Final Exam

Name: Jacob Wall

**1. ABC Corporation is a US entity that owns 100% of Cayco Ltd, a Cayman Islands entity which has elected to be treated as a flow through for US federal income tax purposes. Cayco lent money to a French corporation. During 2013, Cayco received interest payments of $10 million, which were subject to a 10% French withholding tax (paid by the borrower directly to the French government). Assume that neither ABC nor Cayco has other income or expenses and that ABC is subject to a 35% US tax rate on all of its income. How much US tax would ABC owe for the year?**

|  |  |
| --- | --- |
| 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. Alex owns a tool manufacturing business as a sole proprietor, which is selling. Alex’s basis in his business is $500,000 and the business has outstanding debt of $750,000, which the purchaser will assume as part of the purchase. The purchaser will also pay Alex $600,000 in cash. What is Alex’s gain or loss on the sale?**

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

**3. Pat owns some land with a fair market value of $500,000 and an adjusted basis of $425,000. He also owes the bank $150,000 on the mortgage. Jeff owns some land with a fair market value of $400,000 and an adjusted basis of $75,000. There is no debt of Jeff’s land. Pat and Jeff agree to exchange properties (subject to the existing mortgage on Pat’s land). Pat will also pay Jeff $50,000 in cash. What is the realized gain, recognized gain and basis in the new properties for both Pat and Jeff?**

|  |  |
| --- | --- |
| **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. During 2013, Jon’s business had the following transactions:

(a) He sold a computer system for $15,000 with an adjusted basis $12,000 and accumulated depreciation of $8,000.

(b) He sold a building for $250,000 with an adjusted basis of $230,000 and accumulated depreciation of $17,000.

(c) He sold a truck for $10,000 with an adjusted basis of $15,000.

Two years prior, Jon sold a machine used in his business for $11,000 that had an adjusted basis of $20,000 and accumulated depreciation of $4,000. Jon held all property in this question for more than one year before he sold it. Identify how much of Jon’s current year income is 1245 recapture ordinary income, 1250 unrecaptured gain, 1231 gain or loss and any 1231 recapture.

**5. Penny contributed a truck to a newly formed C corporation in exchange for all of the stock of that corporation. The truck had a fair market value of $12,000 and an adjusted basis $3,000. How much gain must Penny recognize on the exchange of the truck for the corporation’s stock?**

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. Immediately following Penny’s contribution of the truck in question #5, the corporation sold the truck for $13,000. The corporation does not distribute the proceeds to Penny. How much gain or loss must the corporation recognize? How much gain or loss must Penny recognize?**

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

**7. Frank owns 100% of XYZ, Inc, a C corporation. XYZ distributed a computer to Frank that had a fair market value of $11,000. XYZ’s basis in the computer was $10,000 and it has earnings and profits of $1,500. Frank’s basis in his XYZ stock is $6,000. How much income must XYZ recognize on the distribution. How much of the distribution to Frank is a dividend, a return of capital or capital gain?**

|  |  |
| --- | --- |
| **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. Ed owns 65 shares of ABC Corporation. Fred owns the other 35 shares. ABC redeems 31 of Ed’s shares for a total purchase price of $31,000. ABC has earnings and profits of $22,000. Ed has a basis in his stock of $100 per share. How much of the redemption is a dividend, a return of capital or capital gain?**

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

**9. Elizabeth agrees to contribute $100,000 to Partnership. Kelly will not contribute any money, but she will manage the business in exchange for a partnership interest that entitles her only to 30% of Partnership’s future profits. How much income must Kelly recognize on the initial grant of the partnership interest to her?**

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.