**Chapter 13 Class Handout-Part 2.**

On January 1, year 1, ABC, Inc. issued 5,000 stock options with an estimated value of $10 per option.
Each option entitles the owner to purchase one share of ABC stock for $25 a share (the per share price of ABC stock on January 1, year 1). Assume the options do not vest at all until year 3 when they vest 100%. All 5,000 stock options were exercised in year 3 when the ABC stock was valued at $31 per share.

What is the amount of the compensation deduction in year 3, related to the options and the amount
of GAAP compensation expense that will be recognized over the 3 year vesting period?

**Use the information below for the next 7 questions.**

For 2015 (which was its first year of operation), UNCC Corp. reported net operating income
of $40,000 before income tax, and a capital gain of $10,000 There is no state income tax.

UNCC reported information in the table below for 2016. The company will have net operating income of $45,000 per year after 2016. Company will ALSO report net capital gains of $5,000 each year after 2016.

This will result in net income (before carryforward and tax) of $50,000 each year after 2016.

The marginal income tax rate for this company is 15% for all tax years.

|  |  |
| --- | --- |
| Sales (2016) | $530,000 |
| Cost of sales and normal operating expenses | 490,000 |
| Net Operating Income before income tax | 40,000 |
| Capital loss on sale of temporary stock investments held 2 months | 30,000 |
|  Net income before tax | $10,000 |

What it the amount of the corporation’s taxable income for 2016?

Continue preceding question forUNCC Corporation. Will the company recognize a
favorable book-tax difference or an unfavorable book-tax difference for 2016? (Text page 13-19)

What is the amount of the GAAP current income tax expense for 2016?

What is the balance in the income tax refund receivable account at the end of 2016?

What is the balance in the deferred income tax asset account at the end of 2016?

Please complete Form 1120- Schedule M-1 for UNCC Corporation. A copy of the form is provided on the last page of the document. What amount should be entered on line 6 of Schedule M-1 for 2016?

 What line on Schedule M-1 will have an entry related
to the capital loss on the 2017 corporate income tax return?

Chris Corp., a domestic corporation, had income, expenses and deductions in its first year (2016):

|  |  |
| --- | --- |
| Gross receipts (Operating Revenues) | $100,000 |
| Operating Expenses, not including Cash Contributions  | 70,000 |
| Net operating income before income tax (and before charitable contributions) | 30,000 |
| Cash contributions to qualified charities  | $13,000 |

There is no state corporate income tax. What is the allowable charitable contribution deduction?

Continue Chris Corp. At this income level, the company is in the 15% income
tax bracket. The company projects that it will have a marginal tax rate of 15% in future years.
The company is expected to have the same amount of net operating income before tax ($30,000)
 in future years. The corporation will not make charitable contributions after 2016.
What is the balance in the deferred tax asset or liability account at the end of 2016?

Use information for Chris Corp. presented above, except assume that the company will
be in the 25% tax bracket in future years.

What is the balance in the deferred tax asset or liability account at the end of 2016?

Local Corporation had the following items of income and expenses in the current year:

|  |  |
| --- | --- |
| Income from operations  | $500,000 |
| Expenses of operations |  400,000 |
| Net Operating Income | 100,000 |
| Dividend income from Cooper Corporation (a 10% owned corporation) | 90,000 |
| Net income before taxes (GAAP) | $190,000 |

What is Local Corporation’s dividends-received deduction, if any?

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $74,000 | **b.** | $63,000 | **c.** | $82,000 | **d.** | $90,000 | **e.** | Other |  |  |

The Raleigh Corporation owed federal income tax of $200,000 for 2015. The company expects to owe federal income tax of $300,000 for 2016. What is the amount of each quarterly estimated tax payment that Raleigh should make for 2016, in order to avoid a penalty for underpayment of estimated income tax?

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $0 | **b.** | $50,000 | **c.** | $75,000 | **d.** | $70,000 | **e.** | Other |  |  |

