**Accounting 6120. Corporate Taxation – Test no. 3--Chapters 8-10 Test no. \_\_\_\_\_**

**Spring, 2016. University of North Carolina at Charlotte. April 13, 2016. -Day**

Name\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**Test Instructions**: You may use your textbook and your notes when answering questions on this test.
The instructor will consider whether he can answer a question about the test, without defeating the purpose of a question. Avoid all appearances of impropriety. If you see any sign of impropriety, please prepare an anonymous note and slide it under the instructor's office door. Please turn in both the test and the computer answer sheet. Be sure to complete the name line **above.** On your **Opscan Sheet**, your Student ID Number is entered as your "Identification Number." Your test number is entered in the "special codes" area, right justified. Your test number is written in red at the top of this test.

The grade will be determined as follows: 100 points, less 3 points per incorrect answer.

On January 2, 2011, Red Corporation sold 100,000 shares of its own $1 par common stock for $300,000. In August, 2016, Red Corporation bought 10,000 shares of treasury stock for $40,000, and sold the 10,000 shares two months later for $50,000. As a result of these transactions, Red Corp. should report in its 2016 tax return:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **a.** | $10,000 gain. | **b.** | $50,000 gain. |  |
| **c.** | $20,000 gain. | **d.** | No gain. [CPA - May, 1988- modified] |

Andrew transferred an office building that had an adjusted basis of $180,000 and a fair market value of $350,000 to Dickens Corporation in exchange for 80% of Dickens' only class of stock. The building was subject to a mortgage of $200,000, which Dickens assumed for valid business reasons. The fair market value of the stock on the date of the transfer was $150,000. What is the amount of Andrew's recognized gain?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $0 | **b.** | $20,000 | **c.** |  $ 170,000  | **d.**  | $350,000  |  |  |  |

 Connie transferred property with an adjusted ba­sis of $16,000 and a FMV of $25,000, to ABC Corporation. Connie received 90% of ABC Corporation's only class of stock.

ABC assumed debt on Connie’s property in the amount of $3,000.
The stock re­ceived by Connie had a fair market value of $22,000 at the time of the exchange.
What is ABC Corporation's basis in the property received from Connie?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $25,000 | **b.** | $22,000 | **c.** | $19,000 | **d.** | $16,000 | **e.** | Other |  |

Mary (who is single) had a salary of $150,000 in 2016. She has deductions totaling $30,000, consisting of her personal exemption and itemized deductions.
She had no income, deduction, gain or loss transaction on her 2016 return, except the following sale. In 2000, Mary contributed $210,000 cash to Local Corporation, for 80 shares of section 1244 stock.
In 2016, she sold the stock for $40,000.

 What is her taxable income on the 2016 federal income tax return?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $120,000 | **b.** | $117,000 | **c.** | $70,000  | **d.**  | $67,000 | **e.** | none of these |  |

 In a corporate reorganization under §368(a)(1), Donna exchanged 500 shares of Local Corp.

com­mon stock that she had bought in January 2000 at a cost of $5,000 for 100 shares of National Corp. common stock hav­ing a fair market value of $6,000.
Donna's basis in the National Stock is:

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $5,000 | **b.** | $5,500 | **c.** | $6,000  | **d.**  | Other |  |  |  |

We discussed the Walt Disney case in class. Please make the simplifying assumptions that:
(1) Walt Disney owned 100% of Retlaw Corporation, and
(2) the 14,000 acre ranch was the only Retlaw asset that Production Corporation did not want to acquire. Production wanted to pay for the acquisition of Retlaw with $46.2 million of Production common stock, but only after Retlaw disposed of the unwanted assets (cattle ranch).
Assume the cattle ranch was worth $20,000,000 but had a cost (or basis) to Retlaw Corporation of $8,000,000. Assume that Retlaw distributed the ranch to Retlaw’s stockholder, Walt Disney.

How much gain would Retlaw report as a result of this distribution?

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $0 | **b.** | $8,000,000  | **c.** | $12,000,000 | **d.**  | $20,000,000  | **e.** | Other Amount |

Continue the preceding question.

What would Walt Disney have as basis in the ranch?

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $0 | **b.** | $8,000,000  | **c.** | $12,000,000 | **d.**  | $20,000,000  | **e.** | Other Amount |

Continue the preceding question. Assume Retlaw transferred the ranch to Flower Corporation (a new corporation) in exchange for all of the stock of Flower Corporation. Then, Retlaw distributed all of the Flower Corporation stock to Retlaw’s stockholder, Walt Disney, in a spin-off.
How much income or gain would Walt Disney recognize on this distribution?

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $0 | **b.** | $8,000,000  | **c.** | $12,000,000 | **d.**  | $20,000,000  | **e.** | Other Amount |

Bill owned land with a basis of $50,000 and FMV of $100,000. He contributed the land to an existing general partnership in return for a 25% interest in capital and profits. The property contributed by Bill was subject to a $60,000 mortgage which was assumed by the partnership.
What was Bill’s **recognized gain** as a result of this contribution to the partnership?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $0 | **b.** | $3,000 | **c.** | $9,000 | **d.** | $12,000 | **e.** | Other |  |

 Repeat the preceding question. What was Bill's **basis in the partnership** as a result of this contribution?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $0 | **b.** | $38,000 | **c.** | $50,000 | **d.** | $5,000 | **e.** | $100,000 |  |

Repeat the preceding question. What was the **partnership’s basis in the land** after this contribution?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $0 | **b.** | $38,000 | **c.** | $5,000 | **d.** | $50,000 | **e.** | $100,000 |  |

Repeat the preceding question, except assume the land was subject to a debt of $80,000 which was assumed by the partnership. What was **Bill’s recognized gain** as a result of this contribution to the partnership?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $0 | **b.** | $10,000 | **c.** | $30,000 | **d.** | $40,000 | **e.** | $80,000 |  |

 Success Partnership had the following income for the current year:

|  |  |
| --- | --- |
| Net Income from operations  | $170,000 |
| Tax exempt interest income | $10,000 |
| Dividends from corporations  | $5,000 |
| Net rental Income  | $20,000 |

Partners Fran and Jan share the profits and losses equally. What is Fran’s share of the partnership income (excluding all partnership items which must be accounted for separately)?

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| a. | $85,000 | b. | $95,000 | c. | $97,500 | d. | $170,000 |  |  |

Ms. Rich is a homebuilder, operating as a proprietorship. She gave a building lot as her contribution to capital in a new partnership. She became a 50% partner in the new business. The lot had cost Ms. Rich $60,000 and had a FMV of $100,000 on the date of the contribution to the partnership. The partnership held the land as an investment. Two years later the partnership sold the lot for $120,000.
What is the amount of income or gain to be reported by Ms. Rich, as a result of the sale the land by the partnership?

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** |  $60,000 | **b.** | $50,000  | **c.** | $40,000 | **d.**  | $25,000 | **e.** | Other |  |  |

Bill purchased 50% of the partnership H, a calendar year partnership, for $7,000 on 1-1-2016.
At the end of the year, the partnership has debt of $12,000. For 2016, H had an operating loss of $40,000. What is the amount of H's loss that Bill can deduct on his individual tax return for 2016?

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $20,000  | **b.** | $19,000 | **c.** | $13,000 | **d.** | $7,000 |  |

Jack and Jill file a joint income tax return for 2016. Jack received wages of $110,000. Jill is a 50% partner in a partnership engaged in a rental real estate activity which generated a $60,000 loss for the partnership. Jill was an active participant in the rental real estate activity. They had no other income. How much of the partnership rental loss may they deduct on their 2016 income tax return?

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $0 | **b.** | $5,000 | **c.** | $15,000 | **d.** | $20,000 | **e.** | $25,000 |

 The Beckman Group consists of 3 equal partners, Judy, Jan and Bill.

The partnership does not have debt. The partnership does not have hot assets.

At the close of the current year, Bill's basis in the partnership is $19,000.

At that time, the partnership makes a non-liquidating distribution to Bill of land with a partnership basis of $13,000 and a fair market value of $15,000.

What is Bill’s **gain or (loss)** on this distribution?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $0 | **b.** | $13,000 | **c.** | ($4,000) |  | **d.** | ($6,000) | **e.** | $2,000 |

Continue the preceding question for the Beckman Group.
What is Bill’s **basis in the partnership** after the immediately distribution?

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $0 | **b.** | $19,000 | **c.** | $6,000 | **d.** | $4,000 | **e.** | Other |

Use information in the preceding question, except assume **the distribution received by Bill is in liquidation of his interest in the partnership. What is Bill’s basis in the land**?

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $0 | **b.** | $13,000 | **c.** | $15,000 | **d.** | $19,000 | **e.** | Other |

 [Sec. 751] The ABC partnership had the following cash basis balance
sheet at December 31, 2014:

|  |  |  |
| --- | --- | --- |
| **-- Assets --** | **Basis** | **FMV** |
|  Cash | $81,000 | $ 81,000 |
|  Accounts Receivable | -- | 210,000 |
| **Totals** | **$81,000** | **$291,000** |
| **-- Liabilities & Capital --** |  |  |
|  Note Payable | $60,000 | $ 60,000 |
|  Capital Accounts: |  |  |
| Partner A | 7,000 | 77,000 |
| Partner B | 7,000 | 77,000 |
| Partner C | 7,000 | 77,000 |
| **Totals** | **$81,000** | **$291,000** |

Partner B, an equal partner, sold her partnership interest to an unrelated investor
for $77,000 cash on January 1, 2015. In addition, the buyer assumed Partner B's share of partnership liabilities.
 How much Ordinary Income will Partner B report in her 2015 income tax return from the sale of her partnership interest?

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $0 | **b.** | $10,000 | **c.** | $70,000 | **d.** | $77,000 | **e.** | Other |  |  |



|  |  |
| --- | --- |
| 1 | D |
| 2 | B |
| 3 | D |
| 4 | D |
| 5 | A |
| 6 | C |
| 7 | D |
| 8 | A |
| 9 | A |
| 10 | D |
| 11 | D |
| 12 | B |
| 13 | A |
| 14 | B |
| 15 | C |
| 16 | D |
| 17 | A |
| 18 | C |
| 19 | D |
| 20 | C |
| 21 | B |
| 22 | C |
| 23 | A |
| 24 | B |
| 25 | B |
| 26 | A |
| 27 | C |