STUDENT EXAMINATION NUMBER ________________

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

FINAL EXAMINATION
(NUMBER 006)

FOR

INCOME TAXATION OF CORPORATIONS AND SHAREHOLDERS (DN869)

GIVEN BY

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

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

Examination Number Printed Name

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

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

INSTRUCTIONS FOR THIS EXAMINATION

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

<table>
<thead>
<tr>
<th>Personal Or Domestic Status</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Married spouses filing joint income tax returns or surviving spouse</td>
<td>10,000</td>
</tr>
<tr>
<td>Head of household</td>
<td>8,000</td>
</tr>
<tr>
<td>Single individual</td>
<td>5,000</td>
</tr>
<tr>
<td>Married filing separately</td>
<td>5,000</td>
</tr>
<tr>
<td>Additional - blind</td>
<td>1,000</td>
</tr>
<tr>
<td>Additional - age 65 or older</td>
<td>1,000</td>
</tr>
</tbody>
</table>

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)

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

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

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

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

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

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

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

<table>
<thead>
<tr>
<th>Mileage Rate Type</th>
<th>Rate</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>Income Tax Rates For -</th>
<th>Income Tax Rates For -</th>
<th>Income Tax Rates For -</th>
<th>Income Tax Rates For -</th>
</tr>
</thead>
<tbody>
<tr>
<td>Married Individuals</td>
<td>Heads Of Households</td>
<td>Single Individuals</td>
<td>Married Individuals</td>
</tr>
<tr>
<td>Filing Joint Income</td>
<td></td>
<td></td>
<td>Filing Separate Income</td>
</tr>
<tr>
<td>Tax Returns</td>
<td></td>
<td></td>
<td>Tax Returns</td>
</tr>
<tr>
<td>Flat amount = 0 + 10%</td>
<td>Flat amount = 0 + 10%</td>
<td>Flat amount = 0 + 10%</td>
<td>Flat amount = 0 + 10%</td>
</tr>
<tr>
<td>up to 14,600</td>
<td>up to 10,450</td>
<td>up to 7,300</td>
<td>up to 7,300</td>
</tr>
<tr>
<td>Flat amount = 1,460 +</td>
<td>Flat amount = 1,045 +</td>
<td>Flat amount = 730 +</td>
<td>Flat amount = 730 +</td>
</tr>
<tr>
<td>15% of amount over</td>
<td>15% of amount over</td>
<td>15% of amount over</td>
<td>15% of amount over</td>
</tr>
<tr>
<td>14,600 but not over</td>
<td>10,450 but not over</td>
<td>7,300 but not over</td>
<td>7,300 but not over</td>
</tr>
<tr>
<td>59,400</td>
<td>39,800</td>
<td>29,700</td>
<td>29,700</td>
</tr>
<tr>
<td>Flat amount = 8,180 +</td>
<td>Flat amount = 5,447.50</td>
<td>Flat amount = 4,090 +</td>
<td>Flat amount = 4,090 +</td>
</tr>
<tr>
<td>25% of amount over</td>
<td>+ 25% of amount over</td>
<td>25% of amount over</td>
<td>25% of amount over</td>
</tr>
<tr>
<td>59,400 but not over</td>
<td>39,800 but not over</td>
<td>29,700 but not over</td>
<td>29,700 but not over</td>
</tr>
<tr>
<td>119,950</td>
<td>102,800</td>
<td>71,950</td>
<td>59,975</td>
</tr>
<tr>
<td>Flat amount = 23,317.50</td>
<td>Flat amount = 21,197.50</td>
<td>Flat amount = 14,652.50</td>
<td>Flat amount = 11,658.75</td>
</tr>
<tr>
<td>+ 28% of amount over</td>
<td>+ 28% of amount over</td>
<td>+ 28% of amount over</td>
<td>+ 28% of amount over</td>
</tr>
<tr>
<td>119,950 but not over</td>
<td>102,800 but not over</td>
<td>71,950 but not over</td>
<td>59,975 but not over</td>
</tr>
<tr>
<td>182,800</td>
<td>166,450</td>
<td>150,150</td>
<td>91,400</td>
</tr>
<tr>
<td>Flat amount = 40,915.50</td>
<td>Flat amount = 39,019.50</td>
<td>Flat amount = 36,548.50</td>
<td>Flat amount = 20,457.75</td>
</tr>
<tr>
<td>+ 33% of amount over</td>
<td>+ 33% of amount over</td>
<td>+ 33% of amount over</td>
<td>+ 33% of amount over</td>
</tr>
<tr>
<td>182,800 but not over</td>
<td>166,450 but not over</td>
<td>150,150 but not over</td>
<td>91,400 but not over</td>
</tr>
<tr>
<td>326,450</td>
<td>326,450</td>
<td>326,450</td>
<td>326,450</td>
</tr>
</tbody>
</table>
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>

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>

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>

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></td>
<td>Amount free of gift 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>
</tbody>
</table>
For gifts made after 12/31/09, the gift tax is not repealed, but continues due to the provisions of HR1836. For decedents dying after 12/31/09, there is no estate tax or generation skipping transfer tax imposed on death transfers. However, these taxes are repealed only for the year 2010.

For gifts made after 12/31/09, the highest gift tax rate is the same as the highest individual income rate, for example, 35% under HR1836. The top income tax rate is reduced to 35% in 2006. For decedents dying after 12/31/09, there is no estate tax nor generation skipping transfer tax imposed on death transfers. However, these taxes are repealed, only for the year 2010.

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

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

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

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

65. Assumptions Concerning Current Gift And Estate Tax Rates.

<table>
<thead>
<tr>
<th>Amount Range</th>
<th>Tax Calculation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not over $10,000</td>
<td>18% of such amount</td>
</tr>
<tr>
<td>Over $10,000 but not over $20,000</td>
<td>$1,800 plus 20% of the excess of such amount over $10,000</td>
</tr>
<tr>
<td>Over $20,000 but not over $40,000</td>
<td>$3,800 plus 22% of the excess of such amount over $20,000</td>
</tr>
<tr>
<td>Over $40,000 but not over $60,000</td>
<td>$8,200 plus 24% of the excess of such amount over $40,000</td>
</tr>
<tr>
<td>Over $60,000 but not over $80,000</td>
<td>$13,000 plus 26% of the excess of such amount over $60,000</td>
</tr>
<tr>
<td>Over $80,000 but not over $100,000</td>
<td>$18,200 plus 28% of the excess of such amount over $80,000</td>
</tr>
<tr>
<td>Over $100,000 but not over $150,000</td>
<td>$23,800 plus 30% of the excess of such amount over $100,000</td>
</tr>
<tr>
<td>Over $150,000 but not over $250,000</td>
<td>$38,800 plus 32% of the excess of such amount over $150,000</td>
</tr>
<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>$348,300 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>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, YourWay Corp.’s taxable income was $54,000. YourWay Corp.’s income tax (prior to any credit) for the current taxable year is as follows.
   A. None/Zero
   B. $7,500
   C. $8,600
   D. $18,360
   E. None of the above

2. Referring to Question 1, YourWay Corp.’s taxable income was $100,000. YourWay Corp.’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, YourWay Corp.’s taxable income was $400,000. YourWay Corp.’s income tax (prior to any credit) for the current taxable year is as follows.
   A. None/Zero
   B. $136,000
   C. $136,500
   D. $156,000
   E. None of the above

4. During the current taxable year, ShapeUp Corp.’s taxable income was $410,000 and ShapeUp Corp.’s income tax (after all credits) was $120,000. ShapeUp Corp.’s effective income tax rate (after all credits) is as follows.
   A. None/Zero
   B. 26.67%
   C. 29.67%
   D. 31.5%
   E. None of the above

5. During the current taxable year, Fever Corp. paid a salary of $10,000 to Paul. The amount of social security tax and hospital insurance tax which Fever Corp. 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 Fever Corp. 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%
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%
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 not for 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 Corp., which was a manufacturing Corp., had $2,000,000 of accumulated earnings and profits. The highest amount of accumulated earnings tax which Smart Corp. might owe for the current taxable year is as follows.
A. None/Zero
B. $675,500
C. $262,500
D. $1,061,500
E. None of the above

11. LearnALot College’s unrelated business taxable income for the current taxable year was $75,000. LearnALot College’s unrelated business income tax for the current taxable year is as follows.
A. None/Zero
B. $13,750
C. $19,800
D. $25,500
E. None of the above

12. During the current taxable year, Synagogue, Inc. owned a large vacant lot downtown and, through a lease agreement with Scratch Corp., Synagogue, Inc. allowed Scratch Corp. 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, and to provide the parkers of the parking spaces, 24-hour security services, jump starts, key cuttings, and tow services. During the current taxable year, Synagogue, Inc. received 15% of the gross rent, specifically, 15% of $200,000 ($30,000). Synagogue, Inc.’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, Beverly organized Fair Corp., transferred all of Beverly's sole proprietorship assets (with a fair market value of $100,000 and a total adjusted basis of $20,000, all appreciated assets) to Fair Corp., and Beverly received, from Fair Corp., in exchange for the assets, all of Fair Corp.'s issued and
outstanding common shares. One category of assets which Beverly transferred to Fair Corp. was accounts receivable, which Beverly had received in the ordinary course of operating Beverly’s sole proprietorship and with respect to which Beverly had an adjusted basis of $17,000 and which had a fair market value of $20,000. Beverly's ordinary gross income for the current taxable year with respect to the transfer of the accounts receivable to Fair Corp. is as follows.
A. None/Zero
B. $17,000
C. $25,000
D. $20,000
E. None of the above

14. Referring to Question 13, Fair Corp.’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 Corp. 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 Corp. collected the face amount of the accounts receivable. Beverly'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 Beverly organized Fair Corp., Beverly received all of Fair Corp.'s common shares and a promissory note, issued by Fair Corp., with a face amount of and a fair market value of $10,000. Beverly's gross income with respect to the corporate organization is as follows.
A. None/Zero
B. $10,000
C. $80,000
D. $20,000
E. None of the above

17. Referring to Question 16, Beverly's adjusted basis for the common shares is as follows.
A. None/Zero
B. $20,000
C. $80,000
D. $100,000
E. None of the above

18. Referring to Question 16, Beverly's adjusted basis for the promissory note is as follows.
A. None/Zero
B. $10,000
C. $80,000
D. $20,000
E. None of the above

19. Referring to Question 16, Fair Corp.’s total adjusted bases for the assets which Beverly transferred to Fair Corp. is as follows.
A. None/Zero
20. As a general rule, when organizing a corporation which intends to elect S corporation status and which corporation intends to borrow funds from Indiana Bank in order to operate the S corporation’s business, it would be best for the shareholders to borrow the funds and to contribute the borrowed funds to the S corporation, either as capital or as a loan to the S corporation, rather than to have the S corporation borrow the funds.
   A. Yes/True
   B. No/False
   C. Need additional information
   D. None of the above

21. Section 385 has little relevance to S corporations.
   A. Yes/True
   B. No/False
   C. Need additional information
   D. None of the above

22. During the current taxable year, Peter owned all of the following assets and Peter transferred the assets to Recycle Corp., a newly organized Corp. In return for the transfer of these assets, Recycle Corp. issued 600 common shares of Recycle Corp. to Peter. Also, Recycle Corp. issued 300 common shares to Paul in return for Paul's transfer to Recycle Corp. 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 Corp. issued 100 common shares to Paul because of services which Paul rendered to organize Recycle Corp. Thus, Peter and Paul were the only initial shareholders of Recycle Corp., 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 Corp. accept the estimate. Peter has taken $15,000 of depreciation deductions with respect to the equipment.

<table>
<thead>
<tr>
<th>Asset</th>
<th>Adjusted Basis</th>
<th>Fair Market Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>5,000</td>
<td>5,000</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>2,000</td>
<td>5,000</td>
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<tr>
<td>Inventory</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>
</tbody>
</table>

In addition, Recycle Corp. assumed a business liability of Peter in the amount of $10,000. Recycle Corp.’s gross income as a result of the incorporation is as follows.
   A. None/Zero
   B. $35,000
   C. $40,000
   D. $70,000
   E. None of the above

23. Referring to Question 22, Recycle Corp.’s total adjusted bases for Recycle Corp.’s assets after the incorporation is as follows.
   A. None/Zero
   B. $70,000
C. $140,000
D. $40,000
E. None of the above

24. Referring to Question 22, Recycle Corp.’s adjusted basis for the inventory which Peter transferred to Recycle Corp. is as follows.
A. None/Zero
B. $3,000
C. $20,000
D. $17,000
E. None of the above

25. Referring to Question 22, 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

26. Referring to Question 22, Peter’s total adjusted bases 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

27. Referring to Question 22, Paul’s gross income for the current taxable year as a result of the incorporation is as follows.
A. None/Zero
B. $9,000
C. $30,000
D. $10,000
E. None of the above

28. Referring to Question 22, Paul’s adjusted basis for the 300 common shares which Paul received for the land is as follows.
A. None/Zero
B. $5,000
C. $30,000
D. $15,000
E. None of the above

29. Referring to Question 22, Paul’s adjusted basis for the 100 common shares which Paul received for Paul’s services is as follows.
A. None/Zero
B. $10,000
C. $9,000
D. $30,000
E. None of the above

30. Referring to Question 22, on the day on which Peter received the 600 common shares of Recycle Corp., Peter gave 300 of the common shares to Sue as a present. The total amount of Peter’s and Paul’s gross income for
31. Referring to Question 22, on the day on which Peter received the 600 common shares of Recycle Corp., Peter transferred 300 of the common shares to Beverly because 30 days prior to the incorporation of Recycle Corp., Beverly and Peter signed an agreement 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

32. During the current taxable year, Peter and Paul organized Finch Corp. and Peter received 500 common shares of Finch Corp. for services which Peter performed in organizing Finch Corp. (and which Peter, Paul, and Finch Corp. valued at $50,000) and Paul received 500 common shares of Finch Corp. in return for some investment land which Paul transferred to Finch Corp. At the time of the transfer, the land had a fair market value of $50,000 and Paul’s adjusted basis for the land was $20,000. Finch Corp.’s gross income as a result of the incorporation is as follows.
   A. None/Zero
   B. $50,000
   C. $100,000
   D. $20,000
   E. None of the above

33. Referring to Question 32, Finch Corp.’s total adjusted bases for Finch Corp.’s assets after the incorporation is as follows.
   A. None/Zero
   B. $20,000
   C. $50,000
   D. $100,000
   E. None of the above

34. Referring to Question 32, Peter's gross income for the current taxable year as a result of the incorporation is as follows.
   A. None/Zero
   B. $30,000
   C. $50,000
   D. $20,000
   E. None of the above

35. Referring to Question 32, Peter's adjusted basis for the common shares which Peter received is as follows.
   A. None/Zero
   B. $20,000
   C. $30,000
   D. $50,000
   E. None of the above

36. Referring to Question 32, Paul's gross income for the current taxable year as a result of the incorporation is as follows.
37. Referring to Question 32, Paul's adjusted basis for the common shares which Paul received is as follows.
   A. None/Zero
   B. $30,000
   C. $50,000
   D. $20,000
   E. None of the above

38. At the beginning of the current taxable year, Peter owned 600 common shares and Paul owned 400 common shares of Wren Corp. These were the same number of common shares which each of them had when they incorporated Wren Corp. two years ago. During the current taxable year, Peter transferred some investment land (which Peter owned for several taxable years) to Wren Corp. in return for 100 common shares of Wren Corp. At the time of the transfer of the land to Wren Corp., 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 gross income 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

39. Referring to Question 38, Wren Corp.'s gross income is as follows.
   A. None/Zero
   B. $2,000
   C. $10,000
   D. $8,000
   E. None of the above

40. Referring to Question 38, Wren Corp.'s adjusted basis for the land which Peter transferred to Wren Corp. is as follows.
   A. None/Zero
   B. $2,000
   C. $10,000
   D. $8,000
   E. None of the above

41. Referring to Question 38, Peter's adjusted basis for the common shares which Wren Corp. 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

42. Referring to Question 38, the land had an adjusted basis to Peter of $12,000. Peter's long term capital loss income tax deduction for the taxable year in which Peter transferred the land is as follows.
   A. None/Zero
   B. $2,000
   C. $10,000
43. Referring to Question 38, Peter’s adjusted basis for the common shares which Wren Corp. 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

44. For several years, Peter worked to develop a new type of operating system for computers and during the current taxable year Peter told Peter’s lawyer that Peter did not have enough money to apply for a patent of the operating system, but that Peter would do so later. Thereafter, during the current taxable year, Peter organized Sparrow Corp., transferred all Peter’s development notes to Sparrow Corp., and received 100 common shares from Sparrow Corp. Peter and Peter’s lawyer estimated that Peter’s development notes had a fair market value of $500,000, based on the number of hours which Peter had put into the project. Thereafter, Sparrow Corp. asked Paul to invest in Sparrow Corp. and Paul did so by transferring $100,000 of cash to Sparrow Corp. in return for 20 common shares of Sparrow Corp. Thereafter, Sparrow Corp. employed two workers to help Peter begin to manufacture and sell the operating system and to prepare a patent application for Sparrow Corp. to file. Peter’s gross income as a result of the incorporation is as follows.
A. None/Zero
B. $500,000
C. $600,000
D. $100,000
E. None of the above

45. During the current taxable year, Paul organized Crow Corp. and transferred some land to Crow Corp. in return for all of Crow Corp.’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 Corp., Paul borrowed $15,000 from Indiana Bank, because Paul needed some extra cash in order to take a vacation, and Paul secured the debt with the land. At the time of the transfer of the land to Crow Corp., Crow Corp. (with the consent of 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. $35,000
D. $15,000
E. None of the above

46. Referring to Question 45, Paul’s adjusted basis for Paul’s common shares is as follows.
A. None/Zero
B. $30,000
C. $35,000
D. $20,000
E. None of the above

47. Referring to Question 45, Crow Corp.’s gross income for the current taxable year is as follows.
A. None/Zero
B. $30,000
C. $35,000
D. $15,000
E. None of the above
48. Referring to Question 45, Crow Corp.’s adjusted basis for the land is as follows.
   A. None/Zero
   B. $30,000
   C. $35,000
   D. $15,000
   E. None of the above

49. During the current taxable year, Paul organized Barred Owl Corp. and transferred some land to Barred Owl, Inc. in return for all of Barred Owl, Inc.’s authorized common shares. At the time of the transfer, the land had a fair market value of $100,000 and an adjusted basis to Paul of $20,000 and was secured (for several years) by a mortgage for a debt of $30,000 which Paul owed because of a loan which was made to Paul by Indiana Bank for improvements which Paul made to the land. At the time of the transfer of the land to Barred Owl, Inc., Barred Owl, Inc. (with the consent of Indiana Bank) assumed Paul’s mortgage debt of $30,000. Paul’s gross income for the current taxable year is as follows.
   A. None/Zero
   B. $10,000
   C. $30,000
   D. $20,000
   E. None of the above

50. Referring to Question 49, Paul’s adjusted basis for Paul’s common shares is as follows.
   A. None/Zero
   B. $30,000
   C. $35,000
   D. $40,000
   E. None of the above

51. Referring to Question 49, Barred Owl, Inc.’s gross income for the current taxable year is as follows.
   A. None/Zero
   B. $30,000
   C. $35,000
   D. $20,000
   E. None of the above

52. For several years, Alan worked 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 was $45,000. During the current taxable year, Alan organized the Vacuum Corp. and transferred the patent to the corporation in return for 100 common shares of Vacuum Corp. 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
   C. $40,000
   D. $85,000
   E. None of the above

53. Referring to Question 52, 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
54. Referring to Question 52, Vacuum Corp.’s gross income for the current taxable year is as follows.
A. None/Zero
B. $45,000
C. $40,000
D. $85,000
E. None of the above

55. Referring to Question 52, Vacuum Corp.’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

56. During the current taxable year, Paul and Peter organized Baby Corp. and Paul and Peter each acquired 50% of the common shares of Baby Corp. Baby Corp. 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 additional information
D. None of the above

57. 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 additional information
D. None of the above

58. 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 additional information
D. None of the above

59. During the current taxable year, Paul organized a Dog Corp. and purchased 100% of the common shares of Dog Corp. Dog Corp. 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 additional information
D. None of the above

60. On January 1 of the current taxable year, Alan organized BeautifulPeople Corp. and paid Peter, a lawyer, $2,000 as a fee for doing the legal work for BeautifulPeople Corp. The maximum amount of such fee which BeautifulPeople Corp. may deduct, for income tax purposes, during the current taxable year is as follows.
A. None/Zero
61. Referring to Question 60, 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

62. Referring to Question 60, the answer would be the same if the entity were a partnership or a limited liability company.
   A. Yes/True
   B. No/False
   C. Need additional information
   D. None of the above

63. 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 corporations 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.

64. The multiple corporation structure has many tax and nontax advantages and disadvantages. Are each of the following general statements true?
   a. Some corporations, in the multiple corporation structure, might elect different accounting methods from the accounting methods which are elected by other members of the multiple corporation group.
   b. Some corporations, in the multiple corporation structure, might elect different accounting periods from the accounting periods which are elected by other members of the multiple corporation group.
   c. Some corporations, in the multiple corporation structure, might use different methods of determining inventory from the inventory methods which are elected by other members of the multiple corporation group for the same types of inventory.
   d. Some corporations, in the multiple corporation structure, might have a structure which allows shareholders to treat losses, under IRC section 1244, as ordinary losses if the shares of the shareholders are sold or exchanged at a loss or become worthless.
   A. Yes/True
   B. No/False
   C. Need additional information
   D. None of the above

65. During the last taxable year, Beverly organized New Corp. and transferred $1,200,000 of cash to New Corp. in return for 1,000 common shares of New Corp. Despite the fact that things did not go well for New Corp., Paul purchased 100 shares of New Corp. from New Corp. for $100,000 during the current taxable year.
During the next taxable year, New Corp. was almost bankrupt and Paul sold Paul’s 100 common shares for $5,000. Paul’s ordinary loss income tax deduction for the next taxable year is as follows.
A. None/Zero
B. $100,000
C. $9,500
D. $50,000
E. None of the above

66. 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

67. 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

68. During the current taxable year, Looking Corp. had gross income of $100,000 and deductible income tax expenses of $30,000, not including a charitable contribution of $10,000 of cash which Looking Corp. made during the current taxable year to FriendlyQuakers Corp. Looking Corp.'s taxable income for the current taxable year is as follows.
A. None/Zero
B. $63,000
C. $60,000
D. $75,000
E. None of the above

69. On July 5 of the current taxable year, Paul sold 100 common shares of the SamBass Corp. 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
70. Referring to Question 69, 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

71. On July 5 of the current taxable year, Paul sold 200 common shares of Lions Corp. 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

72. Referring to Question 71, 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

73. 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 Corp., under a section 351 transaction, for 100% of MerryChristmas Corp.’s common shares. During the current taxable year, during the Christmas season, Mary sold all of Mary’s common shares of MerryChristmas Corp. to MerrierThanYou Corp. for $175,000. MerryChristmas Corp. 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

74. On May 5 of the current taxable year, Paul sold 100 common shares of Pony Corp. 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 Pony Corp. required Paul to turn in (to Pony Corp.) 100 common shares which Paul then owned in Pony Corp. in return for the 200 new common shares in Pony Corp. 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
75. Referring to Question 74, 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

76. A “stock split” is a reorganization which is within the scope of section 368(a)(1)(E).
   A. True/Yes
   B. False/No
   C. Need additional information
   D. None of the above

77. On May 5 of the current taxable year, Paul sold 100 common shares of ThoroughBred Corp. 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 ThoroughBred Corp. required Paul to turn in (to ThoroughBred Corp.) 400 common shares which Paul then owned in ThoroughBred Corp. in return for the 200 new common shares in ThoroughBred Corp. 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

78. Referring to Question 77, 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

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

80. Referring to Question 79, John sold the common shares to Paul 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

81. Referring to Question 79, John sold the common shares to Mary for $180,000. John's ordinary expense or ordinary loss deduction (considering all deduction limitations) for the current taxable year is as follows.
A. None/Zero
B. $20,000
C. $100,000
D. Need additional information
E. None of the above

82. During the current taxable year, all of John's common shares of Bird Corp., 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

83. On December 10 of the current taxable year, Mary sold 100 common shares of Moe Corp. for $125,000. Mary had purchased the common shares many taxable years ago for $100,000. In addition to the sale of the Moe Corp. common shares, Mary had a gross salary of $200,000. On January 2 of the next taxable year, Mary purchased 100 common shares of Moe Corp. 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

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

85. During the first taxable year, Beverly organized Purple Corp. and transferred $1,000,000 of cash to Purple Corp. in return for 1,000 common shares of Purple Corp. During the second taxable year, Mary transferred $1,000,000 of cash to Purple Corp. in return for 1,000 common shares of Purple Corp. During the third taxable year, Purple Corp. filed for bankruptcy and was determined that all of the common shares of Purple Corp. 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
E. None of the above

86. Referring to Question 85, 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

87. 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 Corp.’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.

88. 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

89. Referring to Question 88, 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

90. Referring to Question 88 , 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

91. Paul made many purchases and sales of common shares over UpUpStock 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
92. During the current taxable year, John sold 100 common shares of Red Corp. 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

93. Referring to Question 92, 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

94. During the current taxable year, all of Paul's common shares of Nettles Corp., which Paul purchased two taxable years ago from Nettles Corp. 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

95. Referring to Question 94, 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

96. Referring to Question 94, Nettles Corp. had already received consideration for the issuance of Nettles Corp.'s common shares in the amount of $600,000 when Paul purchased Paul's common shares from Nettles Corp. Paul's common shares are section 1244 stock.
   A. Yes/True
   B. No/False
   C. Need additional information
   D. None of the above

97. During the current taxable year, Paul and John were the sole members of Panda LLC, each having a 50% membership and each of them working full-time for Panda LLC for a salary of $100,000 for each of them. During the current taxable year, Panda LLC had a loss of $300,000 from the sale of section 1244 stock. 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
98. Referring to Question 97, John has a capital 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

99. During the current taxable year, Ball Corp. was merged into Bat Corp. in a transaction which qualified as a reorganization under section 368. Both Ball Corp. and Bat Corp. were public corporations, the common stock of which were traded on the Indianapolis Stock Exchange. Paul worked for Ball Corp. 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 Corp. 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 Corp. 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 Corp.
   A. Yes/True
   B. No/False
   C. Need additional information
   D. None of the above

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

101. During the current taxable year, John owned all of the issued and outstanding common shares of TeddyBear Corp., which corporation had $100,000 of accumulated earnings and profits both at the beginning of and 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 of John’s land to TeddyBear Corp., which TeddyBear Corp. intended to use in TeddyBear Corp.’s manufacturing business. John did not receive back anything from TeddyBear Corp. 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

102. Referring to Question 101, TeddyBear Corp.’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
103. Referring to Question 101, John’s adjusted basis for John’s common shares at the ending of the current taxable year is as follows.
A. None/Zero
B. $15,000
C. $50,000
D. $10,000
E. None of the above

104. Referring to Question 101, 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

105. In order to determine whether a shareholder of a corporation is also a creditor of the corporation, all of the following statements are authorized by the section 385 (and the applicable regulations) to be used in answering such inquiry.

a. The “debt security” should be a written, unconditional promise to pay, on demand or on a specified date, a sum certain with fixed interest.
b. The “debt security” should not be subordinated to any other debt of the corporation.
c. The ratio of the corporation’s debt to equity should not be more than ten to one.
d. The “debt security” should not be convertible into the stock of the corporation.
e. The “debt security” holders should not hold the securities in proportion to the holders’ stock interests.
f. The promise to pay interest on the debt and to repay the debt should be made for adequate consideration.
g. The “debt 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 “debt security” should have the unrestricted right to legally enforce payment on default.
A. Yes/True
B. No/False
C. Need additional information
D. None of the above

106. In order to determine whether a shareholder of a corporation is also a creditor of the corporation, all of the following statements are authorized by the section 385 (and the applicable regulations) to be used in answering such inquiry.

a. The holders of the “debt security” may have voting rights, but only as a class of voters which is separate from the shareholder class.
b. There should be a substantial investment in the stock of the corporation.
c. There should be evidence that outside creditors would not have made loans under more favorable terms.
d. The “debt security” holders should act as creditors, particularly, if the corporation defaults on payments of interest or principal.
e. The corporation should keep adequate records about the “debt security”.
f. The amount of capital and debt should be similar to the capital and debt of other businesses in the industry.
g. If the “debt security” is significant in amount, then the corporation should provide collateral for the loan.
h. There should be a proper corporate business purpose for the giving of the “debt security.”
A. Yes/True
B. No/False
C. Need additional information
D. None of the above

107. During the current taxable year, Beverly organized Chicago Corp. and transferred various assets to Chicago Corp. in return for 100 common shares of Chicago Corp. and for some bonds issued by Chicago Corp. The fair market value of the common shares was $100,000 and the fair market value of the bonds was $100,000. The bonds had a total par value of $100,000 and had a stated interest rate of 10%, but no payment was made with respect to the bonds during the current taxable year. The bonds met the tests of section 385. During the current taxable year, Beverly had gross income as follows.
A. None/Zero
B. $80,000
C. $100,000
D. $150,000
E. None of the above

108. Referring to Question 107, the bonds have not met the requirements of section 385 and the regulations thereunder from the time when the bonds were issued. During the next taxable year, Chicago Corp. had: gross income of $100,000; general expenses of $60,000; and, earnings and profits at the end of the next taxable year of $30,000. Also, during the next taxable year, Chicago Corp. distributed $10,000 of interest to the bondholder (Beverly) as was required by the terms of the bond. Chicago Corp.’s taxable income for the next taxable year is as follows.
A. None/Zero
B. $40,000
C. $30,000
D. $100,000
E. None of the above

109. Referring to Question 108, Beverly’s gross income for the next taxable year is as follows.
A. None/Zero
B. $40,000
C. $30,000
D. $10,000
E. None of the above

110. Referring to Question 107, the bonds have not met the requirements of section 385 and the regulations thereunder from the time when the bonds were issued. Ten years after the incorporation, Chicago Corp. redeemed the bonds for the par value of the bonds, specifically, for the price of $100,000 during a taxable year in which Chicago Corp. had $1,000,000 of accumulated earnings and profits at all times. Beverly’s ordinary gross income as a result of the redemption of the bonds is as follows.
A. None/Zero
B. $100,000
C. $50,000
D. $80,000
E. None of the above

111. Two taxable years ago, KnockOut Corp. gave Paul an incentive stock option which allowed Paul the right to purchase 100 common shares of KnockOut Corp. 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 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.
112. Referring to Question 111, 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

113. Referring to Question 111, 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.  
E. None of the above

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

115. Referring to Question 114, Paul’s gross income for the current taxable year is as follows.
A. None/Zero  
B. $1,000  
C. $10,000  
D. $20,000  
E. None of the above

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

A. None/Zero
B. $150,000
C. $140,000
D. $240,000
E. None of the above

117. Referring to Question 116, Paul's gross income for the next taxable year is as follows.

A. None/Zero
B. $150,000
C. $140,000
D. $240,000
E. None of the above

118. Village Corp. was organized ten taxable years ago and during the current taxable year, Village Corp. had the following financial information. Village Corp. used the accrual method of accounting as its accounting method, and, at the beginning of the current taxable year, Village Corp. had $100,000 of accumulated earnings and profits at the beginning of the current taxable year. Beverly was the sole shareholder of Village Corp. and Beverly's adjusted basis for Beverly's shares was $50,000 at the beginning of the current taxable year. Other financial information about Village Corp. 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 Village Corp. and paid to Beverly, which includes $5,000 of unreasonable compensation</td>
<td>200,000</td>
</tr>
<tr>
<td>Federal income taxes</td>
<td>700,000</td>
</tr>
<tr>
<td>Other expenses</td>
<td>300,000</td>
</tr>
<tr>
<td>Total cash distributions to Beverly, as a shareholder</td>
<td>100,000</td>
</tr>
</tbody>
</table>

Village Corp.'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

119. Referring to Question 118, Village Corp.’s gross income is $4,000,000 for the current taxable year. Village Corp.'s taxable income for the current taxable year is as follows.

A. None/Zero
B. $3,520,000
C. $3,300,000
D. $3,100,000
E. None of the above
120. Referring to Question 118, 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

121. Referring to Question 118, Village Corp. had the following amount of accumulated earnings and profits at the end of the current taxable year.
A. $2,300,000
B. $3,000,000
C. $2,305,000
D. $2,100,000
E. None of the above

122. During the current taxable year, Cottage Corp., a family owned corporation, brewed beer, as Cottage Corp. had done for over 50 taxable years, as a small brewery in Trafalgar, Indiana, and at the end of the current taxable year, Cottage Corp. had the following position statement. Cottage Corp. had a significant amount of liquid assets, because the family believed that there were some excellent investment opportunities which Cottage Corp. might invest in. This position statement is representative of the position statements which Cottage Corp. has had for over five taxable years, because Cottage Corp. has not paid a dividend for over eight taxable years. Further, Cottage Corp. 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 Cottage Corp. is subject to the accumulated earnings tax for the current taxable year.
A. Yes/True
B. No/False
C. Need additional information
D. None of the above

123. On Lobster Corp. was organized ten taxable years ago. At the beginning of the current taxable year, Lobster
Corp. had $500,000 of accumulated earnings and profits. Other financial information about Lobster Corp. 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>
<tr>
<td>Cash distributions to shareholders</td>
<td>200,000</td>
</tr>
</tbody>
</table>

The Lobster Corp.'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

124. Referring to Question 123, Lobster Corp.'s total accumulated earnings and profits 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

125. At the beginning of the current taxable year, Charlie Corp. had $100,000 of accumulated earnings and profits both at the beginning and at the end of the current taxable year. During the current taxable year, Charlie Corp. 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, Charlie Corp. distributed a piece of land with an adjusted basis to Charlie Corp. of $6,000 to Beverly, who was the sole shareholder of Charlie Corp., because Beverly was a shareholder of Charlie Corp. At the time when Charlie Corp. distributed the land to Beverly, the land had a fair market value of $8,000. Charlie Corp.'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

126. Referring to Question 125, 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
127. Referring to Question 125, 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

128. 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

129. During the current taxable year, John owned all of the common shares of in Apple Corp., 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 Corp. In addition to the data which is stated below, John had salary of $20,000 from Apple Corp. and Mary had salary of $100,000 from ZoomZoom Corp. Also, during the current taxable year, Apple Corp. 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 Corp. 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

130. Referring to Question 129, 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

131. Referring to Question 129, 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

132. Referring to Question 129, John did not work for Apple Corp. and John did not receive a salary from Apple Corp. and Apple Corp.'s total operational expenses was $315,000. John's and Mary's gross income for the
current taxable year is as follows.
A. None/Zero
B. $100,000
C. $450,000
D. $85,000
E. None of the above

133. Referring to Question 132, 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. $100,000
D. $105,000
E. None of the above

134. Referring to Question 132, 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

135. During the current taxable year, Beverly was the sole shareholder in four corporations (Winter Corp., Spring Corp., Summer Corp., and Fall Corp.). Winter Corp. and Spring Corp. and Summer Corp. 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 Corp., Beverly worked for Winter Corp. and received a gross salary from Winter Corp. of $20,000. During the current taxable year, Winter Corp. sold computers and had a net profit of $150,000 (after deducting Beverly's gross salary).
   b. With respect to Spring Corp., Beverly did not work for Spring Corp. and did not receive a salary from Spring Corp. During the current taxable year, Spring Corp. sold porch furniture and had a net profit of $40,000.
   c. With respect to Summer Corp., Beverly did not work for Summer Corp. and did not receive a salary from Summer Corp. During the current taxable year, Summer Corp. sold and repaired bicycles and had a net loss of $120,000.
   d. With respect to Fall Corp., Beverly worked for Fall Corp. and received a gross salary from Fall Corp. of $20,000. During the current taxable year, Fall Corp. had accumulated earnings and profits of $200,000 both at the beginning of and at the end of the current taxable year 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

136. Referring to Question 135, Beverly's adjusted gross income for the current taxable year is as follows.
A. None/Zero
B. $240,000
C. $250,000
D. $150,000
E. None of the above
137. Referring to Question 135, Beverly's adjusted basis for Beverly's common shares of Winter Corp. 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

138. Referring to Question 135, Beverly's adjusted basis for Beverly's common shares of Spring Corp. 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

139. Referring to Question 135, Beverly's adjusted basis for Beverly's common shares of Summer Corp. 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

140. Referring to Question 135, Beverly's adjusted basis for the common shares of Fall Corp. 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

141. During the current taxable year, Beverly was the sole shareholder in and a fulltime employee of NightAndDay Corp., which was an S corporation which manufactured electric fans. Beverly received a salary of $50,000 from NightAndDay Corp. and Beverly had an adjusted basis for the common shares which Beverly owned of $10,000. During the current taxable year, NightAndDay Corp. 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

142. Referring to Question 141, 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

143. During the current taxable year, John owned 100 common shares of Swedish Corp. for over two taxable years, which John had purchased for $5,000. Swedish Corp. had no other shares issued and outstanding and Swedish Corp. had accumulated earnings and profits of $100,000 both at the beginning of and at the end of
the current taxable year. During March of the current taxable year, Swedish Corp. distributed 100 preferred
shares of Swedish Corp. 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
Swedish Corp. 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

144. Referring to Question 143, John’s long term capital gain gross income for the next taxable year is as follows.
A. None/Zero
B. $9,000
C. $6,500
D. $1,000
E. None of the above

145. The multiple corporation structure has many tax and nontax advantages and disadvantages. Are each of the
following general statements true?
   a. The corporate income tax rates may be allocated among the multiple corporations, for
      example, during a particular taxable year, the 15% income tax rate may be applied to the
      taxable income of $30,000 of one of the multiple corporations and the 15% income tax rate
      may be applied to the taxable income of $20,000 of another one of the multiple corporations.
   b. The accumulated earnings tax base of $250,000 may be allocated among the multiple
      corporations, for example, during a particular taxable year, the $250,000 base may be
      allocated - - - $120,000 to the earnings and profits of one of the multiple corporations and
      $130,000 to the earnings and profits of another of the multiple corporations.
   c. The multiple corporation structure can be advantageous to family unit which wish to utilize
      section 303.
A. Yes/True
B. No/False
C. Need additional information
D. None of the above

146. During the current taxable year, RightYouAre Corp. wants to purchase all of the assets of OneWay Corp. Both
    RightYouAre Corp. and OneWay Corp. are manufacturers of bicycles and OneWay Corp. wants to use
    RightYouAre Corp.’s assets in the operation of OneWay Corp’s business. If the supporting sale/purchase
    agreement for this transaction is to be drafted in a manner which minimizes the IRS’ attempt to allocate
    the total sale/purchase price among the various purchased assets, then the sale/purchase agreement should allocate
    the sale/purchase price among the assets in accordance with the provisions of section 1060.
A. Yes/True
B. No/False
C. Need additional information
D. None of the above

147. Referring to Question 146, if the provisions of section 1060 are followed by RightYouAre Corp. and OneWay
    Corp., then the allocation so made by the sale/purchase agreement will fix purchaser’s adjusted basis for each
    of the assets purchased, but the sale/purchase agreement may allow the seller to make a different allocation,
    for tax purposes, among the assets of the “fixed asset” category (and still be within the scope of the
    requirements of section 1060).
A. Yes/True
B. No/False
C. Need additional information
148. Referring to Question 146, if OneWay Corp. purchases goodwill from RightYouAre Corp. and if OneWay Corp. wishes to amortize the cost of such goodwill, then OneWay Corp. must amortize the cost of that goodwill over a period of not less than 15 years.
   A. Yes/True
   B. No/False
   C. Need additional information
   D. None of the above

149. Referring to Question 146, if OneWay Corp. purchases customer lists from RightYouAre Corp. and if OneWay Corp. wishes to amortize the cost of such customer lists, then OneWay Corp. must amortize the cost of that customer list over a period of not less than 15 years.
   A. Yes/True
   B. No/False
   C. Need additional information
   D. None of the above

150. Referring to Question 146, if OneWay Corp. pays RightYouAre Corp. for an agreement that RightYouAre Corp. will not compete against OneWay Corp. for a period of five years, then if OneWay Corp. wishes to amortize the cost of such covenant not to compete, then OneWay Corp. must amortize the cost of that payment over a period of not less than 15 years.
   A. Yes/True
   B. No/False
   C. Need additional information
   D. None of the above

151. In general, the allocation of a sale/purchase price of business assets which is to come within the scope of section 1060 requires the sale/purchase price to be allocated as follows.
   a. To cash, demand deposits and like accounts in banks, savings and loan associations (and other depository institutions), and other similar items.
   b. Certificates of deposit, U.S. government securities, readily marketable stock or securities, and foreign currency.
   c. All other tangible and intangible assets, including furniture and fixtures, land, buildings, equipment, accounts receivable, and covenants not to compete, but excluding section 197 intangibles.
   d. Section 197 intangibles, except goodwill and going concern value.
   e. Goodwill and going concern assets.
   A. Yes/True
   B. No/False
   C. Need additional information
   D. None of the above

152. Prior to the divorce of Beverly and Alan, Beverly and Alan each owned, for several years, 500 common shares of BadTimes, Inc., which were BadTimes, Inc.’s only issued and outstanding shares. The adjusted basis for each unit of 500 common shares was $2,000. Beverly and Alan made an agreement with each other which stated that if Beverly and Alan divorced, then Beverly would purchase all of Alan’s BadTimes, Inc. common shares for the fair market value at that time. During the current taxable year, BadTimes, Inc. had earnings and profits of $1,000,000 and Beverly and Alan agreed that BadTimes, Inc. could fulfill Beverly’s obligation to purchase Alan’s common shares, which BadTimes, Inc. did, by paying Alan $50,000 for Alan’s common shares. Alan’s long term capital gain during the current taxable year is as follows.
   A. None/Zero
   B. $50,000
   C. $48,000
D. Need additional information  
E. None of the above

153. Referring to Question 152, Beverly’s gross income for the current taxable year is as follows.
A. None/Zero  
B. $50,000  
C. $48,000  
D. Need additional information  
E. None of the above

154. John died during the current taxable year at a time when John owned all of the common shares of Clock Corp., specifically, John owned 1,000 common shares. Just prior to John’s death, John’s total adjusted basis for John’s common shares was $100,000 and at John’s death John’s common shares had a fair market value of $500,000 and this was 35% of the value of John’s adjusted gross estate. Prior to John’s death, John and Clock Corp. made an agreement which stated that at John’s death, Clock Corp. would redeem whatever common shares were necessary in order for John’s estate to pay the administration expenses, funeral expenses, and death taxes of John’s estate, which Clock Corp. did a few weeks after John’s death, during the current taxable year and at a time when the 1,000 common shares still had a fair market value of $500,000, by redeeming 250 of the common shares from John’s estate for the amount of $125,000. Thereafter, during the current taxable year, the executor of John’s estate distributed the remaining 750 common shares to Peter, due to a devise in John’s last will and testament, which John made to Peter because Peter worked for many years for Clock Corp. and which Peter intended to do in the future. John’s last will and testament devised John’s residuary estate to Mary. At all times, Clock Corp. had earnings and profits of $1,000,000. John’s estate’s gross income due to the share redemption is as follows.
A. None/Zero  
B. $125,000  
C. $375,000  
D. $500,000  
E. None of the above

155. Referring to Question 154, Clock Corp. purchased 500 common shares from John’s estate in order for the estate to pay the administration expenses, funeral expenses, death taxes, other claims of John’s estate, these latter claims, the “other claims” were personal debts of John in the amount of $125,000. In making the redemption of John’s estate’s 500 common shares, Clock Corp. paid John’s estate $250,000. Therefore, John’s estate distributed only 500 common shares to Peter. John’s estate’s gross income due to the share redemption is as follows.
A. None/Zero  
B. $125,000  
C. $375,000  
D. $500,000  
E. None of the above

156. Referring to Question 154, after the redemption of the 250 common shares from John’s estate, Clock Corp. redeemed Peter’s 750 common shares, during the current taxable year, by paying to Peter $375,000, which was the then fair market value of the common shares. Peter’s gross income for the next taxable year is as follows.
A. None/Zero  
B. $125,000  
C. $375,000  
D. $500,000  
E. None of the above

157. Referring to Question 154, no common shares were devised to Peter, but Mary was devised John’s residuary estate. During the current taxable year, Clock Corp. redeemed all 1,000 common shares from John’s estate
for $500,000 during the current taxable year, which was the then fair market value of the common shares. 
John’s estate’s gross income for the current taxable year is as follows.
A. None/Zero
B. $125,000
C. $375,000
D. $500,000
E. None of the above

158. Referring to Question 154, at John’s death, John owned 500 of the common shares of Clock Corp. and Peter 
owned the other 500 common shares, which common shares had been received by Peter as a bonus from 
Clock Corp. several years ago while Peter worked for Clock Corp. and which common shares have an 
adjusted basis to Peter of $100,000 during the current taxable year. John’s last will and testament did not 
device any common shares to Peter, but Mary was devised John’s residuary estate. During the current taxable 
year, Clock Corp. redeemed all 500 common shares from John’s estate by paying John’s estate $250,000, 
which was the then fair market value of the common shares. Peter, Mary, and the executor of John’s estate 
have done everything which they could to do in order to prevent John’s estate from having a dividend, with 
the exception that Peter refuses to quit working for Clock Corp. John’s estate’s gross income for the current 
taxable year is as follows.
A. None/Zero
B. $125,000
C. $375,000
D. $250,000
E. None of the above

159. Referring to Question 154, John’s estate owned 500 common shares of Clock Corp. and Peter owned the other 
500 common shares, which common shares Peter had purchased from Clock Corp. several years ago while 
Peter worked for Clock Corp. and which common shares had an adjusted basis to Peter of $100,000. John’s 
last will and testament did not devise any common shares to Peter, but Mary was devised John’s residuary estate. 
During the administration of John’s estate, Peter decided to quit working for Clock Corp. (and did quit), and therefore, Peter sold Peter’s 500 common shares to Clock Corp. for $250,000 during the current 
taxable year, which was the then fair market value of the common shares. Peter’s gross income for the current 
taxable year is as follows.
A. None/Zero
B. $150,000
C. $375,000
D. $250,000
E. None of the above

160. Referring to Question 154, John’s estate owned 500 common shares of Clock Corp. and Peter owned the other 
500 common shares, which common shares Peter had purchased from Clock Corp. several years ago while 
Peter worked for Clock Corp. and which common shares had an adjusted basis to Peter of $100,000. John’s 
last will and testament devised John’s residuary estate to Peter. During the administration of John’s estate, 
Peter decided to quit working for Clock Corp. (and did quit), and therefore, Peter sold Peter’s 500 common 
shares to Clock Corp. for $250,000 during the current taxable year, which was the then fair market value of 
the common shares. Peter’s gross income for the current taxable year is as follows.
A. None/Zero
B. $150,000
C. $375,000
D. $250,000
E. None of the above

161. Referring to Question 154, several years prior to John’s death, John and Peter made a written agreement 
which stated that Peter was obligated to purchase and John’s estate was obligated to sell John’s 1,000 
common shares of Clock Corp. for the price of $400,000. John and Peter did not have the common shares
valued by a professional evaluator, but both John and Peter worked for Clock Corp., and therefore, John and Peter believed that the $400,000 price would be an accurate estimate of the fair market value of the 1,000 common shares, all things considered, if John were to die within the next ten years, and they believed that the method which John and Peter used to value the shares of Clock Corp. is would be . By the agreement, John could not sell any of the 1,000 common shares during John’s lifetime, but John could make gifts of any number of the common shares to Sue during John’s life. Some of the primary reasons why John did this was to make certain that the estate had sufficient cash to distribute to Mary and because John did not think that Clock Corp. would survive if Peter did not continue to work for Clock Corp. In fact, John died four years after the agreement was made and during the current taxable year at a time when John owned the 1,000 common shares. Based on the agreement, Peter purchased the 1,000 common shares for $400,000, even though the 1,000 common shares had a fair market value of $500,000 without considering the agreement which John and Peter made. John’s estate’s gross income for the current taxable year is as follows.
A. None/Zero
B. $150,000
C. $375,000
D. $250,000
E. None of the above

162. During the current taxable year, John, Peter, Paul, Beverly, and Alan each owned 20% of the common shares (200 shares each) of Sapling Corp. and the four of them agreed that upon the death of any of them, the remaining of them would purchase, pro rata, the shares which the decedent owned. For example, if John were to die, then Peter, Paul, Beverly, and Alan would each purchase 50 of the 200 common shares which John owned. If this purchase agreement were to be funded with life insurance, then the total number of life insurance policies which would have to be owned by such shareholders in order to make an initial proper funding is as follows.
A. None/Zero
B. Five
C. Ten
D. 20
E. None of the above

163. Referring to Question 162, if the agreement were to be a share redemption agreement, then the number of life insurance policies which Sapling Corp. would have to own in order to make an initial proper funding is as follows.
A. None/Zero
B. Five
C. Ten
D. 20
E. None of the above

164. How many life insurance policies would have to be purchase if a corporation had 25 shareholders and these 25 shareholders want to have an insurance funded share purchase agreement among them.
A. 25
B. 50
C. 600
D. 300
E. None of the above

165. During the current taxable year:
   a. Beverly owned 100 of the issued and outstanding 1,000 common shares of Water Corp. with an adjusted basis to Beverly of $1,000.
   b. Paul owned 900 of the 1,000 issued and outstanding common shares of Water Corp., with an adjusted basis to Paul of $9,000.
   c. Fire Corp. had 300 common shares issued and outstanding and Water Corp. owned 100 of
the common shares and John owned the other 200 common shares.

d. Each of these two corporations had $100,000 of accumulated earnings and profits at the
beginning of and at the end of the current taxable year.

e. Water Corp. transferred to Beverly (because Beverly was a shareholder of Water Corp.) 25
Fire Corp. common shares, which common shares had an adjusted basis to Water Corp. 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

166. Referring to Question 165, Beverly’s adjusted basis for the Fire Corp. common shares is as follows.
A. None/Zero
B. $10,000
C. $1,000
D. $9,000
E. None of the above

167. Referring to Question 165, Water Corp.’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

168. Referring to Question 165, during the next taxable year, Fire Corp. redeemed the 25 common shares of Fire
Corp.’s common shares from Beverly for $12,000 (the then fair market value of the 25 common shares of Fire
Corp.). 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

169. During the current taxable year, Beverly owned all of the issued and outstanding common shares (100
common shares) of Left Corp. and Beverly owned all of the issued and outstanding common shares (100
common shares) of Right Corp. 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 Corp. and Right Corp. had $3,000 of
accumulated earnings and profits both at the beginning of and at the end of the current taxable year. During
the current taxable year, Left Corp. purchased 50 common shares of Beverly’s Right Corp. 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

170. During the current taxable year, Mary died owning all of the issued and outstanding common shares (100
common shares) of Middle Corp. 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 Corp. 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

171. Referring to Question 170, prior to Mary’s death, Mary owned 100 common shares of Middle Corp. and Peter owned 100 common shares of Middle Corp. 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

172. Referring to Question 170, prior to Mary’s death, Mary owned 100 common shares of Middle Corp. and Peter owned 100 common shares of Middle Corp. 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

173. Lawn Corp. has 2,000 common shares authorized, with the following issued and outstanding common shares.

<table>
<thead>
<tr>
<th>Shareholder</th>
<th>Number</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 (and who has an option to purchase 30 common voting shares)</td>
<td>50</td>
</tr>
<tr>
<td>JB (John's brother)</td>
<td>50</td>
</tr>
<tr>
<td>JM (John's mother; John's father is dead)</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 taxable years ago, when John and Mary married, with the net income distributable to John for life and with the remainder of the trust being distributable to Mary or Mary's estate upon the death of John, and the present actuarial value of John's life estate being 60% and the present actuarial value of the remainder interest being 40%)</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>
</table>

Using the rules of attribution of section 318, John owns the following number of common shares of Lawn Corp.
A. 885
B. 835
C. 810
D. 899
E. 935
174. Referring to Question 173, and using the rules of attribution of section 318, Mary owns the following number of common shares of Lawn Corp.
   A. 885
   B. 835
   C. 899
   D. 810
   E. 935

175. Referring to Question 173, Peter owns the following common shares of Lawn Corp.
   A. 885
   B. 835
   C. 935
   D. 899
   E. 810

176. Several taxable years ago, Roller Corp., an S corporation, purchased a truck for $10,000 for use in Roller Corp.’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, Roller Corp. distributed the truck to John, who owned all of the common shares of Roller Corp.’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. Roller Corp.’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

177. Referring to Question 176, 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

178. Referring to Question 176, 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

179. During the current taxable year, John owned 500 common shares of Branches Corp. for many years and Paul owned 500 common shares of Branches Corp. for many years, which common shares were all of the issued and outstanding shares of Branches Corp. John’s adjusted basis for the 500 common shares was $5,000. John worked full time for Branches Corp. and John continued to do so for many years after the current taxable year. During the current taxable year, Branches Corp. had $100,000 of accumulated earnings and profits both at the beginning of and at the end of the current taxable year. During the current taxable year, Branches Corp. 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
180. Referring to Question 179, 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

181. Referring to Question 179, Branches Corp. 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

182. During the current taxable year, Beverly owned 100 common shares of Twig Corp. for many years and Rebecca owned 100 common shares of Twig Corp. for many years, which 200 common shares were all of the issued and outstanding shares of Twig Corp. Beverly’s adjusted basis for the 100 common shares was $6,000. Beverly worked full time for Twig Corp. and Beverly continued to do so for many years after the current taxable year. During the current taxable year, Twig Corp., with $100,000 of accumulated earnings and profits both at the beginning of and 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

183. During the current taxable year, Paul owned 100 common shares of Leaf Corp. for many years, which 100 common shares were all of the issued and outstanding shares of Leaf Corp. Paul’s adjusted basis for the 100 common shares was $5,000. Paul worked full time for Leaf Corp. and Paul continued to do so for many years after the current taxable year. During the current taxable year, Leaf Corp., 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 Leaf Corp. had an adjusted basis for the land of $13,000. Thereafter, Leaf Corp. gave Paul a check for $2,000 (at a time when Leaf Corp. had no current earnings and profits), because Paul was a shareholder of Leaf Corp. 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

184. Referring to Question 183, Paul’s adjusted basis for Paul’s common shares, after the distribution by Leaf Corp., is as follows.
   A. None/Zero
   B. $7,000
   C. $3,000
   D. $5,000
   E. None of the above
185. During the current taxable year, Peter owned 500 common shares of Seattle Corp. for many years and Beverly owned 500 common shares of Seattle Corp. for many years, which common shares were all of the issued and outstanding shares of Seattle Corp. Peter’s adjusted basis for Peter’s 500 common shares was $6,000. Peter worked full time for Seattle Corp. and Peter continued to do so for many years after the current taxable year. During the current taxable year, Seattle Corp., with $100,000 of accumulated earnings and profits both at the beginning of and 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 Seattle Corp. 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

186. Referring to Question 185, Peter’s adjusted basis for Peter’s common shares, after the distribution by Seattle Corp., is as follows.

A. None/Zero
B. $6,000
C. $10,000
D. $4,000
E. None of the above

187. Referring to Question 185, Peter’s adjusted basis for the land, after the distribution by Seattle Corp., is as follows.

A. None/Zero
B. $4,000
C. $6,000
D. $10,000
E. None of the above

188. During the current taxable year, John owned 500 common shares of Grapefruit Corp., an Grapefruit Corp., for many years and Paul owned 500 common shares of Grapefruit Corp. for many years, which common shares were all of the issued and outstanding shares of Grapefruit Corp. John’s adjusted basis for the 500 common shares was $5,000. John worked full time for Grapefruit Corp. and John continued to do so for many years after the current taxable year. During the current taxable year, Grapefruit Corp., 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

189. Referring to Question 188, 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

190. Referring to Question 188, Grapefruit Corp. 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

191. During the current taxable year, Beverly owned 500 common shares of Peas Corp., an S Corporation., for many years and Rebecca owned 500 common shares of Peas Corp. for many years, which common shares were all of the issued and outstanding shares of Peas Corp. Beverly’s adjusted basis for the 500 common shares was $6,000. Beverly worked full time for Peas Corp. and Beverly continued to do so for many years after the current taxable year. During the current taxable year, Peas Corp. 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

192. During the current taxable year, Paul owned 100 common shares of Squash Corp., an S corporation., for many years, which common shares were all of the issued and outstanding shares of Squash Corp. Paul’s adjusted basis for the 100 common shares was $5,000. Paul worked full time for Squash Corp. and Paul continued to do so for many years after the current taxable year. During the current taxable year, Squash Corp. sold some land for $15,000 at a time when Squash Corp. had an adjusted basis for the land of $10,000. Thereafter, Squash Corp. distributed to Paul a check for $10,000, because Paul was a shareholder of Squash Corp. Paul’s gross income for the current taxable year due the distribution of the check is as follows.
A. None/Zero
B. $3,000
C. $2,000
D. $1,000
E. None of the above

193. Referring to Question 192, Paul’s adjusted basis for Paul’s common shares after the distribution of the check is as follows.
A. None/Zero
B. $7,000
C. $3,000
D. $5,000
E. None of the above

194. John and Paul each own 100 common shares of the 200 common shares which are issued and outstanding of Golf Corp., which corporation had no accumulated earnings and profits at the beginning of the current taxable year and no accumulated earnings and profits at the end of the current taxable year. However, Golf Corp. had $4,000 of current earnings and profits during the current taxable year. John and Paul each paid $1,000 for their separate 100 common shares four taxable years ago. Paul and John each received distributions of $2,000 each on January 1 and July 1 of the current taxable year (a total of $8,000). During the current taxable year, John has gross income as follows.
A. None/Zero
B. $3,000
C. $9,000
D. $1,000
E. None of the above
195.  At the beginning of the current taxable year, Gracious Corp. had a deficit of $100,000.  During the current taxable year, Gracious Corp. had gross income of $120,000 and expenses of $110,000.  In addition, Gracious Corp. distributed cash of $15,000 to Mary, because Mary was a shareholder of Gracious Corp.  Mary’s adjusted basis for Mary's common shares of Gracious Corp. was $25,000 at the beginning of the current taxable year.  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  

196.  Referring to Question 195, 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  

197.  Graces Corp. had earnings and profits of $100,000 of accumulated earnings and profits both at the beginning of and at the end of the current taxable year, without considering the following transactions.  Beverly owned all of the issued and outstanding common shares of Graces Corp.  During the current taxable year, Graces Corp. had gross income of $30,000 and expenses of $40,000 and distributed cash of $15,000 to Beverly, because Beverly was a shareholder of Graces Corp.  Beverly's adjusted basis for Beverly's common shares was $25,000 at the beginning of the current taxable year.  Beverly's gross income for the current taxable year is as follows.
A. None/Zero  
B. $10,000  
C. $8,000  
D. $15,000  
E. None of the above  

198.  Referring to Question 197, Beverly's adjusted basis for Beverly’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  

199.  During the current taxable year, John owned 100 common shares of the 100 issued and outstanding common shares of Bananas Corp..  John’s adjusted basis for the 100 common shares was $1,000.  Bananas Corp. had a deficit at the beginning of the current taxable year and no current earnings and profits and a deficit at the end of the current taxable year.  During the current taxable year, Bananas Corp. distributed $2,000 to John.  John’s gross income for the current taxable year is as follows.
A. None/Zero  
B. $500  
C. $2,000  
D. $1,000  
E. None of the above  

200.  Referring to Question 199, John’s adjusted basis for John’s Bananas Corp.’s common shares at the end of the current taxable year is as follows.
A. None/Zero
B. $1,000  
C. $2,000  
D. $500  
E. None of the above
1. During the current taxable year, John owned 900 common shares of Dresser Corp. and Mary owned 100 common shares of Dresser Corp., which had $100,000 of accumulated earnings and profits both at the beginning of and at the end of the current taxable year. During the current taxable year, Dresser Corp. 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 Corp. 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

2. Two taxable years ago, Alaska Corp. purchased 100 common shares of Motors Corp. as an investment for $200,000. Alaska Corp. manufactured (then and now) perfumes and Motors Corp. manufactured (then and now) automobiles. During the current taxable year, Alaska Corp., with net assets of over $10,000,000, distributed all of the common shares (15% of the issued and outstanding common shares) which Alaska Corp. owned in Motors Corp. to the common shareholders of Alaska Corp. At the close of the current taxable year, Alaska Corp. had earnings and profits of $22,000,000 and Motors Corp. had earnings and profits of $200,000,000. At the time of the distribution of the common shares of Motors Corp., the common shares had a fair market value of $210,000 and Paul, one of the 100 common shareholders of Alaska Corp., received some of the Motors Corp. common shares with a fair market value of $5,000 at a time when Paul’s adjusted basis for Paul’s Alaska Corp. common shares was $2,000 and at a time when the fair market value of Paul’s Alaska Corp. 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

3. Referring to Question 2, Paul’s adjusted basis for Paul’s Motors Corp. common shares is as follows.
A. None/Zero
B. $3,000
C. $5,000
D. $2,000
E. None of the above

4. Referring to Question 2, Alaska Corp.’s gross income for the current taxable year is as follows.
A. None/Zero
B. $5,000
C. $200,000
D. $210,000
E. None of the above

5. During the current taxable year, John owned all of the common shares (1,000 common shares) of Chair Corp. which had $100,000 of accumulated earnings and profits both at the beginning of and at the end of the current taxable year. During the current taxable year, John gave Peter 100 of John’s common shares. Then, Chair Corp. 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 Corp. John’s adjusted basis for the 900 common shares was $1,000 and Chair Corp. paid John the fair market value of the common shares, specifically, $10,000. John did not retire for five more taxable years. 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

6. During the current taxable year, John owned 1,000 common shares of Couch Corp., which had $100,000 of accumulated earnings and profits both at the beginning of and 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 Couch Corp. 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, Couch Corp. redeemed all 900 of John’s common shares for $10,000. Then, 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 Couch Corp. for ten more years. 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

7. Referring to Question 6, John retired during the current taxable year after Couch Corp. 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

8. During the current taxable year, John and Paul each owned 500 common shares of Desk Corp., which had $100,000 of accumulated earnings and profits at both the beginning of and at the end of the current taxable year. During the current taxable year, Desk Corp. 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

9. During the current taxable year, John and Paul each owned 500 common shares of Lamp Corp. which had $100,000 of accumulated earnings and profits both at the beginning of and at the end of the current taxable year. During the current taxable year, Lamp Corp. 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
10. During the current taxable year, John and Peter each owned 500 common shares of Table Corp. which had $100,000 of accumulated earnings and profits both at the beginning of and at the end of the current taxable year. During the current taxable year, Table Corp. 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 Corp. 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

11. During the current taxable year, John owned 900 common shares of Stool Corp. and Paul owned 100 common shares of Stool Corp., which had $100,000 of accumulated earnings and profits both at the beginning of and at the end of the current taxable year. During the current taxable year, Stool Corp. 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 Corp. 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

12. During the current taxable year, John died while owning 50% of the common shares of BlueSky Corp., 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 BlueSky Corp. 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, BlueSky Corp. 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

13. Referring to Question 12, 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 BlueSky Corp. 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
14. Referring to Question 12, BlueSky Corp. 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

15. 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 Apples Corp. (which operated a real property sales business and which corporation had $100,000 of accumulated earnings and profits both at the beginning of and at the end of the current taxable year) and during the current taxable year, Apples Corp. issued to John 100 preferred shares of Apples Corp. 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 Apples Corp.’s total earnings and profits at that time were $100,000. During the next taxable year, Apples Corp. redeemed the 100 preferred shares from John for $10,000, because John needed the money. During that next taxable year, Apples Corp.’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

16. Referring to Question 15, 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

17. Referring to Question 15, during the next taxable year, John sold the 100 preferred shares to Paul for $10,000 (instead of Apples Corp.). 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

18. During the current taxable year, Raven Corp. 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 Corp. 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

19. 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 Corp., 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 Corp. and was paid a salary for being the president. During the current taxable year, LateOwl Corp. redeemed all of John’s 100 common shares for $10,000 and John
continued to work as the president of LateOwl Corp. 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

20. 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 Corp., 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 Corp. and was paid a salary for being the president. During the current taxable year, BrownEyesBlue Corp. redeemed all of Peter’s 100 common shares for $10,000 and Peter continued to work as the president of BrownEyesBlue Corp. 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

21. 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 Corp., 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 Corp. and was paid a salary for being the president. During the current taxable year, DanPatch Corp. 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

22. 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

23. During the current taxable year, John owned 100 common shares of the 200 issued and outstanding common shares of Paint Corp., with $100,000 of earnings and profits both at the beginning and at the end of the current taxable year. Paint Corp. 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 Paint Corp.’s automobile parts business, Paint Corp. sold all of the assets of that business for a net profit of $25,000, paid all of Paint Corp.’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 Paint Corp. 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

24. Referring to Question 23, Paul’s adjusted basis for Paul’s common shares, after the distribution by Paint Corp., is as follows.
25. During the current taxable year, John owned 100 common shares of the 100 issued and outstanding common shares of Lake Corp., a Lake Corp., with $100,000 of accumulated earnings and profits both at the beginning of and at the end of the current taxable year. Lake Corp. 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, Lake Corp. sold all of the assets of Lake Corp. for a net profit of $25,000, paid all of Lake Corp.’s liabilities, and distributed the net cash of $50,000, by checks to John, because John was the only shareholder of Lake Corp. 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

26. During the current taxable year, Fritz Corp. had accumulated earnings and profits of $250,000 and Fritz Corp. had the following assets and Mary owned all of the common shares of Fritz Corp., 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, Fritz Corp. completely liquidated by selling some of Fritz Corp.’s assets (and paying Fritz Corp.’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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<th>Type Of Property</th>
<th>Adjusted Basis</th>
<th>Fair Market Value</th>
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<td>Liabilities</td>
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Fritz Corp.’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

27. Referring to Question 26, 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

28. Referring to Question 26, 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

29. During the current taxable year, John owned 100 common shares of the 200 issued and outstanding common shares of Lions Corp., with $100,000 of earnings and profits both at the beginning and at the end of the current taxable year. Lion Corp. 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 Lion Corp.’s automobile parts business, Lion Corp. sold all of the assets of that business for a net profit of $25,000, paid all of Lion Corp.’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 Lion Corp. 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

30. Referring to Question 29, Paul’s adjusted basis for Paul’s common shares, after the distribution by Lion Corp., is as follows.
   A. None/Zero
   B. $4,990
   C. $3,000
   D. $5,000
   E. None of the above

31. During the current taxable year, John owned 100 common shares of the 100 issued and outstanding common shares of Tigers Corp., with $100,000 of earnings and profits both at the beginning and at the end of the current taxable year. Tigers Corp. 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, Tigers Corp. sold all of the assets of Tigers Corp. for a net profit of $25,000, paid all of Tigers Corp.’s liabilities, and distributed the net cash of $50,000, by checks to John, because John was the only shareholder of Tigers Corp. 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

32. During the current taxable year, John owned 100 common shares of the 500 issued and outstanding common shares of Bears Corp., with $100,000 of accumulated earnings and profits at the beginning of the current taxable year. Bears Corp. 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 Bears Corp.’s camping supplies sales business, Bears Corp. sold all of the assets of that business for a net profit of $25,000, paid all of Bears Corp.’s liabilities, and distributed the net cash of $50,000, by checks to John, because John was the only shareholder of Bears Corp. 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
business, Bears Corp. sold all of the assets of that business for a net profit of $25,000, paid all of Bears Corp.’s liabilities which were related to that business, and distributed the net cash, by checks, to John and Paul, pro rata. Then, Bears Corp. terminated that business. As part of the liquidation, Bears Corp. gave John a check for $12,000, because John was a shareholder of Bears Corp.. John did not transfer anything to Bears Corp. 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

33. Referring to Question 32, Bears Corp. 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 Bears Corp. of $15,000. Bears Corp.’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

34. Referring to Question 32, during the current taxable year and after Brown Corp. sold the assets of the camping supplies sales business and distributed the net proceeds to John and Paul. Brown Corp. merged the travel agency business into Yellow Corp. Specifically, Brown Corp. transferred all of Brown Corp.’s then assets and liabilities of the travel agency business to Yellow Corp. During the merger process, John received 100 common shares of Yellow Corp.’s common shares and Paul received 400 common shares of Yellow Corp.’s common shares and John and Paul each transferred the common shares, which John and Paul owned in Brown Corp., to Yellow Corp. After all of this, Brown Corp. ceased to exist under the applicable state law. As a general rule, Brown Corp. 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

35. Referring to Question 34, Yellow Corp.’s adjusted basis for the assets which Yellow Corp. received from Brown Corp. is equal to the fair market value of the assets at the time of the transfer of the assets from Brown Corp. to Yellow Corp..

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

36. Referring to Question 34, John’s adjusted basis for the common shares which John received from Yellow Corp. is as follows.

A. None/Zero  
B. $4,000  
C. $1,000  
D. $2,000  
E. None of the above

37. Referring to Question 34, because Brown Corp. ceased to exist as a result of the merger transaction, the liquidation of Brown Corp. caused the earnings and profits of Brown Corp. to cease to exist in any form.

A. Yes/True  
B. No/False  
C. Need additional information
38. Twenty taxable years ago, Alaska Corp. purchased all of the common shares of Vermont Corp. for $200,000. Alaska Corp. manufactured (then and now) perfumes and Vermont Corp. 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 Vermont Corp. was a subsidiary of Alaska Corp. Therefore, during the current taxable year, Alaska Corp. distributed all of the common shares (82% of the issued and outstanding common shares) which Alaska Corp. owned in Vermont Corp. to the common shareholders of Alaska Corp. Both corporations had over $5,000,000 of net assets throughout the period involved. At the close of the current taxable year, Alaska Corp. had earnings and profits of $2,000,000 and Vermont Corp. had earnings and profits of $2,000,000. At the time of the distribution of the common shares of Vermont Corp., the common shares had a fair market value of $210,000 and Paul, one of the 100 common shareholders of Alaska Corp., received some of the Vermont Corp. common shares with a fair market value of $5,000 at a time when Paul’s adjusted basis for Paul’s Alaska Corp. common shares was $2,000 and at a time when the fair market value of Paul’s Alaska Corp. 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

39. Referring to Question 38, Paul’s adjusted basis for Paul’s Vermont Corp. common shares is as follows.
   A. None/Zero
   B. $3,000
   C. $5,000
   D. $1,000
   E. None of the above

40. Referring to Question 38, Alaska Corp.’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

41. During the current taxable year, John owned 100 common shares of the 500 issued and outstanding common shares of Shrimp Corp., a Shrimp Corp., with $100,000 of accumulated earnings and profits both at the beginning of and at the end 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 Shrimp Corp.’s assets for a net profit of $25,000, paid all of Shrimp Corp.’s liabilities, and distributed the net cash, by checks, to John and Paul. Then Shrimp Corp. terminated Shrimp Corp.’s existence. As part of the liquidation, John a check for $12,000, because John was a shareholder in Shrimp Corp. John did not transfer anything to Shrimp Corp. 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

42. Referring to Question 41, Shrimp Corp. distributed to John only a duplicator which had a fair market value of $12,000 and which had been purchased by Shrimp Corp. for $20,000 and which had been fully depreciated
by Shrimp Corp. Shrimp Corp.’s gross income and earnings and profits increased by $12,000 due to the distribution to John.
A. Yes/True
B. No/False
C. Need additional information
D. None of the above

43. Referring to Question 41, 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

44. Referring to Question 41, Shrimp Corp. did not distribute any cash, by checks, to John or Paul during the current taxable year. Instead, Corp. on December 1st of the current taxable year, Shrimp Corp. 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

45. Referring to Question 44, 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

46. During the current taxable year, John owned 10 of the 100 issued and outstanding common shares of Florida Corp. and Paul owned 90 of the 100 issued and outstanding common shares. In order to help John to take a vacation, Florida Corp. redeemed two of John’s common shares for $2,000, which was the fair market value of these two common shares. John’s adjusted basis for these two common shares was $1,000. During the current taxable year, Florida Corp. had $100,000 of accumulated earnings and profits both at the beginning of and at the end of the current taxable year. John’s gross income during the current taxable year is as follows.
A. None
B. $2,000 of ordinary income
C. $1,000 of ordinary income
D. $2,000 of capital gain
E. None of the above

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

<table>
<thead>
<tr>
<th>Type Of Property</th>
<th>Adjusted Basis</th>
<th>Fair Market Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>25,000</td>
<td>25,000</td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>15,000</td>
<td>20,000</td>
</tr>
<tr>
<td>Inventory</td>
<td>3,000</td>
<td>5,000</td>
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<tr>
<td>Equipment</td>
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<td>10,000</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>

Snickle Corp.’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

48. Referring to Question 47, 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

49. Referring to Question 47, Mary’s adjusted basis for the equipment is as follows.
A. None/Zero
B. $40,000
C. $10,000
D. $20,000
E. None of the above

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

51. Referring to Question 50, John’s gross income during the current taxable year is as follows.
52. Referring to Question 50, Sunset Corp. did not pay Night Corp. $50,000 for the land, but instead, Sunset Corp. transferred some land to Night Corp., which Sunset Corp. used in Sunset Corp.’s business and which had a fair market value of $50,000 and an adjusted basis to Sunset Corp. of $20,000. Sunset Corp.’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

53. During the current taxable year, John owned all of the issued and outstanding common shares of Oak Corp. and all of the issued and outstanding common shares of Beech Corp. Each of these two corporations had accumulated earnings and profits of $100,000 both at the beginning of and at the end of the current taxable year. During the current taxable year, John transferred all of John’s common shares in Beech Corp. to Oak Corp. in return for additional common shares of Oak Corp. 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 Corp. common shares to Oak Corp., John’s adjusted basis for the Beech Corp. 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

54. Referring to Question 53, John’s adjusted basis for the new Oak Corp. 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

55. Referring to Question 53, 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

56. During the current taxable year, John owned 60 of the 100 issued and outstanding common shares of Virginia Corp. and Paul owned 40 of the 100 issued and outstanding common shares. In order to help John purchase a house, Virginia Corp. redeemed 30 of John’s common shares for $2,000, which was the fair market value of these 30 common shares. John’s adjusted basis for these 30 common shares was $1,000. During the current taxable year, Virginia Corp. had $100,000 of accumulated earnings and profits both at the beginning of and at the end of the current taxable year. John’s gross income during the current taxable year is as follows.

A. None
B. $2,000 of ordinary income
57. During the current taxable year, River Corp. owned all of the 1,000 issued and outstanding common shares of Ocean Corp. and John owned all of the 1,000 issued and outstanding common shares of River Corp. Each of these two corporations had accumulated earnings and profits of $100,000 both at the beginning of and at the end of the current taxable year. John’s adjusted basis for John’s common shares in River Corp. was $100,000 and such common shares had a fair market value of $200,000. During the current taxable year, River Corp. transferred all of River Corp.’s common shares in Ocean Corp. to John. River Corp. did not receive anything back from John. At the time of the transfer of the Ocean Corp. common shares to John, River Corp.’s adjusted basis for the Ocean Corp. common shares was $10,000 and the fair market value of the Ocean Corp. 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

58. Referring to Question 57, John’s adjusted basis for the Ocean Corp. common shares is as follows.
   A. None/Zero
   B. $50,000
   C. $10,000
   D. $25,000
   E. None of the above

59. Referring to the facts for Question 197, the transactions described in those facts come within the scope of the following type of reorganization.
   A. “A”
   B. “B”
   C. “C”
   D. “D”
   E. None of the above

60. Referring to Question 57, at the time when John received the Ocean Corp. common shares, John conveyed to River Corp. some (but not all) of John’s River Corp.’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

61. During the current taxable year, WayToGo Corp.’s taxable income was $120,000. WayToGo Corp.’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

62. The maximum number of shareholders which an S corporation may have is as follows.
   A. 25
   B. 75
C. 100
D. 125
E. None of the above

63. Referring to Question ?, for the purpose of computing the shareholder limit, one spouse and his or her spouse are counted as one shareholder, but only if the spouses own their shares with rights of survivorship.
A. True/Yes
B. False/No
C. Need additional information
D. None of the above

64. During the current taxable year, John owned all of the issued and outstanding common shares of Violet Corp. Violet Corp. owned 100 of the 1,000 issued and outstanding common shares of Rose Corp. and Paul owned the other 900 issued and outstanding common shares. Each of these two corporations had accumulated earnings and profits of $100,000 both at the beginning of and at the end of the current taxable year. John’s adjusted basis for John’s common shares in Violet Corp. was $100,000 and such common shares had a fair market value of $200,000. During the current taxable year, Violet Corp. transferred to John all of the common shares of Rose Corp. which Violet Corp. then owned. At the time of the transfer of the Rose Corp. common shares to John, Violet Corp.’s adjusted basis for the Rose Corp. common shares was $10,000 and the fair market value of the Rose Corp. 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

65. Referring to Question 64, John’s adjusted basis for the Rose Corp. common shares is as follows.
A. None/Zero
B. $50,000
C. $10,000
D. $40,000
E. None of the above

66. During the current taxable year, Paul owned all of the 1,000 issued and outstanding common shares of Snap Corp. and during the current taxable year, Snap Corp. authorized another 100 common shares to be issued and Snap Corp. transferred these new 100 common shares to Dragon Corp. At the time when Snap Corp. transferred these 100 common shares, Dragon Corp. had two assets and no liabilities and the two assets were two sections of land which Dragon Corp. held as an investment for many years. In return for the Snap Corp. 100 common shares, Dragon Corp. transferred one of the sections of land to Snap Corp., which Snap Corp. intended to use in Snap Corp.’s manufacturing business. Each of these two corporations had accumulated earnings and profits of $100,000 both at the beginning of and at the end of the current taxable year. At the time of the transfer of Dragon Corp.’s land to Snap Corp., the land which Dragon Corp. transferred to Snap Corp. and the land which Dragon Corp. retained each had a fair market value of $20,000 and an adjusted basis of $5,000. Dragon Corp.’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

67. Referring to Question 66, Snap Corp.’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

68. Referring to Question 66, Dragon Corp.’s adjusted basis for the common shares which Dragon Corp. received from Snap Corp. is as follows.  
A. None/Zero  
B. $20,000  
C. $15,000  
D. $5,000  
E. None of the above

69. Referring to Question 66, Snap Corp.’s adjusted basis for the land which Snap Corp. received from Dragon Corp. is as follows.  
A. None/Zero  
B. $20,000  
C. $15,000  
D. $5,000  
E. None of the above

70. 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 Rosie Corp. and John and Peter each paid $1,000 for their separate 100 common shares four taxable years ago. John is president of Rosie Corp. and is paid a salary for being the president. If Rosie Corp. redeems all of John’s 100 common shares for $10,000 and John continues to work as the president of Rosie Corp., 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

71. During the current taxable year, Peter owned all of the common shares of PoleVault Corp., which had accumulated earnings and profits of $100,000 both at the beginning of and 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 PoleVault Corp. 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

72. Referring to Question 71, 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

73. Referring to Question 71, during the next taxable year, PoleVault Corp. sold the land for $52,000. PoleVault Corp. 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
74. During the current taxable year, Guppy Corp. owned all of the common shares of Salmon Corp. and during the current taxable year Salmon Corp. transferred all of Salmon Corp. assets and liabilities to Guppy Corp. Thereafter, Guppy Corp. transferred the appropriate amount of Guppy Corp. common shares to the shareholders of Salmon Corp. Thereafter, Salmon Corp. canceled Salmon Corp.’s issued and outstanding common share certificates, and thereafter, by state law, Salmon Corp.’s existence terminated. Then, as part of the plan of merger, Guppy Corp. redeemed the common shares of Guppy Corp. which were owned by the former common shareholders of Salmon Corp. Salmon Corp. must recognize gain and loss with respect to the transfer of Salmon Corp.’s assets and liabilities to Guppy Corp.

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

75. Referring to Question 74, Salmon Corp.’s earnings and profits are considered to be transferred to Guppy Corp.

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

76. Referring to Question 74, Guppy Corp. recognizes gain when Guppy Corp. transfers Guppy Corp. common shares to the common shareholders of Salmon Corp.

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

77. During the currently taxable year, Oranges Corp. was merged into Peaches Corp. Prior to the merger, John owned all of the common shares of Oranges Corp., with an adjusted basis to John of $1,000 and as part of the merger, John turned in John’s 100 common shares in Oranges Corp. and received 200 common shares of Peaches Corp. Prior to the merger, Paul owned all of the common shares (200 common shares) of Peaches Corp., with an adjusted basis to Paul of $4,000 and after the merger, Paul owned the same 200 common shares. Prior to the merger, Oranges Corp.’s total assets and Peaches Corp.’s total assets each had a net (net of liabilities) fair market value of $200,000 and Oranges Corp.’s total adjusted basis for Oranges Corp.’s assets was $60,000 and Peaches Corp.’s total adjusted basis for Peaches Corp.’s assets was $210,000 and Oranges Corp.’s total accumulated earnings and profits was $50,000 and Peaches Corp.’s total accumulated earnings and profits was $70,000. Upon the merger of Oranges Corp. into Peaches Corp., all of the liabilities of Oranges Corp. were assumed by Peaches Corp. After all of this, Oranges Corp. ceased to exist under the applicable state law. Oranges Corp.’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

78. Referring to Question 77, 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

79. Referring to Question 77, John’s adjusted basis for John’s Peaches Corp. common shares is as follows.
80. Referring to Question 77, Peaches Corp.’s adjusted basis for the assets of Peaches Corp., after the merger, is as follows.
A. None/Zero
B. $60,000
C. $210,000
D. $270,000
E. None of the above

81. Referring to Question 77, John’s adjusted basis for the common shares which John received from Peaches Corp. is as follows.
A. None/Zero
B. $4,000
C. $1,000
D. $5,000
E. None of the above

82. Referring to Question 77, the amount of Peaches Corp.’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

83. Ten years ago, John and Paul each owned 100 of the 200 issued and outstanding common shares of Kansas Corp., which had borrowed all of the funds which it could from banking sources. In order to raise more capital, without jeopardizing Kansas Corp.’s current borrowings, Paul agreed to purchase some newly issued preferred stock of Kansas Corp., providing that these preferred shares would be redeemed by Kansas Corp. at the end of the ten-year period for the par value of the preferred shares. Therefore, Paul paid $50,000 for 100 preferred shares which preferred shares had a par value of $100,000 and a fair market value of $50,000. During the current taxable year, Kansas Corp. had $100,000 of accumulated earnings and profits both at the beginning of and at the end of the current taxable year. During the current taxable year, Kansas Corp. redeemed all of the preferred shares for $100,000. Kansas Corp.’s gross income for the current taxable year is as follows.
A. None
B. $50,000
C. $100,000
D. Need additional information
E. None of the above

84. Paul’s gross income during the current taxable year is as follows.
A. None
B. $50,000 of ordinary income
C. $50,000 of capital gain
D. $100,000 of ordinary income
E. None of the above

85. A section 355 distribution is not, of itself, a reorganization, but such a distribution always must be part, at
some point, of a reorganization which is described in section 368(a)(1).
A. True/Yes
B. False/No
C. Need additional information
D. None of the above

86. During the current taxable year, SunFlower Corp. merged into WildFlower Corp. Prior to the merger, SunFlower Corp. manufactured computers and Wildflower Corp. manufactured computer parts, selling almost all of the computer parts to SunFlower Corp. However, prior to the merger, Wildflower Corp. decided to use only computer parts which were manufactured in certain foreign countries and after the merger that is what WildFlower Corp. did. After the merger, Wildflower Corp. retained all of SunFlower Corp.’s manufacturing equipment as backup equipment for use in the event that the foreign suppliers did not provide Wildflower Corp. with high quality parts, but Wildflower Corp. did not continue to manufacture computer parts with SunFlower Corp.’s equipment. Wildflower Corp. 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

87. Referring to Question 86, prior to the merger SunFlower Corp. sold all of SunFlower Corp.’s manufacturing equipment for $100,000. After the merger, Wildflower Corp. promptly used all of the $100,000 to purchase foreign made computer parts. Wildflower Corp. 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

88. During the current taxable year, Beverly owned all of the issued and outstanding common shares of Petunia Corp., which grew flowers. Paul and John each owned 50% of the common shares of Orchid Corp., which grew flowers. Both Petunia Corp. and Orchid Corp. 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 Corp. merged into Orchid Corp. and Beverly received some of Orchid Corp.’s common shares, with a fair market value of $10,000, as part of the merger plan. Orchid Corp. continued to operate both flower businesses. Orchid Corp. has met the “continuity of business enterprise” requirement.
A. Yes/True
B. No/False
C. Need additional information
D. None of the above

89. Referring to Question 88, Orchid Corp. has met the “continuity of interest”.
A. Yes/True
B. No/False
C. Need additional information
D. None of the above

90. Referring to Question 88, as part of the merger plan, Paul purchased all of Beverly’s common shares in Orchid Corp. for $10,000. Orchid Corp. has met both the “continuity of business enterprise” requirement and the “continuity of interest” requirement.
A. Yes/True
B. No/False
C. Need additional information
D. None of the above

91. Referring to Question 88, as part of the merger plan, after Paul purchased all of Beverly’s common shares in Orchid Corp., Orchid Corp. redeemed all of the common shares which Paul then owned in Orchid Corp. 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 Corp. prior to and after the merger. Orchid Corp. has met the “continuity of business enterprise” requirement.
A. Yes/True
B. No/False
C. Need additional information
D. None of the above

92. Referring to Question 91, Orchid Corp. has met the “continuity of interest” requirement.
A. Yes/True
B. No/False
C. Need additional information
D. None of the above

93. Referring to Question 91, whether or not Orchid Corp. 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 ordinary income
D. $10,000 of long term capital gain
E. None of the above

94. Referring to Question 91, if Orchid Corp. did not meet the continuity of business enterprise requirement or the continuity of interest requirement, then Petunia Corp. would recognize gains and losses due to the transfer of Petunia Corp.’s assets to Orchid Corp. and Orchid Corp., as the successor to the assets, liabilities, equity, etc. of Petunia Corp. 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

95. During the current taxable year, SugarMaple Corp. transferred to VincaMinor Corp. the following securities, all of which were issued by SugarMaple Corp.: common shares; preferred shares; and, bonds. In return, VincaMinor Corp. transferred some newly authorized (by VincaMinor Corp.) common shares so that, thereafter, SugarMaple Corp. owned 90% of VincaMinor Corp.’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

96. Each of the following entities is an which may be a shareholder of an S corporation without causing the termination of the S election.
   a. An individual
   b. An estate
   c. Certain types of trusts
   d. Certain types of partnerships
   e. None of the above
A. Yes/True
B. No/False
97. During the current taxable year, Red Corp. transferred to Blue Corp. the following securities: common shares which were issued by Red Corp.; and, common shares which were issued by Blue Corp. In return, Blue Corp. transferred 90% of Blue Corp.’s gross assets to Red Corp. 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

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

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

100. Referring to Question 99, Black Corp. does not recognize any gain or loss when Black Corp. received the common shares and the cash from White Corp.
A. Yes/True  
B. No/False  
C. Need additional information  
D. None of the above

101. Referring to Question 99, White Corp. does not recognize any gain or loss when White Corp. received the assets from Black Corp.
A. Yes/True  
B. No/False  
C. Need additional information  
D. None of the above

102. Referring to Question 99, the shareholders of Black Corp. do not recognize any gain or loss when the shareholders (of Black Corp.) received the cash from Black Corp.
A. Yes/True  
B. No/False
103. Referring to Question 99, the shareholders of Black Corp. do not recognize any gain or loss when the shareholders (of Black Corp.) received the common shares of White Corp. from Black Corp.
   A. Yes/True
   B. No/False
   C. Need additional information
   D. None of the above

104. During the current taxable year, the common shareholders of Horse Corp. transferred all of Horse Corp.’s common shares to Cat Corp. At that time, Horse Corp.’s assets had a fair market value of $1,000,000. In return, Cat Corp. issued to the common shareholders of Horse Corp., some common shares of Cat Corp., with a fair market value of $1,000,000. Thereafter, Cat Corp. treated Horse Corp. as a wholly owned subsidiary of Cat Corp. This transaction qualifies as a reorganization under section 368.
   A. Yes/True
   B. No/False
   C. Need additional information
   D. None of the above

105. Referring to Question 104, Cat Corp. did not recognize any gain or loss when Cat Corp. received the common shares from the shareholders of Horse Corp.
   A. Yes/True
   B. No/False
   C. Need additional information
   D. None of the above

106. Referring to Question 104, the shareholders of Horse Corp. did not recognize any gain or loss when the shareholders (of Horse Corp.) received the common shares of Cat Corp.
   A. Yes/True
   B. No/False
   C. Need additional information
   D. None of the above

107. Referring to Question 104, if Cat Corp. paid the accounting fees of the shareholders of Horse Corp., which accounting fees were necessary for the shareholders of Horse Corp. 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

108. During the current taxable year, BlueBird Corp. owned all of the issued and outstanding common shares of Robin Corp. and during the current taxable year, BlueBird Corp. distributed all of the Robin Corp. common shares to the shareholders of BlueBird Corp., 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

109. During the current taxable year, BlueBird Corp. owned all of the issued and outstanding common shares of Robin Corp. and during the current taxable year, BlueBird Corp. distributed all of the Robin Corp. common shares to the shareholders of BlueBird Corp., pro rata. In return, all of the shareholders of BlueBird Corp.
transferred to BlueBird Corp. a pro rata number of common shares in BlueBird Corp. to BlueBird Corp. 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

110. During the current taxable year, BlackBird Corp. distributed 30% of BlackBird Corp.’s assets and liabilities to Hawk Corp., in return for all of the authorized common shares of Hawk Corp., and BlackBird Corp. distributed 70% of BlackBird Corp.’s assets and liabilities to Finch Corp., in return for all of the authorized common shares of Finch Corp., and thereafter, Blackbird Corp. distributed, pro rata, to the common shareholders of Blackbird Corp., all of BlackBird Corp.’s common shares in Hawk Corp. and in Finch Corp. 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

111. Loose Corp. is the acquiring corporation and Tight Corp. is the target corporation. During the current taxable year, Tight Corp. 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 Corp. must transfer the following fair market value of Tight Corp.’s assets to Loose Corp.
A. $1,000,000
B. $720,000
C. $700,000
D. $810,000
E. None of the above

112. During the current taxable year, John owned 100 common shares of the 500 issued and outstanding common shares of Lettuce Corp., with $100,000 of accumulated earnings and profits both at the beginning of and at the end of the current taxable year. Lettuce Corp. 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 Lettuce Corp. and Paul’s adjusted basis for Paul’s 400 common shares was $4,000. During the current taxable year, Lettuce Corp. organized Carrot Corp. and transferred all of the assets and liabilities of Lettuce Corp.’s used automobile parts sales business to Carrot Corp. and, in return, Carrot Corp. transferred all of Carrot Corp.’s common shares to Lettuce Corp. There were no other shareholders of Carrot Corp. Then, Lettuce Corp. distributed all of Carrot Corp.’s common shares, with a fair market value of $12,000, to John and John transferred all of John’s Lettuce Corp. common shares (with a fair market value of $12,000) to Lettuce Corp. Thereafter, John owned no common shares of Lettuce Corp., but John owned all of the common shares of Carrot Corp. and Paul owned all of the common shares of Lettuce Corp., but no common shares of Carrot Corp. 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

113. Referring to Question 112, John’s adjusted basis for John’s common shares of Carrot Corp. is as follows.
A. None/Zero
B. $4,000
C. $1,000
D. $12,000
E. None of the above
114. Referring to Question 112, some of Lettuce Corp.’s accumulated earnings and profits must be transferred to Carrot Corp.
A. Yes/True
B. No/False
C. Need additional information
D. None of the above

115. During the current taxable year, Mary owned all (100 common shares) of the issued and outstanding common shares of Beans Corp. Beans Corp. 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 Celery Corp. Celery Corp. 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 accumulated earnings and profits both at the beginning of and at the end of the current taxable year. During the current taxable year, Beverly transferred all of Beverly’s common shares in Celery Corp. to Beans Corp., and in return therefor, Beans Corp. transferred 100 recently authorized (but unissued) common shares of Beans Corp. to Beverly. Therefore, when the transfer of common shares was completed, Beans Corp. owned all of the common shares of Celery Corp. and Beverly and Mary each owned 100 common shares of Beans Corp. 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 Beans Corp. 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

116. Referring to Question 115, Beverly’s adjusted basis for Beverly’s Beans Corp. common shares is as follows.
A. None/Zero
B. $20,000
C. $1,000
D. $2,000
E. None of the above

117. Referring to Question 115, Mary’s adjusted basis for Mary’s Beans Corp. common shares is as follows.
A. None/Zero
B. $20,000
C. $1,000
D. $2,000
E. None of the above

118. Referring to Question 115, some of Celery Corp.’s accumulated earnings and profits must be transferred to Beans Corp.
A. Yes/True
B. No/False
C. Need additional information
D. None of the above

119. Both a marital trust with respect to which the surviving spouse is granted a general power of appointment and a marital trust which has been qualified as a QTIP trust are trusts which may be shareholders in an S corporation without terminating the S election.
A. Yes/True
B. No/False
C. Need additional information
D. None of the above

120. During the current taxable year, John owned 70 of the 100 issued and outstanding common shares of Maine Corp. and Paul owned 30 of the 100 issued and outstanding common shares. In order to help John pay some debts which John owed, Maine Corp. redeemed 25 of John’s common shares for $25,000, which was the fair market value of these 25 common shares. John’s adjusted basis for these 25 common shares was $1,000. During the current taxable year, Maine Corp. had $100,000 of accumulated earnings and profits both at the beginning of and at the end of the current taxable year. John’s gross income during the current taxable year is as follows.
A. None
B. $25,000 of ordinary income
C. $24,000 of ordinary income
D. $24,000 of capital gain
E. None of the above

121. During the current taxable year, Pears Corp. organized Plums Corp. and transferred all of the assets and liabilities of Pears Corp.’s used lawn equipment sales business to Plums Corp. and, in return, Plums Corp. transferred all of Plums Corp.’s common shares to Pears Corp. Then, Pears Corp. distributed all of Plums Corp.’s common shares, with a fair market value of $12,000, to John and John transferred all of John’s Pears Corp. common shares (with a fair market value of $12,000 and with an adjusted basis of $1,000 to John) to Pears Corp. Thereafter, John owned no common shares of Pears Corp., but John owned all of the common shares of Plums Corp. 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

122. Referring to Question 121, John’s adjusted basis for John’s common shares of Plums Corp. is as follows.
A. None/Zero
B. $4,000
C. $1,000
D. $12,000
E. None of the above

123. Referring to Question 121, some of Pears Corp.’s accumulated earnings and profits must be transferred to Plums Corp.
A. Yes/True
B. No/False
C. Need additional information
D. None of the above

124. One way for a transaction to meet the requirements of section 368(a)(1)(C) is for Corporation A to acquire substantially all the properties of Corporation B solely in exchange for all or a part of Corporation’s A voting stock.
A. Yes/True
B. No/False
C. Need additional information
D. None of the above

125. For many years, Big Corporation has owned 60% of the issued and outstanding common shares of Little Corporation, specifically, 600 common shares. The other 400 common shares of Little Corporation were owned by Beverly. During the current taxable year, Big Corporation transferred 200 common shares of Big
Corporation to Little Corporation in exchange for all the all assets of Little Corporation, which assets had a fair market value of $1,000,000. In addition, to the transfer of Big Corporation’s 200 common shares, Big Corporation assumed all of Little Corporation’s liabilities in the amount of $100,000. Thereafter, Little Corporation complete liquidated and dissolved, and in so doing, Little Corporation distributed all of the common shares of Big Corporation (which Little Corporation then owned) to Beverly in return for Beverly’s common shares in Little Corporation, with respect to which Beverly had an adjusted basis of $10,000. This transaction qualifies as a C reorganization under section 368(a)(1)(C).

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

126. Referring to Question 125, Big Corporation does not recognize any gain or loss due to these transactions.
A. Yes/True
B. No/False
C. Need additional information
D. None of the above

127. Referring to Question 125, Little Corporation does not recognize any gain or loss due to these transactions.
A. Yes/True
B. No/False
C. Need additional information
D. None of the above

128. Referring to Question 125, the shareholders of Big Corporation do not recognize any gain or loss due to these transactions.
A. Yes/True
B. No/False
C. Need additional information
D. None of the above

129. Referring to Question 125, Beverly does not recognize any gain or loss due to these transactions.
A. Yes/True
B. No/False
C. Need additional information
D. None of the above

130. Referring to Question 125, Beverly’s adjusted basis for Beverly’s common shares in Big Corporation is a carryover adjusted basis from the common shares which Beverly owned in Little Corporation.
A. Yes/True
B. No/False
C. Need additional information
D. None of the above

131. Referring to Question 125, Big Corporation also transferred $100,000 of cash to Little Corporation. This transaction qualifies as a C reorganization under section 368(a)(1)(C).
A. Yes/True
B. No/False
C. Need additional information
D. None of the above

132. Referring to Question 131, Big Corporation does not recognize any gain or loss due to these transactions.
A. Yes/True
B. No/False
C. Need additional information
D. None of the above

133. Referring to Question 131, Little Corporation does not recognize any gain or loss due to these transactions.
A. Yes/True
B. No/False
C. Need additional information
D. None of the above

134. Referring to Question 131, the shareholders of Big Corporation do not recognize any gain or loss due to these transactions.
A. Yes/True
B. No/False
C. Need additional information
D. None of the above

135. Referring to Question 131, Beverly does not recognize any gain or loss due to these transactions.
A. Yes/True
B. No/False
C. Need additional information
D. None of the above

136. Referring to Question 131, Beverly’s adjusted basis for Beverly’s common shares in Big Corporation is a carryover adjusted basis from the common shares which Beverly owned in Little Corporation.
A. Yes/True
B. No/False
C. Need additional information
D. None of the above

137. During the current taxable year, Beverly owned 90 of and Paul owned 10 of the 100 issued and outstanding common shares of Kentucky Corp. In order to help Beverly consummate a divorce property settlement with Alan, Kentucky Corp. redeemed 30 of Beverly’s common shares for $30,000, which was the fair market value of these 30 common shares. Beverly’s adjusted basis for these 30 common shares was $1,000. During the current taxable year, Kentucky Corp. had $100,000 of accumulated earnings and profits both at the beginning of and at the end of the current taxable year. Beverly’s gross income during the current taxable year is as follows.
A. None
B. $30,000 of ordinary income
C. $29,000 of ordinary income
D. $29,000 of capital gain
E. None of the above

138. With respect to an A reorganization, must a corporation be dissolved?
A. Yes/True
B. No/False
C. Need additional information
D. None of the above

139. With respect to a B reorganization, must a corporation be dissolved?
A. Yes/True
B. No/False
C. Need additional information
D. None of the above
140. With respect to a C reorganization, must a corporation be dissolved?
   A. Yes/True
   B. No/False
   C. Need additional information
   D. None of the above

141. With respect to a D reorganization, must a corporation be dissolved?
   A. Yes/True
   B. No/False
   C. Need additional information
   D. None of the above

142. With respect to an E reorganization, must a corporation be dissolved?
   A. Yes/True
   B. No/False
   C. Need additional information
   D. None of the above

143. With respect to a D reorganization, the distribution of the target corporation’s stock to the shareholders of
      the acquiring corporation must be a part of the initial D reorganization plan.
   A. Yes/True
   B. No/False
   C. Need additional information
   D. None of the above

144. With respect to a C reorganization, the corporation which transfers assets to the corporation which issues
      stock in exchange for the assets must be in control of the latter corporation after the transaction is concluded.
   A. Yes/True
   B. No/False
   C. Need additional information
   D. None of the above