

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.

1. 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

2. 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]

3. 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

4. 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

5. 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

Mary Corporation (MaryCorp)	Book Value	FMV
Current Assets	\$4,000,000	\$4,000,000
Fixed Assets (Basis and FMV)	1,000,000	6,000,000
Total Assets	\$5,000,000	\$10,000,000
Debt	0	
Common Stock – Mary’s investment	2,000,000	
Retained Earnings	3,000,000	
Owner Equity	\$5,000,000	\$10,000,000
FMV of Mary’s stock in Mary Corporation		\$10,000,000

Mary’s total basis in all outstanding Mary Corporation Stock: \$2,000,000.

Duke Energy will pay \$6,000,000 to MaryCorp for all fixed assets of MaryCorp.

Mary will liquidate MaryCorp (receive cash of MaryCorp after payment of federal income tax).

There is no state income tax. MaryCorp has no carryover of losses, etc.

Mary Corp has no transactions this year, other than those identified in this problem.

The corporation will not incur liquidation expenses or other expenses.

- 6 Refer to information above for the acquisition of MaryCorp assets by Duke Energy Corp. How much total income or gain does Mary recognize on liquidation of MaryCorp?
- a. \$0 b. \$6,300,000 c. \$3,000,000 d. \$8,000,000
- 7 Refer to information above for acquisition of MaryCorp assets by Duke Energy Corporation. What is Duke Energy's basis in the fixed assets received from MaryCorp?
- a. \$0 b. \$1,000,000 c. \$6,000,000 d. Other

Refer to the balance sheet for Mary Corporation above for the next 5 questions.

Assume that Duke Energy trades Duke Energy stock worth \$10,000,000 to Mary for all of Mary's stock in Mary Corporation, in a transaction that is a tax-free reorganization.

- 8 How much gain does Mary recognize on the transaction?
- a. \$0 b. \$5,000,000 c. \$7,000,000 d. \$8,000,000
- 9 What is Mary's basis in the Duke Energy stock?
- a. \$0 b. \$2,000,000 c. \$5,000,000 d. \$10,000,000
- 10 What is Duke Energy's basis in the Mary Corporation stock?
- a. \$0 b. \$2,000,000 c. \$5,000,000 d. \$10,000,000
- 11 Duke Energy will liquidate Mary Corporation when its balance sheet is as shown above. How much gain or loss will Mary Corporation recognize on the liquidation?
- a. \$0 b. \$1,000,000 c. \$3,000,000 d. \$5,000,000
- 12 Duke Energy will liquidate Mary Corporation when its balance sheet is as shown above. What basis will Duke Energy have in the fixed assets?
- a. \$0 b. \$3,000,000 c. \$1,000,000 d. \$6,000,000

13. 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

14. 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

15. 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

16. 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

17. 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

18. 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

19. 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

20. 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

21. 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

22. 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

23. [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

24. 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

25. 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

26. 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

27. 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

No. Ans

- 1 A Basis of stock received in a tax-free reorganization
 2 D No gain or loss for a corp. upon sale of its capital stock, including treasury stock.

3 B

1. Compute Stockholder's Gain or Loss		
Value of all consideration received by stockholder:		
Value of Stock received		\$150,000
Liabilities assumed		200,000
Minus: Cost of all property transferred to corp.		(180,000)
Equals Gain Realized		\$170,000
Recognized Gain: Lesser of gain realized or boot (include excess debt) received		\$20,000

4

1. Compute Stockholder's Gain or Loss		
Value of all consideration received by stockholder:		
Value of Stock received		\$22,000
Liabilities assumed		3,000
Minus: Cost of all property transferred to corp.		(16,000)
Equals Gain Realized		\$9,000
Recognized Gain: Lesser of gain realized or boot (include excess debt) received		\$0

2. Compute Stockholder's Basis in Stock		
Basis of all property transferred		\$16,000
Plus gain recognized		-
Minus boot received (include all debt transferred)		(3,000)
Equals basis of stock received		\$13,000

4 D

3. Compute Corporation's Gain		
		-
4. Compute Corporation's Basis in Property		
Basis of property transferred by stockholder (Property other than cash)		\$16,000
Add: Gain recognized by stockholder		-
Equals: basis of property to corporation		\$16,000

5 D

Salary		\$150,000
Section 1244 loss		
Selling price	40,000	
Cost	210,000	
Total loss on sale of Sec. 1244 stock	(170,000)	
Amount treated as ordinary loss	50,000	
Capital loss	3,000	
Total loss deduction - current year		53,000
Adjusted gross income		97,000
Itemized Deductions		(\$30,000)
Taxable income		\$67,000

- 6 C
 7 D
 8 A

Mary Corporation (MaryCorp)	Book Value	FMV
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- C** 12 Duke Energy will liquidate Mary Corporation when its balance sheet is as shown above. What basis will Duke Energy have in the fixed assets?
- a. \$0 b. \$3,000,000 c. \$1,000,000 d. \$6,000,000

No AnsLine

- 13 C Corporation must recognize gain on distribution of appreciated property to a shareholder, as if the corporation sold the property at FMV.
- 14 D Basis of property received in a distribution of assets from corporation is FMV.
- 15 A Corporation does not recognize a gain on distribution of assets in a spinoff, that qualifies as part of a tax-free corporate reorganization.

16 A Compute Gain on investment in Partnership

Note: "Partner-1" is the person investing in the Partnership.

1	Partner-1's asset had a value of	<u>\$100,000</u>
2	Partner-1's asset had a BASIS of	<u>\$50,000</u>
3	Partnership capital % received by Partner-1	<u>25%</u>
4	Partnership capital % of other partners	<u>75%</u>
5	Partnership debt before investment	
6	Partnership debt assumed by Partner-1	
7	Partner-1's debt assumed by PARTNERSHIP	<u>60,000</u>
8	Partner-1's debt assumed by other PARTNERS	<u>45,000</u>
9	Excess of line 8 over lines 2 + 6	<u>-</u>
10	Partner-1's Gain-Positive Amount on Line 9	<u>\$0</u>

17 D Compute Partner-1's Basis in partnership Interest

Asset basis before contribution	<u>\$50,000</u>
Add:	
Partnership debt assumed by Partner-1	
Less:	
Partner-1's Debt assumed by other Ptnrs	<u>(45,000)</u>
Partner-1's Basis - Cannot be negative	<u>\$5,000</u>

18 D Compute Partnership's basis in Asset

Partner-1's assted basis (before contribution)	50,000
Add: gain - investment co.(rare)	
Do not add gain for excess debt	<u>XXX</u>
Partnership's basis in asset invested	<u>\$50,000</u>

19 B Compute Gain on investment in Partnership

Note: "Partner-1" is the person investing in the Partnership.

1	Partner-1's asset had a value of	<u>\$100,000</u>
2	Partner-1's asset had a BASIS of	<u>\$50,000</u>
3	Partnership capital % received by Partner-1	<u>25%</u>
4	Partnership capital % of other partners	<u>75%</u>
5	Partnership debt before investment	
6	Partnership debt assumed by Partner-1	
7	Partner-1's debt assumed by PARTNERSHIP	<u>80,000</u>
8	Partner-1's debt assumed by other PARTNERS	<u>60,000</u>
9	Excess of line 8 over lines 2 + 6	<u>10,000</u>
10	Partner-1's Gain-Positive Amount on Line 9	<u>\$10,000</u>

20 B	Ms. Rich contributes building lot to partnership	BASIS	60,000
	Ms. Rich contributes building lot to partnership	FMV	100,000
	Ms. Rich receives partnership interest with ratio of		50%
	Partnership has carryover basis		<u>60,000</u>
	Partnership sells the lot for		<u>120,000</u>
	Total Gain		<u>\$60,000</u>

Total gain is ordinary income to the partnership.
Continue preceding problem.

Ms. Rich reports income of:

All of built-in Gain	\$40,000
One-half of the gain accruing since acquired by partnership	10,000
Gain reported by Ms. Rich	<u>\$50,000</u>

21 A Net income of an accrual basis, calendar year partnership with these items?

	<u>Data</u>	<u>Ordinary</u>	<u>Separate</u>
Net income from operations	\$170,000	\$170,000	
Tax exempt interest income	10,000		\$10,000
Dividends from corporations	5,000		5,000
Net rental income	20,000		<u>20,000</u>
Ordinary income		<u>\$170,000</u>	
Separate items			<u>\$35,000</u>
		50%	
Fran's share		<u>\$85,000</u>	

22 C Bill purchased partnership interest. What is his loss deduction?
Limit is basis of partnership capital, plus his share of partnership debt.

23 C Partner sold partner's share of unrealized receivables.

24 D	Jack and Jill - Loss from rental activity. \$25,000 exception.	
	Maximum loss write-off if AGI not above \$100,000	<u>\$25,000</u>
	Adjusted gross income	\$110,000
	Threshold for phase-out	<u>100,000</u>
	Amount of AGI above the threshold	10,000
	Phase-out percentage for income above threshold	<u>50%</u>
	Reduction in maximum allowable loss	5,000
	Maximum loss write-off for this couple	<u>\$20,000</u>