1967

Advanced Income Tax: Final Examination (May 29, 1967)

William & Mary Law School

Final Examination ADVANCED INCOME TAX May 29, 1967

1. A regular domestic Corporation had the following income and deductions for 1966, and as of January 1, 1966, had no post-1913 E. and P.

Gross profit from manufacturing	$ 60,000
Interest on tax-exempt bonds	1,000
Profit on the sale of land held for investment (This land was bought on June 1, 1910, at a cost of $1,000, March 1, 1913 value was $3,000, and sold on June 1, 1966, for $10,000)	9,000
Total allowable deductions (and assume no unallowable deductions)	20,000

(a) What is the amount of the Corporation's tax liability for 1966?

(b) Assume the above Corporation distributed all of its 1966 income (less the tax computed above) to its two 50% stockholders--how much would each stockholder receive and what kind of income would it be for purposes of Form 1040?

(c) Assume the same facts as above, except the Corporation filed a Subchapter S return, thus paying no tax, --how much would each 50% stockholder receive and what kind of income would it be for purposes of Form 1040?

(d) Assume the same facts as above, except the Corporation qualified as a partnership and filed a Form 1065, thus paying no tax, --how much would each 50% partner receive and what kind of income would it be for purposes of Form 1040?

2. Regular Corporation X has post-1913 E. and P. of $10,000 and 1966 Current E. and P. of $5,000.

(a) Assume its sole stockholder is an individual and that his basis for his stock is $5,000, and that he receives the following distributions during the year 1966. In each case please indicate the tax effect of the distribution, that is (1) the nature of the taxable income received, if any; (2) the effect on his stock basis, if any; (3) the basis of the property in the hands of the stockholder; and (4) the effect on the Corporation's E. and P. account. Please show dollar amounts.

Assumed distribution - each numbered group to be treated separately as they do not overlap.

(1) Cash $20,000

(2) Cash $10,000
Property Y with a basis of $1,000 and a value of $2,000
Property Z with a basis of $3,000 and a value of $6,000

(3) Property with a basis of $1,000 and a value of $2,000
Corporation X stock with a value of $2,000 and no election to take cash in lieu of stock
Corporation X Bonds in the principal amount of $1,000 with a value of $900
Unrelated Corporation Z stock with a basis of $1,000 and a value of $2,000.

(b) Assume the sole stockholder is a corporation with a basis for its stock of $5,000 and receives the same type of distributions as listed in (1), (2) and (3) above. Please indicate the tax effect in the same manner as shown for the individual stockholder.

3. Corporation M has post-1913 and Current E. and P. of $30,000. Individuals A, B, and C own all of its voting stock of 40 shares, 40 shares and 20 shares respectively and each with a basis for their shares of $100 per share. Stockholder A needs money and asks his Corporation to redeem 30 of his shares for book value, being $400 per share at the time. The Corporation agrees and pays A $12,000 in cash. What is the tax effect of this payment to A, to the Corporation, and, to the remaining stockholders B and C?

4. What is the reason underlying the need for sec. 337(a), that is, what type of problem caused the Congress to enact this provision?

5. Assume a corporation wishes for good and sufficient business reasons to abandon a segment of its business representing 10% of its assets - and distributes the assets pro rata to its stockholders in exchange for 10% of their stock at a time when the corporation has accumulated E. and P.

   And then assume, instead of the above, that the stockholders all want to redeem 10% of their stock in exchange for 10% of the Corporation's assets at a time when it has accumulated E. and P.

   Compare the tax rules applicable to the stockholders under the two assumptions and why is there a difference?

6. If you exchange a share of GM stock with a basis of $50 and a value of $75 with a friend for his share of US Steel with a basis to him of $50 and a value of $75, both of you, of course, will have to pay a tax on a gain of $25 during the year of the exchange - then

   Why can you exchange X Company stock with a basis to you of $50 and a value of $75 for Y Company stock worth $75 when X Company transfers substantially all its assets to Y without having to pay a tax?

7. Please design a simple example illustrating the nature of (a) split-up, (b) split-off, and (c) spin-off; and, why do these terms seem appropriate?

8. What are some of the Court developed tests (or doctrines) that underly the justification for tax postponement, or non-immediate recognition of income in connection with so-called "tax-free exchanges" covered by the reorganization provisions?

9. Why are there so many statutory limitations and restrictions regarding a Type D reorganization?

10. Is "boot" to the extent permitted to be received in connection with a reorganization, taxed as capital gain or as ordinary income or as a dividend?

11. What is the primary reason back of each of the following additions to the Code since 1960, relating to foreign corporations -

(a) Per country computation, sec. 904(a)

(b) 10% or more domestic corporate stockholder in a foreign corporation, sec. 902(a)

(c) Inclusion of income earned by a Foreign Corporation, sec. 951(a)

12. What is the primary tax treatment difference, and why, between a regular corporation and -

(a) Regulated Investment Company
(b) Real Estate Trust
(c) China Trade Act Corporation
(d) Small Business Investment Company
(e) Subchapter S Corporation