

- 1 B Accumulated earnings tax is not reported on a schedule attached to annual income tax return
- 2 B Intent is important for accumulated earnings tax
- 3 B This is a personal holding company
- 4 D Alston Corp. is a personal holding company  
Meets both tests [in §541(a)(1) and §541(a)(2)]
- 5 A You are least likely to avoid the AMT after it is computed.
- 6 A With ten unrelated equal shareholders, no group of 5 owns over 50%

7 D

<b>Personal Holding Tax</b>	
Taxable income	\$300,000
Adjustments:	
Federal income tax liability	(100,250)
Dividends received deduction	25,000
Dividends paid deduction	(19,000)
Undistributed PHC income	\$205,750
Times: PHC tax rate	20.0%
Personal holding company tax	<b>\$41,150</b>

A personal holding co. must pay its profits out as dividends to avoid the penalty tax

8 B **Personal Holding Company Tax Computation**

+	Taxable income		140,000
+	Dividends received deduction	37,000	
+	Net Operating Loss -NOL-Sec.172		
+	Contribution carryover to current year		
			37,000
=	Subtotal		177,000
-	Federal Income Tax	37,850	
-	Excess current contributions (over 10%)	4,000	
-	Net capital gain less tax thereon (not Imp.)		
			(41,850)
=	Undistributed PHCI-before Div.		135,150
-	Current year dividends	12,000	
-	Consent dividends		
-	2-1/2-month-dividends		
			(12,000)
=	<b>Undistributed PHC Income</b>		<b>123,150</b>
X	Tax Rate		20%
=	PHC tax liability		\$24,630

Regular Tax Computation		Layers	Rate	Tax
	First \$50,000	\$ 50,000	15%	7,500
	Next \$25,000	25,000	25%	6,250
	Next \$25,000	25,000	34%	8,500
	Excess	40,000	39%	15,600
	Excess		34%	
	<b>Tax. Income /Regular Income Tax</b>	<b>\$ 140,000</b>		<b>\$ 37,850</b>

9 A **Personal Holding Company Tax Computation**

+	Taxable income		300,000
+	Dividends received deduction	25,000	
+	Net Operating Loss -NOL-Sec.172		
+	Contribution carryover to current year		
			25,000
=	Subtotal		325,000
-	Federal Income Tax	100,250	
-	Excess current contributions (over 10%)		
-	Net cap. gain less tax thereon (not Important)		
			(100,250)
=	Undistributed PHCI-before Div.		224,750
-	Current year dividends	19,000	
-	Consent dividends		
-	2-1/2-month-dividends		
			(19,000)
=	Undistributed PHC Income		205,750
X	Tax Rate		20%
=	<b>PHC tax liability</b>		<b>\$ 41,150</b>

Regular Tax Computation		Layers	Rate	Tax
First \$50,000		\$ 50,000	15%	7,500
Next \$25,000		25,000	25%	6,250
Next \$25,000		25,000	34%	8,500
Excess		200,000	39%	78,000
Excess			34%	
Tax. Income /Regular Income Tax		\$ 300,000		\$ 100,250

10 D Imposition of Accumulated Earnings Tax-No limit on number of shareholders

11 D **Unreasonable Accumulation of Earnings**

Taxable income	\$450,000	
<b>Adjustments:</b>		
Plus: Dividend received deduction	21,000	
Minus: Federal income tax liability	(153,000)	
Dividends paid	(119,000)	
Accumulated Earnings Credit	(13,000)	
<b>Accumulated taxable income</b>	<b>\$186,000</b>	<b>Answer</b>
Times: Accumulated earnings tax rate	20.0%	
<b>Accumulated earnings tax</b>	<b>\$37,200</b>	

A corporation must pay its profits out as a dividend, or have good reasons for not paying dividends (business needs). Otherwise pay the penalty tax.

12 D Total credit is \$250,000 for a manufacturer.

13 C Intent is important for accumulated earnings tax

14 B Accumulated earnings tax does not apply to PHC.