7. 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

14. 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

b. BPI

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