**Home Work-Chapter 13. Final Exam will not cover: (1) corporate AMT, (2) taxation of controlled groups of corporations, or (3) consolidated income tax return issues.   
Stock option coverage will be limited to Connect question no. 72. See Question 11 below.**



Ann Rich incorporated her proprietorship by transferring her building with a basis   
of $800,000 to Charlotte Corp. in exchange for all its stock. The building had a value   
of $1,200,000 and was NOT subject to a mortgage. The stock Ann received was   
worth $1,200,000. What was the amount of the gain realized by Ann?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $0 | **b.** | $100,000 | **c.** | $400,000 | **d.** | $1,200,000 | **e.** | Other | **C** |

Continue question for Ann Rich. What is the amount of gain to be recognized by Ann?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $0 | **b.** | $100,000 | **c.** | $400,000 | **d.** | $1,200,000 | **e.** | Other | **A** |



Ben Gold incorporated his 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   
$1,100,000. The building had a value of $1,200,000 and was subject to a $100,000   
mortgage which was assumed by Good Corp. What was the gain realized by Ben?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $0 | **b.** | $100,000 | **c.** | $400,000 | **d.** | $1,200,000 | **e.** | Other | **C** |

Continue preceding question for Ben Gold. What is the gain to be recognized by Ben?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $0 | **b.** | $100,000 | **c.** | $400,000 | **d.** | $1,200,000 | **e.** | Other | **A** |



Ann incorporated her proprietorship by transferring her building with a basis   
of $800,000 to the Charlotte Corp. in exchange for all its stock. The building had   
a value of $1,200,000 and was NOT subject to a mortgage. The stock Ann received   
was worth $1,200,000. What is Ann’s basis in the stock received?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $700,000 | **b.** | $800,000 | **c.** | $900,000 | **d.** | $1,200,000 | **e.** | Other | **B** |

Ben Gold transferred a building with a basis of $800,000 (value of $1,200,000) to the Good Corp.   
in exchange for all its stock. The building was subject to a $100,000 mortgage which was assumed by Good Corp. The stock Ben received was worth $1,100,000. What is Ben’s basis in the stock received?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $700,000 | **b.** | $800,000 | **c.** | $900,000 | **d.** | $1,200,000 | **e.** | Other | **A** |



Ann incorporated her proprietorship by transferring her building with a basis of $800,000 to the Charlotte Corp. in exchange for all its stock. The stock was worth $1,200,000. The building had a value of $1,200,000 and was NOT subject to a mortgage. What is Charlotte Corporation’s basis in the building?

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

Ben Gold transferred his building with a basis of $800,000 to the Good Corp. in exchange for   
all its stock. The building had a value of $1,200,000 and was subject to a $100,000 mortgage   
which was assumed by Good Corp. The stock Ben received was worth $1,100,000.   
What is Good Corporation’s basis in the building?

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

Bobby Benson transferred his building with a basis of $800,000 to a new corporation in   
exchange for all its stock. The building had a value of $1,200,000 and was subject to   
a $900,000 mortgage which was assumed by the corporation. The stock received by   
Bobby Benson was worth $300,000. What is Bobby’s recognized gain?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $0 | **b.** | $100,000 | **c.** | $400,000 | **d.** | $1,200,000 | **e.** | Other | **B** |

Bobby Benson transferred his building with a basis of $800,000 to a new corporation in   
exchange for all its stock. The building had a value of $1,200,000 and was subject to a $900,000 mortgage which was assumed by the corporation. The stock received by Bobby Benson was   
worth $300,000. What is Bobby’s basis in the stock received?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $0 | **b.** | $100,000 | **c.** | $400,000 | **d.** | $800,000 | **e.** | Other | **A** |

Continue preceding question. What is the basis of the building to the corporation?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $780,000 | **b.** | $800,000 | **c.** | $900,000 | **d.** | $1,200,000 | **e.** | Other | **C** |





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?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Tax** |  | **GAAP** |  | **Tax** |  | **GAAP** |  |  |  |
|  | **Deduction** |  | **Expense** |  | **Deduction** |  | **Expense** |  |  |  |
| **a.** | $50,000 |  | $30,000 | **b.** | $30,000 |  | $50,000 |  |  | **B** |

**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.

|  |  |  |
| --- | --- | --- |
|  | **2015** | **2016** |
| Sales | $500,000 | $530,000 |
| Cost of sales and normal operating expenses | 460,000 | 490,000 |
| Net Operating Income before income tax | 40,000 | 40,000 |
| Capital gain on sale of stock investments held 2 months | 10,000 |  |
| Capital loss on sale of stock investments held 2 months |  | (30,000) |
| Net income before tax | $50,000 | $10,000 |

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

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

Will the company recognize a favorable book-tax difference or an unfavorable   
book-tax difference for 2016? (Text page 13-19)

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | Favorable | **b.** | Unfavorable |  |  |  |  |  |  | **B** |

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

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $6,000 | **b.** | $4,500 | **c.** | $1,500 | **d.** | Other |  |  | **A** |

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

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $0 | **b.** | $1,500 | **c.** | $4,500 | **d.** | Other |  |  | **B** |

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

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $0 | **b.** | $1,500 | **c.** | $4,500 | **d.** | $3,000 |  |  | **D** |

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 UNCC Corporation for 2016?

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

A copy of Form 1120- Schedule M-1 is found on the last page of the document. What line on Schedule M-1 will have an entry related to the capital loss on the 2017 corporate income tax return?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | Line 3 | **b.** | Line 7 | **c.** | Line 8 | **d.** | None of these |  |  | **C** |

**\*\*\* End of seven questions for UNCC Corporation**

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 amount of Chris Corporation’s allowable charitable contribution deduction?

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $1,000 | **b.** | $20,000 | **c.** | $4,000 | **d.** | $3,000 | **e.** | Other |  | **D** |

Continue the example ofChris Corporation. At this income level, the company is in the   
15% income tax bracket. The company will have a marginal tax rate of 15% in future years.   
Chris Corporation will have net operating income before tax of $30,000 income in each  
 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?

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $1,000 | **b.** | $1,500 | **c.** | $13,000 | **d.** | $3,000 | **e.** | Other |  | **B** |

Use information for Chris Corporation 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?

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $1,000 | **b.** | $20,000 | **c.** | $2,500 | **d.** | $3,000 | **e.** | Other |  | **C** |

Local Corporation had the following 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 |  | **B** |



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 |  | **B** |

