**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 |