

FEDERAL INCOME TAXATION I
PROFESSOR S.A. CASPER
FINAL EXAMINATION

JULY 16, 1990
TIME LIMIT: 4 HOURS

IN TAKING THIS
EXAMINATION, YOU ARE
REQUIRED TO COMPLY WITH
THE SCHOOL OF LAW RULES
AND PROCEDURES FOR FINAL
EXAMINATIONS. YOU ARE
REMINDED TO PLACE YOUR
EXAMINATION NUMBER ON EACH
EXAMINATION BOOK AND SIGN
OUT WITH THE PROCTOR
SUBMITTING TO HIM OR HER
YOUR EXAMINATION BOOK(S)
AND THE QUESTIONS AT THE
CONCLUSION OF THE
EXAMINATION.

DO NOT UNDER ANY
CIRCUMSTANCES, REVEAL YOUR
IDENTITY ON YOUR
EXAMINATION PAPERS OTHER
THAN BY YOUR EXAMINATION
NUMBER. ACTIONS BY A
STUDENT TO DEFEAT THE
ANONYMITY POLICY IS A
MATTER OF ACADEMIC
DISHONESTY.

INSTRUCTIONS:

This examination consists of 70 true and false questions. The true and false questions require only a "T" or an "F" in the blank provided on the question sheet. If you find it necessary to assume any additional facts in certain instances which may affect your answer you may do so by simply circling the question number and then state such facts in no more than three sentences in a separate bluebook. Make certain you write your examination number on the blue book. Please make certain you answer all blanks!

Only the Internal Revenue Code, Regulations and your "outline" or "notes" may be used during the examination. NO OTHER MATERIAL WILL BE PERMITTED. You are cautioned not to expend too much time on "research."

GOOD LUCK!

1. T, an employee of AJAX, Inc., purchases certain property from AJAX for \$10,000 when the value of the property is \$25,000. There are no tax consequences to T because this is deemed a "bargain purchase" _____.
2. X purchased an annuity in 1965 which will pay \$10,000 per year, beginning with her 61st birthday in 1985, until she dies. The annuity is to be paid in monthly installments. X paid \$140,000 for the annuity. According to the life expectancy tables provided in the Regulations (§1.72-9), X's life expectancy is 21 years. On these facts X must include \$6,667 of each year's payments in gross income and exclude \$3,333 pursuant to §72 _____. However, after X attains her 82nd birthday, all payments received by her thereafter pursuant to the annuity contract must be included in her gross income since she will have recovered her initial cash investment in the contract and the exclusion ratio is no longer applicable _____.
3. Meals or lodging are "for the convenience of the employer" if there is a substantial non-compensatory purpose even if there is also a compensatory purpose _____.
4. H and W were divorced in 1987. Under the terms of the divorce agreement, H was to pay W \$10,000 each year for five years. If W died before the end of five years, H was no longer obligated to make the payments. W remarried after receiving payments for two years. Under the laws of the particular State, alimony ceases upon remarriage of the payee. Nevertheless, H continued to make the payments in accordance with the original agreement. H may deduct these payments to W as alimony pursuant to §215 notwithstanding the State law because the payments to W meet all the basic requirements for alimony specified in §71(b) _____.
5. H and W were divorced in 1990. They jointly owned a vacation home in Florida with a basis of \$50,000 and a fair market value of \$80,000. According to the terms of the divorce, W gave H \$40,000 for his undivided one-half interest in the home. W later sold the home for \$85,000. W will incur a gain of \$20,000 on the sale because her basis will consist of her \$25,000 for her one-half interest increased by the \$40,000 payment to H pursuant to §1012 _____. H will incur a gain of \$15,000 on the sale of his undivided one-half interest to W pursuant to the Davis case and §1041 _____.

6. T is an employee and sole shareholder of AJAX Corporation. AJAX made a demand loan to T of \$50,000 and did not charge her any interest. The IRS, on audit of her income tax return and AJAX's return characterized the loan as a corporation-shareholder loan. T argues that the loan be characterized as an employer-employee loan. It really doesn't make any difference to AJAX and/or T because interest is imputed in either characterization _____.
7. F paid \$1,000 for a used automobile that needed substantial repairs. F being a mechanical engineer, completely reconditioned the car by himself working weekends. Several individuals offered to purchase the reconditioned car for \$4,000. F, instead, gave the car to his daughter (D) with a list of potential buyers. D's college tuition was due so she sold the car for \$4,000 and paid her tuition. F will incur a gain of \$3,000 because of Lucas v. Earl and Horst _____.
8. X Corporation, an accrual basis taxpayer, sells its services under 12-month, 18-month, and 24-month contracts. The corporation provides services to each customer every month. In April 1990, X Corporation sold the following customer contracts:

<u>Length of Contract</u>	<u>Total Proceeds</u>
12 months	\$6,000
18 months	\$3,600
24 months	\$2,400

By reason of RR 71-21 and the Artnell case, X Corporation may defer \$1,500 of the \$6,000 received _____ and \$1,800 of the \$3,600 _____ because these amounts are considered earned in 1991. However, the entire \$2,400 received on the 24-month contract is taxable in the year of receipt since a part of the income will still be unearned by the end of the tax year following the year of receipt _____.

T's employer provided her with group term life insurance equal to her wages for the previous year, \$30,000. The employer's cost of the coverage was \$300. The plan was declared discriminatory by the IRS because officers received insurance equal to three times their annual salaries. Nevertheless, T may still exclude the amount of premium cost paid by the employer (\$300) pursuant to §79 _____.

10. T won a judgment in the amount of \$5,000 against Ronald in a personal injury suit. Ronald has no liability insurance and only a small amount of cash. Ronald agreed with T to give her \$1,000 of cash and a parcel of property Ronald owns worth \$7,000, but subject to a \$3,000 mortgage, to satisfy the judgment. T's basis for the property will be \$7,000 because it is just as though she received \$4,000 cash with which he purchased the property subject to the \$3,000 mortgage which under Crane becomes part of her cost _____.
11. X owes Y \$5,000 for legal services rendered. X pays off the debt to Y with a painting with a value of \$4,000 and a basis of \$3,000. X will incur a gain of \$1,000 under the International Freighting case by satisfying a legal obligation with appreciated property and \$1,000 of debt discharge income under the Kirby Lumber case and §61(a)(12) _____.
12. In 1987, T gave D 1,000 shares of SEROX stock then worth \$6,000. These shares had been purchased by T for \$8,000 in 1985. In 1990, D contemplates a sale of the shares for \$7,000. In such event, D would incur a gain of \$1,000 pursuant to §1015(a) since her basis is the lesser of the donor's cost or fair market value at the time of gift. _____. But, D instead gives the shares back to T who subsequently sells the shares for \$7,000. T will be able to claim a \$1,000 loss because under §1015(a) T recovered her original basis _____.
13. X Corporation has a group term life insurance policy with coverage equal to the employee's annual salary. John, age 52, is president of the Corporation and receives an annual salary of \$75,000. John may exclude the Corporation's premium cost only for the coverage in excess of \$50,000 pursuant to §79 _____.
14. T is a cash basis attorney. On December 31, 1990, a client is on the way to T's office to pay T a \$5,000 fee. T happened to meet the client in the elevator, and the client offered T the \$5,000 payment. As T reached for the check, the elevator came to an abrupt halt, causing T to fall against a railing, bump his head, and lose consciousness. On January 1, 1991, T awoke in the hospital to the sound of a concerned client who informed him that he had put the \$5,000 check into T's pajama pocket. T being a cash basis taxpayer, must report the receipt of the \$5,000 in 1990 pursuant to the constructive receipt doctrine set forth in §1.451-2 and §61(a) _____.

15. T owned a tract of land. The local government decided to build an airport near the property. T's cost of the property was \$50,000. The local government paid T \$10,000 for invasion of her airspace. Since the cost of the rights cannot be determined, T will not recognize any gross income from the receipt of the \$10,000 pursuant to §1.61-6(a) but T must reduce her basis by that amount pursuant to the Inaja Land case _____.
16. H and W, who report their income on a calendar year basis, were divorced in 1988. The divorce decree requires H to make the following cash payments to W, all of which were made in a timely fashion: 1988, \$30,000; 1989, \$40,000 and 1990, \$13,000. By reason of the foregoing, H will have deducted \$30,000 in 1988 and \$40,000 in 1989 pursuant to §215 _____ which amounts W will have included in her gross income under §71 _____. For 1990 H, however must recapture a total of \$12,000 as gross income pursuant to §71(f) _____. Also he will simultaneously have a \$13,000 alimony deduction payment pursuant to §215 _____.
17. H & W have been divorced for several years and have settled all legal obligations to each other. Nevertheless, five years after their divorce they voluntarily enter into a written agreement that requires H to make annual payments to W of \$10,000 for her support for five years or until she dies, whichever ever occurs first. Since these payments are in cash and are for the support of a former wife the payments qualify as deductible alimony to H under §215 _____ and income to W under §71 _____.
18. X, an attorney performed legal services for Y, a doctor; and Y performed medical services for X. X and Y agreed not to bill each other since the value of services performed by each was about equal. Since this is a "wash" neither X nor Y is required to report any income in the circumstances _____.
19. In 1990, T, a cash method taxpayer, purchased an automobile for his personal use. T obtained a bank loan of \$10,000 which was secured by a mortgage on T's personal residence which has a fair market value of \$110,000 and is subject to an acquisition indebtedness of \$45,000. T incurred and paid interest of \$1,000 on the automobile loan. Notwithstanding the fact that the automobile is not used in any trade or business by T, he may still deduct the entire interest paid on the bank loan pursuant to §163(d)(3)(c) _____.

20. X purchased certain residential property from Y for a second home. X paid Y \$10,000 and assumed an outstanding mortgage of \$30,000. In addition, X assumed the obligation to pay \$1,000 defaulted interest on the mortgage obligation which Y had failed to pay. X can deduct the interest payment in full under §163 because it relates to the mortgage _____.
21. T, an individual, had outstanding the following interest-free loans:

Borrower	Amount of Loan	Use of Loan Proceeds
S, T's son	\$ 15,000	Law School tuition
D, T's daughter	\$ 25,000	Start of new business
R, T's employees	\$ 2,000	Payment of medical bills
B, T's brother	\$110,000	Payment of attorney's fees

Assume S had \$1,500 net investment income for the year. D's income was \$5,000 earned by the business and \$1,500 of dividends. R's only income was his \$12,000 salary. B is serving a prison term for violation of the securities laws and has no income.

All loans are demand loans and are outstanding for the entire year. Assume the Federal rate is 12% compounded semiannually (12.36% effective annual rate).

With respect to the S loan, T must recognize imputed interest but only to the extent of S's net investment income of \$1,500 because this amount is less than the applicable federal rate ($12.36\% \times \$15,000 = \$1,854$) pursuant to §7872(d)(1)(E)(ii) _____.

Similarly, T must recognize \$1,500 of imputed interest income on the D loan because this equals D's net investment income for the year which is less than the applicable Federal rate pursuant to §7872(d)(1)(E)(ii) _____.

No interest income will be imputed on the loan to R because of the de minimis exception provided by §7872(c)(2) _____.

With respect to the B loan, since no exception is applicable, T must recognize \$13,596 imputed interest (computed at the applicable federal rate) on the loan to B pursuant to §7872(a). However, if B had net investment of

\$15,000, then this sum would be imputed to T as interest income pursuant to §7872(d) _____.

22. H and W are divorced in 1980. Pursuant to the divorce decree H is to pay \$9,000 per year for the first five years and \$15,000 per year in each of the succeeding five years. These payments would qualify as alimony to W under §71(a)(1) of the then 1954 Code because the payments are "periodic" with the then Code provision §71(c)(2) _____. W should receive a total of \$15,000 tax free by reason of the foregoing payments _____.
23. Suppose, in the above example, H was required to pay W \$12,000 under a decree that called for \$12,000 payments per year for ten years, the payments to begin six months after the divorcee decree becomes final. Since the payments are to be made over a period covering ten years exactly the payments will not qualify as alimony within the then §71(c)(2) because under said provision the payments had to be for a period in excess of 10 years _____.
24. T sells certain property to D (his daughter) for \$60,000. The property has a value of \$90,000 and T's basis in the property is \$30,000. Pursuant to §1.1001-1(e)(1) T will realize a gain of \$40,000 on this transaction because two-thirds of his basis (\$20,000) is allocated to determine his gain since T only sold two-thirds of the property's value _____. D's basis, under §1012 will be her cost, or \$60,000, increased by the remaining \$10,000 carry-over gift basis from T pursuant to §1015(a), for a total of \$70,000 _____.
25. Pursuant to a divorce decree entered during August 1984, H, agreed to pay his former wife (W) alimony as follows: 1984- \$40,000; 1985- \$25,000 - 1986 through 1989 - \$10,000. By reason of the foregoing, H will have recaptured an aggregate of \$25,000 by the end of 1986 _____ pursuant to §71(f) of the then Code _____.
26. Assume T creates an *intervivos* Clifford trust in 1980 for the benefit of his children who are to receive the income quarterly. He retains no administrative powers at all. The trustee is an independent bank. The trust is for a period of 12 years and income is distributable to the children equally. The trust is initially funded with income producing properties. Despite the 1986 Tax Reform Act changes abolishing Clifford trusts, T will not be taxable on any of

the income of the trust for its entire term pursuant to §673
_____.

Suppose, in 1985, T decided to transfer additional income producing assets to the trust. The additional income from these new assets would not be taxable to T pursuant to §673 because it merely constitutes the addition of income property to an existing valid Clifford trust without any adverse tax effect on T _____.

27. T is the owner of a large shopping center complex and holds 20 long-term leases from tenants. On January 1, 1990 he assigned all of his interests in these leases to his son and daughter. He will not be taxable on the lease income pursuant to Lucas v. Earl and Horst because he effectively assigned away the "tree" irrevocably _____.
28. Suppose T purchased certain property several years ago for \$100,000 cash. Real estate prices having steadily climbed, the property today has a value of \$350,000. T, in need of funds for a wholly separate purpose, now decides to obtain such cash by placing a mortgage on the property. T borrows \$300,000 which is, of course, secured by a non-recourse mortgage on T's property. T will incur a taxable gain of \$200,000, the amount by which the mortgage exceeds his basis, because under Crane and Woodsam Associates, the amount of the mortgage is an amount realized under §1001 _____.
29. A taxpayer must first pay any tax deficiency assessed by the IRS and then sue for refund prior to bringing suit in the U.S. Tax Court _____.
30. T, a cash basis taxpayer, performed personal services during 1990 for X and received a 5% promissory note from X in payment which is due and payable in 1991. Since T is a cash method taxpayer, he is not required to report the "income" until he is actually paid because the note is simply evidence of a promise, for future payment pursuant to §451 _____.
31. The "fruit and tree" metaphor of Justice Holmes in Lucas v. Earl is used to determine who should report income from a particular source _____.
32. T, a cash basis taxpayer, agreed to perform services in exchange for 100 shares of SEROX Corp. common stock to be delivered upon completion of the services. The value of the stock was \$2,300 when T entered into the contract and \$3,000 when T performed the services and received the stock. Later

that same day the value of the stock decreased to \$2,700. T must report \$2,300 of income since that was the value at the time the contract was executed pursuant to §451 and §1.446(a)(3) and (c)(1)(i) _____.

33. On January 1, 1990, Jay made an interest free demand loan to his son(S) in the amount of \$120,000 for future investment in a new business which S deposited in a bank account that earns \$11,000 interest in 1990. S has no other income in 1990. Assume that the applicable Federal short-term rate compounded semi-annually for 1990 is 10 1/4% or \$12,600. The amount deemed imputed to Jay, however, is limited by §7872(d) to \$11,000 of net investment income _____.
34. On the morning of December 31, 1990, T a cash basis taxpayer, was not at home when the Postal Service attempted to deliver a certified letter containing a check for severance pay. T arrived home after the Post Office was closed and was unable to obtain his check until January 2, 1991. Nevertheless, T must still report the amount of the check for 1990 because it will be deemed constructively received by him pursuant to RR 76-3 and §1.451-2(a) _____.
35. Punitive damages awarded in a personal injury suit for defamation are presently excludable pursuant to §104(a)(2) _____.
36. T is an attorney working full time in the legal department of AJAX airlines. During 1990 she received ten nights lodging at a hotel owned and operated by AJAX at a 50% discount price of \$70 per night. T is allowed to exclude \$280 of the discount received pursuant to §132(c)(1)(B) _____.
37. On July 16, 1990, T purchased an automobile for \$10,000 cash and her promissory note for \$20,000. Subsequently, T transferred the car to Y in exchange for Y's unencumbered truck worth \$22,000 and, in addition, Y agreed to assume T's \$20,000 obligation. By reason of the foregoing exchange, T will realize \$42,000 pursuant to Crane for a gain of \$12,000 pursuant to §1001 _____. If Y had acquired the auto subject to the \$20,000 debt then T would have incurred an \$8,000 loss on the exchange pursuant to Crane and §1001 _____.
38. On January 1, 1990 T loaned \$50,000 to a business associate. The term of the loan was 5 years with interest at the rate of 10% per annum. The loan was evidenced by a promissory note signed by the borrower. T immediately assigned the interest to become due on the Note to her daughter (D) irrevocably and

simultaneously assigned the Note to his son(S). Pursuant to the Horst rationale, S must report the interest payments when received by D because he is the owner of the "tree" which bears the "fruit"_____.

39. A below market employer-employee loan has no effect on the employer's tax liability_____.
40. On January 1, 1990, F loaned D (daughter) \$100,000. D used \$40,000 to retire a mortgage. The remaining \$60,000 was placed in a savings account which yielded 9% per annum interest (\$5,400 for the year), which was D's only investment income for the year. F did not charge interest on the loan but the applicable Federal rate was 11%. There is no other outstanding loan from F to D. For 1990, D must recognize \$11,000 ($.11 \times 100,000$) imputed interest income on the loan from F pursuant to §7872(a)_____.
41. X agreed to exchange his SEROX stock having an adjusted basis of \$10,000 and fair market value of \$15,000 in return for Y's AJAX stock having an adjusted basis of \$20,000 and a fair market value of \$16,000. X will realize \$16,000 on the exchange resulting in a recognized gain of \$6,000 pursuant to §1001(a)_____. Y, on the other hand, will realize \$15,000 on the exchange, resulting in a \$5,000 recognized loss pursuant to §1001(a)_____. Subsequently, X sold the AJAX shares for \$16,000. He will realize and recognize a \$1,000 gain on the sale because his basis for the AJAX stock acquired from Y is the fair market value of the SEROX shares given up by him on the above exchange pursuant to the Philadelphia Park rationale_____.
42. H and W's divorce decree became final on January 1, 1990. Pursuant to the decree H transferred certain property he purchased five years ago to W in June 1990. The property has a basis of \$100,000 and fair market value of \$500,000. W sells the property in July 1990 for \$600,000. She will incur a \$100,000 gain on the sale pursuant to §1041 because her basis for the property acquired from H will be the fair market value on the date of receipt_____.
43. T transferred property with an adjusted basis of \$90,000 and a fair market value of \$60,000 to his son(S) in return for \$30,000. One year later S sold the property for \$25,000. Under §1.1015-4(a), S's basis is the greater of (1) the consideration paid for the property or (2) the transferor's adjusted basis. Thus, pursuant to §1001, S will incur a loss

of \$75,000 on the sale since his basis will be \$90,000 and the amount realized was \$25,000 _____.

44. Gail gave her mother certain property with an adjusted basis of \$5,000 and a fair market value of \$50,000, incurring a gift tax liability of \$5,000 as a result of the transfer. Three months later the mother died suddenly and bequeathed the property to Gail who subsequently sold the property for \$55,000. Gail will not incur any tax liability pursuant to §1014 because her basis will be the fair market value at mother's death (\$50,000) pursuant to §1014 increased by the gift tax paid (\$55,000) _____.
45. In 1988, T purchased an annuity for \$12,000 that was to pay her \$1,200 per year. In 1990, when T had a life expectancy of 15 years, T collected \$1,200 on this annuity. T's 1990 taxable income must include \$800 pursuant to §72 _____.
46. H and W were divorced in 1985. By the terms of the divorce decree H agreed to make the following payments to W:

Year 1	\$100,000
Year 2	80,000
Year 3	10,000
Year 4	10,000
Year 5	10,000
Year 6	10,000

By the end of the third year H will have recaptured an aggregate of \$140,000 pursuant to §71(f)(2) and (3) of the then Code _____.

Suppose that instead of requiring H to make the payments set forth above, the divorce decree required H to pay W 50% of the net income (before taxes) of his Widget business for six years. Assume the above payments represent exactly 50% of the net income from H's business for the respective years in question. There would be no change in that H will still have recaptured a total of \$140,000 by the end of Year 3 _____.

47. T, an employee of Astro Corp. dies after many years of service. The Board of Directors votes to pay to T's surviving widow (W) the sum of \$10,000 and to his daughter \$5,000. Pursuant to §101(b), W may exclude \$5,000 of the payment to her by reason of the death of T _____.

48. The fair market value of "imputed" or "psychic" income must be included in a taxpayer's gross income _____.
49. A cash allowance for meals and lodging is generally nontaxable under \$119 _____.
50. If a purchaser assumes the seller's liability on property acquired, the purchaser's basis for the property must be decreased by the amount of the liability pursuant to Crane _____.
51. Assume T owns two personal use assets during 1990. He decides to sell both with the result that he realizes a gain of \$3,000 on the one asset and a loss of \$5,000 on the other asset. T may simply offset the gain with the loss _____.
52. Mr. Smith was gifted a condominium apartment in 1990. At the time of the gift, the property had a fair market value of \$150,000, and its adjusted basis to the donor was \$130,000. The donor paid gift tax of \$3,000 on the transfer. Smith's basis for the condominium apartment is \$133,000 pursuant to §1015(a) and §1015(d)(6) _____.
53. T received a gift of income producing property with an adjusted basis of \$50,000 to the donor and a fair market value of \$40,000 on the date of the gift. Gift tax of \$1,000 was paid by the donor. T subsequently sold the property for \$45,000. Pursuant to §1015(a), T must use the lesser of the donor's cost or the fair market value at the time of the gift plus any credit for gift taxes paid under §1015(d)(6) resulting in a gain to T of \$4,000 _____.
54. The basis of personal use property converted to business use is always the higher of its adjusted basis or fair market value on the date of conversion _____.
55. In 1988, T purchased a personal residence for \$55,000. On January 2, 1990 she placed the house on the rental market when its fair market value was \$50,000. On January 3, 1989 she leased the house to a tenant when its fair market value was \$51,000. On January 2, 1990, because of a declining real estate market, T sold the house for \$42,000. Assume T claimed \$4,500 depreciation. T would incur a loss of \$4,500 on the sale pursuant to §1.165-9(b) _____. If the property had been sold for \$52,000, T's gain would have \$1,500 _____.

56. Assume T purchased certain property for \$8,000 cash but subject to a \$12,000 non-recourse mortgage. At a time when the property was worth \$30,000 T gifted the property to his daughter (D) subject to the mortgage and in connection therewith paid a \$3,000 gift tax. D subsequently sold the property to Z for \$20,000 cash and subject to the \$12,000 mortgage. T will realize (and recognize) a loss of \$8,000 on the transfer to D pursuant to §1.1001-1(e). D will realize and recognize a gain of \$9,000 on the sale to Z because her basis under §1.1015-4 and §1015(d)(6) will be \$23,000 _____.
57. Travel expenses are not deductible under §102 if the taxpayer is reassigned for a period less than 12 months _____.
58. T acquires certain property subject to a non-recourse mortgage of \$1,850,000. With rapidly declining real estate values, T decided to sell the property after several years to a third party who agrees to acquire the property subject to the non-recourse mortgage the principal of which had not been reduced. The fair market value of the property at this time had declined to \$1,400,000. Assume T had taken \$450,000 of depreciation to the time of sale. Relying on FN 37 of the Crane decision and Tufts which confirmed the dictum, from Crane, no gain or loss was claimed by T because the adjusted basis was equal to the fair market value _____.
59. Use of a credit card by a cash basis taxpayer results in a deduction only when the taxpayer pays the bill to the credit card company pursuant to RR 78-38 _____.
60. T purchased 1,000 shares of SEROX stock for \$10,000. At a time when the shares were worth \$500,000, T decided to create an irrevocable trust for the benefit of his children. He transferred the shares to the trust the income of which was distributable to the children equally. Prior to transferring the SEROX shares. T borrowed \$200,000 from a bank on a non-recourse basis by pledging the shares for payment of gift tax. T will incur a gain of \$190,000 pursuant to Crane and §1001 _____. The trust's basis pursuant to §1015(b) will be \$200,000 increased by the gift tax credit under §1015(d)(6), or \$400,000 _____. If T had transferred the shares to the trust on the condition that the trust pay any and all gift taxes, this would have been a "net gift" with no tax implications to T or to the trust pursuant to the Diedrich rationale _____.

61. If Morton Frank's negotiations had led to an agreement in principle with the seller but, prior to signing of the agreement, certain misrepresentations are discovered by Morton Frank causing him to abandon the proposed purchase, notwithstanding the fact that he was not actually carrying on any trade or business at the time he could still claim a loss deduction for all the costs directly incurred in connection with this particular transaction pursuant to §165(c)(2) and Johan Domenie and Harris Seed _____.
62. T transfers certain income producing assets to a trust in 1983 to accumulate the income for a period of 11 years at the end of which time the corpus and all accumulated income is to revert to T. Since T did not retain any administrative powers or power of revocation and the reversion is suspended for more than 10 years, T will not be taxable on the trust income during the entire trust term pursuant to §6673 _____.
63. A Revenue Ruling is only binding on the IRS and not on taxpayers _____.
64. T purchased property for \$29,000 paying the seller \$10,000 and executing a non-recourse mortgage to seller for \$19,000. When the principal balance of the mortgage had been reduced to \$15,000, T notified the seller he would no longer service the debt because the value of the property had declined to \$8,000. Seller offered to accept \$8,000 in full payment and discharge of the \$15,000 mortgage. T agreed. As a result, T will incur \$7,000 of ordinary income under the rationale of the Kirby Lumber case and §61(a)(12) _____.
65. Nancy purchased a parcel of property for \$10,000. Subsequently, she sells one-half of the property for \$7,500. She will not have to report any gain until she recovers her entire cost by reason of §1.61-6(a) _____.
66. Suppose T purchased 100 shares of AJAX common stock for \$10,000. At a time when the shares are worth \$8,000 T gifts the shares to his son (S) who subsequently sells the shares for \$9,000. Pursuant to §1015(a), S will incur a gain of \$1,000 because his basis will be the lesser of the donor's cost or fair market value at the time of the gift _____.

67. In 1990 T borrows \$25,000 from a bank for a period of 5 years for use in his business with interest payable at the rate of 10% per annum. T, being a cash basis taxpayer, and in need of deductions, decides to prepay the entire 5 years interest in 1990. He will be able to deduct the entire pre-payment pursuant to §461(g) _____.
68. T, an attorney, practicing law in New York for the past 30 years, decides to apply for admission to the bar of the State of Florida. Since there is no reciprocity between New York and Florida in this regard, T is required to take the Florida bar examination. One month prior to the examination, T flies down to Miami, registers in a hotel, registers for a bar review course and spends most of the month studying for the bar examination. Of course, he had to make several trips back to New York and numerous long distance phone calls to attend to various pending matters. T expended \$9,750 during this period which he is advised he can deduct under §162(a) because as a practicing attorney he is clearly deemed to be "carrying on" within the meaning of the Code provision _____.
69. By the terms of a divorce decree entered in June 1990, T is obligated to pay W \$1,000 per month alimony for 5 years or until her death or remarriage which ever occurs first and \$300 child support for his daughter. T is only able to send W \$1,000 per month for the balance of 1990. He may deduct the entire sum paid under §215 because alimony support takes precedence over child support pursuant to §71(c)(3) _____.
70. T purchased a residence in White Plains, N.Y. in 1980 for \$100,000. In 1990 he decides to move to California. He abandon the White Plains home in February 1990 and offers the property for rental by listing with a real estate agent. In November 1990, being unable to rent the house, he offered it for sale and finally sold the home for \$80,000 in December 1990. During this entire period T claimed \$6,000 depreciation (cost recovery). By virtue of §1.165-9(b)(2), T may claim a loss of \$14,000 _____.