

1965

## Preparation of Tax Forms: Final Exam (May 31, 1965)

William & Mary Law School

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PREPARATION OF TAX FORMS

Final Exam

May 31, 1965

I. Tax effect of business form-

Given the following income items:

Net profit from retail trade	\$30,000
Domestic corporation dividends	2,000
Long term capital gain	5,000
Taxable bond interest	1,000
Tax-exempt bond interest	<u>2,000</u>
Total	\$40,000

- (1) If the foregoing items (and no other) are received by Individual A for 1964, and Individual A is operating as a Sole Proprietor, is under 65 years of age, single, with no dependents, and elects to use the standard deduction--how much of the \$40,000 will he have left after his Federal income tax?
- (2) If the foregoing items are received by Corporation B during 1964, and Corporation B is wholly owned by Individual A, and Corporation B pays the proper tax on the above receipts and then distributes the remainder to Individual A as dividends--how much will Individual A have left after taxes paid both by Corporation B and himself? (For this purpose, assume no administrative deductions at the corporate level in computing the corporate tax)
- (3) If the foregoing items are received by Corporation C during 1964, a wholly owned tax-option corporation--how much will Individual A have left after taxes? (For this purpose assume no administrative deductions at the corporate level)
- (4) If the foregoing items are received by Partnership D during 1964, and represent Individual A's share in the Partnership income--how much will Individual A have left after taxes? (For this purpose assume no administrative deductions at the partnership level)

## II. Carry-backs and carry-overs-

Taxpayer A's forms 1040 showed the following for 1964 and 1961:

<u>Item</u>	<u>1964</u>	<u>1961</u>
Taxable interest	\$1,000	\$700
Business net profit (or loss)	Loss(5,000)	3,000
Long term capital gain (after 50% deduction)	100	200
Total	(\$3,900)	\$3,900
Allowable itemized deductions for personal interest and taxes	500	500
Personal exemption	600	600
Taxable income	(\$5000)	\$2,800
Tax	none	576

Assuming no other net operating losses or net loss deductions than those derived above, please indicate-

- (1) The amount of the net operating loss for 1964
- (2) The amount of the tax refund for 1961
- (3) The amount of the unused net loss deduction (if any) that may be carried over from 1961 to 1962.

## III. Income Averaging-

A salesman asks you to compute his tax for 1964. He informs you that his sole income is from commissions, which totalled \$25,000 for 1964 and there were no expenses chargeable against them. He is single, no dependents, under 65 years of age and elects to use the standard deduction. His taxable income reported on his prior returns was \$7,500 for 1960, \$9,000 for 1961, a deficit of \$1,000 for 1962, and \$6,000 for 1963. By reference to Schedule G of Form 1040, please determine the amount of his Federal income tax for 1964.

## IV. Trust Income-

The trustee of Trust X received during 1964 domestic corporate dividends of \$10,000. The total administration expense for the year amounted to \$1,000, all of which was allowable as a tax deduction. The trustee was required to distribute to Beneficiary A, the sole beneficiary, \$5,000. This amount was actually paid. What is the amount of the income tax (after credits) payable by the Trust?