|  |
| --- |
| **Home work-Chapter 8A.**  |

[**§**301.7701] Bob Moon formed Moon Enterprises LLC (Limited Liability Company) during the year. What form must Moon Enterprises LLC file in order to elect to be taxed as a C corporation?

|  |  |
| --- | --- |
| a. Form 1065 (U. S. Partnership Tax Return)  |  |
| b. Form 8832 (Entity Classification Election)  |  |
| c. Form 1120 (U. S. Corporation Income Tax Return) |  |
| d. Form 7004 (Application for Extension of time to file for corporations) |  |

[**§**1001] IBM Corporation needs to expand it manufacturing facilities in the Charlotte area.
Mr. Taxpayer paid $30,000 for 5 acres of land that is needed by IBM.
Taxpayer owes $5,000 on a mortgage on the land. IBM has offered to trade IBM stock worth $100,000 for the 5 acres of land owned by Mr. Taxpayer and IBM will assume the mortgage
of $5,000. How much gain is recognized by Mr. Taxpayer as a result of this exchange?

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | Zero | **b.** | $5,000  | **c** | $70,000**.** | **d.**  | $75,000  |  |

 [**§**358] The mechanism that allows for gains to be deferred and recognized at a later date upon disposition of the second asset is:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **a.** | Credit disallowance | **b.** | Loss disallowance | **c.** | Basis adjustment |  |

[**§**368(c**)**] Jones incorporated a sole proprietorship by exchanging all the proprietorship's
assets for the stock of Nu Co., a new corporation. To qualify for tax‑free incorporation,
Jones must be in control of Nu immediately after the exchange.
What per­centage of Nu's stock must Jones own to qualify as "control" for this purpose?

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | 50.00%  | **b.** | 51.00%  | **c.** | 66.67%  | **d.** | 80.00%  | CPA 11-93 |  |

[**§**1001, **§**1.1001-2(a)] Dan’s neighbor started Local Corporation in 2001 and the neighbor has always owned all of Local's 40,000 outstanding shares. Local Corporation needed a building for expansion and Dan’s building was available. Dan’s basis in the building was $800,000.
In the current year, Dan invested the building into Local Corporation and received 120,000 newly issued shares of Local Corporation, raising the amount of outstanding stock to 160,000 shares.
The Local Corporation stock received by Dan was worth $1,180,000.
The building had a FMV of $1,200,000 and was subject to a $20,000 debt (assumed by Local Corp.).
What was the gain **recognized** by Dan on this exchange of a building for stock?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $0 | **b.** | $380,000 | **c.** | $400,000 | **d.** | $1,200,000 | **e.** | Other |  |

[**§** 1001] Ben incorporated his sole proprietorship by transferring his building with a basis of $800,000 to the Good Corp. in exchange for all its stock. The stock was worth $1,180,000. The building had a value of $1,200,000 and was subject to a $20,000 mortgage which was assumed by Good Corporation. What was the gain **realized** by Ben?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $0 | **b.** | $380,000 | **c.** | $400,000 | **d.** | $1,200,000 | **e.** | Other |  |

 [**§**351] **Repeat the preceding question.** What is the gain to be **recognized** by Ben?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $0 | **b.** | $380,000 | **c.** | $400,000 | **d.** | $1,200,000 | **e.** | Other |  |

[**§**358] **Repeat the preceding question.** What is Ben’s **basis in the stock received**?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $1,200,000 | **b.** | $840,000 | **c.** | $800,000 | **d.** | $780,000 | **e.** | Other |  |

[**§**362] **Repeat the preceding question.** What is **Good Corporation’s basis** in the building?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $780,000 | **b.** | $800,000 | **c.** | $840,000 | **d.** | $1,200,000 | **e.** | Other |  |

 [**§**1032, 118(a)] **See preceding question.** What is the gain to be **recognized** by Good Corp?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $0 | **b.** | $380,000 | **c.** | $400,000 | **d.** | $1,200,000 | **e.** | Other |  |

**The next three questions are based on the following information.**Ms. Lind and Ms. Post organized Ace Corp.,which issued voting common stock with a fair market value of $120,000. They each transferred property in exchange for stock as follows:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Property** | **Adjusted****Basis** | **Fair Market** **Value** | **Percentage of****Ace Stock Acquired** |
| **Ms. Lind** | Building | $40,000 | $82,000 | 60% |
| **Ms. Post** | Land | $5,000 | $48,000 | 40% |

The building was subject to a $10,000 mortgage that was assumed by Ace.

What **amount of gain** did Lind recognize on the exchange?

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $0  | **b.** | $10,000 | **c** | $42,000 | **d.**  | $52,000 |  |

What was **Lind's basis in Ace stock**?

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $82,000 | **b.** | $40,000 | **c** | $30,000 | **d.**  | $0 |  |

What was **Ace's basis in the building**?

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $30,000 | **b.** | $40,000 | **c** | $72,000 | **d.**  | $82,000 |  |

 **[§**351, **§** 358, **§**118, **§**1032, **§**362] Tiger incorporates his sole proprietorship by transferring his land and building to the Big Corporation in exchange for all its stock, which is worth $1,000,000. Before incorporating, the property had a value of $1,000,000, a basis of $800,000. There is no liability on the property.
What is: (1) Tiger’s recognized gain, (2) Tiger’s basis in the Big Corporation stock received,
 (3) Big Corporation’s gain and (4) Big Corporation’s basis in the property?

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **(1) Tiger’s Gain** | **(2) Tiger’s Basis in Stock** | **(3) Big Corp’s Gain** | **(4)Big Corp’s Basis** |  |
| **a.** | $0 | $800,000 | $0 | $800,000 |
| **b.** | $0 | $800,000 | $200,000 | $1,000,000 |
| **c.** | $200,000 | $800,000 | $200,000 | $1,000,000 |
| **d.** | $200,000 | $1,000,000 | $200,000 | $800,000 |

Mr. Bush transferred a warehouse to New Corporation in exchange for all of its stock. The warehouse had an adjusted basis to Mr. Bush of $40,000 and a fair market value of $80,000. The warehouse was subject to a mortgage of $50,000, which New Corporation assumed for a bona fide business purpose. The fair market value of New Corporation stock received by Mr. Bush on the date of transfer was $30,000. What is the amount of gain to be recog­nized by Mr. Bush?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** |  $-0- | **b.** | $10,000 | **c.** | $20,000 | **d.**  | $30,000 | **e.** | $40,000 |  |

 **See preceding question.** What is the basis of the stock received by Mr. Bush?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** |  $-0- | **b.** | $10,000 | **c.** | $30,000 | **d.**  | $40,000 | **e.** | $50,000 |  |

 **See preceding question**. What is the basis of the Building received by New Corporation?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** |  $-0- | **b.** | $10,000 | **c.** | $30,000 | **d.**  | $40,000 | **e.** | $50,000 |  |

[**§**385]Rich Manufacturing Corporation has just been organized by Ms. Rich with
the following balance sheet. The company will manufacture golf carts.

|  |  |
| --- | --- |
| Assets | $1,000,000 |
| Notes Payable to Ms. Rich (10%) | $ 960,000 |
| Common Stock | $ 40,000 |

Which if these tax issues is likely to be raised by the IRS?

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **a.** | Personal Service Corp. | **b.** | Thin Corporation | **c.** | Alternative minimum tax |  |

 [**§**118, 362(c)]On Jan. 2, City M gave $200,000 to A Corp. for purchase of a building.
A Corporation bought a building on for $250,000. What is the basis of the building to A Corp?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** |  $-0- | **b.** | $50,000 | **c.** | $150,000 | **d.**  | $200,000 | **e.** | $250,000 |  |

[**§**118, **§**362(c)]On January 2 of the current year, City M gave the A Corporation $200,000
to purchase a building within the city limits. The building was purchased on June 1of the
current year for $150,000. What is the correct method of handling the excess money received?

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **a.** | Reduction of basis in other assets  | **b.** | Long-term capital gain.  |  |
| **c.** | Short-term capital gain. | **d.** | Ordinary income.  |

[**§**1244] **On January 1 of the current year**, Mr. Stone sold stock in a small business
corporation (Sec. 1244 stock) at a loss of $200,000. Mr. Stone files a calendar year joint return
with his wife. His has a salary of $225,000 per year. Mr. Stone acquired this stock when it
was originally issued in 2000. This is the only sale Mr. Stone had during the calendar year.
What is their AGI on their income tax return for this year?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $225,000  | **b.** | $120,000 | **c.** | $122,000 | **d.**  | $125,000 | **e.** | Other amount |  |

[**§**1244]Mr. Jones is married & files a joint return. He and his wife provided this information

|  |  |  |  |
| --- | --- | --- | --- |
| **Date** | **Transaction** | **Description** | **Amount** |
| 2000 | Bought stock in small business (sec. 1244) corp. | Cost of stock | $500,000 |
| 2014 | Sold same stock (above) | Selling price | 300,000 |
| 2014 | Total other income (salary) | Salary | 150,000 |

What is his adjusted gross income for 2014?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $150,000 | **b.** | $100,000 | **c.** | $97,000 | **d.**  | $47,000 | **e.** | Other amount |  |

 [1202] **On October 1, 1998,** Dan bought some qualified Sec. 1202 small business stock for $2,000,000. In 2014, he sold all of that stock for $25,000,000. How much gain is included in income?

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $ 0 | **b.** | $ 11,500,000 | **c.** | $10,000,000 | **d.** | $ 23,000,000 |  |  |

 [**§**166]Jan is an executive with a multi-national corporation. Her only income is her
salary of $200,000 per year as an executive. Five years ago, Jan invested $10,000 in stock
of Local Corporation, which was organized by a neighbor. Later, Jan loaned Local Corporation $20,000. In 2010, she sold the Local Corporation stock to the neighbor for $10,000.
In 2014, Local Corporation began to fail and was not able to make any interest payment on the note payable to Jan. On December 31, 2014, Jan learned that Local Corporation had filed for bankruptcy and the note receivable is worthless. What is her AGI for 2014?

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $ 200,000 | **b.** | $ 180,000 | **c.** | $197,000 | **d.** | Other |  |  |

[(**§**1202), 91-1 USTC ¶50,115] Sarah, a corporate employee, is 49 years old, and earns a salary of $200,000 per year.
She likes her job and wants to continue in that job for the foreseeable future.
Over the years she has invested her excess cash in stock of her employer, X Corp.
The value of her corporate stock is approximately $5,000, which represents one percent
of the outstanding stock. X Corp. had some losses on two big jobs earlier this year and
faced a severe cash shortage. Bank loans were not available, so the company turned
to Sarah. Sarah wanted to keep her job, so she borrowed $50,000 on her house and
loaned it to the company. Despite her best efforts and the company’s austerity
program, the X Corp. went bankrupt. Her stock is worthless and her receivable is
uncollectible. How should the $50,000 bad debt be reported?

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **a.** | Short-term capital loss | **b.** | Ordinary business loss |  |
| **c.** | Non-deductible personal loss | **d.** | None of these |

 [**§**165]Charlotte Corporation paid $200,000 for 90% of the common stock of Local
Manufacturing Corporation in 2008. Local has only one class of stock. Local earns 100%
of its revenue from sale of items it manufactures.
In 2015, Charlotte Corp. has revenue of $900,000 and operating expenses of $500,000.
In 2015, Local Corporation went bankrupt and Charlotte recognized that the Local stock is
worthless.
What is taxable income for Charlotte Corporation for 2015?

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $ 400,000 | **b.** | $ 397,000 | **c.** | $200,000 | **d.** | Other |  |  |
|  |  |  |  |  |  |  |  |  |  |