**Home Work-Chapter 12. Current tax year is 2016 (unless otherwise indicated.)**



Which of the following is not a feature of corporations?

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

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.** | **C** |

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

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **a.** | C corporation | **b.** | Partnership |  |  | **B** |



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| Golg 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 | **A** |   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 corporations.  Her beginning tax basis is $65,000 for each of the entities. Transactions for the year are as follows.   |  |  |  |  | | --- | --- | --- | --- | |  | **Sue Corp.** | **BigSCorp.** | **Great Partnership** | | Revenue | $100,000 | $100,000 | $100,000 | | Compensation to Sue | 40,000 | 40,000 |  | | Other Expenses | 10,000 | 30,000 | 30,000 | | **Net Income and taxable income** | **50,000** | **30,000** | **70,000** | | 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 | **E** |   Jan is single and 40 years old. Her only income is from her unincorporated  office supply Business, which 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 foreseeable 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 | **B** | |  |  |  |  |  |  |  |  |  |  |



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

|  |  |  |  |  |  |  |  |  |  |  |
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| **a.** | $75,000 | **b.** | $150,000 | **c.** | $170,000 | **d.** | $195,000 | **e.** | Other Amount | **C** |

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 | **C** |

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 |  |  | **B** |

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 | **C** |

Pat and Patricia own Pats' Legal Services Corporation. The owners are practicing attorneys employed by the corporation. Their only business activity 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 |  |  | **C** |

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 |  | [CPA] | |  | **B** |

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 it 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 |  | | **B** |
| Use information in the preceding problem, except assume the  investment income is from Apple Corporation Stock (not bonds).What it 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 |  | | **C** |
| 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 it 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 |  | | **A** |





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 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 Mary? (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 | **B** |

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)

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



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.

|  |  |  |
| --- | --- | --- |
|  | **Computer Repair** | **Web Consulting** |
|  | **[C Corp]** | **[S Corp]** |
| Revenue | $100,000 | $200,000 |
| Salary to Jan (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 | **A** |

KAD, Inc., a calendar‑year corporation incorporated in January 2011. For each of the years 2011‑2015, KAD reported taxable income (loss) before net operating loss deduc­tion as follows:

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 2011: | **$15,000** | 2012: | **($20,000)** | 2013: | **$10,000** | 2014: | **$30,000** | 2015: | **($75,000)** |

When filing its tax returns for both 2012 and 2015, KAD did not elect to give up the carry­back of   
its losses. KAD's taxable income before the net operating loss deduction for 2016 is $80,000. What   
 is the amount of net operating loss carryforward that KAD should deduct on its tax return for 2016?

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $30,000 | **b.** | $35,000 | **c.** | $40,000 | **d.** | $55,000 | **C** |

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

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.

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 (Sarah)**, which is a reasonable amount of compensation.

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.

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.   
Her total deductions are $20,000 and her taxable income will be 60,000.

Her personal income tax before credit for withholding is projected to be $10,771.25.

The combined corporate and individual income tax burden is projected to be $40,821.25.

There is no state individual income tax, or state corporate income tax.

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 | **B** |

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

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

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.** | $30,843.75 | **d.** | $43,436.75 | **e.** | Other | **D** |

Assume Sarah does elect S status for 2016, and she receives her normal salary of $80,000,  
with 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 | **A** |

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

She does not elect to have the LLC treated as a corporation for Federal income tax purposes.  
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 | **B** |



