**Use the following information for the next 11 questions**

**On January 2, 2012, ABC Corp. granted Jiang a non-qualified option** to acquire stock in the company.

Under the option, Jiang may purchase up to 1,000 shares of the company's stock for **$10 per share**.

Jiang may the option during a five-year period beginning on the date of grant of the option.

If Jiang’s employment is terminated within two years of the date of the grant, any shares purchased under the option must be sold to the company at Jiang’s option price, and all rights under the option terminate.
The fair market value of the stock on the date of grant is $10 per share.
The option did not have a readily market value on the date of grant.

An election was NOT made under Section 83(b).

On January 2, 2013, Jiang purchased 1,000 shares.

On January 2, 2013, the stock was worth $23 per share.

On January 2, 2014, the stock was worth $28 per share.
Jiang continued as an employee until 2018.

On January 2, 2016, Jiang sold the stock for $35 per share.

How much income does Jiang recognize on January 2, 2012?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| a. | $0 | b. | $7,000 | c. | $13,000 | d.  | $18,000 | e. | Other |  |

 How much income does Jiang recognize on January 2, 2013?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| a. | $0 | b. | $7,000 | c. | $13,000 | d.  | $18,000 | e. | Other |  |

On January 2, 2013, what is Jiang’s basis in the stock bought on January 2, 2013?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| a. | $0 | b. | $10,000 | c. | $13,000 | d.  | $23,000 | e. | Other |  |

 How much income does Jiang recognize on January 2, 2014?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| a. | $0 | b. | $7,000 | c. | $13,000 | d.  | $18,000 | e. | Other |  |

 On January 2, 2014, what is Jiang’s basis in the stock?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| a. | $0 | b. | $10,000 | c. | $18,000 | d.  | $28,000 | e. | Other |  |

 How much income does Jiang recognize on January 2, 2016?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| a. | $0 | b. | $7,000 | c. | $13,000 | d.  | $18,000 | e. | Other |  |

 Assume we learn that a Section 83(b) election was made.
How much ordinary income is recognized by Jiang as a result of these transactions?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| a. | $0 | b. | $7,000 | c. | $13,000 | d.  | $18,000 | e. | Other |  |

 Assume we learn that a Section 83(b) election was made. What is the amount of the compensation deduction is that is allowed on the corporation’s tax return, related to these transactions?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| a. | $0 | b. | $7,000 | c. | $13,000 | d.  | $18,000 | e. | Other |  |

**--- Incentive Option---**

 Assume we learn that this option is an incentive option.
How much compensation deduction is allowed to the corporation related to these transactions?
[Assume a Section 83(b) election was NOT made.]

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| a. | $0 | b. | $7,000 | c. | $13,000 | d.  | $18,000 | e. | Other |  |

 [Assume a Section 83(b) election was NOT made.]
Assume we learn that this option is an incentive option. How much adjustment (related to the option) is made to Jiang’s taxable income to arrive at alternative minimum taxable income?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| a. | $0 | b. | $7,000 | c. | $13,000 | d.  | $18,000 | e. | Other |  |

 [Assume a Section 83(b) election was NOT made.] Assume we learn that this option is an incentive option. How much gain will Jiang recognize when the stock is sold?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| a. | $0 | b. | $7,000 | c. | $13,000 | d.  | $25,000 | e. | Other |  |