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Advanced Income Tax: Final Examination (May 30, 1964)

William & Mary Law School

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1. Domestic Corporation, X, a calendar year taxpayer, had an accumulated E. and P. deficit of \$10,000 on December 31, 1962, and current earnings and profits of \$30,000 for the calendar year 1963. On December 31, 1963, it made a non-liquidating and non-stock redemption distribution of \$10,000 cash and unencumbered non-inventory property (with a basis of \$5,000 and a fair market value of \$25,000) to its sole stockholder.

*followed by
a distribution
of*

If the sole stockholder in this case were an individual with a basis for his Corp. X stock of \$12,000, the tax consequences of the distribution would be as follows:

- (a) Individual - the individual would report on his Form 1040 for 1963 a taxable dividend of \$29,950 (\$30,000 less \$50 exclusion) as ordinary income subject to the regular normal and surtax rates. The basis of his Corp. X stock would be reduced to \$7,000. The property distribution would have a basis of \$25,000. Corp. X's accumulated E. and P. as of January 1, 1964, would be \$5,000. No gain would be recognized by Corp. X in connection with the distribution.

*and subject
to the 40%
credit*

Assuming the same circumstances, please show briefly (as above) the tax effect if the sole stockholder were - (Confine your description to point of first receipt - thus do not include the effects of a further distribution by the sole stockholder)

- (b) An unrelated domestic corporation
- (c) A partnership
- (d) An electing small business corporation
- (e) An unincorporated business - electing to be taxed as a corporation
- (f) A regulated investment corporation
- (g) A Western Hemisphere Corporation
- (h) A domestic Personal Holding Company
- (i) An estate or trust
- (j) A foreign corporation - carrying on no trade or business in the U. S.
- (k) An association taxable as a corporation

*15000 x .45 ✓
7500
15000
22500*

2. (a) What accounts for the major differences between current year taxable income and current year earnings and profits of a domestic corporation?
- (b) What, if any, is the difference in the case of an electing small business corporation between (1) current year earnings and profits, (2) current year earnings and profits for purposes of the constructive dividend, and (3) taxable income.
3. Indicate briefly all the possibilities available to a stockholder for realizing his proportionate share of the accumulated earnings and profits as capital gain rather than as ordinary income--and their effect on his ownership of the corporation.

4. Indicate the principal Code provisions especially aimed at preventing what would otherwise be "dividend" income from being treated as capital gains.
5. Indicate the principal Code provisions especially aimed at encouraging the distribution of earnings and profits.
6. Indicate briefly the situations which may cause a corporation to have to recognize gain in making a non-liquidating and a liquidating distribution.
7. What type of situation does sec. 337 attempt to correct?
8. What type of situation does sec. 334(b) (2) attempt to correct?
9. How would you convey to someone either in a few words or by simple example the idea underlying the following terms as related to Subchapter C?
 - (a) Party to a reorganization
 - (b) Spin-off
 - (c) Split-up
 - (d) Split-off
 - (e) Merger
 - (f) Consolidation
 - (g) Recapitalization
 - (h) Partial liquidation
 - (i) Divisive reorganization
 - (j) Brother-sister corporation
 - (k) Collapsible corporation
 - (l) Downstairs merger
 - (m) Controlled corporation
 - (n) Personal Holding Company
 - (o) Corporate carry-overs by acquisition
10. 11. If you were the principal tax officer of a large corporation, what would you consider to be the big "decision" areas of Subchapter C devolving upon you as guardian of your Company's tax interest?
11. 12. If time permits, please explain by a simple example, or other illustration, the reason for each of the adjustments (i) (ii) and (iii) of sec. 358(a)(1) (A); and, of (i) and (ii) of sec. 358 (a)(1)(B).