III.

A merchant, gratuitously and patriotically agreed to head a bond drive to raise funds for a new hospital in his community, supervising the selling of the bonds and the receipt and forwarding of the moneys. At the termination of the project he found that he was unaccountably short $2,000 in his accounts. Although he knew the deficit was not his doing as he had never commingled the moneys. At the latter as a transfer in contemplation of death, through benefit of gift tax annual exclusions and exemptions no gift tax liability had been incurred by F upon any of the transfers to S.

By January 1960, S, without F's guidance, had almost wrecked the business and sold his entire 100 shares for $720 a share, receiving $72,000. What will be the amount and term of his capital loss on each of the Four lots of 25 shares?

IV.

T owned and conducted a stock brokerage and investment business. He is not married, nor does he qualify as head of household. He realized $20,000 net taxable income from brokerage commissions during 1959, which amount takes into account all proper deductions, including itemized deductions and that for personal exemptions. In addition and not taken into account above, he engaged in, or was party to, other transactions during the year as follows:

With regard to securities held in an investment account and in all respects qualifying as securities held for investment under Code Sec. 1236:

A stock purchased in 1957 for $15,000, sold in 1959 for $20,000;
B stock purchased Nov. 1958 for $22,000, sold Mar. 1959 for $25,000;
C stock purchased in 1954 for $3,000, became worthless in 1959.

With regard to securities held for sale to customers, T had a net gain for 1959 of $15,000 from all such sales, and one such security which he had purchased for $3,000 in 1957 became worthless in 1959.

A note in the amount of $2,000 given T in Feb. 1959 by a customer to whom T had advanced some money to enable the customer to make some investments also proved totally worthless when the customer became bankrupt in Nov. 1959.

Compute T's income tax liability for 1959 under whatever proper method will produce the least amount of tax. If you are in doubt as to proper treatment of some items, give explanation.

V.

T was very seriously troubled with a severe sinus condition. Examination by his doctor disclosed that T's condition was aggravated by fumes from the stoking of his home coal furnace, and he was told that his condition could not improve so long as he continued to stoke his furnace. T preferred a coal furnace to an oil system and he could ill afford to spend $1,000 in converting his furnace to an oil system, or even $25 a month to employ another to stoke his coal furnace, but the seriousness of his condition compels him to do one or the other. He hopes perhaps to recoup some of the additional and unanted expense through tax deduction and asks your advice as to whether either type of expense would constitute a proper medical expense deduction. What is your analysis?
T owned extensive farm land near Jamestown for which he had paid $5,000 in 1950. By 1960 the value of this land, near the new parkway and other improvements in the area, had increased to $15,000, and T decided to dispose of it while at that peak. He was interested in acquiring some motel property nearer Williamsburg which was selling for $35,000, $10,000 cash and mortgage in the amount of $25,000 which could be assumed by the purchaser. (1) The owner of the motel property is willing to take T's Jamestown land in lieu of the $10,000 cash and pay T an additional $5,000, to assume the $25,000 mortgage on the motel property. (2) The alternative in for T to pay $20,000 in cash and his Jamestown land, which will enable the motel owner to discharge the mortgage and convey the motel property to T free and clear. T, however, does not have $20,000 in cash available, but he does have some corporate stocks worth that amount for which he had originally paid $2,000, and which owner is willing to accept in lieu of the $20,000 cash payable under the second alternative. What information would you give T with respect to the tax consequences in choosing between the two alternatives?

VII.

At pages 18-19 of the Law School Bulletin are set forth the scholarships, prizes and student aid available to students of this School. State whether the recipient of each of the following awards described therein would have taxable or exempt income, and, as to those you find to be taxable rather than exempt, a brief statement as to why you so hold:

Matthew Gault Emory Scholarship N T
Seidman & Seidman Tax Award N T
William A. Hamilton Prize T
Phi Alpha Delta Scholarship T
Nathan Burkan Memorial Competition T
Will Draftsmanship Contest T
Lawyers Title Award T
William and Mary Law School Association Award

VIII.

T's basis for his residential property was $15,000 on Dec. 1, 1959. In December, preparatory to selling the property, he incurred and paid $150 expenses for roof and drain gutter repairs, $300 for grading and hard-surfacing the driveway, $100 for re-siding all worn electrical power lines, and $200 to insulate and board the attic floor. In January, 1959, he sold it for $35,000, terms $5,000 cash down, the purchaser assuming an existing mortgage for $25,000, and the purchaser giving T notes totalling $20,000 for the balance, secured by second mortgage, and payable in installments of $1,000 each at semi-annual intervals, the first due on August 1, 1959, with interest at 6% on the outstanding balance. T paid commissions of $1,750 on the sale. In February, 1959, T bought a new home for $28,000. During 1959 he received the $5,000 cash down payment, $1,000 on principal and $600 interest on the second mortgage notes, in accordance with the terms of sale of the old house. What is the amount and nature of T's 1959 income resulting from the above, assuming that T will elect all proper means to minimize immediate tax liability, and what is the basis of his new home?

IX.

Road Construction Co., owned by partners A and B, each with an one-half interest, had assets as follows:

<table>
<thead>
<tr>
<th>Asset</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office building, land and office equipment</td>
<td>$20,000</td>
</tr>
<tr>
<td>Cash</td>
<td>$2,000</td>
</tr>
<tr>
<td>Road building machinery</td>
<td>$20,000</td>
</tr>
<tr>
<td>Good Will</td>
<td>$5,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$30,000</strong></td>
</tr>
</tbody>
</table>

A and B had a disagreement and it was decided that A would withdraw from the partnership, take the machinery, and operate a business in his own name in another locale, and that another, C would contribute his machinery and carry on the business with B. A was offered the alternatives of (1) receiving the machinery and $35,000 in cash in distribution for his interest, or (2) receiving the machinery in exchange for 90% of the partnership's interest in the business, B to receive $30,000 in cash in the distribution, and then A to sell his one-half interest to C for $35,000 cash. A's basis for his interest in the partnership is $50,000. Will it make any difference in tax consequences to A whichever he elects? Give your analysis.