

**Old CPA Exam Questions on Corporate Penalty Taxes. Notice the types of questions. Page 1 of 2**

1. (N95#12) Kane Corp. is a calendar-year domestic personal holding company. Which deduction(s) must Kane make from current year taxable income to determine undistributed PHC income prior to the dividend-paid deduction?

	Federal Income Taxes	Net Long- Term Capital Gain Less Related Federal Income Taxes
a.	Yes	Yes
b.	Yes	No
c.	No	Yes
d.	No	No

2. (N95#14) Dart Corp., a calendar-year domestic C corporation, is not a personal holding company. For purposes of the accumulated earnings tax, Dart has accumulated taxable income for the current year. Which step(s) can Dart take to eliminate or reduce any current year accumulated earnings tax?

I.	Demonstrate that the "reasonable needs" of its business require the retention of all or part of the current year accumulated taxable income.
II.	Pay dividends by March 15 if the subsequent

- a. I only.                      b. II only.                      c. Both I and II.                      d. Neither I nor II.

3. (N95#18) The accumulated earnings tax can be imposed

- a. On both partnerships and corporations.  
 b. On companies that make distributions in excess of accumulated earnings.  
 c. On personal holding companies.  
 d. Regardless of the number of stockholders in a corporation.

4. (M95#23) Edge Corp. met the stock ownership requirements of a personal holding company. What sources of income must Edge consider to determine if the income requirements for a personal holding company have been met?

- I. Interest earned on tax-exempt obligations.  
 II. Dividends received from an unrelated domestic corporation.

- a. I only.                      b. II only.                      c. Both I and II                      d. Neither I nor II

5. (N94#45) Zero Corp. is an investment company authorized to issue only common stock. During the last half of 2003, Edwards owned 450 of the 1,000 outstanding shares of stock in Zero. Another 350 shares of stock outstanding were owned, 10 shares each, by 35 shareholders who are related neither to each other nor to Edwards. Zero could be a personal holding company if the remaining 200 shares of common stock were owned by

- a. An estate where Edwards is the beneficiary                      b. Edwards' brother-in-law.  
 c. A partnership where Edwards is not a partner                      d. Edwards' cousin.

6. (M93#52) Acme Corp. has two common stockholders. Acme derives all of its income from investments in stocks and securities, and it regularly distributes 51% of its taxable income as dividends to its stockholders. Acme is a

- a. Corporation subject to tax only on income not distributed to stockholders.    b. Personal holding company  
 c. Corporation subject to the accumulated earnings tax.    d. Regulated investment company.

7. (M93#55) Kari Corp., a manufacturing company, was organized on January 2. Its first year federal taxable income was \$400,000 and its federal income tax was \$100,000. What is the maximum amount of accumulated taxable income that may be subject to the accumulated earnings tax for its first year if Kari takes only the minimum accumulated earnings credit?

- a. \$300,000                      b. \$150,000                      c. \$ 50,000                      d. \$0

8. (M91#42) The accumulated earnings tax can be imposed

- a. Regardless of the number of stockholders of a corporation.    b. On personal holding companies.  
 c. On companies that make distributions in excess of accumulated earnings.  
 d. On both partnerships and corporations.

9. (M91#54) This pertains to Hull, Inc., a personal holding company, for the year ended December 31, 2000:

Undistributed personal holding company income	\$100,000
Dividends paid during 2000	20,000
Consent dividends reported in the 2000 individual income tax returns of the holders of Hull's common stock, but not paid by Hull to its stockholders	10,000

In computing its 2000 personal holding company tax, what amount should Hull deduct for dividends paid?

- a. \$0                      b. \$10,000                      c. \$20,000                      d. \$30,000

10. (M87#41) The accumulated earnings tax is not imposed on corporations that

- a. Are personal holding companies.    b. Are subsidiary corporations.    c. Have more than 100 stockholders  
 d. Have assets with an aggregate book value of less than \$1,000,000.

11. (N88#29) Benson, a singer, owns 100% of the outstanding capital stock of Lund Corp. Lund contracted with Benson, specifying that Benson was to perform personal services for Magda Productions, Inc., in consideration of which Benson was to receive \$50,000 a year from Lund. Lund contracted with Magda, specifying that Benson was to perform personal services for Madga, in consideration of which Magda was to pay Lund \$1,000,000 a year. PHC income will be attributable to

a. Benson only b. Lund only c. Madga only d. All three contracting parties.

12. (N88#30) The accumulated earnings tax can be imposed

- a. On both partnerships and corporations.
- b. On personal holding companies.
- c. On companies that make distributions in excess of accumulated earnings.
- d. Regardless of the number of stockholders of a corporation.

13. (N89#49) ATI Corp. has two common stockholders. ATI derives all of its income from investments in stocks and securities, and it regularly distributes 51% of its taxable income as dividends to its stockholders. ATI is a

- a. Personal holding company.
- b. Regulated investment company
- c. Corporation subject to the accumulated earnings tax.
- d. Corporation subject to tax only on income not distributed to stockholders.

14. (M88#31) The personal holding company tax

- a. Qualifies as a tax credit that may be used by partners or stockholders to reduce their individual income taxes.
- b. May be imposed on both corporations and partnerships.
- c. Should be self-assessed by filing a separate schedule with the regular tax return.
- d. May be imposed regardless of the number of equal stockholders in a corporation.

15. (N87#34) The personal holding company tax may be imposed

- a. As an alternative tax in place of the corporation's regularly computed tax.
- b. If more than 50% of the corporation's stock is owned, directly or indirectly, by more than ten stockholders.
- c. If at least 60% of the corporation's adjusted ordinary gross income for the taxable year is personal holding company income, and the stock ownership test is satisfied.
- d. In conjunction with the accumulated earnings tax.

16. (N87#35) The accumulated earnings tax

- a. Should be self-assessed by filing a separate schedule along with the regular tax return.
- b. Applies only to closely held corporations.
- c. Can be imposed on S corporations that do not regularly distribute their earnings.
- d. Can not be imposed on a corporation that has undistributed earnings and profits of less than \$150,000.

17. (M87#44) Kee Holding Corp. has 80 unrelated equal stockholders. Kee paid no dividends for the past three years. For the current year, Kee's income comprised the following:

Net rental income	\$1,000
Commissions earned on sales of franchises	3,000
Dividends from taxable domestic corporations	90,000

Deductible expenses totaled \$10,000. Kee's liability for personal holding company tax will be based on

- a. \$12,000
- b. \$11,000
- c. \$ 9,000
- d. \$0

18. (N86#46) Neel Corp. has one preferred stockholder and three common stockholders.

Neel derives all of its income from investments in stocks and securities.

Neel regularly distributes 51% of its taxable income as dividends to its stockholders. Neel is a (an)

- a. Regulated investment company.
- b. S corporation.
- c. Corporation subject to the accumulated earnings tax.
- d. Personal holding company.

19. (N86#47) The accumulated earnings tax can be imposed:

- a. Regardless of the number of stockholders of a corporation.
- b. On both partnerships and corporations
- c. On companies that make distributions in excess of accumulated earnings.
- d. Only on parent-subsidiary affiliated groups.

1-A, 2-C, 3-D, 4-B, 5-A, 6-B, 7-C, 8-A, 9-D, 10-A, 11-B, 12-D, 13-A, 14-C, 15-C, 16-D, 17-D, 18-D, 19-A

**Note: (#9) for PHC, stockholders may consent to a hypothetical dividend, and report dividend as income, despite the fact that no dividend is paid. They are treated as receiving the money and investing it back in the corp.**