

Part 3

Section A:

Questions 1 - 20

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

1. For Federal tax purposes, certain business entities formed after 1996 are automatically classified as corporations. Other business entities with at least two members can choose to be classified as either an association taxable as a corporation or a partnership. A business entity with a single member can choose to be classified as either an association taxable as a corporation or disregarded as an entity separate from its owner.
2. Edward purchased an office building on January 1, 1990. He exchanged the building for 80% of the stock in Payroll Corporation on January 1, 1998 in a qualifying IRC Section 351 transfer. Payroll Corporation's holding period for the office building begins on January 2, 1998.
3. A, an individual, is the holder and owner of an interest bearing note of C corporation, all of the stock which was owned by A on December 31, 1998. A and C are both calendar year taxpayers. C uses an accrual method of accounting. A uses a combination of accounting methods; he uses the cash receipts and disbursements method in respect of items of gross income. C does not pay any interest on the note to A during the calendar year, nor does C credit any interest to A's account in such a manner that it is subject to A's demand. C Corporation can claim a deduction for the year 1998 for the interest accruing on the note in 1998.
4. In 1998, the Olive Corporation had a net operating loss of \$130,000. The corporation can forgo the carryback period entirely and instead carry the entire loss forward to the next 20 years.
5. For tax years beginning after 1997, the alternative minimum tax does not apply to small corporations with gross profits of not more than \$5,000,000.

6. A Corporation may apply for a refund of an overpayment of estimated tax before the close of its tax year if its overpayment is at least 10% of the expected tax liability and amounts to at least \$500.

7. Schedule M-1 of Form 1120 is a reconciling statement. The reconciliation begins with net income (loss) per books. This amount is before allowance of federal income tax accrued for the year for which the return is being filed.

8. A Corporation must report all taxable distributions to shareholders on a 1099-DIV only if those distributions equal or exceed \$600 for each shareholder.

9. Corporate distributions to shareholders are non-taxable if the distribution is a return of capital.

10. Before distribution of appreciated property (other than the corporation's obligations), earnings and profits must be increased by the excess of the fair market value over the adjusted basis of the appreciated property.

11. For a distribution of an obligation of the distributing corporation, decrease the earnings and profits by the principal amount of that obligation, which may result in negative earnings and profits.

12. Carla and Virginia are equal shareholders of CV Corp. (S corp.). On May 13, 1998 Carla sells her shares to Virginia who is now the sole owner of all the shares of CV Corp. The sale of the shares to Virginia caused the S election to be terminated.

13. Mark, Larry and Steve own DMV INC. Steve owns 60%; Mark and Larry each own 20%. Steve decided that he would retire and gave his shares to his nephew, Robert who is now the president of the corporation. The transfer of the shares to Robert terminated the S election.

14. Krazy Me Inc. is equally owned by George, Jerry, Kramer and Myra. On Sept. 15, 1998, Myra marries Felipe (a non-resident alien) and moves to Brazil (a community property country). She did not give up her ownership in Krazy Me Inc. Myra's marriage to Felipe and her moving to Brazil caused an inadvertent termination of the corporation's S election.

15. When a final return is filed for a decedent, the full standard deduction is not allowable and must be allocated to the year based on the date of death.

16. An estate is a taxable entity that comes into being with the death of an individual. The estate's income must be reported annually and the personal representative must continue to report the estate's income using the same accounting period used by the decedent.

17. Gloria is the beneficiary of her sister's estate. The estate is required to distribute all of its income currently. Gloria must report her share of the distributable net income of the estate whether she actually receives it or not.

18. The fair market value of property at the time of death is usually its value for estate tax purposes. However, the executor may elect to value the decedent's estate using the alternative valuation method which means the value of the estate six months before the decedent's death is substituted for the value at the date of death.

19. Estates and trusts filing Form 1041 may have net operating losses. In the case of an estate, any net operating loss carryover remaining when the estate is terminated is allowed to the beneficiaries who succeed to the estate's property.

20. You must withhold tax on dividends paid to nonresident aliens or foreign corporations if their address is outside the United States.

Section B:

Questions 21 - 45

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

21. The following businesses, formed after 1996, are automatically classified as corporations except:

- A. An insurance company.
- B. A partnership, which possesses at least three of the following characteristics: limited liability, centralized management, free transferability of interest, and continuity of life.
- C. Certain foreign businesses.
- D. A business wholly owned by a state or local government.

22. Most unincorporated businesses formed after 1996 can choose whether to be taxed as a partnership or a corporation. The new regulations provide for a default rule if no election is made. If an election is not made and the default rules apply, which of the following is **True**?

- A. Any new domestic eligible entity having at least two or more members is classified as a partnership.
- B. Any new domestic eligible entity with a single member is disregarded as an entity separate from its owner.
- C. If all members of a new foreign entity have limited liability it is classified as an association.
- D. All of the above are **True**.

23. ABC Corporation ends its tax year October 30th. When must ABC's income tax return be filed for the year ending October 30, 1998?

- A. January 15, 1999
- B. March 15, 1999
- C. February 15, 1999
- D. April 15, 1999

24. Martin Corporation's bookkeeper told the owner that she couldn't have all the tax information ready for the accountant immediately after the tax year end, June 30th, because she was having surgery and asked if the tax return could be postponed. The accountant's answer should be:

- A. No, the return must be filed by September 15th.
- B. Yes, we can request an extension until October 15th.
- C. Yes, we can request an extension until December 15th.
- D. No, the return must be filed by October 15th.

(Note: Correct answer is 3/15 and is not shown as an option, which is why credit was given for all answers.)

25. When determining the proper treatment of a corporation's organizational and start-up costs which of the following is correct?

- A. The election must be made on the tax return for the first tax year you are in business, even if the return is not timely filed.
- B. The period of amortization may not be more than 60 months.
- C. Costs associated with the transfer of assets to the corporation are amortizable organization costs.
- D. Amortization of organization and start-up costs start with the month business operations begin.

26. Which of the following are organizational costs:

- A. Expenses of temporary directors; a survey of potential markets.
- B. Advertisements for the opening of business; state incorporation fees.
- C. Deductible research and experimental costs; set-up accounting services.
- D. Legal services for drafting the charter; cost of organizational meetings.

27. Corporations **cannot** take a deduction for dividends received from the following entities **except**:

- A. A regulated investment company.
- B. A real estate investment trust.
- C. A corporation whose stock has been held less than 46 days during the 90-day period beginning 45 days before the stock becomes ex-dividend with respect to the dividend.
- D. Any corporation under an obligation (pursuant to a short sale or otherwise) to make related payments for positions in substantially similar or related property.

28. With regard to the treatment of capital losses by a corporation, other than an S corporation, which of the following statements is **false**?

- A. If a corporation has a net capital-loss it cannot deduct the loss in the current year.
- B. When a corporation carries a long-term net capital loss to another year, it is treated as a short- term loss.
- C. A Corporation may not carry a capital loss from, or to, a year for which it is an S corporation.
- D. When figuring a current year net capital loss, you must include any capital loss carried from another year.

29. All of the following are true except:

- A. Original Issue Discount must be included in income as it accrues over the term of the debt instrument, whether or not any payments are received from the issuer.
- B. The Original Issue Discount rules do not apply to U.S. Saving Bonds.
- C. The amount of Original Issue Discount is the difference between the stated redemption price at maturity and the par value.
- D. Original issue discount can be treated as zero if it is less than one-fourth of 1% (.0025) of the stated redemption price at maturity multiplied by the number of years from the date of issue to maturity.

30. During 1999, Judy, a minority shareholder in Maxicar, Inc., was scheduled to receive a money distribution of \$10,000. However, she did not respond to Maxicar's request to furnish her taxpayer identification number. Which of the following is correct?

- A. Maxicar, Inc. must withhold at 20% according to the backup withholding rules.
- B. Maxicar, Inc. must withhold at 31% according to the backup withholding rules, but is not required to report the withholding on the Form 1099-DIV.
- C. Maxicar, Inc. is not required to furnish a Form 1099-DIV as backup withholding is not required.
- D. Maxicar, Inc. must withhold at 31% according to the backup withholding rules, and is required to report the withholding on the Form 1099-DIV.

31. Margaret Corporation had suffered losses in its earlier years, up through 1997, but 1998 was profitable. Margaret Corporation has current earnings and profits for tax year 1998 of \$15,000, and accumulated earnings and profits for prior years of (\$14,000). An IRS audit of 1998 determined that the shareholder benefited from constructive dividends from personal use of corporate vehicles and equipment. The amount agreed on for the constructive dividend was \$12,000. There were no other dividends or distributions. Which of the following is correct?

- A. The constructive dividend is not taxable because it does not exceed the prior year accumulated earnings and profits.
- B. The taxable portion of the constructive dividend is \$1,000.
- C. The constructive dividend is fully taxable.
- D. The taxable portion of the constructive dividend is \$11,000.

32. A distribution of taxable stock rights or dividends generally is treated the same as:

- A. Any other property distribution and the holding period begins on the day after the distribution date.
- B. The distribution of an obligation of the distributing corporation.
- C. A cash distribution.
- D. Any other property distribution, but the holding period begins on the day of the issue of the underlying stock.

33. Which of the following is applicable regarding the proper treatment of a distribution of appreciated property by a corporation?

- A. A Corporation must recognize gain when it distributes appreciated property as though the property had been sold for its FMV immediately before the distribution.
- B. For gain recognition purposes, a property's fair market value is at least equal to any liability to which the property is subject or that the shareholder assumes in connection with the distribution.
- C. A Corporation's earnings and profits are reduced only by the adjusted basis of the property distributed if that adjusted basis is less than the fair market value.
- D. A & B above.

34. Mary and Paul are plumbers. They went into business together and decided that the corporation structure would be in their best interest. On Jan. 1, 1998 they formed the M & P Corp. They did not file a Form 2553. Mary and Paul filed an 1120S return at the end of the year and paid self-employment tax on their respective shares of the income. All of the following statements are true except:

- A. They are not permitted to file an 1120S return because they have not made a valid election.
- B. The income distributed by a corporation is not subject to Self-employment tax.
- C. Mary and Paul have until March 15, 1999 to make a valid election for 1998.
- D. All I of the above.

35. Which of the following corporations may be subject to the built-in capital gains tax?

- A. K-corp. established in 1964 as a C corp., elected to be an S corp. on May 13, 1984.
- B. G-corp. established in 1994 as a C corp. elected to be an S corp. on April 15, 1998.
- C. J-corp. established in 1986 as an S corp. terminated S corp. election on Jan 1, 1998.
- D. All of the above.

36. Which of the following items is not a separately stated item for Form 1120 shareholders

- A. Charitable contributions made by the corporation.
- B. Section 179 deduction.
- C. Depreciation.
- D. Tax-exempt interest.

37. All of the following are events that will cause the termination of an S Corporation's S Election except:

- A. Transaction which results in over 75 shareholders.
- B. Donation of stock to a tax-exempt organization under 501(c) (4).
- C. Sale of stock to a resident alien.
- D. Failing the passive income test for three consecutive years.

38. Which of the following is income in respect of a decedent?

- A. Cash received from grandmother's estate.
- B. Royalties received on deceased father's published book; the right to receive these royalties was distributed from the father's estate.
- C. Certificate of deposit received as gift.
- D. Both A and B.

39. Which of the following statements is true regarding estate income tax returns filed on Form 1041?

- A. Form 1041 has its own tax rate schedule.
- B. Estates are never liable for the alternative minimum tax.
- C. All estates are subject to the same estimated tax rules that apply to Form 1040.
- D. None of the above.

40. Charlie Jones died June 15, 1998. His taxable estate is \$900,000. By what date is Form 706, United States Estate Tax Return, due?

- A. Not due, because taxable estate is less than \$1,000,000.
- B. March 15, 1999.
- C. April 15, 1999.
- D. December 31, 1998.

41. Chester is preparing the estate tax return, Form 706, for his deceased brother John. John died December 15, 1998. Which of the following will not be included in John's gross estate?

- A. Real estate that will be passed to John when his parents die.
- B. Stocks and bonds owned by John at his death.
- C. Land John had signed a contract to sell, but had not completed the sale.
- D. Property jointly owned by John and his spouse.

42. In which of the following circumstances would a gift tax return be due?

- A. Check for \$25,000 to son.
- B. Transfer of stock valued at \$30,000 to spouse.
- C. Payment of a friend's \$15,000 tuition expense.
- D. None of the above.

43. All of the following statements about trusts are true except:

- A. The income distributed to the beneficiary retains the same character as that earned by the trust.
- B. The Net Distributable Income of a simple trust excludes capital gains distributions that are allocable to corpus under the terms of the governing instrument and applicable local law.
- C. The income distribution deduction is the greater of distributable net income or net accounting income.
- D. All of the taxable income that is not taxed to the beneficiaries is taxed to the trust.

44. With respect to Simple Trusts, all the following statements are true except:

- A. The trust instrument requires that all the income must be distributed currently.
- B. The trust instrument provides that amounts set aside for charitable purposes are deductible only to the trust.
- C. The trust does not distribute amounts allocable to the corpus of the trust.
- D. The exemption amount for a simple trust is \$300.

45. John created a simple trust in 1996 which provides that the income from the trust will be payable to his son, Joey (age 16) for 12 years. At the end of the 12 years the principal will revert back to John. Which of the following statements is false regarding this trust?

- A. The income from the trust is taxed to Joey.
- B. Any capital gains are taxed to John.
- C. The income distribution deduction does not include the capital gains.
- D. None of the above,

Section C:

Questions 46 - 80

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

46. Donna exchanges property having an \$18,000 adjusted basis and a \$35,000 fair market value for 70 shares of the newly created Table Corporation stock. Evelyn exchanges legal services worth \$15,000 for the remaining 30 shares of Table Corporation stock. Which of the following is correct?

- A. Evelyn recognizes no income, and the exchange is nontaxable.
- B. Evelyn must recognize \$15,000 of income, but Donna's transfer of property qualifies under IRC s. 351 as nontaxable.
- C. Evelyn must recognize \$15,000 of income, and Donna must recognize \$17,000 gain on the exchange.
- D. The exchange qualifies as a nontaxable exchange under IRC §351.

47. Paul, Randy and Steve form North Corporation by transferring the following properties:

<u>Transferor</u>	<u>Asset</u>	Transferor's	Consideration	
		<u>Adjusted Basis</u>	<u>FMV</u>	<u>Received</u>
Paul	Machinery	\$10,000	\$12,500	25 sh. North stock
Randy	Land	\$18,000	\$25,000	40 sh. North stock and \$5,000 North note
Steve	Cash	\$17,500	\$17,500	35 sh. North stock

The 100 shares represent all of the outstanding stock of North Corporation). Using the rules for IRC s. 351, which of the following is correct?

- A. The exchange does not qualify for IRC s. 351 nontaxable treatment
- B. The exchange qualifies for IRC s. 351 and is nontaxable except that Randy must recognize \$7,000 of capital gain.
- C. The exchange qualifies for IRC s. 351 and is nontaxable except that Randy must recognize \$5,000 of capital gain.
- D. The exchange qualifies for IRC s. 351 and is nontaxable except that Randy must recognize \$5,000 of ordinary income.

48. You transfer property with an adjusted basis of \$20,000 and a fair market value of \$31,000 in exchange for 100% of the stock in a new corporation. You receive 100 shares of stock having a fair market value of \$16,000 and \$10,000 in cash. The corporation also assumes a \$5,000 mortgage on the property. Which of the following is correct?

- A. \$11,000 gain realized; \$ -0- recognized.
- B. \$15,000 gain realized; \$11,000 recognized.
- C. \$11,000 gain realized; \$10,000 recognized.
- D. \$10,000 gain realized; \$5,000 recognized.

49. In 1998, James transferred property worth \$75,000 and services worth \$25,000 to the BJ Corporation. In exchange, he received stock in BJ valued at \$100,000. Immediately after the exchange James owned 80% of the only class of outstanding stock. Which of the following is correct with regards to James' treatment of this transaction in 1998?

- A. Short-term capital gain of \$100,000.
- B. Short-term capital gain of \$25,000.
- C. Ordinary income of \$25,000.
- D. No income until the stock is sold.

50. In 1998, Pine Corporation had losses of \$20,000 from operations. It received \$180,000 in dividends from a 25% owned Domestic Corporation. Pine's taxable income is \$160,000 before the dividends-received deduction. What is the amount of Pine's dividend-received deduction?

- A. \$0
- B. \$144,000
- C. \$128,000
- D. \$180,000

51. During 1998, Sweetheart Corporation had the following income and expenses:

Gross receipts	\$1,200,000
Salaries and wages	600,000
Contribution to qualified charities	90,000
Capital gains	30,000
Depreciation expense	70,000
Dividend income from a 20% owned domestic corporation	120,000
Dividends-received deduction	96,000

What is the amount of Sweetheart's charitable contribution deduction for 1998?

- A. \$90,000
- B. \$68,000
- C. \$52,000
- D. \$43,000

52. During 1998, a corporation contributed three computers (that had been purchased and used for 18 months by the corporation) to the New Roads Elementary School. The computers had a fair market value of \$700 each and a basis of \$500 each. What is the corporation's charitable contribution with regards to the computers?

- A. \$2,100
- B. \$1,800
- C. \$1,500
- D. \$ 600

53. In 1998, Capital Corporation reports gross profits of \$150,000, deductible expenses of \$28,000, and a net capital loss of \$10,000. Capital reported the following net capital gains during 1995-1997:

<u>Year</u>	<u>Net Capital Gains</u>
1995	\$5,000
1996	\$1,000
1997	\$3,000

What is the amount of Capital's capital loss carryover to 1999?

- A. \$10,000
- B. \$ 7,000
- C. \$ 5,000
- D. \$ 1,000

54. In 1998, CPA's, Inc., a corporation owned entirely by its employees, all of whom are certified public accountants, performing only services in the accounting profession, had taxable income of \$110,000. The corporation has never exceeded \$5,000,000 in gross receipts.

Excerpt from 1998 corporate income tax rates schedule:

Income At least	But not over	Pay	+	% on Excess	Of amount over ---
- 0 -	50,000	- 0 -		15%	- 0 -
50,000	75,000	7,500		25%	50,000
75,000	100,000	13,750		34%	75,000
100,000	335,000	22,250		39%	100,000

Which of the following is correct?

- A. \$26,150
- B. \$17,150
- C. Alternative minimum tax preference and adjustment information required.
- D. \$38,500

55. January Corporation was liable for Alternative Minimum Tax for tax year 1995 of \$85,000. For tax year 1996, it had a total tax liability of \$80,000 including \$75,000 tentative minimum tax. For tax years 1997 and 1998 it had losses and no tentative minimum tax nor regular corporate tax liability. Tax year 1999 tax liability is undetermined. January Corporation is not exempt from alternative minimum tax. Which of the following is correct regarding Prior Year Alternative Minimum Tax Credit?

- A. 1996: use AMT credit of \$5,000. Carryover \$80,000 to 1997 (unused); carryover \$80,000 to 1998 (unused) carryover \$ - 0 - to 1999 (carryover period expired).
- B. 1996: use AMT credit of \$80,000. Carryover \$5,000 to 1997 (unused), carryover \$5,000 to 1998 (unused); carryover \$5,000 to 1999 (available).
- C. 1996: use AMT credit of \$75,000. Carryover \$10,000 to 1997 (unused), carryover \$10,000 to 1998 (unused); carryover \$10,000 to 1999 (available).
- D. 1996 use AMT credit of \$5,000. Carryover \$80,000 to 1997 (unused), carryover \$80,000 to 1998 (unused); carryover \$80,000 to 1999 (available)

56. The Snow Corporation, a calendar year taxpayer, estimates at the end of March 1999 that its federal income tax for 1999 will be \$800,000. It pays \$200,000 of

estimated tax by April 15, 1999, and pays another \$200,000 on June 15, 1999. At the end of August 1999, a recalculation shows that its 1999 tax is expected to be \$900,000. Which of the following is correct?

- A. Payment due Sept. 15; \$200,000; Payment due Dec. 15; \$300,000
- B. Payment due Sept. 15; \$250,000; Payment due Dec. 15; \$250,000
- C. Payment due Sept. 15; \$200,000; Payment due Dec. 15; 200,000; payment due on March 15, 2000; \$100,000.
- D. Payment due Sept. 15; \$275,000; Payment due Dec. 15; \$225,000.

57. Net income per books of Pat Jordan's psychology clinic was \$140,825 for the year ended September 30, 1998. Select from the following account information those items that would be necessary to reconcile book income to the income to be reported on the return and compute taxable income per return.

Capital gains	\$ 3,600
Capital losses	\$ 8,200
Entertainment expenses (before limitation)	\$ 10,850
Federal income tax expense	\$ 62,225
Tax-exempt interest income	\$ 5,000
Net income	\$140,825
Cash distribution to stockholders	\$ 20,000

- A. \$203,050
- B. \$208,075
- C. \$202,225
- D. \$207,650

58. Rose Corporation, a calendar year corporation, had accumulated earnings and profits of \$40,000 as of January 1, 1998. However, for the first six months of 1998 Rose Corporation had an operating loss of \$36,000, and finished the year with a total net operating loss for tax year 1998 of \$55,000. Rose Corporation distributed \$15,000 to its shareholders on July 1, 1998. Which of the following is correct?

- A. The entire distribution of \$15,000 is taxable.
- B. The entire distribution is not taxable.
- C. The part of the distribution which is taxable is \$12,500.
- D. The part of the distribution which is taxable is \$14,000

59. A distribution of stock, or rights to acquire stock in the distributing corporation, is not included in the recipient's gross income unless:

- A. It is a disproportionate distribution
- B. It is a distribution instead of money or other property
- C. The distribution of stock or rights is greater than 15% of the value of the stock or rights with respect to which the rights were distributed.
- D. A & B above.

60. With regards to the filing of Form 1099-DIV all of the following are True except:

- A. Corporate payers file this form to report dividends and other distributions of stock of \$10 or more.
- B. Corporate payers file this form for every person for whom any federal income taxes was withheld under the backup withholding rules.
- C. Corporate payers file this form for each person to whom payments of \$600 or more were made as a part of a liquidation.
- D. This form is filed by payers for royalties paid to authors.

61. Since 1990, Ben has owned all 100 outstanding shares of N and M Corporation's stock. Ben's basis for the stock is \$50,000. In 1998, N and M have Earnings and Profits of \$100,000. The corporation redeemed 25 shares of Ben's stock. for \$75,000 in n1998. How will Ben report this?

- A. \$75,000 gain.
- B. \$75,000 dividend.
- C. \$ 50,000 gain.
- D. None of the above

62. Jenny Corporation (S Corporation) is owned entirely by Craig. At the beginning of 1998, Craig's adjusted basis in his Jenny Corporation stock is \$20,000. Jenny reports ordinary income of \$5,000 and a capital loss of \$10,000. Craig received a cash distribution of \$35,000 in November 1998. What is Craig's gain from the distribution.

- A. 0
- B. \$10,000.
- C. \$20,000
- D. \$35,000

63. Pages, Inc. (S Corporation) is owned by Martin and Steve. They share in the income and loss of the corporation on a 50/50 basis. In 1998 the corporation reported \$90,000 in ordinary income and tax-exempt income of \$12,000. Martin and Steve's basis in their stock is \$25,000 each. The corporation was previously a C corporation and there remained \$30,000 in E & P on the books at the beginning of the year. Martin and Steve each received a \$80,000 distribution from the corp. on Dec 15, 1998. What is the character of the distribution to Martin. (assume AAA and other adjustment account are Zero on 1/1/98)

- A. \$45,000 AAA, \$31,000 return of capital, \$4,000 dividend, zero capital gains.
- B. \$45,000 AAA, \$15,000 dividend, \$20,000 return of capital, zero capital gains.
- C. \$45,000 AAA, \$25,000 return of capital, \$10,000 dividend, zero capital gains.
- D. \$45,000 AAA, \$25,000 return of capital, \$10,000 capital gains, zero dividends.

64. Bill and Ken own Tax, Inc. (S corp.) equally. In 1998 the corporation reported a \$130,000 ordinary loss. Tax Inc.'s liabilities at the end of 1998 include \$100,000 of accounts payable, \$150,000 of mortgage payable and a \$20,000 note owed to Bill. Bill and Ken each had a \$40,000 adjusted basis for their stock on Jan. 1, 1998. Compute the loss reportable by Bill.

- A. \$65,000
- B. \$60,000
- C. \$40,000
- D. None of the above

65. Ben and Jerry were shareholders of Water Ice Inc., an S corp. On Jan. 1, 1998, Ben owned 40 shares and Jerry owned 60 shares. Ben sold his shares to Joe for \$10,000 on March 31, 1998. The corp. reported a \$50,000 loss at the end of 1998. How much of the loss is allocated to Joe?

- A. \$20,000
- B. \$15,060
- C. \$12,500
- D. \$10,000

66. Maui Corp. (S Corporation) reported a \$72,000 ordinary loss during 1998. At the beginning of 1998, Elvis and Frank owned equally all Maui's stock. On July 1, 1998 Frank gives one-fourth of his stock to his son George. What amount of the 1998 loss is allocated to George.

- A. 0
- B. \$ 4,536
- C. \$ 9,000
- D. \$18,000

67. XYZ Corporation (S Corporation) had the following items of income and deductions for 1998. Charles and Diane are equal shareholders in the corporation. They each had an adjusted stock basis of \$30,000 on Jan. 1, 1998.

Gross receipts from sales	\$100,000
Cost of Goods sold	50,000
Depreciation	10,000
Charitable contributions	10,000
Interest income	5,000
Tax exempt interest	3,000
Other operating costs	63,000

Diane received a distribution of \$15,000 on June 1, 1998. Her basis on January 1, 1999 is:

- A. \$15,000
- B. \$10,000
- C. \$ 5,000
- D. 0

68. Rap Inc. was organized in January 1998 and immediately makes an S election. Rap Inc.'s stock is entirely owned by Howard who contributed \$40,000 to start the business. Rap Inc. reports the following results for the 1998 year.

Ordinary income	36,000
Short-term capital loss	4,000
Charitable contributions	1,000
Tax exempt income	1,000
Sec. 179 deduction	10,000

On April 12, 1998, Howard received a \$30,000 cash distribution from the Corporation. What is the adjusted basis of his stock on Jan 1, 1999?

- A. \$41,000
- B. \$32,000
- C. \$31,000
- D. \$10,000

69. A capital loss of \$10,000 is carried from Joey's 1997 return to 1998. Joey died June 30, 1998. Before his death, Joey had the following capital transactions: bought REY stock for \$1,000 on 1-9-98 and sold for \$800 on 2-10-98; invested \$4,000 in a limited partnership 3-30-98 but changed his mind and sold his interest for \$3,900 on 5-30-98. When Joey's brother files a 1998 return for Joey, how much capital loss can be deducted and how should any remainder be treated?

- A. Deduct \$10,300 on the final return filed for 1998.
- B. Deduct \$3,000 on Joey's final return and the remainder is lost (never deductible).
- C. Deduct \$1,500 on Joey's final return and carry the remainder to his estate tax return.
- D. Deduct \$1,500 on Joey's final return and remainder is lost (never deductible).

70. Stan is the personal representative of his brother Bruce who died June 30, 1998. Stan has obtained an identification number for Bruce's estate and has notified the IRS on Form 56 that he has been appointed executor. He has filed his brother's final return for 1998 and has the following information regarding Bruce's remaining estate. What will be the taxable income of the estate?

Unpaid salary not received by Bruce before he died	\$ 6,000
Dividend check on XYZ stock received August 15, 1998	\$ 600
Form 1099 interest earned on savings after death	\$ 2,000
Sales price of coin collection sold to unrelated person	\$10,000
Value of the coins at the date of death	\$ 9,000
Attorney's fees for administration of the estate	\$ 1,000

- A. \$ 8,600
- B. \$ 17,600
- C. \$ 8,000
- D. None of the above

71. Charlie Jones is preparing the Form 706, Estate Tax Return, for his brother John who died June 30, 1998. Charlie has identified gross estate items totaling \$1,000,000. Considering the following potential deductions and other information, what will be John's estate?

Funeral expenses paid out of the estate	\$ 10,000
Value of the residence owned jointly with John's spouse that will pass to the spouse (this property is included in the gross estate)	\$240,000
Mortgage on residence	\$ 20,000
Value of property given to charitable organizations per John's will	\$ 50,000

- A. \$730,000
- B. \$740,000
- C. \$720,000
- D. None of the above

72. Joe is contemplating retirement and decided to simplify his financial situation by disposing of some assets. He had the following transactions during 1998:

- Sold his business to his son for \$100,000. The fair market value of the business at the time of the sale was \$175,000.
- Paid college tuition of \$15,000 for his brother's child.
- Gave stock valued at \$12,000 to his alma mater.
- Paid \$20,000 of the medical expenses of his sister who had no insurance.

What is the total amount of gifts (before exclusion) that should be reported on his gift tax return for 1998?

- A. \$ 75,000
- B. \$ 90,000
- C. \$102,000
- D. \$122,000

73. Jimmy Johnson made several gifts during 1998. He gave his niece \$8,000 as a graduation gift; he paid \$12,000 college tuition for his nephew; and gave his daughter \$25,000 as a wedding gift. Jimmy is not married. What are the total taxable gifts to be reported?

- A. \$45,000
- B. \$15,000
- C. \$37,000
- D. \$27,000

74. Lanny won \$10,000,000 at a casino in 1996 and invested in mutual funds. When he married Judy in 1997, they signed pre-nuptial agreements. Then, in 1998, Lanny decided to give away some of his money. He made the following gifts:

- \$100,000 cash to Judy
- \$ 50,000 to each of his three adult children
- \$ 50,000 to the Democratic Party

What are the total taxable gifts that Lanny made in 1998? (Assume no gift splitting was elected.)

75. Donald is a tax return preparer. His client, Jody Black, told him that she had made several gifts during 1998 and asked if she should file a gift tax return, and if so, how much tax she would owe. Jody has never given a taxable gift before. Donald reviewed Jody's gift transactions as follows:

- Paid her parents' medical bills, \$11,000 for her father and \$8,000 for her mother
- Bought a sports car for her son, cost was \$37,000
- Gave \$15,000 cash to her church
- Prepared her will leaving her vacation cabin, valued at \$75,000, to her sister
- Sent a wedding gift of \$1,000 to her niece

What is Donald's best answer to Jody's questions?

- A. No return is due because gifts to family are excluded.
- B. Must file gift tax return and will owe tax on \$27,000.
- C. Must file gift tax return but no tax will be owed because of the unified credit.
- D. None of the above.

76. Jack and Jill are married and agree to split the gifts that they made during 1998. Jack gives his nephew, James, \$17,000, and Jill gives her niece, Janice, \$12,000. Which statement is true regarding Jack and Jill's gifts?

- A. Jack and Jill can combine their gifts of \$29,000 on one gift tax return and take a \$10,000 annual exclusion for each recipient.
- B. Jack and Jill must file separate gift tax returns and each take a \$10,000 annual exclusion for their gift.
- C. Jack and Jill must each file a gift tax return and report one-half of each gift on each return before applying the \$10,000 annual exclusions.
- D. None of the above.

77. Given the following information compute the character and amount of income shown on beneficiary's K-1 (simple trust) assume that none of the expenses are subject to the 2% limitation

Interest income	\$ 66,000
Dividend income	25,000
Tax-exempt interest	24,000
Capital gains	30,000
Expenses attributable to all interest income	15,000
Trustee's commissions allocable to all income including capital gains	13,000

The beneficiary's K-1 will show the following amounts:

	Interest Expense	Dividends	Tax-exempt Interest	Capital Gains	Other
A.	66,000	25,000	24,000	0	25,000
B.	66,000	25,000	21,000	0	24,000
C.	55,000	22,500	21,000	0	0
D.	49,500	22,500	18,000	0	0

78. Under the terms of a simple trust all of the income is to be distributed equally to beneficiaries A and B and capital gains are to be allocated to corpus. The trust and both beneficiaries file returns on a calendar year basis. No provision is made in the governing instrument with respect to depreciation. During the year the trust had the following items of income and expenses:

Rents	\$ 25,000
Dividend of domestic corporations	50,000
Tax-exempt interest on municipal bonds	25,000
Long-term capital gains	15,000
Taxes and expenses directly attributable to rents	5,000
Trustees commission allocable to income account	2,600
Trustees commission allocable to principal account	1,300
depreciation	5,000

Compute the Distributable Net Income of the trust.

- A. \$92,400
- B. \$91,100
- C. \$67,075
- D. none of the above

79. Given the following information compute the distribution deduction for a simple trust:

Interest income	80,000
Dividend income	30,000
Tax-exempt interest	20,000
Capital gains	25,000
Expenses attributable to all interest income	5,000
Trustee's commissions allocable to all income including capital gains	15,000

- A. 125,000
- B. 110,000
- C. 95,400
- D. 85,500

80. In 1998, Lakeside Corporation had the following results:

Gross income from operations	200,000
Dividends from a 25% owned domestic corporation for which an 80% deduction is allowed	50,000
Operating expenses	340,000
Charitable contributions	20,000
NOL carryforward	30,000

What is the amount of Lakeside's 1998 net operating loss for the current year before NOL carryforward?

- A. \$110,000 (\$250,000 - \$360,000)
- B. \$ 90,000 (\$250,000 - \$340,000)
- C. \$ 80,000 (\$50,000 + \$30,000)
- D. \$ 130,000