## Federal Income Tax

Final Exam – Answer Sheet

NAME: Jacob Wall

**1.**

|  |  |
| --- | --- |
| Net Income | $10,000,000 |
| (x) Tax Rate | 35% |
|  | $3,500,000 |
| Less: Tax Paid to France | ($1,000,000) |
| **Taxes Owed:** | **$2,500,000** |

**2.**

|  |  |
| --- | --- |
| Cash Received: | $600,000 |
| Debt Assumed: | $750,000 |
| Net Proceeds: | $1,350,000 |
| Less: Basis | $500,000 |
| Gain/(Loss) | $850,000 |

**3.**

|  |  |
| --- | --- |
| **Pat** | |
| Realized: | $75,000 |
| Recognized: | $75,000 |
| New Adjusted Basis: | $400,000 |
|  |  |
| **Jeff** | |
| Realized: | $325,000 |
| Recognized: | $50,000 |
| New Adjusted Basis: | $225,000 |

**4.** Ordinary Income from section 1245 Recapture: $3,000

25% Capital Gain from section 1250 unrecaptured gain: $17,000

20% Capital Gain from section1231 gain or loss: ($2,000)

Ordinary Income from section 1231 Recapture: ($9,000)

**5.** Under section 351 this would be a non-taxable contribution to the corporation. This is because Penny only receives stock and has controlling interest in the corporation.

**6.**

|  |  |
| --- | --- |
| **Corporation** | |
| Proceeds | $13,000 |
| Less: Adjusted Basis | $12,000 |
| Gain/(Loss) | $1,000 |
|  |  |
| **Penny** | |
| $0 | |

**7.**

|  |  |
| --- | --- |
| **Corporation** | |
| Fair Market Value: | $11,000 |
| Less: Adjusted Basis | $10,000 |
| Gain/(Loss) | $1,000 |
|  |  |
| **Frank** | |
| Dividend: | $1,500 |
| Return of Capital: | $6,000 |
| Capital Gain: | $3,500 |

**8.** This is a section 302 transaction. Because of this Ed will have a capital gain of $27,900.

**9.** Because Elizabeth/Kelly is receiving a profits interest they would receive no assets if the partnership liquidated immediately after the grant. Thus they do not owe any taxes upon the date of grant.