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

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

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

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

Examination Number ___________________________ Printed Name ___________________________

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

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

INSTRUCTIONS FOR THIS EXAMINATION

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

<table>
<thead>
<tr>
<th>Employment Tax Information</th>
<th>Amount Or Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base amount for retirement insurance (FICA)</td>
<td>92,400</td>
</tr>
<tr>
<td>Retirement insurance portion of FICA - tax rate for self-employed individuals</td>
<td>12.4%</td>
</tr>
<tr>
<td>Hospital insurance portion of FICA (Medicare Part A) - tax rate for self-employed individuals</td>
<td>2.9%</td>
</tr>
<tr>
<td>Retirement insurance portion of FICA - tax rate for employer’s portion</td>
<td>6.2%</td>
</tr>
<tr>
<td>Assumptions Concerning Phaseout Of Gift And Estate Tax Rates.</td>
<td></td>
</tr>
<tr>
<td>---------------------------------------------------------------</td>
<td></td>
</tr>
<tr>
<td>2005</td>
<td>Amount free of gift tax</td>
</tr>
<tr>
<td>-------</td>
<td>-------------------------</td>
</tr>
<tr>
<td>2005</td>
<td>$11,000 (per donee per year of present interests) plus $1,000,000 more during life</td>
</tr>
<tr>
<td>2006</td>
<td>$12,000 (per donee per year of present interests) plus $1,000,000 more during life</td>
</tr>
<tr>
<td>2007</td>
<td>$12,000 (per donee per year of present interests) plus $1,000,000 more during life</td>
</tr>
<tr>
<td>2008</td>
<td>$12,000 (per donee per year of present interests) plus $1,000,000 more during life</td>
</tr>
<tr>
<td>2009</td>
<td>$12,000 (per donee per year of present interests) plus $1,000,000 more during life</td>
</tr>
</tbody>
</table>
### 2010

| For gifts made after 12/31/09, the gift tax is not repealed, but continues due to the provisions of HR1836. | -0- For decedents dying after 12/31/09, there is no estate tax or generation skipping transfer tax imposed on death transfers. However, these taxes are repealed only for the year 2010. | 35% For gifts made after 12/31/09, the highest gift tax rate is the same as the highest individual income rate, for example, 35% under HR1836. The top income tax rate is reduced to 35% in 2006. | -0- For decedents dying after 12/31/09, there is no estate tax nor generation skipping transfer tax imposed on death transfers. However, these taxes are repealed, only for the year 2010. |

### 2011

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

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

### 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</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>

Assumptions Concerning Current Gift And Estate Tax Rates.

<table>
<thead>
<tr>
<th>Amount</th>
<th>Tax Calculation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not over $10,000</td>
<td>18% of such amount</td>
</tr>
<tr>
<td>Over $10,000 but not over $20,000</td>
<td>$1,800 plus 20% of the excess of such amount over $10,000</td>
</tr>
<tr>
<td>Over $20,000 but not over $40,000</td>
<td>$3,800 plus 22% of the excess of such amount over $20,000</td>
</tr>
<tr>
<td>Over $40,000 but not over $60,000</td>
<td>$8,200 plus 24% of the excess of such amount over $40,000</td>
</tr>
<tr>
<td>Over $60,000 but not over $80,000</td>
<td>$13,000 plus 26% of the excess of such amount over $60,000</td>
</tr>
<tr>
<td>Over $80,000 but not over $100,000</td>
<td>$18,200 plus 28% of the excess of such amount over $80,000</td>
</tr>
<tr>
<td>Over $100,000 but not over $150,000</td>
<td>$23,800 plus 30% of the excess of such amount over $100,000</td>
</tr>
<tr>
<td>Over $150,000 but not over $250,000</td>
<td>$38,800 plus 32% of the excess of such amount over $150,000</td>
</tr>
</tbody>
</table>
Over $250,000 but not over $500,000  $70,800 plus 34% of the excess of such amount over $250,000

Over $500,000 but not over $750,000  $155,800 plus 37% of the excess of such amount over $500,000

Over $750,000 but not over $1,000,000  $248,300 plus 39% of the excess of such amount over $750,000

Over $1,000,000 but not over $1,250,000  $348,800 plus 41% of the excess of such amount over $1,000,000

Over $1,250,000 but not over $1,500,000  $448,300 plus 43% of the excess of such amount over $1,250,000

Over $1,500,000 but not over $2,000,000  $555,800 plus 45% of the excess of such amount over $1,500,000

Over $2,000,000 but not over $2,500,000  $780,800 plus 47% of the excess of such amount over $2,000,000

Over $2,500,000  $1,025,800 plus 49% of the excess of such amount over $2,500,000

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

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

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

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

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

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

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

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

72. **Assumptions Concerning The Generation-Skipping Transfer Tax Exemption.** Except as otherwise stated, assume that each individual used the individual's generation-skipping transfer tax exemption at the individual's first opportunity.
1. During the current taxable year, YourWay Corp.'s taxable income was $64,000. YourWay Corp.'s income tax (prior to any credit) for the current taxable year is as follows.
   A. None/Zero
   B. $7,500
   C. $9,500
   D. $11,000
   E. None of the above

2. Referring to the facts for Question 1, YourWay Corp.'s taxable income was $500,000. YourWay Corp.'s income tax (prior to any credit) for the current taxable year is as follows.
   A. None/Zero
   B. $170,000
   C. $160,000
   D. $152,250
   E. None of the above

3. During the current taxable year, ShapeUp Corp.'s taxable income was $350,000 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. 34.29%
   C. 29.27%
   D. 31.5%
   E. None of the above

4. During the current taxable year, Fever Corp. paid a salary of $20,000 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. $1,400
   C. $1,350
   D. $1,530
   E. None of the above

5. Referring to the facts for Question 4, 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

6. The current maximum personal holding company tax rate is as follows.
   A. None/Zero
   B. 15%
   C. 34%
   D. 25%
   E. None of the above

7. The current maximum accumulated earnings tax rate is as follows.
   A. None/Zero
8. 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

9. 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

10. LearnALot College’s unrelated business taxable income for the current taxable year was $64,000. LearnALot College’s unrelated business income tax for the current taxable year is as follows.
   A. None/Zero
   B. $7,500
   C. $9,500
   D. $11,000
   E. None of the above

11. 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 $30,000, 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 $6,000 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. $6,000
   C. $30,000
   D. $20,000
   E. None of the above

12. Referring to the facts for Question 11, Fair Corp.’s adjusted basis for the accounts receivable is as follows.
   A. None/Zero
   B. $6,000
   C. $30,000
   D. $20,000
   E. None of the above

13. Referring to the facts for Question 11, 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 $8,000. Beverly's gross income with respect to the corporate organization is as follows.
14. Referring to the facts for Question 13, Beverly's adjusted basis for the common shares is as follows.
A. None/Zero
B. $20,000
C. $8,000
D. $10,000
E. None of the above

15. Referring to the facts for Question 13, Beverly's adjusted basis for the promissory note is as follows.
A. None/Zero
B. $8,000
C. $10,000
D. $20,000
E. None of the above

16. 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

17. Referring to the facts for Question 16, the most important tax fact to look at in answering the facts for Question 16 is as follows.
A. The amount of other debt which the corporation currently has
B. The amount of the loan interest rate
C. The consequences of repaying the loan
D. The bases which the shareholders have (or will have) for the stock and debt
E. None of the above

18. Each of the following statements is prescribed, in section 385 and/or the regulations thereunder, as being a test to determine whether or not a corporate instrument is stock or another type of security, such as a debt instrument.

a. The “debt security” should be a written or oral, 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

19. 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 $15,000 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 one month, but Peter owned the other assets for more than two taxable years. Peter has estimated the amount of Peter's assets and Paul and Recycle Corp. accepted the estimate as being accurate. Peter has taken $15,000 of depreciation deductions with respect to the equipment. In addition, Recycle Corp. assumed a business liability of Peter in the amount of $10,000.

<table>
<thead>
<tr>
<th>Asset</th>
<th>Adjusted Basis</th>
<th>Fair Market Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>A manufacturing patent</td>
<td>5,000</td>
<td>25,000</td>
</tr>
<tr>
<td>Accounts receivable</td>
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<td>5,000</td>
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<tr>
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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>15,000</td>
</tr>
<tr>
<td>Totals</td>
<td>35,000</td>
<td>70,000</td>
</tr>
</tbody>
</table>

Recycle Corp.'s gross income is as follows.
A. None/Zero
B. $35,000
C. $40,000
D. $70,000
E. None of the above

20. Referring to the facts for Question 19, Recycle Corp.'s adjusted basis for the goodwill 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

21. Referring to the facts for Question 19, Peter's gross income for the current taxable year as a result of these transactions is as follows.
A. None/Zero
B. $9,000
C. $30,000
D. $5,000
E. None of the above

22. Referring to the facts for Question 19, Peter has a recognized ordinary loss as a result of these transactions.
A. Yes/True
B. No/False
23. Referring to the facts for Question 19, 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

24. Referring to the facts for Question 19 and with respect to any capital asset which Peter transferred to Recycle Corp., Peter’s holding period for the stock which Peter received begins on the date on which Peter received the stock.
   A. Yes/True
   B. No/False
   C. Need more information
   D. None of the above

25. Referring to the facts for Question 19, 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

26. Referring to the facts for Question 19, Paul's adjusted basis for the 300 common shares which Paul received for the land is as follows.
   A. None/Zero
   B. $5,000
   C. $30,000
   D. $15,000
   E. None of the above

27. Referring to the facts for Question 19, Paul's adjusted basis for the 100 common shares which Paul received for Paul’s services is as follows.
   A. None/Zero
   B. $10,000
   C. $9,000
   D. $30,000
   E. None of the above

28. Referring to the facts for Question 19, seven months after Recycle Corp. received the goodwill from Peter, Recycle Corp. sold all of the assets of Recycle Corp. to Hickory Corporation for cash for Hickory Corporation to use in Hickory Corporation’s similar business. At that time, Recycle Corp.’s adjusted basis for the goodwill was zero and Hickory Corporation paid $15,000 for the goodwill. Recycle Corp. will recognize $15,000 of long term capital gain as a result of the transaction.
   A. Yes/True
   B. No/False
   C. Need more information
   D. None of the above

29. Referring to the facts for Question 28, during Hickory Corporation’s next taxable year, Hickory Corporation
may deduct, for income tax purposes, $1,000 of the $15,000 which Hickory paid for the goodwill.
A. Yes/True
B. No/False
C. Need more information
D. None of the above

30. Referring to the facts for Question 19, on the day on which Peter received the 600 common shares of Recycle Corp., Peter transferred 300 of the common shares to Hickory Corporation because 30 days prior to the incorporation of Recycle Corp., Hickory Corporation and Peter signed an agreement (which was consented to by Paul) that Peter would transfer the 300 shares (which were issued to Peter) to Hickory Corporation 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

31. Referring to the facts for Question 19, after the sale of the assets to Hickory Corporation, Recycle Corp. paid the appropriate income taxes (and other expenses and liabilities), liquidated, and dissolved. Specifically, Recycle Corp. distributed the net cash of $150,000, $50,000 to Paul and $100,000 to Peter. (Peter had not sold to or exchanged with Hickory Corporation any of Peter’s common shares of Recycle Corp.) At the time of the liquidation of Recycle Corp., Peter’s adjusted basis for Peter’s 600 common shares was $20,000. Peter’s gross income due to the liquidation is as follows.
A. None/Zero
B. $50,000
C. $30,000
D. $80,000
E. None of the above

32. Referring to the facts for Question 19, after Recycle Corp. sold its assets to Hickory Corporation and prior to any liquidation of Recycle Corp., Peter exchanged Peter’s 600 common shares of Recycle Corp. with Hickory Corporation for 100 common shares of Hickory Corporation. (Peter had not previously sold to or exchanged with Hickory Corporation any of Peter’s common shares of Recycle Corp.) Both the 600 common shares and the 100 common shares had a value of $50,000 and Peter’s adjusted basis for Peter’s 600 common shares was $30,000. The 100 common shares of Hickory Corporation were not a controlling interest in Hickory Corporation. Peter has long term capital gain gross income due to the exchange of Peter’s stock as follows.
A. None/Zero
B. $20,000
C. $30,000
D. $50,000
E. None of the above

33. Referring to the facts for Question 32, after Peter exchanged Peter’s 600 common shares of Recycle Corp. for 100 common shares of Hickory Corporation, Paul and Hickory Corporation were the only two shareholders of Recycle Corp., Paul owning 300 common shares and Hickory Corporation owning 600 common shares of Recycle Corp. (Peter had not previously sold to or exchanged with Hickory Corporation any of Peter’s common shares of Recycle Corp.) Thereafter, Hickory Corporation loaned Recycle Corp. $100,000, and then, Recycle Corp. purchased new assets and began to operate Recycle Corporation as a manufacturer through a license to use the patent (which was now held by Hickory Corporation). Based on all of the facts which are applicable to this Question 33, through the above applicable references, this transactions constitute the following type of reorganization.
A. None/Zero
B. “A”
34. 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. $30,000
E. None of the above

35. Referring to the facts for Question 34, Finch Corp.’s adjusted basis for the land which Paul transferred to Finch Corp. is as follows.

A. None/Zero
B. $20,000
C. $50,000
D. $100,000
E. None of the above

36. Referring to the facts for Question 34, Finch Corp.’s adjusted basis for the services which Peter rendered on behalf of Finch Corp. is as follows.

A. None/Zero
B. $20,000
C. $50,000
D. $100,000
E. None of the above

37. Referring to the facts for Question 34, Peter's gross income for the current taxable year as a result of these transactions is as follows.

A. None/Zero
B. $30,000
C. $50,000
D. $20,000
E. None of the above

38. Referring to the facts for Question 34, 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

39. Referring to the facts for Question 34, Paul's gross income for the current taxable year as a result of these transactions is as follows.

A. None/Zero
B. $50,000
C. $30,000
D. $20,000
40. Referring to the facts for Question 34, 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

41. 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

42. Referring to the facts for Question 41, 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

43. Referring to the facts for Question 41, 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

44. Referring to the facts for Question 41, 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

45. Referring to the facts for Question 41, Peter's adjusted basis for the land is $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
D. $12,000
E. None of the above
46. Referring to the facts for Question 41, 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

47. 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 $10,000 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 $10,000. Paul’s gross income for the current taxable year is as follows.
   A. None/Zero
   B. $30,000
   C. $10,000
   D. $40,000
   E. None of the above

48. Referring to the facts for Question 47, 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

49. Referring to the facts for Question 47, 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

50. Referring to the facts for Question 47, 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

51. 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
52. Referring to the facts for Question 51, 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

53. Referring to the facts for Question 51, 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

54. During the current taxable year, Paul and Peter organized Baby Corp. under the applicable state laws 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.
   A. Yes/True
   B. No/False
   C. Need additional information
   D. None of the above

55. 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 C corporations 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

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

57. 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

58. 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
Beautiful People Corp. may deduct, for income tax purposes, during the current taxable year is as follows.
A. None/Zero
B. $2,000
C. $1,000
D. $400
E. None of the above

59. One of the following costs or expenses may not be amortized under section 248. Which one is it?
A. Legal and accounting fees paid in connection with the organization of the corporation.
B. Fees paid to state and county authorities in order to file the necessary incorporating documents.
C. Expenses for services rendered by officers and directors in organizing, incorporating, and getting the company upon a sound financial basis.
D. Expenses for services for drafting: the articles of incorporation; code of by-laws; minutes of organizational meetings; and, for the terms of the original stock certificates.
E. The cost of transferring assets to the corporation.

60. Referring to the facts for Question 59, except for the reference to a corporate structure, 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

61. If an election to amortize organizational expenses of a corporation is not made, then the expenses must be capitalized and deducted, if at all, on the corporation’s final income tax return.
A. Yes/True
B. No/False
C. Need additional information
D. None of the above

62. The multiple corporation structure has many tax and nontax advantages and disadvantages. Each of the following general statements is 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.

63. The multiple corporation structure has many tax and nontax advantages and disadvantages. Are each of the following general statements true?
   i. 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.
   ii. 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.
   iii. 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.
   iv. Some corporations, in the multiple corporation structure, might have a structure which allows shareholders to treat losses, under section 1244, as ordinary losses if the shares of the
64. The multiple corporation structure has many tax and nontax advantages and disadvantages. Are each of the following general statements true?

i. 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.

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

ii. 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.

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

iii. The multiple corporation structure can be advantageous to family units which wish to utilize section 303.

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. 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 $60,000, 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. $36,000
E. None of the above

69. Referring to the facts for Question 68, Looking Corp. may carryover the unused charitable contributions, if any, for five more years or until it is used up, whichever comes first.
A. Yes/True
B. No/False
C. Need additional information
D. None of the above

70. On July 5 of the current taxable year, Paul sold 100 common shares of the SamBass Corp. for $12,000. 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 $10,000. 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 $6,000. Paul’s gross income for the current taxable year with respect to the share dividend is as follows.
A. None/Zero
B. $10,000
C. $12,000
D. $9,000
E. None of the above

71. Referring to the facts for Question 70, 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. $12,000
C. $6,000
D. $10,000
E. None of the above

72. 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 $4,000. 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
73. Referring to the facts for Question 72, 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. $38,000
   E. None of the above

74. On July 5 of the current taxable year, John owned 200 common shares of Panther Corp. and Peter owned 200 preferred shares of Panther Corp. During the current taxable year, Panther Corp. distributed 100 preferred shares of Panther Corp. to John and distributed 100 common shares of Panther Corp. to Peter. Both John and Peter have gross income due to such distributions.
   A. Yes/True
   B. No/False
   C. Need more information
   D. None of the above

75. On May 5 of the current taxable year, Paul sold 200 common shares of Pony Corp. for $5,000. 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 $20,000. 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 share split is as follows.
   A. None/Zero
   B. $40,000
   C. $10,000
   D. $20,000
   E. None of the above

76. Referring to the facts for Question 75, this “two for one” transaction is within the scope of section 355.
   A. Yes/True
   B. No/False
   C. Need additional information
   D. None of the above

77. Referring to the facts for Question 75, Paul's capital gain gross income for the current taxable year with respect to the sale of the common shares is as follows.
   A. None/Zero
   B. $40,000
   C. $10,000
   D. $30,000
   E. None of the above

78. A “stock split” is a reorganization, a recapitalization, 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

79. Which of the following statements is not true with respect to a C corporation issuing both common stock and
debts 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.

80. During the current taxable year, all of Paul's common shares 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

81. Referring to the facts for Question 80, Paul purchased the 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

82. Referring to the facts for Question 80, Nettles Corp. had already received consideration for the issuance of Nettles Corp.'s common shares in the amount of $500,000 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

83. During the current taxable year, Paul and John were the sole members of Panda LLC, each having a 50% membership in Panda LLC with an adjusted basis of $200,000 and each of them working full-time for Panda LLC for separate salaries of $100,000. In addition, each of them had taxable interest of $10,000. During the current taxable year, Panda LLC had a loss of $300,000 due to a sale of stock by Panda LLC, which stock was qualified as section 1244 stock. John has adjusted gross income for the current taxable year as follows.
A. None/Zero
B. $7,000
C. $150,000
D. $100,000
E. None of the above

84. Referring to the facts for Question 83, 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. $47,000
E. None of the above
85. Referring to the facts for Question 83, Paul has adjusted gross income for the current taxable year as follows.
   A. None/Zero
   B. $97,000
   C. $150,000
   D. $57,000
   E. None of the above

86. Referring to the facts for Question 83, Paul has a capital loss carryover to the next taxable year in the following amount.
   A. None/Zero
   B. $97,000
   C. $150,000
   D. $50,000
   E. None of the above

87. 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. Both the $200,000 amount and the $1,100,000 amount were to be paid to Paul whether or not Bat Corp. continued to employ Paul. During the next taxable year, both the $200,000 payment were paid to Paul. Both the $200,000 payment and the $1,100,000 payment are includable in Paul’s gross income.
   A. Yes/True
   B. No/False
   C. Need additional information
   D. None of the above

88. Referring to the facts for Question 87, Bat 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.
   A. Yes/True
   B. No/False
   C. Need additional information
   D. None of the above

89. During the current taxable year, Prissy Corp. had a long term capital loss of $32,000. 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 fourth taxable year after the current taxable year is as follows.
   A. None/Zero
   B. $2,000
   C. $5,000
   D. $3,000
   E. None of the above

90. For several years John owned all of the issued and outstanding common shares of CudleyBear 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 CudleyBear Corp., which CudleyBear Corp. intended to use in CudleyBear Corp.’s manufacturing business. John received back ten common shares of CudleyBear 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

91. Referring to the facts for Question 90, CudleyBear 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

92. Referring to the facts for Question 90, 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

93. For several years 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

94. Referring to the facts for Question 93, 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

95. Referring to the facts for Question 93, 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

96. Referring to the facts for Question 93, John’s adjusted basis for the land was $70,000. John’s ordinary
expense or ordinary loss deduction for the current taxable year is as follows.
97. During the current taxable year, Beverly organized Chicago Corp. and transferred various assets, with a total value of $200,000 to Chicago Corp. in return for 100 common shares of Chicago Corp. and for some bonds issued by Chicago Corp. The Chicago Corp. had no earnings and profits at the time of these transfers. 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

98. Referring to the facts for Question 97, the bonds did not meet the requirements of section 385 and the regulations thereunder from the time when the bonds were issued. During a subsequent taxable year, Chicago Corp. had: gross income of $100,000; general expenses of $40,000; and, earnings and profits at the end of the next taxable year of $100,000. Also, during that subsequent 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 that subsequent taxable year is as follows.
A. None/Zero
B. $40,000
C. $60,000
D. $50,000
E. None of the above

99. Referring to the facts for Question 97, 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

100. Referring to the facts for Question 98, ten years later, the bonds were redeemed from Beverly by Chicago Corp. for the par value of the bonds, specifically, for the price of $100,000 at a time when 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

101. 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 and two years after Paul exercised the option, Paul sold
the 100 common shares for $25,000. Paul’s gross income for the taxable year two taxable years ago is as follows.
A. None/Zero
B. $1,000
C. $10,000
D. $20,000
E. None of the above

102. Referring to the facts for Question 101, 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

103. Referring to the facts for Question 101, 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

104. Two taxable years ago, Wild Corporation gave Paul a stock option (which was not an incentive 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 no 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

105. Referring to the facts for Question 104, 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

106. 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. Beverley was the sole shareholder of Village Corp. and Beverley’s adjusted basis for Beverley’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>4,500,000</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. $3,900,000  
E. None of the above  

107. Referring to the facts for Question 106, 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. $3,200,000  
C. $3,300,000  
D. $3,190,000  
E. None of the above  

108. Referring to the facts for Question 106, Beverly's gross income for the current taxable year is as follows.

A. None/Zero  
B. $190,000  
C. $300,000  
D. $400,000  
E. None of the above  

109. Referring to the facts for Question 106, Village Corp. had the following amount of accumulated earnings and profits at the end of the current taxable year.

A. None/Zero  
B. $3,000,000  
C. $2,300,000  
D. $2,100,000  
E. None of the above  

110. 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 was determined to open a brewery in Evansville, Indiana and, in fact, Cottage Corp. already had purchased the land and building in Evansville. The board of directors had met many times concerning this matter and had authorized many studies to be done. Also, the board of directors...
had determined that the cost of the brewing equipment, trucks, etc. would be at least $1,500,000, which would given the company a cushion of approximately $500,000. The position statement below is representative of the position statements which Cottage Corp. has had for over five taxable years, because Cottage Corp. has paid a small dividend ($50,000 total) each year for over eight taxable years, but the board of directors determined that they could not pay a larger dividend and still prepare for the Evansville venture.

<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>Buildings</td>
<td>1,800,000</td>
</tr>
<tr>
<td>Land</td>
<td>800,000</td>
</tr>
<tr>
<td>Goodwill</td>
<td>200,000</td>
</tr>
<tr>
<td>Total assets</td>
<td>5,601,000</td>
</tr>
<tr>
<td>Minus: Liabilities</td>
<td>400,000</td>
</tr>
<tr>
<td>Total Equity</td>
<td>5,201,000</td>
</tr>
<tr>
<td>Common shares</td>
<td>100,000</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>510,000</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

111. 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

112. Referring to the facts for Question 111, Beverly's ordinary gross income for the current taxable year is as follows.
A. None/Zero
B. $8,000
113. Referring to the facts for Question 111, 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

114. Referring to the facts for Question 111, the adjusted basis of the land to Charlie Corp. was $11,000. The amount of income tax deduction which Charlie Corp. may take is as follows.
   A. None/Zero
   B. $8,000
   C. $3,000
   D. $8,000
   E. None of the above

115. Referring to the facts for Question 114, Beverly’s ordinary gross income for the current taxable year is as follows.
   A. None/Zero
   B. $8,000
   C. $11,000
   D. $3,000
   E. None of the above

116. Referring to the facts for Question 114, Beverly's adjusted basis for the land is as follows.
   A. None/Zero
   B. $8,000
   C. $2,000
   D. $11,000
   E. None of the above

117. 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 receipts 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

118. During the current taxable year, the Jewish Community Center has $50,000 of unrelated business taxable. Therefore, the Jewish Community Center’s unrelated business income tax is as follows.
   A. None/Zero
   B. $7,500
119. During the current taxable year, John owned all of the common shares of 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 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

120. Referring to the facts for Question 119, 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

121. Referring to the facts for Question 119, 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

122. Referring to the facts for Question 119, 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

123. Referring to the facts for Question 122, 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

124. Referring to the facts for Question 119, 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

125. 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).

i. 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).

ii. 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.

iii. 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.

iv. 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

126. Referring to the facts for Question 125, 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

127. Referring to the facts for Question 125, 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

128. Referring to the facts for Question 125, 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

129. Referring to the facts for Question 125, Beverly's adjusted basis for Beverly's common shares of Summer
130. Referring to the facts for Question 125, 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. $200,000
   D. $50,000
   E. None of the above

131. 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

132. Referring to the facts for Question 131, 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

133. 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 $11,000. 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

134. Referring to the facts for Question 133, John’s ordinary gross income for the next taxable year is as follows.
   A. None/Zero
   B. $8,500
   C. $11,000
   D. $10,000
   E. None of the above
135. Referring to the facts for Question 133, John did not sell the stock to Paul. Instead, Swedish Corp. redeemed the preferred stock from John for $11,000. John’s ordinary gross income for the next taxable year is as follows.
   A. None/Zero
   B. $8,500
   C. $11,000
   D. $10,000
   E. None of the above

136. During the current taxable year, Right Corp. wants to purchase all of the assets of OneWay Corp. Both Right Corp. and OneWay Corp. are manufacturers of bicycles and OneWay Corp. wants to use Right 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

137. Referring to the facts for Question 136, if the provisions of section 1060 are followed by Right 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
   D. None of the above

138. Referring to the facts for Question 136, if OneWay Corp. purchases goodwill from Right 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

139. Referring to the facts for Question 136, if OneWay Corp. purchases customer lists from Right 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 ten years.
   A. Yes/True
   B. No/False
   C. Need additional information
   D. None of the above

140. Referring to the facts for Question 136, if OneWay Corp. pays Right Corp. for an agreement that Right 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 five years.
   A. Yes/True
   B. No/False
   C. Need additional information
141. 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.
   i. To cash, demand deposits and like accounts in banks, savings and loan associations (and other depository institutions), and other similar items.
   ii. Certificates of deposit, U.S. government securities, readily marketable stock or securities, and foreign currency.
   iii. 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.
   iv. Section 197 intangibles, except goodwill and going concern value.
   v. Goodwill and going concern assets.
A. Yes/True
B. No/False
C. Need additional information
D. None of the above

142. Prior to the divorce of Beverly and Alan, Beverly and Alan each owned, for several years, 100 common shares of BadTimes, Inc., which were BadTimes, Inc.’s only issued and outstanding shares. The adjusted basis for each unit of 100 common shares was $2,000. Prior to their divorce, Beverly and Alan made a written 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. Both at the beginning of and at the end of the current taxable year, BadTimes, Inc. had earnings and profits of $1,000,000 and each unit of 100 common shares had a value of $100,000. Therefore, during their divorce process, Beverly paid Alan $100,000 and Alan conveyed all of Alan’s common shares to Beverly. Alan’s gross income is as follows.
A. None/Zero
B. $98,000
C. $100,000
D. $99,000
E. None of the above

143. Referring to the facts for Question 142, Beverly’s basis for the shares which she purchased from Alan is as follows.
A. None/Zero
B. $98,000
C. $100,000
D. $99,000
E. None of the above

144. Referring to the facts for Question 142, the rules of attribution of section 318 apply to the facts described, but the rules may be waived under certain conditions.
A. Yes/True
B. No/False
C. Need additional information
D. None of the above

145. Referring to the facts for Question 142 and Question 144, the rules of attribution are not waived with respect to these facts.
A. Yes/True
B. No/False
C. Need additional information
D. None of the above
146. Referring to the facts for Question 142, the agreement stated that Beverly would not purchase Alan’s common shares, but instead, the agreement stated that BadTimes, Inc. would purchase all of Alan’s common shares, during the divorce process, which BadTimes, Inc. did, for $100,000. As a result of this transaction, Alan has a dividend in the amount of as follows.
   A. None/Zero
   B. $98,000
   C. $100,000
   D. $99,000
   E. None of the above

147. Referring to the facts for Question 146, the basis of Alan’s common shares was transferred to the basis which Beverly had for Beverly’s common shares.
   A. Yes/True
   B. No/False
   C. Need additional information
   D. None of the above

148. Referring to the facts for Question 146, the rules of attribution of section 318 apply to the facts described, but the rules may be waived under certain conditions.
   A. Yes/True
   B. No/False
   C. Need additional information
   D. None of the above

149. Referring to the facts for Question 146 and Question 148, the rules of attribution are not waived with respect to these facts.
   A. Yes/True
   B. No/False
   C. Need additional information
   D. None of the above

150. Referring to the facts for Question 142, as part of the written agreement between Beverly and Alan, there was a provision which stated that if Beverly want to have BadTimes, Inc. purchase Alan’s common shares, then this would be acceptable to Beverly, Alan, and BadTimes, Inc. Based on this agreement, Beverly requested BadTimes, Inc. to purchase all of Alan’s common shares, which BadTimes, Inc. did. As a result of this transaction, Beverly has a dividend of $100,000.
   A. Yes/True
   B. No/False
   C. Need more information
   D. None of the above

151. Referring to the facts for Question 150, the rules of attribution of section 318 apply to the facts described, but the rules may be waived under certain conditions.
   A. Yes/True
   B. No/False
   C. Need additional information
   D. None of the above

152. Referring to the facts for Question 150 and Question 151, the rules of attribution are not waived with respect to these facts.
   A. Yes/True
   B. No/False
   C. Need additional information
153. Referring to the facts for Question 142, Beverly and Alan are allowed to agree which of them is required to report the dividend from BadTimes, Inc. and such an agreement will be honored by the IRS.
A. Yes/True
B. No/False
C. Need more information
D. 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 more than 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 the facts for Question 154, Peter’s adjusted basis for the 750 common shares which Peter received from John’s estate is as follows.
A. None/Zero
B. $250,000
C. $375,000
D. $125,000
E. None of the above

156. Referring to the facts for Question 154, Clock Corp. purchased 500 common shares (instead of 250 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 “other claims” were personal debts and business debts of John in the amount of $75,000. In making the redemption of John’s estate’s 500 common shares, Clock Corp. paid John’s estate $250,000 ($175,000 for the estate’s administration expenses, funeral expenses, and death taxes, and, $37,500 for John’s personal debts and $37,500 for John’s business debts). 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. $75,000
D. $500,000
E. None of the above

157. During the current taxable year, John died leaving all of John’s estate to Mary. At John’s death, John owned 50% of the common shares of TickTock Corp., specifically, John owned 1,000 common shares. Beverly owned the other 50%. 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. At all times, TickTock Corp. had earnings and profits of $1,000,000. During the next taxable year (ten months after John’s death), TickTock Corp. redeemed all of John’s 1,000 common shares for $600,000 (which was the fair market value of the shares at that time). John’s estate’s dividend 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

158. Referring to the facts for Question 157, John’s estate’s long term capital gain is as follows.
A. None/Zero
B. $125,000
C. $500,000
D. $100,000
E. None of the above

159. Referring to the facts for Question 157, TickTock Corp. redeemed only 250 common shares from John’s estate for the amount of $150,000. John’s estate’s dividend gross income due to the share redemption is as follows.
A. None/Zero
B. $50,000
C. $100,000
D. $150,000
E. None of the above

160. Referring to the facts for Question 157, TickTock Corp. redeemed only 250 common shares from John’s estate for the amount of $150,000. John’s estate’s long term capital gain gross income due to the share redemption is as follows.
A. None/Zero
B. $50,000
C. $100,000
D. $150,000
E. None of the above

161. Referring to the facts for Question 157, TickTock Corp. redeemed only 500 common shares from John’s estate for the amount of $300,000. John’s estate’s dividend gross income due to the share redemption is as follows.
A. None/Zero
B. $300,000
C. $250,000
D. $50,000
E. None of the above

162. Referring to the facts for Question 157, TickTock Corp. redeemed only 500 common shares from John’s estate for the amount of $300,000. John’s estate’s long term capital gain gross income due to the share redemption is as follows.
A. None/Zero
B. $300,000
C. $250,000
D. $50,000
E. None of the above
163. Referring to the facts for Question 157, Peter, not Beverly, owned the other 1,000 common shares and has done so for over ten years. Also, Peter has been employed by TickTock Corp. for many years and Mary has never worked for (or wanted to work for) TickTock Corp. John’s estate’s dividend 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

164. Referring to the facts for Question 157 and Question 163, John’s estate’s long term capital gain is as follows.
   A. None/Zero
   B. $125,000
   C. $500,000
   D. $100,000
   E. None of the above

165. Referring to the facts for Question 157 and Question 163, TickTock Corp. redeemed only 250 common shares from John’s estate for the amount of $150,000. John’s estate’s dividend gross income due to the share redemption is as follows.
   A. None/Zero
   B. $50,000
   C. $100,000
   D. $150,000
   E. None of the above

166. Referring to the facts for Question 157 and Question 163, TickTock Corp. redeemed only 250 common shares from John’s estate for the amount of $150,000. John’s estate’s long term capital gain gross income due to the share redemption is as follows.
   A. None/Zero
   B. $50,000
   C. $100,000
   D. $150,000
   E. None of the above

167. Referring to the facts for Question 157 and Question 163, TickTock Corp. redeemed only 500 common shares from John’s estate for the amount of $300,000. John’s estate’s dividend gross income due to the share redemption is as follows.
   A. None/Zero
   B. $300,000
   C. $250,000
   D. $50,000
   E. None of the above

168. Referring to the facts for Question 157 and Question 163, TickTock Corp. redeemed only 500 common shares from John’s estate for the amount of $300,000. John’s estate’s long term capital gain gross income due to the share redemption is as follows.
   A. None/Zero
   B. $300,000
   C. $250,000
   D. $50,000
   E. None of the above

169. Referring to the facts for Question 157 and Question 163, TickTock Corp. redeemed only 500 common shares
from John’s estate, but TickTock Corp. also redeemed all 1,000 of Peter’s common shares at the same time, paying John’s estate $300,000 and paying Peter $600,000. John’s estate’s dividend gross income due to the share redemption is as follows.

A. None/Zero  
B. $300,000  
C. $250,000  
D. $50,000  
E. None of the above

170. Referring to the facts for Question 157 and Question 163 and Question 169, Peter’s dividend gross income due to the share redemption is as follows.

A. None/Zero  
B. $600,000  
C. $100,000  
D. $150,000  
E. None of the above

171. 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 Happy 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 Happy 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 Happy 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 Happy Corp. would survive if Peter did not continue to work for Happy Corp. In fact, John died four years after the agreement was made and during the current taxable year at a time when John still 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

172. 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 from John’s estate. 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 all of 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

173. Referring to the facts for Question 172, if the agreement were to be a share redemption agreement, then the number of life insurance policies which would have to be owned 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

174. 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

175. 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

176. Referring to the facts for Question 175, 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

177. Referring to the facts for Question 175, 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

178. Referring to the facts for Question 175, these transactions, taken together, constitute a reorganization which is described in section 368.
A. Yes/True
B. No/False
C. Need more information
D. None of the above
179. Referring to the facts for Question 175, 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.) at a time when Beverly’s adjusted basis for the 25 common shares was $8,000. Beverly’s gross income during the next taxable year is as follows.
A. None/Zero
B. $12,000
C. $4,000
D. $2,000
E. None of the above

180. Referring to all of the facts for Question 175 through Question 179, these transactions, taken together, constitute a reorganization which is described in section 368.
A. Yes/True
B. No/False
C. Need more information
D. None of the above

181. 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

182. 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. Middle Corp. had $100,000 of accumulated earnings and profits both at the beginning of and at the end of the current taxable year. 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

183. During the current taxable year, Mary died owning 100 common shares of Middle Corp. which common shares were valued in Mary’s estate at a fair market value of $100,000. Middle Corp. had $100,000 of accumulated earnings and profits both at the beginning of and at the end of the current taxable year. Mary’s adjusted basis for the common shares was $10,000. Peter was the sole beneficiary of Mary’s estate and Peter owned the only other issued and outstanding common shares of Middle Corp., specifically, 100 common shares. 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 dividends  
C. $90,000 of capital gains  
D. $100,000 of capital gains  
E. None of the above

184. Lawn Corp. has 700 common shares authorized, with the following issued and outstanding common shares.

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<th>John</th>
<th>Mary</th>
<th>Sue</th>
<th>Peter (and who has an option to purchase 30 common voting shares)</th>
<th>JM (John's mother; John's father is dead)</th>
<th>JGM (John's grandmother)</th>
<th>PS (a partnership which is owned 50% by Sue and 50% by Peter)</th>
<th>C (a corporation which is owned 55% by Mary and 45% by Paul)</th>
<th>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%)</th>
<th>FE (John's father's estate, which estate was devised 45% to Mary and 50% to John and 5% to Peter)</th>
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Using the rules of attribution of section 318, John owns the following number of common shares of Lawn Corp.
A. 657.5
B. 647.5
C. 597.5
D. 557
E. None of the above

185. Referring to the facts for Question 184, and using the rules of attribution of section 318, Mary owns the following number of common shares of Lawn Corp.
A. 657.5
B. 647.5
C. 597.5
D. 605
E. None of the above

186. Referring to the facts for Question 184, Sue owns the following common shares of Lawn Corp.
A. 657.5
B. 620.5
C. 605
D. 557
E. None of the above

187. 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., a legal dividend. John’s adjusted basis for the common shares just prior to the current taxable year was $10,000. John’s gross income for the current taxable year is as follows.
A. None/Zero
B. $2,000
C. $4,000
D. $10,000
E. None of the above

188. Referring to the facts for Question 187, 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

189. Referring to the facts for Question 187, John’s adjusted basis for John’s common shares at the end of the current taxable year is as follows.
A. None/Zero
B. $2,000
C. $8,000
D. $10,000
E. None of the above

190. Several taxable years ago, Rol Corp., a C corporation, purchased a truck for $10,000 for use in Rol 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. Rol Corporation had $100,000 of earnings and profits both at the beginning and at the end of the current taxable year. On January 1 of the current taxable year, Rol Corp. distributed the truck to John, who owned all of the common shares of Rol Corp., as a legal dividend. John’s adjusted basis
for the common shares just prior to the current taxable year was $10,000. John’s gross income for the current taxable year is as follows.
A. None/Zero
B. $6,000
C. $2,000
D. $10,000
E. None of the above

191. Referring to the facts for Question 190, Rol Corp.’s gross income for the current taxable year is as follows.
A. $4,000
B. $6,000
C. $10,000
D. None of the above

192. Referring to the facts for Question 190, 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

193. Referring to the facts for Question 190, John’s adjusted basis for John’s common shares at the end of the current taxable year is as follows.
A. None/Zero
B. $2,000
C. $8,000
D. $10,000
E. None of the above

194. 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

195. Referring to the facts for Question 194, 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

196. 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

197. 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

198. Referring to the facts for Question 197, 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

199. Referring to the facts for Question 197, 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

200. 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
1. 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. The reason why John did this was because John wanted to retire 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, and John promptly retired. John’s gross income due to the sale 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. 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. 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 two more years, and then, John sold all of John’s common shares to Beverly for $28,000. John’s gross income due to the sale 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

3. 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. Neither John nor Paul worked for Desk Corp. 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

4. 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
5. 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

6. 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

7. Referring to the facts for Question 6, four years after the first redemption of stock from John’s estate, BlueSky Corp. redeemed additional common shares from John’s estate, because the estate needed more money. BlueSky paid $50,000 for ten common shares, which was the fair market value of the common shares at the time of the second redemption. John’s estate’s ordinary income for the second redemption is as follows.

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

8. Referring to the facts for Question 6, 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 first ten common shares were redeemed from John’s estate by BlueSky Corp. for $50,000. There was no second redemption of common shares. 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

9. Referring to the facts for Question 6, BlueSky Corp. was an S corporation. John’s estate’s ordinary gross income for the current taxable year is as follows.
10. 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 $20,000) of Apples Corp. (which operated a real property sales business and which corporation had $100,000 of 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

11. Referring to the facts for Question 10, 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

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

13. 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. Raven Corp. had $100,000 of earnings and profits both at the beginning and at the end of the current taxable year. During the current taxable year, Mary, who never worked for (nor intends to work for) Raven Corp., 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)(2) and section 302(b)(3).
   A. Yes/True
   B. No/False
   C. Need additional information
   D. None of the above

14. Referring to the facts of Question 13, the transaction will qualify under section 302(b)(3).
   A. Yes/True
   B. No/False
   C. Need additional information
   D. None of the above
15. 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 $100,000 of earnings and profits both at the beginning and at the end of the current taxable year, 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

16. 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

17. 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 $100,000 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

18. How many of the following sections do the rules of attribution of section 318 apply: 302, 303, 304, 305, and 331.
A. One
B. Two
C. Three
D. Four
E. Five

19. 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

20. Referring to the facts for Question 19, Paul’s adjusted basis for Paul’s common shares, after the distribution by Paint Corp., is as follows.
A. None/Zero
B. $4,990
c. $3,000
d. $5,000
e. None of the above

21. During the current taxable year, John owned 100 common shares of the 100 issued and outstanding common shares of 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 Lake Corp. 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

22. 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. Two of the assets which were distributed directly to Mary were Land A and Land B. Thereafter, Mary promptly began to use the lands, 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>Business inventory consisting of various items of furniture</td>
<td>3,000</td>
<td>5,000</td>
</tr>
<tr>
<td>Equipment</td>
<td>20,000</td>
<td>15,000</td>
</tr>
<tr>
<td>Land A</td>
<td>20,000</td>
<td>30,000</td>
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<tr>
<td>Land B</td>
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<td>15,000</td>
</tr>
<tr>
<td>Goodwill</td>
<td>0</td>
<td>20,000</td>
</tr>
<tr>
<td>Total assets</td>
<td>103,000</td>
<td>130,000</td>
</tr>
<tr>
<td>Liabilities</td>
<td>0</td>
<td>10,000</td>
</tr>
</tbody>
</table>

Fritz Corp.’s ordinary gross income with respect to the liquidation distribution of the furniture inventory to Mary is as follows.
23. Referring to the facts for Question 22, Mary's ordinary gross income with respect to the liquidation distribution to Mary is as follows.
   A. None/Zero
   B. $2,000
   C. $5,000
   D. $3,000
   E. None of the above

24. Referring to the facts for Question 22, Mary's adjusted basis for Land A is as follows.
   A. None/Zero
   B. $40,000
   C. $20,000
   D. $50,000
   E. None of the above

25. Referring to the facts for Question 22, Mary's adjusted basis for Land B is as follows.
   A. None/Zero
   B. $15,000
   C. $20,000
   D. $30,000
   E. None of the above

26. Referring to the facts for Question 22, Fritz Corp. recognizes gain due to the distribution of Land A to Mary.
   A. Yes/True
   B. No/False
   C. Need more information
   D. None of the above

27. Referring to the facts for Question 22, Fritz Corp. recognizes loss due to the distribution of Land B to Mary.
   A. Yes/True
   B. No/False
   C. Need more information
   D. None of the above

28. During the current taxable year, John owned 100 common shares of the 500 issued and outstanding common shares of Tigers Corp., with $100,000 of accumulated earnings and profits at the beginning of the current taxable year. Tigers 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 Tigers Corp.’s camping supplies sales business, Tigers Corp. sold all of the assets of that business for a net profit of $25,000, paid all of Tigers Corp.’s liabilities which were related to that business, and distributed the net cash, by checks, to John and Paul, pro rata. Then, Tigers Corp. terminated that business. As part of the liquidation, Tigers Corp. gave John a check for $12,000, because John was a shareholder of Tigers Corp. John did not transfer anything to Tigers 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
29. Referring to the facts for Question 28, Tigers 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 Tigers Corp. of $15,000. Tigers 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

30. Referring to the facts for Question 28, during the current taxable year and after Tigers Corp. sold the assets of the camping supplies sales business and distributed the net proceeds to John and Paul, Tigers Corp. merged the travel agency business into Bears Corp. Specifically, Tigers Corp. transferred all of Tigers Corp.'s then assets and liabilities of the travel agency business to Bears Corp. During the merger process, John received 100 common shares of Bears Corp.'s common shares and Paul received 400 common shares of Bears Corp.'s common shares and John and Paul each transferred the common shares, which John and Paul owned in Tigers Corp., to Bears Corp. After all of this, Tigers Corp. ceased to exist under the applicable state law. As a general rule, Tigers 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

31. Referring to the facts for Question 30, Bears Corp.'s adjusted basis for the assets which Bears Corp. received from Tigers Corp. is equal to the fair market value of the assets at the time of the transfer of the assets from Tigers Corp. to Bears Corp..
A. Yes/True
B. No/False
C. Need additional information
D. None of the above

32. Referring to the facts for Question 30, John's adjusted basis for the common shares which John received from Bears Corp. is as follows.
A. None/Zero
B. $4,000
C. $1,000
D. $2,000
E. None of the above

33. Referring to the facts for Question 30, because Tigers Corp. ceased to exist as a result of the merger transaction, the liquidation of Tigers Corp. caused the earnings and profits of Tigers Corp. to cease to exist in any form.
A. Yes/True
B. No/False
C. Need additional information
D. None of the above

34. Twenty taxable years ago, Michigan Corp. purchased all of the common shares of Vermont Corp. for $200,000. Michigan 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 Michigan Corp. Therefore, during the current taxable year, Michigan Corp. distributed all of
the common shares which Michigan Corp. owned in Vermont Corp. to the common shareholders of Michigan
Corp. Both corporations had over $5,000,000 of net assets throughout the period involved. At the close
of the current taxable year, Michigan 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
Michigan 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 Michigan Corp. common shares was $2,000 and at a time when
the fair market value of Paul’s Michigan Corp. common shares $5,000 and an adjusted basis to Michigan
Corp. of $1,000. 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

35. Referring to the facts for Question 34, Paul’s adjusted basis for Paul’s Vermont Corp. common shares is a
carryover basis which uses Paul’s adjusted basis of Paul’s Michigan Corp. common shares and allocates a
portion of that adjusted basis between the Vermont Corp. common shares and the Michigan Corp. common
shares. That is, the adjusted basis of the Vermont Corp. common shares is determined in the same manner
as a shareholder is to determine the adjusted basis of new common shares which the shareholder receives in
a section 305(a) distribution (a stock dividend distribution).

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

36. Referring to the facts for Question 34, Michigan 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

37. During the current taxable year, Peter owned 100 common shares of Seattle Corp. for many years and Beverly
owned 100 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 100 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 and an adjusted basis to Seattle Corp. of $1,000, 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

38. Referring to the facts for Question 37, Peter’s adjusted basis for Peter’s common shares, after the distribution
by Seattle Corp., is as follows.

A. None/Zero
B. $6,000
39. Referring to the facts for Question 37, 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

40. Referring to the facts for Question 37, when Seattle Corp. distributed the land to Peter, Seattle Corp. recognized a gain from the distribution of the land to Peter.
A. Yes/True
B. No/False
C. Need additional information
D. None of the above

41. Referring to the facts for Question 37, when Seattle Corp. distributed the land to Peter, Seattle Corp. had a basis for the land of $50,000. Seattle Corp. recognized a deductible loss for income tax purposes due to the distribution of the land to Peter.
A. Yes/True
B. No/False
C. Need additional information
D. None of the above

42. During the current taxable year, John and Paul each owned 100 common shares of Grapefruit Corp. (an S corporation) for many years, which common shares were all of the issued and outstanding shares of Grapefruit Corp. John’s adjusted basis for the 100 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 year, Grapefruit 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 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

43. Referring to the facts for Question 42, 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

44. Referring to the facts for Question 42, Grapefruit Corp. gave John a 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 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

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

46. Referring to the facts for Question 45, 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

47. Referring to the facts for Question 45, Strawberry Corp. gave John a 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 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

48. During the current taxable year, Beverly owned 200 common shares of Peas Corp. for many years and during the current taxable year, Beverly gave Rebecca 100 common shares of Peas Corp., which common shares were all of the issued and outstanding shares of Peas Corp. Beverly’s adjusted basis for the 100 common shares (which Beverly kept) was $6,000 and Rebecca’s basis for the 100 common shares which Beverly gave to Rebecca was $6,000. Peas Corp. had $100,000 of earnings and profits both at the beginning and at the end of the current taxable year. Beverly worked full time for Peas Corp. and Beverly continued to do so for many years after the current taxable year. The reason why Beverly gave the 100 common shares to Rebecca was to get Rebecca into a position to run the corporation in the event that Beverly died. 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 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

49. Referring to the facts for Question 48, Peas Corp. did not redeem Beverly’s common shares, but 11 years later, Peas Corp. redeemed all of Rebecca’s common shares for $10,000, because Rebecca decided that Rebecca did not want anything to do with Peas Corp, even though Rebecca had never worked for Peas Corp.
As Rebecca’s 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

50. During the current taxable year, Beverly owned 200 common shares of Beans Corp. (an S corporation) for many years and during the current taxable year, Beverly gave Rebecca 100 common shares of Beans Corp., which common shares were all of the issued and outstanding shares of Beans Corp. Beverly’s adjusted basis for the 100 common shares (which Beverly kept) was $6,000 and Rebecca’s basis for the 100 common shares which Beverly gave to Rebecca was $6,000. Beverly worked full time for Beans Corp. and Beverly continued to do so for many years after the current taxable year. The reason why Beverly gave the 100 common shares to Rebecca was to get Rebecca into a position to run the corporation in the event that Beverly died. During the current taxable year, Beans 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 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

51. Referring to the facts for Question 50, Beans Corp. did not redeem Beverly’s common shares, but 11 years later, Beans Corp. redeemed all of Rebecca’s common shares for $10,000, because Rebecca decided that Rebecca did not want anything to do with Beans Corp, even though Rebecca had never worked for Beans Corp. As Rebecca’s 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

52. 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 $15,000, 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. $10,000
C. $2,000
D. $5,000
E. None of the above

53. Referring to the facts for Question 52, 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
54. 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 long term capital gain gross income as follows.
   A. None/Zero
   B. $3,000
   C. $9,000
   D. $1,000
   E. None of the above

55. During the current taxable year, Snickle Corp. had accumulated earnings and profits of $250,000 and Snickle Corp. had the following assets which Snickle Corp. no longer used or needed 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 $40,000. Further, during the current taxable year, Snickle Corp. distributed all of the unwanted assets to Mary. The assets which were distributed to Mary are stated below. After such distribution, Mary 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 and the equipment to the Jewish Community Center and the center promptly began using the items at the center.

<table>
<thead>
<tr>
<th>Type Of Property</th>
<th>Adjusted Basis</th>
<th>Fair Market Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inventory - Furniture</td>
<td>3,000</td>
<td>5,000</td>
</tr>
<tr>
<td>Equipment</td>
<td>20,000</td>
<td>10,000</td>
</tr>
<tr>
<td>Land</td>
<td>20,000</td>
<td>40,000</td>
</tr>
</tbody>
</table>

Snickle Corp.’s gross income with respect to the distributions to Mary is as follows.
   A. None/Zero
   B. $12,000
   C. $20,000
   D. $22,000
   E. None of the above

56. Referring to the facts for Question 55, the amount which Snickle Corp. may deduct for income tax purposes due to the distributions to Mary is as follows.
   A. None/Zero
   B. $10,000
   C. $5,000
   D. $40,000
   E. None of the above

57. Referring to the facts for Question 55, Mary’s gross income with respect to the distributions to Mary is as follows.
   A. None/Zero
   B. $50,000
   C. $45,000
   D. $5,000
   E. None of the above

58. Referring to the facts for Question 55, Mary’s adjusted basis for the equipment is as follows.
   A. None/Zero
59. 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

60. Referring to the facts for Question 59, John’s gross income during the current taxable year is as follows.
A. None/Zero
B. $40,000
C. $50,000
D. $10,000
E. None of the above

61. Referring to the facts for Question 59, 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

62. 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

63. Referring to the facts for Question 62, 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

64. Referring to the facts for Question 62, 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

65. 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 for several taxable years. 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
C. $1,000 of long term capital gain
D. $2,000 of short term capital gain
E. None of the above

66. For many years, including the current taxable year, River Corp. owned all of the 100 issued and outstanding common shares of Ocean Corp. and Beverly and Mary all of the 100 issued and outstanding common shares of River Corp., in equal 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. Both Beverly’s and Mary’s adjusted basis for their common shares in River Corp. was $10,000 and such common shares had a fair market value of $20,000 for Beverly and $20,000 for Mary. During the current taxable year, River Corp. transferred all of River Corp.’s common shares in Ocean Corp. to Beverly and Mary, pro rata. River Corp. did not receive anything back from either Beverly or Mary. Both River Corp. and Ocean Corp. continued to operate their separate businesses. At the time of the transfer of the Ocean Corp. common shares to Beverly and Mary, River Corp.’s adjusted basis for the Ocean Corp. common shares was $20,000 and the fair market value of the Ocean Corp. common shares was $40,000. Beverly’s gross income for the current taxable year is as follows.
A. None/Zero
B. $25,000
C. $10,000
D. $20,000
E. None of the above

67. Referring to the facts for Question 66, Beverly’s adjusted basis for the Ocean Corp. common shares is as follows.
A. None/Zero
B. $10,000
C. $5,000
D. $15,000
E. None of the above

68. Referring to the facts for Question 66, the transaction involved qualifies as a section 355 “spin-off”.
A. Yes/True
B. No/False
69. Referring to the facts for Question 66, at the time when Beverly and Mary received the Ocean Corp. common shares, Beverly and Mary each turned in 50% of their River Corp. common shares to River Corp. Beverly’s adjusted basis for the River Corp. common shares which Beverly transferred to River Corp. was $5,000. Beverly’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

70. Referring to the facts for Question 69, Beverly’s adjusted basis for the Ocean Corp. common shares is as follows.
A. None/Zero
B. $10,000
C. $5,000
D. $25,000
E. None of the above

71. Referring to the facts for Question 69, the transaction involved qualifies as a section 355 “split-off”.
A. Yes/True
B. No/False
C. Need more information
D. None of the above

72. Referring to the facts for Question 66, Beverly did not receive any of the Ocean Corp. common shares. Instead, Mary received all of the common shares of Ocean Corp., and in return, Mary transferred all of Mary’s River Corp. common shares to River Corp. At the time when Mary conveyed her River Corp. common shares to River Corp., Mary’s River Corp.’s common shares had a fair market value of $20,000 and with an adjusted basis to Mary of $10,000. Mary’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

73. Referring to the facts for Question 72, Mary’s adjusted basis for the Ocean Corp. common shares is as follows.
A. None/Zero
B. $5,000
C. $10,000
D. $25,000
E. None of the above

74. Referring to the facts for Question 72, the transaction involved qualifies as a section 355 “split-up”.
A. Yes/True
B. No/False
C. Need more information
D. None of the above

75. The maximum number of shareholders which an S corporation may have is as follows.
A. 25
76. Referring to the facts for Question 75, 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

77. 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

78. Referring to the facts for Question 77, 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

79. Referring to the facts for Question 78, 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. None
   B. $50,000
   C. $100,000
   D. Need additional information
   E. None of the above

80. 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 Paul’s 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

81. Referring to the facts for Question 80, 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

82. Referring to the facts for Question 80, this transaction qualifies as a section 302(b)(1) redemption.
A. Yes/True
B. No/False
C. Need more information
D. None of the above

83. A section 355 distribution may be part of a section 368(a)(1)(D) reorganization.
A. True/Yes
B. False/No
C. Need additional information
D. None of the above

84. 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

85. Referring to the facts for Question 84, 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

86. 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
87. Referring to the facts for Question 86, Orchid Corp. has met the “continuity of interest”.
A. Yes/True
B. No/False
C. Need additional information
D. None of the above

88. 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

89. Up Corp. owns all of the common shares of Down Corp. During the current taxable year, Up Corp. issued 100 common shares of Up Corp. to Elevator Corp. and in return Elevator Corp. issued 1,000 common shares to Down Corp. At the time when Elevator Corp. issued such common shares to Down Corp., there were 200 common shares already issued and outstanding of Elevator Corp. This type of transaction qualifies as a “B” reorganization.
A. Yes/True
B. No/False
C. Need additional information
D. None of the above

90. Referring to the facts for Question 89, if either Up Corp. or Down Corp. paid the accounting fees of the shareholders of Elevator Corp., which accounting fees were necessary for the shareholders of Elevator Corp. to determine the income tax result of the transaction, then these transactions would not qualify as any type of reorganization under section 368.
A. Yes/True
B. No/False
C. Need additional information
D. None of the above

91. A “B” reorganization is generally used in order for one corporation to obtain a subsidiary corporation in situations in which the acquiring corporation does not wish to operated the acquired corporation under the same corporate entity as the acquiring corporation. However, upon acquiring the target corporation, the acquiring corporation could engage in an upstream merger which would not generally cause the recognition of any gain or loss to either of the corporations.
A. Yes/True
B. No/False
C. Need additional information
D. None of the above

92. However, referring to the facts for Question 91, if the acquiring corporation wishes to acquire the assets of the target corporation, then the target corporation might find it more desirable to engage in either an “A” reorganization or a “C” reorganization. In any event, one of the most important, very basic, and initial decisions which has to be made by an acquiring corporation is: does the acquiring corporation want to own the assets or the stock of the target corporation? If all of the corporations and shareholders are willing to do so, then all of the reorganizations, as described in section 368, can be consummated without any gain or loss being recognized to any person. The particular difficulties arise, for example, when an acquiring corporation, who is willing to acquire assets, wishes to acquire only some, but not substantially all, of the assets of another corporation.
A. Yes/True
B. No/False
C. Need additional information
D. None of the above

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

94. During the current taxable year, Red Corp. transferred to Blue Corp. some of Red Corp.’s common shares and Blue Corp. transferred 70% of Blue Corp.’s gross assets to Red Corp. In general, this type of transaction qualifies as a “C” reorganization under section 368.
   A. Yes/True
   B. No/False
   C. Need additional information
   D. None of the above

95. 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

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

97. Referring to the facts for Question 96, 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

98. Referring to the facts for Question 96, the shareholders of Black Corp. do not recognize any gain or loss when
the shareholders (of Black Corp.) receive the cash from Black Corp.
A. Yes/True
B. No/False
C. Need additional information
D. None of the above

99. Referring to the facts for Question 96, the shareholders of Black Corp. do not recognize any gain or loss when the shareholders (of Black Corp.) receive the common shares of White Corp. from Black Corp.
A. Yes/True
B. No/False
C. Need additional information
D. None of the above

100. Referring to the facts for Question 96, the shareholders of Black Corp. do not recognize any gain or loss when the shareholders (of Black Corp.) receive property, for example, land from Black Corp.
A. Yes/True
B. No/False
C. Need additional information
D. None of the above