

1965

## Advanced Income Tax: Final Examination (May 24, 1965)

William & Mary Law School

---

### Repository Citation

William & Mary Law School, "Advanced Income Tax: Final Examination (May 24, 1965)" (1965). *Faculty Exams: 1944-1973*. 165.  
<https://scholarship.law.wm.edu/exams/165>

ADVANCED INCOME TAX

Final Examination

May 24, 1965

- I. Individual A, a sole proprietor, operates a small tool making plant.  
Individual B, a sole proprietor, operates a welding plant.  
Individual C, an independent inventor, owns patents on certain tool making processes.

The three men tell you that if they pooled their resources they can become a major supplier of tools for Corporation X, a large domestic auto manufacturer. They want you, as a tax lawyer, to discuss with them a number of matters relating to their idea of getting together as a producer of tools.

They tell you that they would like for you to explain to them very briefly the major tax rules that they need to be aware of if they decide to get together as a Corporation, with specific reference to:

- (1) Transfer of their assets to a new corporation, what's involved?
- (2) What about the capital structure--all stock or stock and bonds; and should there be more than one class of stock? and why?
- (3) How will our profits be taxed and can we use some of them to expand?
- (4) Suppose our first couple of years are loss years, how can we deduct our losses?
- (5) One of us may want to retire in a few years, or to pass our interest on to some younger member of the family, what happens if one wants to get out?
- (6) Suppose the X Corporation, to which we sell our products, would like to buy us out and integrate our plant with its, what is the best way to do this?
- (7) Or maybe, we will want to spread out a bit by establishing a similar plant in another State and manufacture some of our tools there, can we divide up our plant as we choose?
- (8) Can we set up a branch in a foreign country, for instance in Canada, and what effect will this have on our taxes?
- (9) Suppose some new gadgets come along and make our tools so obsolete that we have to start a new line of manufactured products, what then?
- (10) Maybe we will want to quit altogether and dissolve the company, how will that affect the taxes of the company and us as stockholders?
- (11) Suppose our sole customer, the X Company, moves to Mexico City, Mexico and we continue to sell all our products to the company down there, will that make any difference tax wise to us?
- (12) Someone told us that we ought to incorporate and then ask to be taxed as a partnership--what do you think about this?
- (13) Or maybe we should just be a partnership in the first place, what are some of the things that we should consider in connection with this idea?

II. Why is careful pre-planning so important in respect to the following areas?

- (1) Sec. 1244 stock
- (2) Accumulated earnings stock
- (3) Personal Holding Company classification
- (4) Sec. 337
- (5) A sec. 368(a)(1)(B) type of reorganization.