

1963

## Federal Taxation (Bus. 406): Final Examination (June 5, 1963)

William & Mary Law School

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## 1. Tax characteristics of certain income and deduction items -

Compute the net income tax payable after credits, if any, for the tax year 1962 for each of the following cases. In each case, assume the taxpayer is (1) single, (2) under 65, (3) with no dependents, and (4) has no income or deductions other than from the sources specifically indicated. (Please show only the amount of the net tax payable after credit in your Blue Book; for example - the answer to be shown for Case 1 is - \$1099.50)

- Case 1. Partially tax-exempt interest, \$7,000; allowable itemized deductions, \$750.
- Case 2. General Motors dividends, \$7500; allowable itemized deductions, \$800.
- Case 3. Gain on sale of stock held for 3 years as an investment, \$9,000; allowable itemized deductions, \$600.
- Case 4. Gain on sale of machine used in business for 1 year, \$25,000; allowable itemized deductions, \$1000.
- Case 5. Net profit from operations of a sole proprietorship, \$25000; allowable itemized deductions, \$1000. (Omit Self-Employment tax)
- Case 6. Gain on sale of machine used in business for 5 months, \$12000; loss on sale of stock held as an investment for 7 months, \$2000; allowable itemized deductions, \$1050.
- Case 7. Salary, \$45000; doctors' bills, \$1500; drugs, \$150; other itemized deductions, \$2000.
- Case 8. Share of operating net profits of a partnership, \$15000; contribution to Church, \$2500; to Community Chest, \$1600; other itemized deductions, \$1000. (Omit Self-Employment tax)

2. Tax Basis - Please show only the amount of the basis in your Blue Book answers. For example - the answer to be shown for Case 1 is \$5000.

- Case 1. Ind. A exchanged municipal bonds that cost him \$5000, for shares of stock having no fair market value, no gain or loss is realized. What is the basis of the stock in A's hands?
- Case 2. Ind. A exchanged an old business truck for a new one. Adjusted basis of old truck was \$1200, value \$1400. In the exchange A was given a new truck with a fair market value of \$1300 and cash of \$100. What is the basis of the new truck in A's hands?
- Case 3. Ind. A receives a stock dividend of one share of common stock on the one share of common stock held by him. His cost for the one share of old stock held by him was \$10. What is the basis of the dividend share that he now holds?
- Case 4. Ind. A receives a taxable dividend in the form of a bond of Co. X. The principal amount of the bond is \$100; its fair market value at the time it was received as a dividend was \$95. What is the basis of the bond in A's hands?



Case 5. Ind. A traded a farm with a tax basis of \$50000 and value of \$75000, in a taxable exchange, for a residence for himself worth \$80000. What is the basis of the residence?

3. Sales and exchanges - Ind. A's records showed the following for the tax year 1962:

X Co. stock - Bought 1/22/57 for \$1000; sold in 1962 for \$1500; Personal residence - Bought 1/3/50 for \$10000; sold in 1962 for \$9000; Machine used in business - Bought 2/1/59 for \$8000, depreciation allowed to Jan. 1, 1962, \$2000; sold on Jan. 1, 1962 for \$5000; Y Co. Bond - Bought 3/4/60 for \$2000; sold in 1962 for \$2500; Sec. 1231 gain received through partnership in 1962, \$400; and unused capital loss carried over from 1961 to 1962, \$800.

What is the amount of the net long term capital gain subject to the 50% deduction?

4. Depreciation - (a) List (without description) the methods of depreciation currently permitted. (b) Indicate very briefly the general nature of the new "depreciation reform" procedures.

5. What is the amount of the total depreciation allowable from date of purchase to date of sale under the following circumstances: Building used in business, bought on Jan. 1, 1960 for \$11000; sold on July 1, 1963 for \$8900; salvage, \$1000, straight line rate of 4%; no additional first year depreciation; owner on a calendar tax year.

6. Income from partnerships - The AB calendar year partnership for 1962 had the following income and disbursements:

Income -

Gross pft. on sales	\$ 20,000
Dividends on Gen'l Motors stock	1,000
Dividends on stock of a Foreign Corp.	500
Gain on sale of stock held more than 6 months	5,000

Disbursements -

Salaries of \$2000 to each of the two partners	4,000
Charitable contributions	1,000
Employee wages, depreciation, rent, office expense, advertising, etc.	10,000
Withdrawals by partners	8,000

If A and B are equal partners, please indicate the kind of income and amount of each kind to be reported by Partner A on his individual income tax return for 1962 as having been received through the AB partnership.

7. The corporation income tax - The M Company had the following income and deductions for 1962:

Gross profit from sales	\$ 60000
General Motors dividends	5000
Net long-term capital gain	10000
Allowable deductions	20000

What is the amount of M Co.'s Federal income tax for 1962?

8. Definition and purpose - Indicate very briefly your concept of the meaning and purpose of the following terms as used in tax work:

- (a) Sick-pay exclusion - (Example of type of answer called for by this question: Means amount of wages excluded from gross income due to absence from work on account of illness or injury in the case of employees with a Sick-Pay Plan. Purpose is to equalize between employer payments and non-taxable sick pay benefits under insurance policies)
- (b) Retirement income credit
- (c) Amortization of bond premium
- (d) Tax-free exchanges
- (e) 52-53 week year
- (f) Recovery exclusion
- (g) Adjusted basis
- (h) Restricted stock option
- (i) Attribution of ownership
- (j) Statute of Limitations
- (k) Substituted basis
- (l) Capital Gain
- (m) Sec. 1231 assets
- (n) Annuity exclusion ratio
- (o) Lifo inventory valuation
- (p) 90 day letter
- (q) Bad debt reserve
- (r) Adjusted Gross income
- (s) Tax credits
- (t) Capital loss carry-over
- (u) Net loss deduction
- (v) Net operating loss
- (w) Normal tax
- (x) Constructive receipt
- (y) Income in kind
- (z) Alternative tax