John owned all of the issued and outstanding common shares of Violet Corporation. Violet Corporation owned 100 of the 1,000 issued and outstanding common shares of Rose Corporation and Paul owned the other 900 issued and outstanding common shares. Each of these two corporations had earnings and profits of $100,000 at the beginning of the current taxable year and $100,000 of earnings and profits at the end of the current taxable year. John’s adjusted basis for John’s common shares in Violet Corporation was $100,000 and such common shares had a fair market value of $200,000. 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

24. Referring to Question 23, 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

25. During the current taxable year, Paul owned all of the 1,000 issued and outstanding common shares of Snap Corporation and 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 which Dragon Corporation held as an investment for many years. 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 beginning of the current taxable year and $100,000 of earnings and profits at the end of the current taxable year. 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 each had a fair market value of $20,000 and an adjusted basis 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

26. Referring to Question 25, 30, 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

27. Referring to Question 25, 30, 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

28. Referring to Question 25, 30, 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

29. During the current taxable year, John and Peter each owned 100 common shares of the only 200 common shares which were issued and outstanding in RosieOGrady 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

30. During the current taxable year, Peter owned all of the common shares of SkatingThroughLife Corporation, which had earnings and profits of $100,000 at the beginning of the current taxable year and $100,000 of earnings and profits at the end of the current taxable year. Peter sold some land, which Peter had been holding as an investment for seven taxable years, to SkatingThroughLife Corporation for $50,000 at a time when Peter’s adjusted basis for the land was $40,000. Peter recognizes 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
31. Referring to Question 25, 30, Peter’s adjusted basis for the land was $60,000. Peter recognizes 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

32. Referring to Question 25, 30, during the next taxable year, SkatingThroughLife Corporation sold the land for $52,000. SkatingThroughLife Corporation has 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

33. 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

34. Referring to Question 33, 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

35. Referring to Question 33, Guppy Corporation recognizes gain when Guppy Corporation transfers Guppy Corporation common shares to the common shareholders of Salmon Corporation.
   A. Yes/True  
   B. No/False  
   C. Need additional information  
   D. None of the above

36. During the currently taxable year, C Corporation was merged into CC Corporation. Prior to the merger, John owned all of the common shares of C Corporation, with an adjusted basis to John of $1,000 and as part of the merger, John turned in John’s 100 common shares in C Corporation and received 200 common shares of CC Corporation. Prior to the merger, Paul owned all of the common shares (200 common shares) of CC Corporation, with an adjusted basis to Paul of $4,000 and after the merger, Paul owned the same 200 common shares. Prior to the merger, C Corporation’s total assets and CC Corporation’s total assets each had a net (net of liabilities) fair market value of $200,000 and C Corporation’s total adjusted basis for C Corporation’s assets was $60,000 and CC Corporation’s total adjusted basis for CC Corporation’s assets was $210,000 and C Corporation’s total accumulated earnings and profits was $50,000 and CC Corporation’s total accumulated earnings and profits was $70,000. Upon the merger of C Corporation into CC Corporation, all of the liabilities of C Corporation were assumed by CC Corporation. After all of this, C Corporation ceased to exist under the applicable state law. C Corporation’s gross income for the current taxable year is as follows.
A. None/Zero  
B. $140,000  
C. $200,000  
D. $50,000  
E. None of the above

37. Referring to Question 36, John’s realized gain for the current taxable year is as follows.  
A. None/Zero  
B. $199,000  
C. $200,000  
D. $50,000  
E. None of the above

38. Referring to Question 36, John’s adjusted basis for John’s CC Corporation common shares is as follows.  
A. None/Zero  
B. $199,000  
C. $200,000  
D. $1,000  
E. None of the above

39. Referring to Question 36, CC Corporation’s adjusted basis for the assets of CC Corporation, after the merger, is as follows.  
A. None/Zero  
B. $60,000  
C. $210,000  
D. $270,000  
E. None of the above

40. Referring to Question 36, 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. $5,000  
E. None of the above

41. Referring to Question 36, the amount of CC Corporation’s accumulated earnings and profits, after the merger, is as follows.  
A. None/Zero  
B. $50,000  
C. $70,000  
D. $120,000  
E. None of the above

42. 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 what WildFlower Corporation did. After the merger, Wildflower Corporation did not continue to manufacture computer parts with SunFlower Corporation’s equipment. Wildflower Corporation has met the “continuity of business enterprise” requirement which is required by section 368 and the regulations thereunder.
A. Yes/True  
B. No/False  
C. Need additional information  
D. None of the above  

43. Referring to Question 42, 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 has met the “continuity of business enterprise” requirement which is required by section 368 and the regulations thereunder.  
A. Yes/True  
B. No/False  
C. Need additional information  
D. None of the above  

44. During the current taxable year, Beverly owned all of the issued and outstanding common shares of Petunia Corporation, which grew flowers. Paul and John each owned 50% of the common shares of Orchid Corporation, which grew flowers. Both Petunia Corporation and Orchid Corporation had $100,000 of current earnings and profits. Beverly, Paul, and John each had an adjusted basis for their common shares of $1,000 and each of them has held their common shares for several years. During the current taxable year, Petunia Corporation merged into Orchid Corporation and Beverly received some of Orchid Corporation’s common shares, with a fair market value of $10,000, as part of the merger plan. Orchid Corporation continued to operate both flower businesses. Orchid Corporation has met the “continuity of business enterprise” requirement which is required by section 368 and the regulations thereunder.  
A. Yes/True  
B. No/False  
C. Need additional information  
D. None of the above  

45. Referring to Question 44, Orchid Corporation has met the “continuity of interest” requirement which is required by section 368 and the regulations thereunder.  
A. Yes/True  
B. No/False  
C. Need additional information  
D. None of the above  

46. Referring to Question 44, as part of the merger plan, Paul purchased all of Beverly’s common shares in Orchid Corporation for $10,000. Orchid Corporation has met both the “continuity of business enterprise” requirement and the “continuity of interest” requirement which are required by section 368 and the regulations thereunder.  
A. Yes/True  
B. No/False  
C. Need more information  
D. None of the above  

47. Referring to Question 46, as part of the merger plan, after Paul purchased all of Beverly’s common shares in Orchid Corporation, Orchid Corporation redeemed all of the common shares which Paul then owned in Orchid Corporation. Orchid paid Paul $10,000 for the common shares which Paul had purchased from Beverly and $10,000 for the common shares which Paul owned in Orchid Corporation prior to and after the merger. Orchid Corporation has met the “continuity of business enterprise” requirement which is required by section 368 and the regulations thereunder.  
A. Yes/True  
B. No/False  
C. Need additional information  
D. None of the above
48. Referring to Question 47, Orchid Corporation has met the “continuity of interest” requirement which is required by section 368 and the regulations thereunder.
A. Yes/True
B. No/False
C. Need additional information
D. None of the above

49. Referring to Question 47, whether or not Orchid Corporation met the continuity of business enterprise requirement or the continuity of interest requirement, the result to Paul is as follows.
A. None/Zero
B. $10,000 of ordinary income
C. $9,000 of long term capital gain
D. $10,000 of long term capital gain
E. None of the above

50. Referring to Question 47, if Orchid Corporation did not meet the continuity of business enterprise requirement or the continuity of interest requirement, then Petunia Corporation would recognize gains and losses due to the transfer of Petunia Corporation’s assets to Orchid Corporation and Orchid Corporation, as the successor to the assets, liabilities, equity, etc. of Petunia Corporation would be liable to pay any income taxes which would be due.
A. Yes/True
B. No/False
C. Need additional information
D. None of the above

51. 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, SugarMarple Corporation owned 90% of VincaMinor Corporation’s issued and outstanding common shares. 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

52. During the current taxable year, Red Corporation transferred to Blue Corporation the following securities: common shares which were issued by Red Corporation; and, common shares which were issued by Blue Corporation. In return, Blue Corporation transferred 90% of Blue Corporation’s gross assets to Red Corporation. 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

53. During the current taxable year, Yellow Corporation transferred to Green Corporation the following securities: common shares which were issued by Yellow Corporation. In return, Green Corporation transferred 90% of Green Corporation’s assets to Yellow Corporation and, in addition, Yellow Corporation assumed 90% of Green Corporation liabilities which were secured by such 90% of Green Corporation’s assets. The assumed liabilities did not exceed either the adjusted basis or the fair market value of such 90% of Green Corporation’s assets. 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

54. 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

55. Referring to Question 54, WhiteFish Corporation does 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

56. Referring to Question 54, Dog Corporation does 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

57. Referring to Question 54, the shareholders of WhiteFish Corporation do 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

58. Referring to Question 54, the shareholders of WhiteFish Corporation do 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

59. 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  

60. Referring to Question 59, 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  

61. Referring to Question 59, the shareholders of Horse Corporation did not recognize any gain or loss when the shareholders (of Horse Corporation) received the common shares of Cat Corporation.  
A. Yes/True  
B. No/False  
C. Need additional information  
D. None of the above  

62. Referring to Question 59, 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  

63. 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  

64. 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  

65. 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

66. Loose Corporation is the acquiring corporation and Tight Corporation is the target corporation. During the current taxable year, Tight Corporation had assets with a fair market value of $1,000,000 and liabilities of $200,000. In order to qualify for a C reorganization during the current taxable year, Tight Corporation must transfer the following fair market value of Tight Corporation’s assets to Loose Corporation.
A. $1,000,000
B. $720,000
C. $700,000
D. $810,000
E. None of the above

67. 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 accumulated 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 of C Corporation 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 CC Corporation’s common shares, with a fair market value of $12,000, 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 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

68. Referring to Question 67, 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

69. Referring to Question 67, some of C Corporation’s accumulated earnings and profits must be transferred to CC Corporation.
A. Yes/True
B. No/False
C. Need additional information
D. None of the above

70. During the current taxable year, Mary owned all (100 common shares) of the issued and outstanding common shares of C Corporation. C Corporation operated, for over ten years, a camping equipment sales business. Mary’s adjusted basis for Mary’s 100 common shares was $1,000. During the current taxable year, Beverly owned all (100 common shares) of the issued and outstanding common shares of CC Corporation. CC Corporation operated, for over ten years, a camping food sales business. Beverly’s adjusted basis for
Beverly’s 100 common shares was $2,000. Both corporations had $100,000 of earnings and profits at the beginning of the current taxable year and $100,000 of earnings and profits at the end of the current taxable year. During the current taxable year, Beverly transferred all of Beverly’s common shares in CC Corporation to C Corporation, and in return therefor, C Corporation transferred 100 recently authorized (but unissued) common shares of C Corporation to Beverly. Therefore, when the transfer of common shares was completed, C Corporation owned all of the common shares of CC Corporation and Beverly and Mary each owned 100 common shares of C Corporation. At the time of the transfer, Beverly’s 100 common shares had a fair market value of $20,000 and the 100 common shares which C Corporation transferred to Beverly had a fair market value of $20,000. Beverly’s gross income for the current taxable year is as follows.
A. None/Zero
B. $20,000
C. $19,000
D. $18,000
E. None of the above

71. Referring to Question 70, Beverly’s adjusted basis for Beverly’s C Corporation common shares is as follows.
A. None/Zero
B. $20,000
C. $1,000
D. $2,000
E. None of the above

72. Referring to Question 70, Mary’s adjusted basis for Mary’s C Corporation common shares is as follows.
A. None/Zero
B. $20,000
C. $1,000
D. $2,000
E. None of the above

73. Referring to Question 70, some of CC Corporation’s accumulated earnings and profits must be transferred to C Corporation.
A. Yes/True
B. No/False
C. Need additional information
D. None of the above

74. During the current taxable year, C Corporation organized CC Corporation and transferred all of the assets and liabilities of C Corporation’s used lawn equipment sales business to CC Corporation and, in return, CC Corporation transferred all of CC Corporation’s common shares to C Corporation. Then, C Corporation distributed all of CC Corporation’s common shares, with a fair market value of $12,000, to John and John transferred all of John’s C Corporation common shares (with a fair market value of $12,000 and with an adjusted basis of $1,000 to John) to C Corporation. Thereafter, John owned no common shares of C Corporation, but John owned all of the common shares of CC Corporation. John’s gross income for the current taxable year is as follows.
A. None/Zero
B. $10,000
C. $11,000
D. $12,000
E. None of the above

75. Referring to Question 74, John’s adjusted basis for John’s common shares of CC Corporation is as follows.
A. None/Zero
B. $4,000
C. $1,000
76. Referring to Question 74, some of C Corporation’s accumulated earnings and profits must be transferred to CC Corporation.
   A. Yes/True
   B. No/False
   C. Need additional information
   D. None of the above