

**Homework-Chapter 4.** (Assume the current tax year is calendar year 2016 unless otherwise indicated.)

1. Which of the following is not a feature of corporations?

- a. Shareholder Limited liability
- b. Limited life of the corporation.
- c. Centralized management

2. Which of the following is an advantage of corporations?

- a. Ease of raising capital
- b. Tax-free fringe benefits for employees
- c. Both a. and b.

3. Which of the following can choose its tax entity status with the Check the box regulations?

- a. C corporation
- b. Partnership

4. Santa Corp. operates a golf shop. It elected Subchapter S status on March 1 of the current year. Taxable income for the current year is \$120,000. What is Santana Corp's income tax liability?

- a. \$ - 0 -
- b. \$ 3,000
- c. \$ 18,000
- d. \$ 30,050
- e. \$ 40,800

5. Sue owns 100% of Sue Corp. (C corporation) and 50% of BigSCorp (S corporation).

She is also a 50% partner in the Great Partnership. She works in all three businesses, but only receives compensation (salary) from the two corporations. Her beginning tax basis is \$65,000 for each of the three entities. Transactions for the year are as follows.

	Sue Corp.	BigSCorp.	Partnership	Sue's Income
Revenue	\$100,000	\$100,000	\$100,000	
Compensation to Sue	40,000	40,000		
Other Expenses	10,000	30,000	30,000	
<b>Net Income and taxable income</b>	<b>50,000</b>	<b>30,000</b>	<b>70,000</b>	
Total dividends paid to shareholder	\$7,000			
Total dividends paid to shareholders		\$4,000		
Total distribution to partners			\$10,000	

How much gross income is to be reported by Sue from these three entities for the year?

- a. \$169,000
- b. \$136,000
- c. \$100,000
- d. \$80,000
- e. \$137,000

6. Jan is single and 40 years old. Her only income is from the business described below. Jan operates an unincorporated office supply business that has the following income statement each year:

Sales	\$1,000,000
Operating expenses	900,000
Net income	\$ 100,000

Jan is considering incorporating the business. If the business is incorporated, she will draw a salary of \$50,000, and the corporation will not pay dividends. Retained earnings will be reinvested in additional warehouse space and delivery equipment. The corporation is not expected to have surplus funds in the near future. Which of these organizational forms is likely to result in the lowest total income tax burden for the current year?

- a. Proprietorship
- b. Corporation without S election
- c. Corporation with S election

7. The Concord Corporation has federal taxable income of \$500,000 for the year. What is the federal income tax due for the year?

- a. \$75,000
- b. \$150,000
- c. \$170,000
- d. \$195,000
- e. Other Amount

8. What is AB Corp's income tax on taxable income of \$825,000 if it is a personal service corporation?  
[See text footnote on page 12-8]

- a. \$250,000   b. \$280,500   c. \$288,750   d. \$301,000   e. \$320,000

9. Marianna Corporation operates a theatrical costume shop.

Taxable income for the current year is \$1,000,000. What is Marianna's income tax liability?

- a. \$ - 0 -   b. \$340,000   c. \$373,250   d. \$390,000

10. Maxwell Corporation operates a women's clothing boutique.

Taxable income for the current year is \$50,000. What is Maxwell's income tax liability?

- a. \$ - 0 -   b. \$ 5,000   c. \$ 7,500   d. \$12,500   e. \$17,000

11. Patrick and Patricia own Pats' Legal Services Corporation equally. The two owners are practicing attorneys employed by the corporation. The only business activity of the entity is the provision of legal services. The corporation's taxable income is \$100,000. What is the corporation's income tax liability?

- a. \$22,250   b. \$34,000   c. \$35,000   d. \$26,150

12. Kisco Corp.'s taxable income before taking the dividends received deduction was \$70,000.

This includes \$10,000 in dividends from an unrelated taxable domestic corporation.

Given the following tax rates, what would Kisco's income tax be before any credits?

Partial Rate Table	Tax Rate
Up to \$50,000	15%
Over \$50,000 but not over \$75,000	25%

- a. 15%   b. \$10,750   c. \$12,500   d. \$15,750

13. A corporation reports the following for the year:

Sales	\$500,000
Cost of sales and normal operating expenses	(460,000)
Net income from operations (before tax)	40,000
Interest income on Apple Corporation bonds	10,000
Net income before tax	\$50,000

What is the amount of the corporation's taxable income for the year?

- a. \$40,000   b. \$50,000   c. \$45,000   d. \$49,000   e. Other

14. Use information in the preceding problem, except assume the investment income is from Apple Corporation Stock (not bonds).

What is the amount of the corporation's taxable income for the year?

- a. \$40,000   b. \$50,000   c. \$43,000   d. \$49,000   e. Other

15. Use information in the preceding problem, except assume the investment income is actually interest income of \$10,000 from City of Charlotte bonds (not income from Apple Corporation). What is the amount of the corporation's taxable income for the year?

- a. \$40,000   b. \$50,000   c. \$45,000   d. \$49,000   e. Other

16. Mary owns Local Corp. and serves as its CEO.

Local Corp. has taxable income of \$180,000, before payment of a salary to Mary.

Mary receives a reasonable salary of \$80,000, leaving corporate taxable income of \$100,000.

Mary has no income other than her income from the corporation.

Mary has no deductions on her federal income tax return other than her personal exemption and the standard deduction.

The corporation pays its federal income tax (no state income tax) and distributes its after-tax net income to Mary as a dividend.

How much federal income taxes are paid on corporate taxable income of \$100,000, counting taxes paid at both the corporate and individual level? (Do not include taxes on Mary's salary.)

- a. \$14,250.00   b. \$33,912.50   c. \$22,912.50   d. \$15,000.00   e. Other

17. Frank owns 27% of the Baxter Corporation, whose ordinary income is \$100,000. His salary for the year is \$50,000. What amount must Frank pay in Social Security taxes if Baxter is a (an)

- |    | <b>C Corporation</b> | <b>S Corporation</b> |
|----|----------------------|----------------------|
| a. | \$ -0-               | \$ 3,825             |
| b. | \$ 3,825             | \$ -0-               |
| c. | \$ 3,825             | \$ 3,825             |
| d. | \$ 3,825             | \$ 7,650             |
| e. | \$ 3,825             | \$11,475             |

18. On January 1, 2016, Jan started: (1) Computer Repair Corporation and (2) a Web Consulting Corporation. She invested cash of \$25,000 in each of these new corporations. She elected S status for web consulting corp. Income statements for 2016 are shown below.

	<b>Computer Repair [C Corp]</b>	<b>Web Consulting [S Corp]</b>
Revenue	\$100,000	\$200,000
Salary to Jan (100% owner)	(30,000)	(80,000)
Rent expenses	(20,000)	(90,000)
Other expenses	(10,000)	(40,000)
Net income before taxes	\$40,000	(\$10,000)
Dividends paid to Jan	\$5,000	\$4,000

Jan has not income or loss from any source other than these two corporations.

How much adjusted gross income does Jan report for the year?

- a. \$105,000   b. \$110,000   c. \$115,000   d. \$120,000   e. Other

19. KAD, Inc., a calendar-year corporation incorporated in January 2010. For each of the years 2012-2016, KAD reported taxable income (loss) [before deducting a net operating loss brought forward or back from another year] as follows:

2012	2013	2014	2015	2016
\$15,000	(\$20,000)	\$10,000	\$30,000	(\$75,000)

When filing its tax returns for both 2013 and 2016, KAD did not elect to give up the carryback of its losses. KAD's taxable income before the net operating loss deduction for 2017 is \$80,000. What is the amount of net operating loss carryforward that KAD should deduct on its tax return for 2017?

- a. \$30,000   b. \$35,000   c. \$40,000   d. \$55,000

## **Basic facts for the next five questions.**

1. Note: the last page of this homework file has a copy of the case of Sarah, who owns and operates a successful business, which is her only source of income.
2. Sarah expects the C corporation (in 2016) to have revenue of \$1,000,000, expenses other than owner salary of \$800,000, and a salary of \$80,000 for the owner, which is a reasonable amount of compensation.
3. The corporation will have taxable income of \$120,000, an income tax liability before credits of \$30,050 and after-tax income of \$89,950.
4. Sarah is single, age 40, with no dependent. She has allowable itemized deductions (after all deduction limits) of \$15,950. She claims one exemption of \$4,050.
5. Her personal income tax before credit for withholding is projected to be \$10,771.25.
6. The combined corporate and individual income tax burden is projected to be \$40,821.25.
7. There is no state individual income tax, or state corporate income tax.

**20.** Sarah is considering taking a dividend of \$10,000, in addition to her regular salary of \$80,000. The dividend will be paid to her on December 31, 2016. She will not receive a bonus in 2016? What is the combined corporate and individual income tax burden if she does take this dividend?

- a.** \$40,843.75   **b.** \$42,321.25   **c.** \$45,843.75   **d.** \$30,843.75   **e.** Other

**21.** Sarah is considering taking a bonus of \$10,000 in addition to her regular salary of \$80,000. The bonus will be paid to her on December 31, 2016. Total compensation of \$90,000 will be a reasonable amount for this individual. She will not receive a dividend.

What is the combined corporate and individual income tax burden if she does take this bonus? (Ignore Social Security Taxes and Medicare Taxes.)

- a.** \$39,421.25   **b.** \$40,843.75   **c.** \$36,443.75   **d.** \$30,843.75   **e.** Other

**22.** Sarah's golfing buddy has suggested that she should consider electing S Status for 2016? She would receive her normal salary of \$80,000 and no bonus or dividend.

What is the combined corporate and individual income tax burden if she elects S status for 2016?

- a.** \$30,843.75   **b.** \$40,843.75   **c.** \$42,843.75   **d.** \$43,436.75   **e.** Other

**23.** Assume that Sarah does elect S status for 2016, and she receives her normal salary of \$80,000 and no bonus. Initially, she decided not to take a dividend this year.

What is the amount of the CHANGE in the combined corporate and individual income tax burden if she chooses to take a dividend of \$10,000 from her S Corporation and take her normal salary of \$80,000?

(In other words, what is the tax impact of taking a dividend from the corporation?)

- a.** \$0   **b.** \$1,500   **c.** \$2,000   **d.** \$2,500   **e.** Other

**24.** Assume the entity is a one-owner Limited Liability Company.

Revenue and expenses are the same amounts as shown in the basic case.

Revenue is \$1,000,000 and expenses are \$800,000 (not counting compensation paid to Sarah)].

Sarah receives a salary (or withdrawal) of \$80,000.

Considering the impact of self-employment tax, what is Sarah's adjusted gross income for 2016?

- a.** \$192,735   **b.** \$189,975   **c.** \$200,000   **d.** \$207,650   **e.** Other

## C Corporation wholly owned by Sarah-2016

Part 1. Corporate Income Tax	<b>Corporate Revenue</b>				<b>\$1,000,000</b>	
	Expenses (except owner salary)				(800,000)	
	Net Income Before Salary to Owner				200,000	
	<b>Salary to only Stockholder (Sarah)</b>				<b>(80,000)</b>	
	<b>Corporate net income (also taxable income)</b>				<b>\$120,000</b>	
	<b>Federal Corporate Income Tax Rates</b>				<b>Income</b>	
	<b>Layers taxed at various rates</b>			<b>Amount (layer)</b>	<b>Rate</b>	<b>Tax</b>
	\$0	\$50,000	<b>\$50,000</b>	15%	<b>\$7,500</b>	
	\$50,000	\$75,000	<b>\$25,000</b>	25%	<b>\$6,250</b>	
	\$75,000	\$100,000	<b>\$25,000</b>	34%	<b>\$8,500</b>	
\$100,000	\$335,000	<b>\$20,000</b>	39%	<b>\$7,800</b>		
Corporate Taxable Income & Tax				<b>\$120,000</b>	<b>\$30,050</b>	
Corporate Income After Tax					<b>\$89,950</b>	

The state does not impose an individual or corporate income tax. Ignore payroll tax

Part 2. Sarah's Tax	<b>Tax Return of Shareholder - Sarah - Single, no dependent - 2016</b>			
	Sarah's salary (from her corporation - above)			<b>\$80,000</b>
	Sarah's share of C Corp. dividends or S corp. earnings			0.00
	Sarah's adjusted Gross Income			<b>80,000</b>
	Sarah's personal Deductions:			<b>Details</b>
	Sarah's personal exemption			(4,050)
	Sarah's Itemized Deductions (mortgage interest, etc)			(15,950)
	Subtotal			(20,000)
	<b>Sarah's Taxable Income (tax base)</b>			<b>60,000</b>
	<b>Individual Tax Computation</b>		37,650	5,183.75
(see tax rates at bottom of page)		22,350	25% 5,587.50	
<b>Total Taxable Income and Tax</b>		<b>60,000</b>	<b>10,771.25</b>	
<b>Sarah's Individual income Tax</b>			<b>10,771.25</b>	
Tax Withholding (from her salary) and other tax credits			<b>12,000.00</b>	
<b>Individual Income Tax Due or (Refund )</b>			<b>(1,228.75)</b>	

Part 3. Total Tax	<b>Individual income tax - Above</b>		<b>\$10,771.25</b>
	<b>Corporate income tax - Above</b>		<b>\$30,050.00</b>
	<b>Total individual and corporate income tax liability</b>		<b>\$40,821.25</b>
	<b>Average tax rate on total income of:</b>		<b>\$200,000      20.41%</b>

Part 4. Individual Income Tax Rates	<b>Individual taxable income is:</b>		<b>Individual Federal Income Tax - Single - 2016</b>			
	Over	But not over	Tax on all Previous Layers		Plus	of Taxable Income over:
	\$0	\$9,275	0.00	+	10%	\$0
	9,275	37,650	927.50	+	15%	\$9,275
	37,650	91,150	5,183.75	+	25%	\$37,650
	91,150	190,150	18,558.75	+	28%	\$91,150
	190,150	413,350	46,278.75	+	33%	\$190,150
	413,350	415,050	119,934.75	+	35%	\$413,350
\$415,050		120,529.75	+	39.6%	\$415,050	

**Federal Income Tax Rates-Single - 2016.**

Taxable income		Total Federal Income Tax			
Over	But not over	Tax on all Previous Layers	Plus	of Taxable Income over:	
0	9,275	0.00	+ 10%	0	
9,275	37,650	927.50	+ 15%	9,275	
37,650	91,150	5,183.75	+ 25%	37,650	
91,150	190,150	18,558.75	+ 28%	91,150	
190,150	413,350	46,278.75	+ 33%	190,150	
413,350	415,050	119,934.75	+ 35%	413,350	
415,050		120,529.75	+ 39.6%	415,050	

Example: with taxable income of \$9,375, rate is 10% on \$9,275 and 15% on \$100.

**Federal Income Tax Rates: Joint - 2016.**

Taxable income		Total Federal Income Tax			
Over	But not over	Tax on all Previous Layers	Plus	of Taxable Income over:	
0	18,550	0.00	+ 10%	0	
18,550	75,300	1,855.00	+ 15%	18,550	
75,300	151,900	10,367.50	+ 25%	75,300	
151,900	231,450	29,517.50	+ 28%	151,900	
231,450	413,350	51,791.50	+ 33%	231,450	
413,350	466,950	111,818.50	+ 35%	413,350	
466,950		130,578.50	+ 39.6%	466,950	

**Income Tax Rates - Separate - 2016.**

Taxable income		Total Federal Income Tax			
Over	But not over	Tax on all Previous Layers	Plus	of Taxable Income over:	
0	9,275	0.00	+ 10%	0	
9,275	37,650	927.50	+ 15%	9,275	
37,650	75,950	5,183.75	+ 25%	37,650	
75,950	115,725	14,758.75	+ 28%	75,950	
115,725	206,675	25,895.75	+ 33%	115,725	
206,675	233,475	55,909.25	+ 35%	206,675	
233,475		65,289.25	+ 39.6%	233,475	

**AGI Phase-out Thresholds**

Filing Status	Exemptions	Itemized Deduct.
Married, Joint	311,300	311,300
Head-of-Household	285,350	285,350
Single	259,400	259,400
Married, Separate	155,650	155,650

**Exemptions reduced by:**

2% for each \$2,500 layer above AGI Threshold above (for married filing separately, layer is \$1,250)

**Itemized Deductions reduced by lesser of:**

3% of excess of AGI over AGI Threshold above

80% of deductions otherwise allowable, except for

Medical Exp., Investment Interest and Casualty losses.

**Income Tax Rates - Head of Household - 2016.**

Taxable income		Total Federal Income Tax			
Over	But not over	Tax on all Previous Layers	Plus	of Taxable Income over:	
0	13,250	0.00	+ 10%	0	
13,250	50,400	1,325.00	+ 15%	13,250	
50,400	130,150	6,897.50	+ 25%	50,400	
130,150	210,800	26,835.00	+ 28%	130,150	
210,800	413,350	49,417.00	+ 33%	210,800	
413,350	441,000	116,258.50	+ 35%	413,350	
441,000		125,936.00	+ 39.6%	441,000	

Standard Deduction	Basic	Age/Blindness
Single	6,300	1,550
Married-Joint	12,600	1,250
Married - File Separately	6,300	1,250
Head of Household	9,300	1,550
Standard deduction for child who is a dependent of another	1,050	
Or: Earned income +	350	
Personal Exemption Amount	4,050	

AMT Exemption	Amount	Phase-out
Joint Return	83,800	159,700 494,900
Separate Return	41,900	79,850 247,450
H-of-H and Single	53,900	119,700 335,300
AMT Rates (Joint, Head of H., Single)	Amount	Rate
Rate on AMT base up to	186,300	26%
Rate on AMT base above	186,300	28%

OASDI rate on salary up to	\$118,500	6.20%
Medicare rate on salary up to	\$118,500	1.45%
Medicare rate on excess	Excess	1.45%
Extra Medicare - .9%. (Single & HH) Wages above		\$200,000
Extra Medicare - .9%. (Joint) Wages above		\$250,000
NII tax (3.8%) on lesser of NII or AGI (Single & HH) above		\$200,000
NII tax (3.8%) on lesser of NII or AGI (Joint) above		\$250,000

**Federal Corporate Income Tax Rates**

Taxable Income		of the			
Over	but not over	The tax is:		amount over:	
0	50,000	0	+ 15%	0	
50,000	75,000	7,500	+ 25%	50,000	
75,000	100,000	13,750	+ 34%	75,000	
100,000	335,000	22,250	+ 39%	100,000	
335,000	10,000,000	113,900	+ 34%	335,000	
10,000,000	15,000,000	3,400,000	+ 35%	10,000,000	
15,000,000	18,333,333	5,150,000	+ 38%	15,000,000	
18,333,333			35%		