

## **Part 3**

### **Section A:**

#### **Questions 1 – 20**

**The following statements are either true or false. Select the most appropriate answer and darken the oval under A for true or B for false.**

- 1.** After January 1, 1997, any domestic entity that is formed to conduct business and is designated as a corporation under state law may elect out of corporate tax treatment.
- 2.** Able, a calendar year domestic for-profit corporation is in a Chapter 11 bankruptcy proceeding and has no income for the current year. The bankruptcy trustee of Able Corporation must file a Form 1120 for the current year no later than March 15, 2001 or request an extension.
- 3.** Clark Corporation transferred shares of stock to Joe Brown in full satisfaction of a debt that the Clark Corp. owed to Mr. Brown. Because this is a qualifying nontaxable exchange, no income or expense will be recognized by either party.
- 4.** Sam bought real estate on December 4, 1999. On June 3, 2000, he traded it for another parcel of real estate in a nontaxable exchange. When Sam sells the land he acquired in the nontaxable exchange, the holding period will begin on June 4, 2000, to determine whether the capital gain was long-term or short-term.
- 5.** Estimated tax payments are due by the 15<sup>th</sup> day of the 3<sup>rd</sup>, 6<sup>th</sup>, 9<sup>th</sup>, and 12<sup>th</sup> months of a corporation's tax year.
- 6.** Hughes Corporation paid a \$400 dividend to a shareholder in 2000. No Form 1099-DIV was required because the payment was less than \$600.
- 7.** For purposes of determining whether a distribution from a corporation is taxable to a shareholder as a dividend, taxable income may be substituted for current earnings and profits.
- 8.** Stock rights (also known as "stock options") are distributions by a corporation of rights to acquire its stock. Distributions of stock rights are generally tax-free to shareholders.
- 9.** If the fair market value of property received by a shareholder in liquidation is \$10 or more, the corporation is required to report the distribution on Form 1099-DIV.

**10.** Theresa, an individual shareholder, owns 40% of the stock in Blue Corporation, the remaining 60% being held by her children. For purposes of the stock ownership and attribution rules, Theresa is treated as owning 100% of the stock in Blue Corporation.

**11.** The Richards Corporation has always been an S Corporation. For the year ending December 31, 2000, its passive investment income is in excess of 25% of the gross receipts. The corporation is subject to the excess net passive income tax.

**12.** On the final income tax return of an individual who died, the personal exemption is prorated for the portion of the year before the date of death.

**13.** Form 1041, U.S. Income Tax Return for Estates and Trusts, must be filed for a decedent's estate if the gross income for the tax year is \$500 or more or any beneficiary of the estate is a nonresident alien.

**14.** Generally, bonds that are specifically exempt from Federal income tax do not need to be reported on the Federal Estate Tax Return (Form 706).

**15.** The executor of the Smith estate made a distribution of 100% of the estate's assets prior to paying the estate's income tax liability. The beneficiaries cannot be held liable for the payment of that tax liability.

**16.** Bob and Mary were divorced on July 1, 2000. Prior to their divorce, on June 20, they agreed to gift a jointly held income property to their only son. The transfer was completed on July 5, 2000. Because they both agreed to the gift in writing, they may elect to split the gift on their Forms 709, United States Gift (and generation-skipping transfer) Tax Return.

**17.** A married couple may file a joint gift tax return.

**18.** The Keeling Corporation is a domestic corporation. In 2000, it makes a cash distribution on its stock, in the ordinary course of business, to a foreign shareholder. The corporation is not sure if all or part of the distribution will later be determined to be a return of capital. The Keeling Corporation is required to withhold tax on this cash distribution.

**19.** The beneficiary of a simple trust must include in his or her gross income the amount of the income required to be distributed currently, whether or not actually distributed.

**20.** The income distribution deduction allowable to estates and trusts for amounts paid, credited, or required to be distributed to beneficiaries is limited to distributable net income (DNI).

**Turn to the next page for Part 3, Section B.**

## Section B:

### Questions 21 – 45

The following questions are multiple choice. Select the most appropriate answer and darken the oval under the corresponding letter on the answer sheet.

21. Which of the following related parties can recognize a loss on the sale or exchange of an asset between themselves for tax purposes?
- A. Corporation and sole shareholder
  - B. Grandfather and granddaughter
  - C. Brother and sister
  - D. Daughter-in-law and mother-in-law
22. Which of the following statements is **NOT** true regarding corporate capital losses?
- A. Excess net capital losses may not be deducted in the current year
  - B. Capital losses may only offset capital gains
  - C. Net capital losses may be carried back to the three preceding tax years
  - D. Net capital loss carryovers may be carried forward to seven succeeding tax years from the year of the loss
23. Which of the following requirements must be met for a group of corporations to be considered a brother-sister controlled group?
- A. Five or fewer persons (individuals, estates, or trusts) own at least 80% of the total combined voting power of all classes of voting stock, or at least 80% of the total value of all classes of stock, of each corporation in a group of two or more corporations. A person's stock ownership is considered only if that person owns stock in each of these corporations.
  - B. Five or fewer persons (individuals, estates, or trusts) own more than 50% of the total combined voting power of all classes of voting stock, or more than 50% of the total values of all classes of stock, of each corporation in a group of two or more corporations. A person's stock ownership is considered only to the extent it is identical with respect to each of these corporations.
  - C. Both A and B
  - D. None of the above

24. The Lucky Corporation has just been formed. It has organizational costs that the corporation wishes to amortize. Which of the following tests must the Lucky Corporation meet before it can amortize the organizational costs?
- A. The costs are for the creation of the corporation
  - B. The costs are chargeable to a capital account
  - C. The costs could be amortized over the life of the corporation if the corporation had a fixed life
  - D. All of the above
25. Which of the following are **NOT** organizational costs that can be amortized?
- A. Costs of temporary directors
  - B. Costs of issuing and selling stock
  - C. State incorporation fees
  - D. Legal fees to draft the bylaws of the corporation
26. Lincoln Corporation has a loss for the year 2000. In computing its current year net operating loss, which of the following statements is **NOT** true?
- A. Excess capital losses are deducted
  - B. NOL carryovers from prior years are not deducted
  - C. NOL carry backs from subsequent years are not deducted
  - D. Taxable income limitations do not apply to the dividends-received deduction
27. James Corporation made various payments and transfers to and for its shareholders, Rob and Jim, during the year. Which of the following is **NOT** a reportable distribution? (Assume sufficient earnings and profits)
- A. Monthly cash payments of \$500 to Rob
  - B. Transfer of stocks held for investment to both Rob and Jim
  - C. Use of a company vehicle by Jim's daughter at college
  - D. Reasonable salary to both Rob and Jim
28. Which one of the following statements is incorrect with regard to property distributions?
- A. All stock distributions are treated as property distributions
  - B. Property distributions to shareholders are measured by their FMV on the distribution date adjusted for liabilities
  - C. The distributing corporation treats the property distributed as though sold to the shareholder at FMV or the amount of liabilities the shareholder assumes, whichever is greater
  - D. The shareholder's basis in the property distributed is usually the FMV on the date of distribution

**29.** Ned accepted stock in his employer's company valued at \$1,000 instead of his \$1,000 salary payment. Which tax consequence of this transaction is correct?

- A.** No income to Ned because stock distributions are not taxable
- B.** No salary expense for his employer because no payment of salary was made
- C.** Ned must recognize \$1,000 income because the stock is payment for services
- D.** This is a nontaxable exchange of property for stock

**30.** The Acme Corporation wishes to be treated as an S Corporation for the year ending December 31, 2000. The corporation must file Form 2553, Election by a Small Business Corporation, before what date?

- A.** December 31, 2000
- B.** March 16, 2000
- C.** March 16, 2001
- D.** February 15, 2001

**31.** Which of the following items are required to be separately stated to an S Corporation's shareholders?

- A.** Net short-term capital gain or loss
- B.** Charitable contributions
- C.** Foreign taxes paid to the government of a foreign country
- D.** All of the above

**32.** If an S Corporation has no accumulated earnings and profits from prior operations as a C Corporation, any amount distributed to a shareholder:

- A.** Must be returned to the S Corporation
- B.** Increases the shareholder's basis in the stock
- C.** Decreases the shareholder's basis in the stock
- D.** Has no effect on the shareholder's basis in the stock

**33.** Which of the following would **NOT** reduce a shareholder's basis in S Corporation stock?

- A.** A shareholder's pro-rata share of an expense not deductible in computing the corporation's taxable income and not chargeable to the capital account
- B.** A shareholder's share of all loss and deduction items of the S Corporation that are separately stated and passed through to the shareholder
- C.** A shareholder's pro-rata share of any non-separately stated loss of the S Corporation
- D.** The excess of the corporation's deductions for depletion over the basis of the property subject to depletion

**34.** Which shareholders must consent to have a corporation's S election revoked?

- A.** Any shareholder regardless of percentage ownership
- B.** Any two shareholders holding at least 10% each
- C.** All shareholders regardless of percentage ownership
- D.** Any shareholder or group of shareholders owning more than 50%

**35.** John Smith died on June 30, 2000. His personal representative enlisted the aid of John's nephew, an Enrolled Agent, to prepare a fiduciary income tax return (Form 1041) for the calendar year 2000. John's nephew did not charge a fee for the preparation of the return. Who must sign the return prior to filing?

- A.** Only John's personal representative
- B.** Only John's nephew
- C.** Both the personal representative and the preparer
- D.** None of the above

**36.** Mr. Brown died on September 30, 2000. His gross estate was valued at \$670,000. Unless an extension is granted, a Federal Estate Tax Return (Form 706) must be filed on or before:

- A.** April 15, 2001
- B.** January 15, 2001
- C.** June 30, 2001
- D.** A Federal Estate Tax Return does not have to be filed.

**37.** Following the death of her husband, the executrix of his estate paid the following:

1. Medical expenses of the decedent, paid within six months of the date of death and not claimed on the decedent's final income tax return
2. Funeral expenses of her husband
3. State inheritance taxes
4. Qualified charitable contributions, as a bequest dictated by the Will of her husband

Which of the preceding generally would be allowable deductions in determining the taxable estate on the Federal Estate Income Tax Return (Form 706)?

- A.** 1 and 3 only
- B.** 1, 2 and 4 only
- C.** 2 and 3 only
- D.** All of the above

**38.** John died on June 1, 2000. After determining that an estate tax return will be required, his executor decided to use the alternate valuation date for valuing the gross estate.

Which of the following dates will be the alternate valuation date?

- A. April 15, 2001
- B. December 31, 2000
- C. December 1, 2000
- D. On or before the due date of the Federal Estate Tax Return

**39.** Which of the following is **not** a credit against gross estate tax in determining net estate tax?

- A. Foreign death taxes
- B. Qualified charitable contributions
- C. Unified credit (applicable credit amount)
- D. State death taxes

**40.** Which of the following situations would require the filing of Form 709?

- A. You and your spouse agree to split your gifts, which total \$15,000
- B. You gave more than \$10,000 during the year to any one donee
- C. Any of the gifts you made were of a future interest
- D. All of the above

**41.** For calendar year 2000, if a gift tax return is required to be filed and the donor is **NOT** deceased, what is the due date of the return excluding extensions?

- A. Within 75 days of making the gift
- B. On or before December 31, 2000
- C. No earlier than January 1, 2001 and no later than April 16, 2001
- D. Within 180 days of making the gift

**42.** Which of the following types of trusts are not considered a separate legal entity for Federal tax purposes?

- A. Simple trusts
- B. Tax-exempt trusts
- C. Grantor trusts
- D. Complex trusts

**43.** The trustee of a simple trust has prepared Form 1041 for the tax year ending 12-31-2000. After determining the proportionate share of distributable net income for each beneficiary, the trustee must provide the beneficiary a copy of which Federal form for inclusion on the beneficiary's Form 1040 for the year 2000?

- A. Form 1099-MISC
- B. Schedule K-1 (Form 1041)
- C. Form 1099-T
- D. No form, since a simple trust does not distribute income

**44.** The computation of distributable net income of a trust takes into account which of the following items?

- A. Income distribution deduction
- B. Exemption
- C. Tax-exempt interest
- D. All of the above

**45.** The trustee of a grantor type trust must **never**:

- A. Give all payers of income the name and TIN of the grantor and the address of the trust
- B. File a trust return, completing only the entity information, and attach a statement identifying the grantor to whom the income is taxable
- C. File Forms 1099 with the IRS showing the trust income as paid to the grantor
- D. File a trust return, figuring the tax on all income and deductions of the trust

**Turn to the next page for Part 3, Section C.**



## Part 3

### Section C:

#### Questions 46 – 80

The following questions may require some computation. Select the most appropriate answer and darken completely the oval under the corresponding letter on the answer sheet.

**46.** When Susan formed a corporation in 2000, she transferred property with a basis of \$100,000 to the corporation in exchange for 75% of the stock. The fair market value of the stock she received was \$200,000. How should Susan report this transaction on her 2000 tax return?

- A. Report \$100,000 taxable gain
- B. No reporting required because the exchange is non-taxable
- C. Attach a statement reporting the non-taxable exchange
- D. Report \$166,667 taxable gain

**47.** Tech Corporation was formed by three shareholders: Able, Baker and Charlie. Charlie agreed to provide all the legal work of organization and incorporation for \$5,000 cash and \$5,000 worth of stock in Tech Corporation. Which of the following statements regarding the exchange is true?

- A. Charlie will recognize \$ 5,000 in ordinary income
- B. Charlie will recognize \$ 10,000 in ordinary income
- C. Charlie will recognize \$ 5,000 ordinary income and \$ 5,000 capital gain
- D. Charlie will not have to recognize any income because the transfer is nontaxable

**48.** Mrs. O'Dell transferred property that had an adjusted basis to her of \$20,000 and a FMV of \$50,000, to Sinex Corporation in exchange for 100% of Sinex Corporation's only class of stock, \$5,000 cash and office furniture worth \$5,000. At the time of the transfer the stock had a FMV of \$40,000. What amount of gain must Mrs. O'Dell recognize?

- A. \$ 0
- B. \$ 10,000
- C. \$ 50,000
- D. \$ 30,000

**49.** Sally transferred a building with a FMV of \$200,000 to Alta, Inc. in exchange for 100% of the stock, which had a FMV of \$150,000. Her basis in the building was \$100,000. Alta, Inc. also assumed Sally's \$10,000 mortgage on the building. Which of the following choices correctly reflects Sally's taxable gain and her basis in the stock received?

- A.** Recognized gain of \$60,000 and a basis in the stock of \$100,000
- B.** Recognized gain of \$0 and a basis in the stock of \$90,000
- C.** Recognized gain of \$50,000 and a basis in the stock of \$100,000
- D.** None of the above

**50.** In the year 2000, Yasmine transferred land with an adjusted basis to her of \$40,000 and a fair market value of \$95,000 to Nadir Corporation in exchange for 100% of Nadir Corporation's only class of stock. The land was subject to a liability of \$45,000, which Nadir Corporation assumed. The fair market value of Nadir Corporation's stock at the time of the transfer was \$50,000. What amount of gain must Yasmine recognize and what is her basis in the Nadir Corporation stock?

- A.** \$0 recognized gain, \$40,000 basis
- B.** \$55,000 recognized gain, \$95,000 basis
- C.** \$5,000 recognized gain, \$0 basis
- D.** \$5,000 recognized gain, \$45,000 basis

**51.** When Jill formed a corporation in 2000, she transferred property with a basis of \$100,000 to the corporation in exchange for 75% of the stock. The fair market value of the stock she received was \$50,000. How should Jill report this transaction on her 2000 tax return?

- A.** No reporting required because the exchange is non-taxable
- B.** Report a \$50,000 capital loss
- C.** Jill has a non-deductible \$50,000 loss
- D.** Report a \$50,000 ordinary loss

**52.** Jeff collects baseball cards and exchanges a portion of his collection for a motorcycle owned by Cards Corporation. The fair market value of the cards is \$4,000 but Jeff paid only \$1,000 for them. Jeff owns all of the outstanding stock of Cards Corporation, which has an adjusted basis of \$2,000 in the motorcycle. The fair market value of the motorcycle is \$4,000. What amount should Jeff report on his tax return for the year of the exchange?

- A.** Attach a non-taxable exchange disclosure statement to his return
- B.** No reporting required
- C.** Report a \$3,000 gain
- D.** Report a \$1,000 gain

**53.** Which of the following statements regarding the corporate dividends-received deduction is **NOT** true?

- A.** Generally, a corporation can deduct 70% of the dividends received from a corporation of which it owns less than 20%
- B.** Generally, a corporation can deduct 80% of the dividends received from a corporation of which it owns 20% or more
- C.** The dividends-received deduction is unlimited
- D.** No deduction is allowed for dividends from tax-exempt corporations

**54.** In the tax year 2000, Bass Corporation, a domestic corporation, received \$200,000 in dividends from Trout Corp., also a domestic corporation, in which it has a 22% interest. Bass's taxable income is \$360,000 before the dividends-received deduction. What is the amount of Bass Corporation's dividends-received deduction?

- A.** \$0
- B.** \$160,000
- C.** \$140,000
- D.** \$200,000

**55.** Athena Corporation, a calendar year accrual basis corporation, made cash charitable contributions totaling \$40,000 during 2000. Prior to determining its charitable contribution deduction, Athena had taxable income of \$300,000 after a dividends-received deduction of \$42,000. What is the amount of Athena Corporation's current year charitable contribution deduction for 2000?

- A.** \$40,000
- B.** \$34,200
- C.** \$30,000
- D.** \$32,400

**56.** The Collin Corporation's income from business in the year 2000 is \$600,000. The corporation has business expenses of \$750,000. The corporation also received dividends from the Acme Corporation of \$100,000. The Collin Corporation owns 25% of the Acme Corporation. What is the Collin Corporation's Net Operating Loss for the year 2000?

- A.** \$150,000
- B.** \$130,000
- C.** \$120,000
- D.** \$50,000

**57.** On January 1, 2000, Bob paid \$11,000 for a bond including a premium of \$1,000 when he purchased the \$10,000 bond. Bob elected to amortize the bond premium. The amortization is \$300 a year, Bob sold the bond on January 2, 2001. What basis does Bob have in the bond on January 2, 2001?

- A. \$11,000
- B. \$10,000
- C. \$10,700
- D. Either \$11,000 or \$10,700

**58.** Jonas Corporation forgot to request an extension and filed its Form 1120 late for calendar year 2000. It paid the \$100 balance due when it filed the return on June 22, 2001. The delinquency penalty will be:

- A. \$20
- B. \$15
- C. \$5
- D. \$100

**59.** HY-Text, Inc., a calendar year cash basis corporation, had the following transactions during 2000:

• Net income per books (after tax estimates)	\$ 100,000
• Federal income tax paid	\$ 22,250
• Excess of capital losses over capital gains	\$ 5,000
• Interest from municipal bonds	\$ 11,000
• Expenses related to municipal bond interest	\$ 500

What is HY-Text's taxable income?

- A. \$116,750
- B. \$139,000
- C. \$127,750
- D. \$ 77,750

**60.** Heron, Inc. made a distribution of real estate with a FMV of \$100,000 to its only shareholder, Jennifer, on Dec. 31, 2000. Heron's basis in the property was \$60,000. Current year earnings and profits of Heron, Inc. (before the distribution) is \$10,000 and it has accumulated \$20,000 earnings and profits from prior years. Jennifer's basis in her Heron stock is \$5,000. What will be the tax effect to Jennifer?

- A. \$30,000 dividend and \$25,000 capital gain
- B. \$30,000 dividend and \$65,000 capital gain
- C. \$100,000 dividend
- D. \$60,000 dividend

**61.** The following information is available from the record of Emute, Inc. Compute current year earnings and profits.

Taxable income, Form 1120	\$50,000
Federal income taxes paid	\$ 7,500
Nondeductible portion of travel and entertainment	\$ 500
Excess of capital losses over capital gains	\$ 1,000

- A. \$41,500
- B. \$48,500
- C. \$41,000
- D. \$42,000

**62.** Olympic Corporation distributed real estate with a FMV of \$500,000 to its sole shareholder, Joshua. Olympics basis in the real estate is \$400,000. What is the tax effect of the distribution to Olympic and what is Joshua's basis in the real estate?

- A. \$0 gain/loss to Olympic; \$400,000 basis to Joshua
- B. \$100,000 gain to Olympic; \$400,000 basis to Joshua
- C. \$0 gain/loss to Olympic; \$500,000 basis to Joshua
- D. \$100,000 gain to Olympic; \$500,000 basis to Joshua

**63.** When Paul formed his corporation five years ago he invested \$5,000 in corporate stock. In 2000, when his basis in the stock was \$10,000, he liquidated his corporation receiving \$15,000 cash. How should Paul report this disposal on his 2000 return?

- A. No reporting required for liquidating distributions
- B. Report \$10,000 long-term capital gain
- C. Report \$5,000 long-term capital gain
- D. Report \$5,000 ordinary income

**64.** Gus Corporation, a C Corporation, is owned equally by Al, Bill, and Charlie. Their stock basis on December 31 is as follows: Al \$20,000, Bill \$40,000, and Charlie \$40,000. Gus Corporation has earnings and profits of \$90,000 at the end of the calendar year and will continue as a viable entity. Al wants to exit the corporation and pursue other interests. He surrenders all his shares and receives \$15,000. What are the tax consequences to Al of this complete redemption?

- A. \$5,000 capital loss
- B. \$5,000 capital gain
- C. \$15,000 ordinary dividend
- D. None of the above

**65.** Jonah Corporation is owned by Alfred, Scott (Alfred's son) and Christina (Alfred's niece). Alfred owns 50 shares in Jonah Corporation, Scott owns 25 shares, and Christina owns 25 shares. How many shares does Alfred constructively own?

- A.** 25
- B.** 50
- C.** 75
- D.** 100

**66.** The Richards Corporation has a tax year ending June 30. The corporation wishes to elect S Corporation status. In order to have the S election effective for the 2001 tax year beginning July 1, 2000, **before** which of the following dates must Form 2553 be filed with the proper IRS Service Center?

- A.** June 15, 2000
- B.** May 10, 2001
- C.** September 16, 2000
- D.** December 31, 2000

**67.** Bob's share of an S Corporation loss is \$50,000 and his basis in his stock on December 31, 2000 is \$25,000. He loaned the S Corporation \$10,000 during the year which has not been repaid. What maximum amount of loss (before passive and at-risk limitations) can Bob deduct on his 2000 tax return?

- A.** \$35,000
- B.** \$10,000
- C.** \$50,000
- D.** \$25,000

**68.** Sam's basis in S Corporation stock was \$100,000 before adjusting for current year activity. After consideration of each of the items below, what is Sam's basis in his S Corporation stock?

- \$10,000 tax-exempt income
- \$20,000 non-separately stated income
- \$15,000 excess of depletion deduction over the basis of the property being depleted

- A.** \$110,000
- B.** \$145,000
- C.** \$105,000
- D.** \$125,000

**69.** The shareholders of Hope, Inc., an S Corporation, wish to revoke its S election effective December 31, 2000. The total number of shares issued and outstanding at the time of the election is 100,000 shares. Which of the following shareholders are required to consent to have the S Corporation election revoked?

- Bob owns 20,000 shares
- Dana owns 50,000 shares
- Sally owns 30,000 shares

- A.** Dana
- B.** Bob and Sally
- C.** Dana and one other shareholder
- D.** Dana, Bob, and Sally

**70.** After Mary's death on August 1, 2000, her estate received the following:

- \$50,000 life insurance proceeds
- \$1,000 interest income from a certificate of deposit that matured on August 5, 2000
- \$2,000 annual royalty on a patent

What amount of taxable income must be reported on the 2000 Income Tax Return for Estate and Trusts (Form 1041)?

- A.** \$53,000
- B.** \$52,400
- C.** \$ 3,000
- D.** \$ 2,400

**71.** Bill Johnson's Will provided that \$10,000 a year would be paid to his widow and \$5,000 a year to his son out of the estate's income. There were no charitable contributions made. If the estate's distributable net income for the year was \$12,000, how much of the distribution to Bill's son is taxable to him?

- A.** \$ 4,000
- B.** \$ 5,000
- C.** \$ 8,000
- D.** \$10,000

**72.** After Mary died on June 30, 2000, her executor identified the following items belonging to her estate:

- Personal residence with a fair market value of \$400,000 and an existing mortgage of \$100,000
- Certificate of deposit in the amount of \$150,000 of which \$10,000 was accrued interest payable at maturity on August 1, 2000
- Stock portfolio with a value at date of death of \$1,000,000 and a basis of \$500,000
- Life insurance policy, with her daughter named as an irrevocable beneficiary, in the amount of \$150,000

Assuming that no alternate valuation date is elected, what is the gross value of Mary's estate?

- A.** \$1,700,000
- B.** \$1,090,000
- C.** \$1,550,000
- D.** \$1,450,000

**73.** Lois, a cash basis taxpayer, died on September 30, 2000. Assume the following details regarding the assets of her estate:

- Lois home was appraised for \$500,000 at the date of her death and sold on April 15, 2001 for \$450,000
- Lois had a time certificate in the amount of \$100,000. The certificate was redeemed for funeral expenses on October 1, 2000. (Ignore interest for purposes of this question)
- Lois had common stock valued at \$350,000 at the date of death. On the alternate valuation date, the stock was valued at \$250,000
- Lois had personal and household furnishings that were appraised at \$25,000 as of the date of death. The executor gave all of the items to a charity on November 1, 2000

If the alternate valuation date is elected, what is the gross value that must be reported?

- A.** \$825,000
- B.** \$925,000
- C.** \$975,000
- D.** \$875,000



**74.** During calendar year 2000, John made the following payments:

- \$15,000 to a qualified political party
- \$20,000 to a local hospital for his mother's recent operation
- \$25,000 to the state university for his nephew's tuition expense
- \$15,000 to his favorite qualified charity

What is the gross amount that John must report on his gift tax return (Form 709)?

- A.** John does not have to file a gift tax return for the calendar year 2000
- B.** \$75,000
- C.** \$60,000
- D.** \$15,000

**75.** During calendar year 2000, Mary gave several gifts to relatives. Which of the following gifts must be reported in an annual gift tax return?

1. \$25,000 to her mother to help pay for medical expenses
2. A \$20,000 Federal tax-exempt municipal bond to her sister
3. 100 shares of stock to her daughter (Mary's basis in the stock was \$10,000 and the fair market value at the date of gift was \$20,000.)
4. \$20,000 to a qualified university for her son's dormitory fees

- A.** 2 and 4 only
- B.** 2, 3, and 4 only
- C.** 3 only
- D.** 1, 2, 3, and 4

**76.** During 2000, Rebecca made the following potentially taxable gifts:

- \$1,000 to the Democratic Party
- \$5,000 to a local university for her nephew's tuition
- \$9,000 to a local university for her nephew's room and board
- \$20,000 to a local hospital for her sister's surgery
- Sold land with a fair market value of \$15,000 to her brother for \$100

What is the total of Rebecca's taxable gifts for the year 2000?

- A.** \$35,000
- B.** \$23,900
- C.** \$ 4,900
- D.** \$ 3,900

**77.** A trust was required to distribute \$10,000 a year to its sole beneficiary out of the trust's income for the year. In 2000, the distributable net income of the trust was \$8,000 and the actual amount distributed was \$7,000. How much income must the beneficiary report for 2000?

- A.** \$10,000
- B.** \$ 8,000
- C.** \$ 0
- D.** \$ 7,000

**78.** The terms of John's Will required annual payments of \$30,000 and \$10,000 to his widow and daughter, respectively, out of the estate's income, during each year of his estate's administration. The estate's distributable net income (DNI) for the year ending 12-31-2000 was \$20,000. Calculate the amount of income each of the beneficiaries will receive on their annual K-1 from the estate.

- A.** Widow: \$10,000 and Daughter: \$10,000
- B.** Widow: \$15,000 and Daughter: \$5,000
- C.** Widow: \$20,000 and Daughter: \$-0-
- D.** Widow: \$-0- and Daughter: \$-0-

**79.** An irrevocable trust was established for the medical care of Joan's mother. During the tax year, the trust received interest and dividend income in the amount of \$20,000. Per the trust provisions, the trustee paid \$10,000 of medical expenses directly to the care provider. It also paid \$1,000 of investment interest expense. Assuming that this is a complex trust, determine the trusts' distributable net income for the year.

- A.** \$20,000
- B.** \$19,000
- C.** \$ 9,000
- D.** \$10,000

**80.** If a trust has adjusted total income of \$10,000, distributable net income of \$11,000, and \$12,000 is required to be currently distributed, what is its income distribution deduction?

- A.** \$11,000
- B.** \$12,000
- C.** \$2,000
- D.** \$10,000

**End of Part 3.**