**Chapter 12 Homework**

Wailes Corporation is subject to a corporate income tax only in State X. The starting point in computing X taxable income is Federal taxable income. Wailes’ Federal taxable income is $650,000, which includes a $60,000 deduction for state income taxes. During the year, Wailes received $50,000 interest on Federal obligations. State X does not allow a deduction for federal income tax payments. Wailes’ taxable income for X purposes is:

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $600,000. | **b.** | $650,000. | **c.** | $660,000. | **d.** | $710,000. |  | **C** |

In determining state taxable income, all of the following are adjustments to Federal income except:

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | | Net operating loss. | **b.** | Federal income tax expense. | | | **D** | |
| **c.** | | Dividend income | | | |  | | |
| **d.** | | Cost of goods sold | | | | |
| **e.** | | State income tax refunds | | | | |

Which of the following are common adjustments to federal taxable to get state taxable income?

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **a.** | Adding back the deduction for state income taxes | |  | | | **E** |
| **b.** | adding back interest earned on municipal bonds |  | |
| **c.** | Subtracting interest income earned on federal bonds |  | |
| **d.** | Adding or subtracting differences in different deprecation methods required at federal and state levels. | |  | |
| **e.** | All of these | |  | |

Dough Company sold an asset on the first day of the tax year for $100,000. Dough’s tax basis for the asset was $40,000. Because of differences in cost recovery schedules, the state regular-tax basis in the asset was $60,000. What adjustment, if any, should be made to Federal taxable income in determining the correct state taxable income for the typical state?

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $0. | **b.** | $20,000. | **c.** | $45,000. | **d.** | ($20,000). |  | **D** |

Big Corporation operates in two states. Its total taxable income amounts to $1,000,000.

|  |  |  |  |
| --- | --- | --- | --- |
|  | **State1** | **State 2** | **Total** |
| Sales | $20,000,000 | $30,000,000 | $50,000,000 |
| Property values | $25,000,000 | $25,000,000 | $50,000,000 |
| Compensation | $3,000,000 | $2,000,000 | $5,000,000 |

State no. 2 requires the use of a 3-factor formula, with no double weighting.

How much taxable income is reported for state no. 2?

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $1,000,000 | **b.** | $250,000 | **c.** | $500,000 | **d.** | $750,000 |  | **C** |

Repeat preceding question. Assume State no. 2 double weights Sales.   
How much taxable income is reported for state no. 2?

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $525,000 | **b.** | $575,000 | **c.** | $500,000 | **d.** | $750,000 |  | **A** |

Premium Corp. has total taxable income of $1 million, and in State W has a sales factor of 60%, a payroll factor of 50%, and a property factor of 46%. What is Premium's State W UDITPA apportionment factor and State W taxable income?

|  |  |  |
| --- | --- | --- |
| **a.** | 50 %; $500,000 taxable income b. 52 %; $520,000 taxable income | B |