

*Government's view of the economy
could be summed up in a few short
phrases: If it moves, tax it. If it keeps
moving, regulate it. And if it stops
moving, subsidize it.*

President Ronald Reagan

1. What is the US corporate tax rate on business income and capital gains?
2. Capital gains and losses:
 - (a) Can a C corp use capital losses against capital gains?
 - (b) Can a C corp use capital losses to offset ordinary (business) income?
 - (c) Assume that a C corp has excess capital losses. Can it carry them forward or backward? If so, how many years? §1212(a)
3. What is the effective corporate tax rate on \$100 of dividends received by a C corp from:
 - (a) a 5%-owned US company?
 - (b) a 25%-owned US company?
 - (c) a 100%-owned US company? §243(a)-(c)
4. Describe two ways a shareholder can conduct business through a corporation and reduce or eliminate the double tax burden?
5. C Corp has operating revenues of \$1,000, operating expenses (not including depreciation and amortization) of \$600, depreciation of \$100, \$200 of interest expense, and \$50 of interest income (all amounts in \$MM). What's C Corp's allowable interest deduction? Is there any other information you should ask your client about? §163(j)
6. In 2026, Barbie and Ken, two friends who are law firm associates, have an idea to develop a series of AI apps that are aimed at the corporate legal compliance market. They form a Delaware corporation (DC) and initially fund it with \$200,000 of seed capital (\$100,000 each) in exchange for all the common stock of DC. The first apps are a success and generate some significant revenue, around \$3MM, but Barbie and Ken realize that they need additional funds to expand the business, e.g., hire additional programmers, rent office space both in NYC and Austin. Later the same year, they are approached by VC fund and agree to accept additional funding from VC fund in exchange for equity in DC. VC fund invests \$40MM into DC in exchange for shares of DC. Assume this represents 75% of the value (after the investment) of DC. Immediately after VC fund's investment, DC has a cash balance of \$42MM on its

balance sheet and all of DC's assets, such as Aeron chairs and Apple laptops, have been expensed and have a zero basis.

- (a) Is DC a QSB? §1202(d)
 - (b) Assume that VC fund invested \$75M so that DC's cash balance was \$77MM immediately after the contribution. Is DC a QSB? §1202(d). Suggest a planning alternative to avoid or mitigate this result.
 - (c) How long must Barbie, Ken, and VC hold the DC stock to potentially benefit from §1202? §1202(a)
 - (d) Original facts. It's now 2032, and DC has been incredibly successful: its cash balance has increased each year by roughly \$25MM, so that by 2032, it has around \$200MM. Barbie, Ken, and VC receive and accept an offer to sell the company to PE for \$400MM—\$50MM to each Ken and Barbie, and \$300MM to VC.
 - i. How much can each exclude under §1202? §1202(b)
 - (e) If Barbie, Ken, or VC cannot exclude all the gain under §1202 on a sale to PE, suggest a planning alternative to increase the excludable gain. §§1202(b) and 1045
 - (f) Alternative facts. It's now 2032. Assume that Barbie and Ken each own two blocks of stock, one block with a basis of \$0 and the other with a basis of \$1.5MM. They have received an offer of \$30MM each for all of their shares. Assume that each block has the same FMV (\$15MM).
 - i. Assume that they sell all their shares in 2032. How much can they exclude under §1202?
 - ii. Suggest an alternative or two to maximize their excludable gain.
7. Microsoft (MSFT) has many 100%-owned foreign subsidiaries.
- (a) Is the income (loss) from these subsidiaries included on MSFT's financial statements?
 - (b) Are the subsidiaries included in MSFT's affiliated group? §1504(b)(3)
 - (c) What income of a foreign subsidiary is included in the income of the U.S. owner(s) of the foreign subsidiary? §§951(a)(1)(A) (subpart F); 951A(a), (b)(2)(A); 954(b)(4); 250(a)(1)(B); and 960(d). Skim only
8. What are some items that are treated differently for book (accounting) and for tax?
9. Is MSFT an *applicable corporation* under §§59(k)(1) and 56A(a)?

10. In MSFT's financials, where would you look to find MSFT's *adjusted financial statement income* before any adjustments? §56A(a) and (b).
11. What are 2 adjustments that are made to accounting pre-tax income to arrive at *applicable financial statement income*?
12. Assume that MSFT earns \$100 billion and pays U.S. tax of \$13 billion.
 - (a) If the U.S. corporate tax rate is 21%, how can MSFT pay a rate of 13%?
 - (b) What would be an estimate of MSFT's CAMT liability, assuming no foreign tax credits?