Due by May 8th

***Please cite IRS code section (short answer).***

1. What is the significance of the term “check the box”? for Partnership, sole Proprietor and corporation.

2. Allen creates a new corporation (as its sole shareholder) and contributes $100 worth of land with an Adjusted /Basis (A/B) of $60, and services of $50. In exchange, Allen receives 10 shares of stock for the land, and 5 shares for the services. If Allen receives back from the corporation $12 in a promissory note (debt) in addition to the stock:

1. How much gain is recognized by “Allen”?
2. What is Allen’s A/B in the stock?
3. What is Allen’s A/B in the note?
4. What is the A/B in the land to the corporation?
5. Does this change the treatment of the services received by the corporation?

3. If the corporate tax rate is 30%, what amount will be available for the parent company to distribute to its individual shareholders if each company distributed 100% of its earnings and profit, plus all of the dividends received from affiliates (all $ amounts shown are taxable income, not E&P) ?

Individual Shareholders

100%

Parent Corporation

Earnings $200

40% owned 85% owned 60% owned

Sub A Sub B Sub C

Earnings $100 Earnings $300 Earnings $400

10% owned

Sub D

Earnings $500

4. What are the tax consequences to the shareholder who receives distributions in the following situation?

Distribution $100 $200

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Current year $90 Accumulated $110

Adjusted Basis = $20 bought 10 years ago

5. C is the sole shareholder of BPI Corporation. C’s basis in her shares is $5,000. BPI employees M as a manager to run the day-to-day operations. At the end of the year in question, BPI has current E&P of $100,000 and accumulated E&P of $300,000. BPI distributes cash of $100,000 to C. What the tax consequences to

a. BPI

b. what are the potential tax consequences to C had not hired M, and instead was the sole employee managing the BPI operations?

c. Alternative Facts:

i. what if BPI had no current E&P?

ii. what if BPI had $100,000 in current E&P, but no accumulated E&P?

iii. what if BPI had 100,000 in current E&P but a deficit in accumulated E&P?

iv. what if BPI had $25,000 in current year E&P and $25,000 in accumulated E&P?

v. What if BPI had no E&P at all?