

Taxation of Business Entities  
Fall 2008

Question	Points	Topic	Answer
1	5	Corp v. PSH	Pass through vs. Separate entity
2	5	LLC	DRE
3	10	DRD/Sale	X should prefer div b/c of 100 DRD and then sale for gain of 4M instead of gain of 5M, but Watermansteamship
4(a) (b) (c)	20	S Corp	Borrowing has no effect; SH taxed on share of operating income and gain on distribution of building; basis down S Corp Inc: $140(240-100) + 70(85-15) = 210$ , separately reported; Basis + by 70 each and down by 80 each Basis in land: 80 each (301(d))
5(a)	10	Redemption	302(b) 312 E&P; 311
(b)	10	Dist/Div	Ownership drop; NEED analysis 311b/ 312b 301d Basis in shares: 1.302
6	10 10	Liq Distr	337/334b 337/336,334 & 332
7(a) (b) (c) (d) (e) (f)	30   p. 182 Peroni	EROL Alloc loss	EROL Analysis: Assets worth 0, loss of 10k allocated 7.5 to A and 2.5 to B; CA: -6.5 and -1.5, so basis increased by 6.5 and 1.5 to 7.5 and 2.5 4k of loss allocated 3k to A and 1k to B $7.5 - 3 = 4.5$ (A); $2.5 - 1 = 1.5$ (B) A: $1 - 3 = -2$ ; $1 - 1 = 0$ Sale for 12: Gain of 6, 4.5/1.5; B + to 9 and 3; Bank paid 8, which lowers B to 2.5 and 1.5; \$ distributed w/ CA: 2.5 and 1.5; no G/L on dist, Bank still owed 2k: Ps contribute w/ loss sharing ratio (1.5/.5), which increases basis and CAs, but B - by repayment to BK; each has B of 500; A CA (500); I
8(a) (b) (c) (d)	20	737	Yes, under 737: G [Min (FMV - AB) or NPG], Min[(20-15), 15], or 5 Outside B increased by G (5 +15) 733: Outside basis less basis of distributed property, 0 $15k + 5k$
9(a) (b) (c)	10 10 10		Loss of 7 [5-12]; probably capital; no effect on A, B, D, or ABC If 754 election, basis of BA stepped down but only for D by 7 probably wouldn't make election because eliminate tax losses for D; also required for all subsequent years
10	45	351	Analysis: good 351 b/c transferors of property own +80% VV. Probably don't count D b/c accomodation transfer (1-351-1a1ii) but note "primary purpose", but A-C still own 88.8% (8/9)
	5	Able	358/ 362
	10	Becky	357/351/358
	10	Carl	358/362
	10	David	Prob accom transfer so doesn't count; stk for services not good 351 transfer (351d); income of 99,950K; B=100K; no L on DVD b/c personal
	10	Eric	Not good 351 b/c not part of original transfer; doesn't own 80+ VV so recognizes 600K of gain; B = 900K; N B = 900K
Total	205		

NY: what is basis in S Corp interest

NY: \$ used to buy a machine for 10k