

Homework for Chapter 5 – Part 2

1. [§533, 547] When you determine (or the IRS determines) that a tax is due, you often wish you could do something to avoid having to pay that tax.

Which of the following is least likely to be avoided after the tax liability is computed?

- a. Alternative Minimum Tax
- b. Accumulated Earnings Tax
- c. Personal Holding Company Tax

A

Calculate the Qualified Domestic Production Activity Deduction.

2. [§199] A Company sells furniture to Walmart.

The Company manufactures furniture in the U.S. & imports some furniture.

	Total Operations (\$000)		
	U.S. Made	Imports	Total
Sales	\$2,500	\$1,500	\$4,000
Cost of Sales	(1,000)	(750)	(1,750)
Gross Margin	\$1,500	\$750	\$2,250
Other expenses			(400)
Net Income			\$1,850

What is the qualified domestic production activity deduction for 2016 (in \$thousands) for the company above assuming you use the simplified method and wages are not a limiting factor?

- a. \$75
- b. \$112.50
- c. \$500
- d. \$1,850

B

3. Continue preceding question. What is taxable income (in \$thousands) for the company?

- a. \$0
- b. \$1,000
- c. \$1,737.50
- d. \$1,850

C

Calculate the corporation's alternative minimum tax liability (if any).

4.[§55(e)] A corporation can maintain its exemption from the AMT

- a. if it reports average gross receipts of less than \$1,000,000 per year
- b. if it reports average gross receipts of less than \$7,500,000 per year
- c. if it reports average gross receipts of less than \$10,000,000 per year

B

5. [§55(a)] If a corporation's tentative minimum tax exceeds the regular tax, the excess amount is

- a. Payable in addition to the regular tax.
- b. Subtracted from the regular tax.
- c. Carried back to the third preceding taxable year.
- d. Carried back to the first preceding taxable year (CPA)

A

6. [§55(d)(2)] Kona Corp.'s alternative minimum taxable income is \$300,000 for the current year. Kona's alternative minimum tax exemption is:

- a. \$0
- b. \$2,500
- c. \$27,500
- d. \$52,500
- e. Other CPA

B

7. Big Corp's taxable income is \$400,000, on which it pays a regular income tax of \$136,000. Its AMTI base is \$700,000, and its Tentative AMT is \$140,000.

The corporation's AMT is:

- a. \$0
- b. \$4,000
- c. \$140,000
- d. Other

B

8. **[\$55(d)(2)]** Big Corp.'s AMTI is \$100,000. The AMT exemption for the year is:

- a. \$0 b. \$12,500 c. \$27,500 d. \$40,000 e. \$52,500

D

9. A corporation has regular taxable income of \$100,000. Regular tax liability is \$22,250. The corporation has no tax preference items, and total positive adjustments of \$170,000. The alternative minimum tax is:

- a. \$26,000 b. \$29,750. c. \$22,500. d. \$10,000. e. \$0.

B

10. **[\$56(a)(2)]** A local corporation has provided you the following information

Revenue	\$2,000,000
Expenses	1,800,000
Taxable income	\$ 200,000

The corporation used the completed contract method for a three-year construction contract that was begun in the current year (2017). Corporation will report taxable income of \$300,000 from the completed project in 2017. If the corporation had used the percentage of completion method, an additional \$100,000 of profit would have been recognized this year.

What is AMTI (for 2015)?

- a. \$100,000 b. \$200,000 c. \$250,000 d. \$300,000

D

11. A local corporation has provided you the following information for 2017.

Revenue	\$2,000,000
Expenses	1,700,000
Taxable income	\$ 300,000

The information above includes profit recognized this year from its construction operations. The corporation used the completed contract method for a 3-year construction contract that was begun on 1-1-2015. If the corporation had used the percentage of completion method, an additional \$100,000 of profit would be recognized in each of the two earlier years (2015 and 2016) of the contract. The contract was completed in December, 2017. What is AMTI for the current year (2017)?

- a. \$300,000 b. \$250,000 c. \$200,000 d. \$100,000

D

12. **[\$56(g)]** A local corporation has provided the following information

Revenue	\$2,000,000
Expenses	1,800,000
Taxable income	\$ 200,000

The corporation used the completed contract method for a three-year construction contract that was begun in the current year. If the corporation had used the percentage of completion method, an additional \$100,000 of profit would have been recognized this year. The company also received life insurance proceeds of \$100,000 as a result of the death of one of its officers. What is the amount of the ACE adjustment?

- a. \$0 b. \$25,000 c. \$75,000 d. \$100,000

C

13. A corporation reported taxable income of \$500,000. Included in the determination of income was depreciation of a machine costing \$30,000 and having a 3-year depreciable life under the tax law. Using double declining balance and the mid-year convention, the company deducted depreciation of \$10,000. Using the 150% declining balance method results in AMT depreciation expense of \$7,500. The company also had interest income of \$20,000 from municipal bonds not used for an essential governmental function.

What is the amount of AMT adjustments?

- a. \$0 b. \$2,500 c. \$7,500 d. \$22,500

B

14. Badger Corporation has the following

Revenue	\$1,000,000
Deductions	600,000
Taxable income	400,000
Tax credits available	0
Tax preferences	50,000
Positive AMT adjustments (other than ACE adjustments)	20,000
ACE adjustments	0

What is the corporation's alternative minimum taxable income?

- a. \$400,000 b. \$410,000 c. \$450,000 d. \$430,000 e. \$470,000

E

15. Badger Corporation has the following:

Revenue	\$2,000,000
Deductions	1,600,000
Taxable income	\$400,000
Regular tax	\$136,000
Tax credits available	\$ 0
Tax preferences	\$350,000
Positive adjustments for AMT purposes	\$250,000
Ace adjustments	\$ 0
Tentative minimum tax	\$200,000
Alternative minimum tax	\$ 64,000

How much is the minimum tax credit that is available for use in future years?

- a. \$0 b. \$24,000 c. \$64,000 d. \$200,000

C