1958

Basic Federal Taxation: Mid-Term Examination (November 1958)

William & Mary Law School

BASIC FEDERAL TAXATION

Mid-Term Examination

November, 1958

I.

T is 60 years of age. His son, S, 22, is a full time student here at the College, occupying a dormitory room during the regular session and living at T's Norfolk home during the summer and holidays. S is the recipient of a $1,000 scholarship which is used to pay his college expenses. He earns $750 as law library assistant which he invests in Government bonds, and $500 as a mechanic during the summer months which he uses for clothes and living expenses. The value of board and lodging which T gives S during the summer and holidays amounts to $600.

T lives apart from his wife, W, pursuant to a written separation agreement which provides for payments to W of $300 a month. T's daughter, D, 12, resides with her mother, W, and is supported out of the $300 given to W by T.

Give brief explanations in your answers to the following:

(a) Filing a separate return, what deduction for personal exemptions may T properly claim? 2 — 1 for self 1-S who ~~makes~~ more than $600 is a full time student. T contributes more than 50% of S's support.

(b) Could T file as head of household? ~~Yes~~ NO - BECAUSE IT IS NOT A SEPERATION DECREE, BUT A SEPERATION AGREEMENT

1 (c) What is W's gross income, if any, if she spends $1200 for D's support during the year and has no other sources of income? $3600

II.

2 Needing additional capital for his business and unable to obtain it elsewhere, T made cash payments to one of the officers of a savings and loan association in a secret manner for his influence in arranging a loan to T by the association. The payments were recorded on T's books as charges to loan financing. Discuss the tax deductibility of the payments. PUBLIC POLICY, ~~[illegible]~~ NOT ORDINARY OR NECESSARY - LIBBY CASE

DID OCCURR FREQUENTLY.

III.

C T, a manufacturer, gratuitously and patriotically agreed to head a war bonds drive in his community, supervising the selling of the bonds and the receipts and forwarding of the moneys. At the termination of the project he found that he was unaccountably short $2000 in his accounts. Although he knew the deficit was not his doing as he had never commingled the funds with his own, he felt obliged to make good the loss and did so using his own funds. Discuss the tax deductibility of his $2000 payment. NOT A CASUALTY LOSS — / CHARITABLE ~~GIFT~~ CONTRIBUTION

IV.

In 1948 T purchased a 10 year endowment policy for which he was to pay $10,000, at $1000 a year, until maturity. The policy will mature on December 1, 1958, and T will then receive the face amount of $15,000. The insurance company has offered T an annuity of $2000 a year for his life in lieu of the $15,000 payment due him. T's life expectancy is now 20 years. He asks you what tax considerations are involved in the decision to accept or reject the company's offer. What is your analysis? ~~[illegible]~~ exclusion 25% Tax $1500

$\frac{10}{40} \times 200 = 500$

V.

T, a wealthy manufacturer, hoping to supplement his retirement income and in any event desiring to provide a place of historical interest for the public, opened up his estate for public admittance, receiving admittance fees totaling $10,000 throughout the year, and spending $15,000 for care and maintenance of the house and grounds, exclusive of the small wing which he continued to occupy as his residence. Discuss the tax deductibility of his $15,000 expenses. HOBBY OR NOT GOES FOR PROFIT.

Pro rata - [illegible] - business

VI.

Town residents were asked to submit their suggestions for the solution of a civic problem with which the town was faced. As an added inducement $100 was offered for any suggestion which might be accepted and acted upon by the Town Board.

4(B) T's suggestion was accepted and he received the $100 award. Is the $100 to be included in T's gross income? ~~[illegible]~~ WAS HE PARTICIPATING IN A CONTEST.

RECOGN OF CIVIC ACHIEVEMENT.