2005

SPECIAL ENROLLMENT EXAMINATION

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# Part 3

## SPECIAL ENROLLMENT EXAMINATION BOOKLET

**September 22, 2005**
**9:00 A.M. TO 12:00 NOON**

## Corporations (Including S Corporations), Fiduciaries, Estate and Gift Tax, and Trusts

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# Special Enrollment Examination

## Part 3

## Corporations (Including S Corporations), Fiduciaries, Estate and Gift Tax, and Trusts

### Instructions:

**Time allotted.** You will have 3 hours to take the exam. No additional time will be given.

**Source of questions.** All references are to the Internal Revenue Code as amended through December 31, 2004. Unless otherwise stated, all questions relate to calendar year 2004.

**Supplies provided.** You will be given a No. 2 pencil, scratch paper, question booklet, and answer sheet. You may make computations on the scratch paper or question booklet and will turn these in with your test.

**Contacting the monitor.** Raise your hand to attract the monitor's attention if you need additional supplies or would like permission to leave the room.

**Completing the answer sheet and making notes in the question booklet.**

- Be sure to read each question carefully.
- Do not fold or tear the answer sheet since it will be machine graded.
- Use your No. 2 pencil to darken only one oval for each question.
- If you would like to make a correction, erase the error completely.
- You may want to also mark your answers in the question booklet because the booklet will be returned to you when your test has been graded. Your answer sheet will not be returned to you. The correct answers will be provided to you and you would then have the opportunity to compare your answers to the correct answers.

**After you have finished.**

- **Answer sheet.** You must turn in your answer sheet at the end of each test session or your test will not be graded. When you have finished the examination, you must turn in your answer sheet to the monitor before leaving the room.
- **Question booklet and scratch paper.** You must also turn in your question booklet and scratch paper (used and unused) before leaving the room. Any answers noted in your question booklet will not be graded. Your question booklet and scratch paper will be mailed to you after the examination has been administrated in all sites.

**Grading.**

- **Point value of questions.** The questions in this examination have been assigned values of 1 to 3 points. All true or false questions have a value of 1 point each; the multiple choice questions in Section B have a value of 2 points each; and the multiple choice questions in Section C have a value of 3 points each.
- **Determination of correct answers.** The examination is graded on the basis of correct answers. If you darken more than one oval in answering a question, the answer will be considered incorrect.
- **Notification of results.** You will receive formal notification of your examination results on or about January 31, 2006.

**Challenges.** Challenges must be received by the Office of Professional Responsibility on or before October 22, 2005. Challenges must be on the form or in the format prescribed on www.irs.gov. Go to "tax professionals" and then to "enrolled agents".

**Complete Personal Identifying Information:** On you answer sheet in the space provided, you should enter the following information:

1. Print your name (First, M.I., Last).
2. Sign your name (First, M.I., Last).
3. Place of examination (City and State).
4. Date of this examination.
5. Print your name (Last, F.I., M.I.) in the boxes provided. Immediately below the boxes darken the oval corresponding to the letter you have printed, as in the sample Name Grid. Darken only one oval in each column below a box in which you have printed a letter. Make no marks in the columns below boxes you have left blank.
6. Enter you candidate number and immediately below, darken the oval corresponding to each number you have entered.
7. Enter your Social Security Number and immediately below, darken the oval corresponding to each number you have entered.

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**Part 3**
**Section A:**
**Questions 1 – 20**

**The following statements are either true or false. Select the most appropriate answer and darken the oval under A for True or B for False.**

**1.** A domestic limited liability company that has two or more members (without making other elections) is generally treated as a corporation for federal income tax purposes.

**2.** Whenever a shareholder (or group of shareholders) makes a Section 351 property exchange for stock in a corporation, a statement of all facts relevant to the exchange must be attached to the individual(s) tax returns as well as to the corporate tax return in the year of the exchange.

**3.** A calendar-year corporation that uses the accrual method of accounting may not deduct a charitable contribution paid March 10, 2005, for tax year 2004.

**4.** Alpha Corporation owns 75% of the voting stock of Sky Net, Inc. Alpha Corporation's stock ownership in Sky Net, Inc. also represents 75% of the total value of the stock. Sky Net, Inc. is a member of a controlled group with Alpha Corporation as the common parent.

**5.** Weal, Inc. had taxable income in 2003 of $10,000. Due to a downturn in its core business operations, Weal, Inc. expects to suffer a tax loss in 2004. Weal, Inc. must still make installment payments of estimated tax for the 2004 year.

**6.** If a corporate distribution to a shareholder exceeds earnings and profits (both current and accumulated) and exceeds the shareholder's basis in the corporate stock, the shareholder has a gain from the sale or exchange of property.

**7.** If a distribution gives cash or other property to some shareholders and gives stock shares that increase the percentage of interest in the corporation's assets or earnings and profits to other shareholders, then the distribution of the stock is treated as if it were a distribution of property.

**8.** Only cash distributed as part of a corporate liquidation should be reported on a Form 1099-DIV.

**9.** Gain or loss generally is recognized on a liquidating distribution of assets as if the corporation sold the assets to the distributee at fair market value.

**10.** ABC Corporation was formed in 1996 and has always been an S corporation. ABC Corporation may be liable for the excess net passive income tax in 2004 if it has passive investment income for the tax year that is in excess of 25% of gross receipts and has taxable income at year-end.

**11.** S corporation elections are made for periods of five years, which may be renewed.

**12.** If an S corporation discharges a debt that it owes one if its shareholders, and that shareholder is required to report the amount as income, then the shareholder may increase his/her basis in the stock of the S corporation by the amount reported in income.

**13.** An estate of a domestic decedent or a domestic trust that had no tax liability for the full 12-month 2003 tax year is not required to make estimated tax payments in 2004.

**14.** Generally, in determining the taxable income for most taxpayers Internal Revenue Code section 469 limits the deduction of losses from passive activities to the amount of income derived from all passive activities. For an estate or trust however, losses from a passive activity owned by the estate or trust can be used to offset portfolio (interest, dividends, royalties, annuities, etc.) income of the estate or trust in determining taxable income.

**15.** If you are the beneficiary of an estate that must distribute all its income currently, you must report your share of the distributable net income whether or not you actually received it.

**16.** If the executor of an estate elects the use of an alternate valuation date and then changes his/her mind, he/she can use the date of death as the valuation date by amending the estate tax return (Form 706) within 1 year of the date of death.

**17.** A net operating loss (NOL), was created in the course of conducting the decedents business, which is held by the estate. If the NOL remains unused in the final year of the estate, an unused NOL carryover that would have been allowable to the estate in a later year is allowed to the beneficiaries succeeding to the property of the estate.

**18.** If a husband and wife both agree to gift splitting for gift tax purposes, the liability for the entire gift tax of each spouse is joint and several.

**19.** A gift of property directly to an individual may be subject to the generation-skipping transfer tax, even if it is not subject to the gift tax.

**20.** A grantor type trust is a legal trust under applicable state law that is **not** recognized as a separate taxable entity for income tax purposes.

**Turn to the next page for Part 3, Section B.**

**Part 3**
**Section B**
**Questions 21 - 45**

**The following questions are multiple choice. Select the most appropriate answer and darken the oval under the corresponding letter on the answer sheet.**

**21.** Bob Moon forms Moon Enterprises LLC (Limited Liability Company) during the year. What form must Moon Enterprises LLC file in order to elect to be taxed as a C corporation?

A. Form 1065 (U. S. Partnership Tax Return)
B. Form 8832 (Entity Classification Election)
C. Form 1120 (U. S. Corporation Income Tax Return)
D. Form 7004 (Application for Extension of time to file for corporations)

**22.** ABC Corporation is dissolved on July 9, 2004. What is the due date, without extensions, for the filing of the final corporate income tax return?

A. March 15, 2005
B. December 31, 2004
C. October 15, 2004
D. October 9, 2004

**23.** Croaker, Inc. is a taxable domestic corporation. Dana Corporation, a large manufacturing corporation, owns 15% of Croaker, Inc.'s outstanding stock. In 2004, Dana Corporation received $100,000 in dividends from Croaker, Inc. Dana Corporation received no other dividends in 2004. Dana Corporation may deduct, within certain limits, what percentage of the dividends received?

A. 15%
B. 70%
C. 80%
D. 100%

**24.** York, Inc. directly owns stock of Ajax Corporation. To determine if Ajax Corporation is a member of a controlled group with York, Inc. as the common parent, York, Inc. must own at least what percentage of the voting and total value of the Ajax Corporation stock?

A. 51%
B. 75%
C. 80%
D. 100%

**25.** The Lux Corporation incurred $10,000 in start-up costs when it opened for business in 2004. What is the minimum period over which these expenses can be recovered?

A. 12 months
B. 36 months
C. 60 months
D. 120 months

**26.** Corporations generally must make estimated tax payments if they expect their estimated tax (income tax less credits) to be equal to or more than:

A. $1
B. $500
C. $600
D. $1,000

**27.** A corporate payer of an individual shareholder dividend does not have the taxpayer identification number for that shareholder. What backup withholding percentage rate must the corporate payer use for this shareholder's dividend payments?

A. 15%
B. 28%
C. 35%
D. 39%

**28.** The board of directors of Walden Corporation authorized a year end distribution to its three shareholders. Each distribution would be equal in value but the shareholder could choose to receive the distribution in cash or corporate stock. If a shareholder chose to receive corporate stock, the distribution should be treated as:

A. A tax free distribution of stock
B. A distribution of property
C. A like-kind exchange
D. None of the above

**29.** In 2000, Mark purchased 100 shares of Roman, Inc. for $10 per share. In 2004 Roman, Inc. completely liquidated and distributed $8,000 to Mark. Mark must report income from this distribution as:

A. Ordinary other income
B. Dividends
C. Capital gains
D. Return of capital

**30.** A fiduciary representing a dissolving corporation may file a request for prompt assessment of tax. Generally, this request reduces the time allowed for assessment to:

A. 12 months
B. 18 months
C. 24 months
D. 30 months

**31.** The basis of property you buy is usually its cost. In determining the acquisition basis in C corporation stock, a shareholder must know:

A. The amount paid in cash or property
B. The amount paid in cash and debt obligations
C. The value of provided services and debt obligations assumed
D. All of the above

**32.** Which of the following conditions will prevent a corporation from qualifying as an S corporation?
   A. The corporation has both common and preferred stock
   B. The corporation has 70 shareholders
   C. One shareholder is an estate
   D. All of the above

**33.** Which of the following statements regarding the built-in gains tax of an S corporation is true?
   A. The built-in gains tax is treated as a loss sustained by the corporation during the same tax year
   B. S corporation built-in gains tax can be recognized only in the 10-year period beginning with the year the S election is made
   C. S corporation built-in gains tax is passed through and paid at the shareholder level
   D. None of the above

**34.** Which of the following items is **not** a separately stated item of a qualifying S corporation?
   A. Interest income
   B. Charitable contributions
   C. Interest expense on business operating loans
   D. Net long term capital gain

**35.** Which of the following statements regarding distributions from an S corporation is correct?
   A. Property distributions are applied in a different manner than cash distributions
   B. Absent an election, distributions are considered to come first from accumulated earnings and profits, if the corporation has accumulated earnings and profits from when it was a C corporation
   C. A shareholder's right to nontaxable distributions from previously taxed income may be transferred to another person
   D. A distribution from the previously taxed income account is tax free to the extent of a shareholder's basis in his/her stock in the corporation

**36.** Pine Street Corporation is an S corporation. The Form 1120S for 2004 reflects a $3,500 ordinary loss. Mr. Jones, the sole shareholder of Pine Street Corporation, has a basis in the corporation at January 1, 2004, of $1,500. Which of following statements is correct?
   A. Mr. Jones may deduct a $3,500 loss on his 2004 return
   B. Mr. Jones may deduct a $1,500 loss on his 2004 return and carry back a $2,000 loss to 2002
   C. Mr. Jones may deduct a $1,500 loss on his 2004 return and carry forward a $2,000 loss indefinitely
   D. Mr. Jones may deduct a $1,500 loss on his 2004 return and loses the remaining $2,000 loss

**37.** Which of the following statements regarding the termination of an S corporation election is true?
   A. The election may be revoked with the consent of shareholders who, at the time the revocation is made, hold more than 50% of the number of issued and outstanding shares
   B. The election may be revoked by the board of directors of the corporation only if they are not shareholders
   C. The election terminates automatically if the corporation derives more than 25% of its gross receipts from passive investment income during the year
   D. The election may be revoked by the Internal Revenue Service if there is a history of 10 years of operating losses

**38.** Frank owned and operated a machine shop. He used the cash method of accounting. At the time of his death in 2004, Frank was owed $5,000 for work his shop had performed. This $5,000 amount was paid prior to Frank's estate being settled. The sole beneficiary of the estate is Frank's son Jim, but the $5,000 was not distributed to Jim before the settlement of Frank's estate. The $5,000 must be included in the income of:
   A. Frank's final income tax return
   B. Frank's estate's income tax return
   C. The income tax return of beneficiary Jim
   D. None of the above

**39.** Snickers Trust did not file an estate tax return form 1041 for the 2003 year. At the beginning of 2004 Snickers Trust expects withholding and credits to be less than 90% of the tax reportable at year end. Snickers Trust must pay estimated income tax for 2004 if it expects to owe, after subtracting any withholding and credits, at least what amount?
   A. $100
   B. $600
   C. $1,000
   D. $2,500

**40.** If an extension is not granted, when must Form 706 be filed to report estate and/or generation-skipping transfer tax.
   A. By the 15th day of the fourth month following the date of death
   B. Within 6 months after the date of death
   C. Within 9 months after the date of death
   D. Within 1 year of the date of death

**41.** Which of the following statements is true regarding allowable deductions on Form 706, United States Estate Tax Return?

A. Penalties incurred as the result of a federal estate tax deficiency are deductible administrative expenses
B. Attorney fees paid incidental to litigation incurred by the beneficiaries are a deductible administrative expense
C. Executor's commissions may be deducted if they have actually been paid or if it is expected that they will be paid
D. Funeral expenses are not an allowable expense

**42.** Which of the following statements concerning the deduction for estate taxes by individuals is true?

A. The deduction for estate tax can be claimed only for the same tax year in which the income in respect of a decedent must be included in the recipient's income
B. Individuals may claim the deduction for estate tax whether or not they itemize deductions
C. The estate tax deduction is a miscellaneous itemized deduction subject to the 2% limitation
D. None of the above

**43.** Which of the following entities are required to file Form 709, United States Gift Tax Return?

A. An individual
B. An estate or trust
C. A corporation
D. All of the above

**44.** Which of the following statements regarding the annual exclusion for gift taxes is true?

A. The gift of a present interest to more than 1 donee as joint tenants qualifies for only 1 annual exclusion
B. A gift of a future interest cannot be excluded under the annual exclusion
C. The annual exclusion amount for 2004 is $12,000
D. None of the above

**45.** As a general rule, a trust may qualify as a simple trust if:

A. The trust instrument requires that all income must be distributed currently
B. The trust does not distribute amounts allocated to the corpus of the trust
C. The trust has no provisions for charitable contributions
D. All of the above

**Turn the page for Part 3, Section C.**

**Part 3**
**Section C:**
**Questions 46—80**

**The following questions may require some computation. Select the most appropriate answer and darken completely the oval under the corresponding letter on the answer sheet.**

**46.** Amanda Jones and Calvin Johnson form Quail Corporation in 2004 by simultaneously making the following transfers.

| Shareholder | Adjusted Basis of Property Transferred | Fair Market Value of Property | Percentage of Stock Received |
|---|---|---|---|
| Amanda | $30,000 | $60,000 | 50% |
| Calvin | $70,000 | $60,000 | 50% |

What is the amount of gain or loss to be reported on these transfers by Amanda and Calvin on their 2004 Federal income tax returns?

A. Amanda reports a $30,000 gain and Calvin reports a $10,000 loss
B. Amanda reports a $0 gain and Calvin reports a $0 loss
C. Amanda reports a $30,000 gain and Calvin reports a $0 loss
D. Amanda reports a $0 gain and Calvin reports a $10,000 loss

**47.** Bob and John make the following transfers to Builders Corporation in return for 100% of the stock in the corporation.

| | Asset and Value Transferred to Builders | Asset and Value Transferred to Shareholder | Percentage of Stock Received |
|---|---|---|---|
| Bob | $100,000 cash | $10,000 land | 80% |
| John | $30,000 property (basis of $10,000) | $5,000 cash | 20% |

What is the amount of gain Bob and John must recognize on the transfers?

A. Bob must recognize $10,000 gain and John must recognize $25,000 gain
B. Bob recognizes no gain and John recognizes $5,000 gain
C. Bob recognizes $10,000 gain and John recognizes $5,000 gain
D. Bob recognizes $10,000 gain and John recognizes $20,000 gain

**48.** Warren purchased stock in 2002 for $10,000. In 2003 Warren sold this stock to his sister Gail for $8,000. In 2004 Gail sold this stock to an unrelated party for $11,000. How much gain must Gail recognize in 2004 on the sale of this stock?

A. $0
B. $1,000
C. $2,000
D. $3,000

**49.** Essex Corporation is a domestic corporation founded in 1998. Essex was originally authorized 100,000 shares with a per share value of $10. In 1998 Essex issued 50,000 shares and retained 50,000 shares. In 2004 the fair market value of an Essex share of stock equaled $100. During 2004 Essex hired a consulting firm to improve its data processing systems at a contracted cost of $20,000. The consulting work was completed in 2004 and the consulting firm agreed to accept 200 shares of Essex stock as payment of the contract. In 2004 Essex Corporation is required to report this transaction as:

A. $20,000 in ordinary other income
B. $2,000 in capital loss
C. $0 nontaxable exchange
D. $18,000 in capital gain

**50.** Brady Corporation of Cleveland, OH is a multi-national conglomerate. In 1986 Brady Corporation established and owned 100% of the stock of Toms, Inc. of Dayton, OH. Toms, Inc. was established for the purpose of manufacturing rubber gaskets, which Brady Corporation uses in many of its international operations. By the beginning of 2004, Brady Corporation had sold 30% of the outstanding Toms, Inc. stock. In July of 2004 Toms, Inc. declares a dividend and pays $100,000 to Brady Corporation. In 2004 Brady Corporation, subject to certain limits, takes what amount as a dividends received deduction?

A. $0
B. $70,000
C. $80,000
D. $100,000

**51.** In tax year 2004, Roberts Corporation made a charitable contribution to a qualified organization of $40,000 in cash plus a vehicle with a fair market value of $15,000. For tax year 2004 Roberts Corporation had $400,000 in total income, $100,000 in total expenses not including the above charitable contributions, and would have a reportable dividend received deduction of $50,000. How much of the charitable contribution can Roberts Corporation deduct for the 2004 tax year?

A. $15,000
B. $25,000
C. $40,000
D. $55,000

**52.** In tax year 2004, Sun Corporation had a $10,000 long-term capital loss and a $5,000 short-term capital gain. In tax year 2000, Sun Corporation reported $1,000 in long-term capital gains and $4,000 in short-term capital gains. Sun Corporation reported no other capital gains or losses in any other tax year. How much net capital loss will be available for Sun Corporation to carry into tax year 2005?

A. $0
B. $1,000
C. $4,000
D. $5,000

**53.** As of December 31, 2003, Doyle, Inc. had incurred $6,000 in potential market feasibility costs, $3,600 in legal fees for setting up the corporation, $2,400 in advertising costs for the opening of the business, and $18,000 for the purchase of equipment. Doyle, Inc. began business operations on January 1, 2004. If Doyle, Inc. chooses to amortize its organizational and start-up expenses over the minimum 60-month period, how much can Doyle, Inc. deduct as an amortization expense in 2004?

A. $1,680
B. $1,920
C. $2,400
D. $6,000

**54.** In 2004 Green, Inc. had gross receipts from sales of $500,000, dividends of $100,000 from a domestic corporation in which Green, Inc. owned 50% of the stock, and operating expenses of $800,000. What is the 2004 net operating loss for Green, Inc.?

A. $200,000
B. $280,000
C. $300,000
D. $330,000

**55.** Richard Crepe, M.D. owns 100% of the outstanding stock of Crepe Corporation. All of Crepe Corporation's income and expenditures are derived from the medical services provided by Dr. Crepe. At the end of 2004 Crepe Corporation had $10,000 in reportable taxable income. How much federal income tax was Crepe Corporation required to pay for the 2004 year?

A. $1,500
B. $2,500
C. $3,400
D. $3,500

**56.** Maple Corporation had a net loss per its books for 2004 as follows:

| | | |
|---|---|---|
| Gross Sales | | $ 340,000 |
| Cost of Goods Sold | $ 150,000 | |
| Depreciation | $ 60,000 | |
| Charitable Contributions | $ 10,000 | |
| Salaries | $ 130,000 | |
| Meals and entertainment | $ 20,000 | |
| Net income (loss) per books | $ (30,000) | |
| Total per books | $ 340,000 | $ 340,000 |

Maple Corporation uses an accelerated method of depreciation for tax purposes, but not for book purposes. Maple Corporation's tax depreciation for 2004 will be $75,000. What is the taxable income for federal income tax purposes in 2004 for Maple Corporation?

A. $(5,000)
B. $(35,000)
C. $(25,000)
D. $(20,000)

**57.** Rose Corporation is a calendar-year filing corporation that had accumulated earnings and profits at the end of 2003 of $5,000. At the end of 2004 Rose Corporation had current-year earnings and profits of $1,000. On December 31, 2004 Rose Corporation distributed to sole shareholder Paul Rose an automobile purchased for $10,000 with a fair market value of $8,000. Paul Rose assumed a liability on the automobile of $1,000. What amount of dividend paid to Paul Rose must Rose Corporation report as an ordinary dividend in Box 1a of Form 1099-DIV?

A. $6,000
B. $7,000
C. $8,000
D. $10,000

**58.** Charles Watson owns 100% of the outstanding shares of Watson Corporation. Charles Watson acquired these shares in 1998 for $5,000. Watson Corporation had total earnings and profits at the end of 2004 of $10,000. On December 31, 2004, Watson Corporation distributed $8,000 in cash and property with a fair market value of $7,000 to Charles Watson. In 2004 how much in capital gain must Charles Watson report from this distribution?

A. $0
B. $5,000
C. $10,000
D. $15,000

**59.** Hampshire, Inc., a calendar year taxpayer, had an accumulated earnings and profits balance at the beginning of 2004 of $20,000. During the 2004 year, Hampshire, Inc. distributed $30,000 to its sole individual shareholder. On December 31, 2004 Hampshire, Inc. reported taxable income of $50,000, federal income taxes of $7,500, and had tax exempt interest on municipal bonds of $2,500. What is Hampshire, Inc.'s accumulated earnings and profits balance at the beginning of 2005?

A. $15,000
B. $25,000
C. $30,000
D. $35,000

**60.** Healey, Inc. owned a parcel of undeveloped land with an adjusted basis of $10,000, an attached liability of $4,000, and a fair market value of $15,000. In 2004 this land was distributed by Healey, Inc. to its sole shareholder who also assumed the liability. Healey, Inc. will recognize how much of a gain on this distribution?

A. $0
B. $1,000
C. $5,000
D. $10,000

**61.** Arnold acquired 10 shares of Klesco, Inc. stock in 2000 for $50 per share. Klesco, Inc. decided in 2004 to reacquire all of its outstanding stock, which it did for $200 per share. What amount of capital gain in 2004 must Arnold report on the redemption of his Klesco, Inc. stock?

A. $0
B. $500
C. $1,500
D. $2,000

**62.** Sarah contracted with Downing Corporation to perform engineering services in 2004. Her contract specified she would receive $100,000 for the services rendered. Upon completion of her contract, Sarah decided to accept a payment offer from Downing Corporation of $60,000 in cash and 1,000 shares of their stock. At the time she was paid, Downing Corporation stock was trading for $45 per share. If Sarah reported on her 2004 individual return the appropriate amount for her services, what would be her basis in her 1,000 shares of Downing Corporation stock?

A. $0
B. $40,000
C. $45,000
D. None of the above

**63.** Kevin, the 100% owner of an S corporation has an adjusted basis in stock before losses and deductions at the end of 2004 in the amount of $12,000. The 2004 corporate return shows a $20,000 ordinary loss and a $5,000 charitable contribution expense. What are the allowable losses and deductions Kevin may claim on his 2004 tax return?

A. $12,000 ordinary loss and $0 contribution expense
B. $7,000 ordinary loss and $5,000 contribution expense
C. $9,600 ordinary loss and $2,400 contribution expense
D. $12,000 ordinary loss and $5,000 contribution expense

**64.** John Smith died on March 30, 2004. From January 1, 2004 to March 30, 2004, $2,000 in medical bills had been paid by John. The following additional medical bills were incurred and paid by the executor out of John's estate:

1) From March 31, 2004, to December 31, 2004, in the amount of $5,000.
2) From January 1, 2005, to March 30, 2005, in the amount of $5,000.
3) From March 31, 2005, to April 6, 2005, in the amount of $3,000.

The executor of John's estate may elect to deduct what amount of the medical expenses (subject to percentage limitations) on John's final income tax return, Form 1040, if deductions are itemized.

A. $2,000
B. $7,000
C. $12,000
D. $15,000

**65.** An estate has distributable net income of $12,000 consisting of $6,000 in rents, $4,000 in dividends, and $2,000 in taxable interest. Rob and his three sisters are equal beneficiaries of this, their father's estate. A stipulation allocates dividends first to Rob. The personal representative distributed the income under the provisions of the will. In what amount and what character is the distribution to Rob?

A. $0 rents, $4,000 dividend, and $0 taxable interest
B. $0 rents, $3,000 dividend, and $0 taxable interest
C. $1,500 rents, $1,000 dividend, and $500 taxable interest
D. $1,000 rents, $1,000 dividend, and $1,000 taxable interest

**66.** Harry, a single person, died in 2004. The executor does not elect the alternate valuation date. Given the following information, determine the value of Harry's gross estate.

| | FMV at date of death |
|---|---|
| Certificates of deposit | $ 100,000 |
| Mortgage receivable on sale of property | $2,000,000 |
| Paintings and collectibles | $ 500,000 |
| Income tax refund due from 2003 individual tax return | $ 30,000 |
| Household goods and personal effects | $ 20,000 |

A. $2,600,000
B. $2,650,000
C. $2,620,000
D. $2,120,000

**67.** Jack, a single individual, made the following gifts in 2004.

| | |
|---|---|
| Payment directly to sister's qualifying college for tuition | $15,000 |
| Payment directly to sister's qualifying college for room and board | $25,000 |
| Cash to nephew | $10,000 |
| Cash to brother | $30,000 |

What is the gross amount of gifts that Jack must include on his 2004 Form 709, United States Gift Tax Return?

A. $80,000
B. $40,000
C. $65,000
D. $55,000

**68.** George and Helen are husband and wfie. During 2004, George gave $30,000 to his brother and Helen gave $22,000 to her niece. George and Helen both agree to split the gifts they made during the year. What is the taxable amount of gifts, after the annual exclusion, each must report on Form 709?

A. George and Helen each have taxable gifts of $15,000
B. George has a taxable gift of $19,000 and Helen has a taxable gift of $11,000
C. George and Helen each have taxable gifts of $4,000
D. George has a taxable gift of $8,000 and Helen has a taxable gift of zero

**69.** The trust instrument for RJC Trust is silent as to the allocation of capital gains. In 2004 RJC Trust, a simple trust had taxable interest income of $4,000, capital gains of $3,000, paid a fiduciary fee of $625, and had tax exempt interest of $1,000. If the general rule to determine the allocation of the capital transaction is applied, what amount of taxable income is distributed to the beneficiaries in 2004?

A. $6,500
B. $6,375
C. $3,500
D. $3,375

**70.** In 2004, Exeter Trust had taxable interest of $2,000, capital gains of $6,000, and a fiduciary fee of $1,000. The trust instrument allocates capital gains to income. At the end of 2004, the fiduciary retains $3,000 and distributes $4,000. What is the distributable net income (DNI) of Exeter Trust for 2004?

A. $4,000
B. $4,375
C. $7,000
D. $7,375

**71.** The Wilder Trust is a complex trust with a controlling instrument that specifically allocates capital transactions to the corpus of the trust. The instrument goes on to state that $2,000 will be set aside out of gross income for charitable purposes and that $10,000 in income is required to be distributed each year. At the end of 2004 the Wilder Trust had $20,000 in gross income, which included $5,000 in capital gains. If there was no other information to consider, what would the Wilder Trust's income distribution deduction be for 2004?

A. $18,000
B. $13,000
C. $10,000
D. $5,000

**72.** In 2002 Thomas Hatch established the TWH Trust. TWH is a revocable trust. Thomas contributed cash, a significant stock portfolio and tax exempt bonds to this trust when he established it. In 2004 the TWH Trust had income consisting of $5,000 in taxable interest, $3,000 in ordinary dividends, and $2,000 in tax exempt interest. Thomas has never relinquished dominion and control of the TWH Trust. What amount of TWH Trust's income is taxable to Thomas Hatch in 2004?

A. $10,000
B. $8,000
C. $5,000
D. $0

**73.** John is the sole shareholder of Maple Corporation, a qualified S corporation. At January 1, 2004, John has a basis in Maple Corporation of $2,000. The corporation's 2004 tax return shows the following:

| | |
|---|---|
| **Ordinary income** | $10,000 |
| **Interest income** | $ 1,000 |
| **Nondeductible expenses** | $ 2,000 |
| **Real estate rental loss** | $ 5,000 |
| **Section 179 deduction** | $ 1,500 |
| **Distributions to Mr. Maple** | $ 3,000 |

What is John's basis in Maple Corporation at the end of 2004?

A. $0
B. $3,500
C. $4,500
D. $1,500

74. XYZ Corporation is a qualified S corporation. In 2004, its books and records reflected the following transactions:

| | |
|---|---|
| **Business Income** | $ 500,000 |
| **Real estate rental loss** | $ (20,000) |
| **Interest income** | $ 5,000 |
| **Salaries and wages** | $ (50,000) |
| **Depreciation (without Section 179 expense)** | $ (40,000) |
| **Section 179 expense** | $ (10,000) |
| **Other business deductions** | $(300,000) |

What is XYZ's ordinary income (loss) to be reported on its 2004 Form 1120S?

A. $85,000
B. $110,000
C. $115,000
D. $105,000

**75.** Robert owns 100 shares of Oswald, Inc. stock he purchased in 1998 for $10 per share. The 100 shares that Robert owns represent all of the outstanding Oswald, Inc. stock. In 2004, Oswald, Inc. redeems 25 of Robert's shares for $50 per share. Oswald, Inc. had earnings and profits in 2004 of $100,000. Robert must report what amount of capital gain from this 2004 redemption of his Oswald, Inc. stock?

A. $0
B. $1,000
C. $4,000
D. $5,000

**76.** In 1998 Adam purchased 100 shares of Call Corporation stock for $50 per share. During 2004 Call Corporation completely liquidated. After paying its liabilities, Call Corporation distributed to its shareholders $10,000 in cash and appreciated property sold for $90,000. Adam's portion received a liquidating distribution from Call Corporation of $10,000. Adam must report what amount of capital gains income from this distribution?

A. $4,500
B. $5,000
C. $22,500
D. $25,000

**77.** In 2004 Omega, Inc. partially compensates employee Tom Jones with 100 shares of stock. Omega, Inc. stock is selling for $200 per share at the time Tom receives his shares. On December 31, 2004 Tom sells his 100 shares of Omega, Inc. stock for $300 each. How much of an employee compensation expense can Omega, Inc. deduct in 2004 for Tom's 100 shares?

A. $0
B. $10,000
C. $20,000
D. $30,000

**78.** Gold Corporation distributes land with a fair market value of $25,000 to its sole shareholder Donna Gold, who assumes the mortgage on the land of $35,000. This land had an adjusted basis to Gold Corporation of $20,000. Gold Corporation must recognize how much of a gain on this distribution?

A. $5,000
B. $10,000
C. $15,000
D. $25,000

**79.** During the 2004 initial year of operations, Robert wholly owned a limited liability company (LLC) that manufactured air compressors that were sold to retail outlets within the United States. The LLC also owned an airplane that was leased to corporate clients. At the end of 2004, the LLC had net income from the manufacturing activity of $100,000, interest income of $5,000, dividend income of $10,000, and a net loss from the airplane leasing activity of $25,000. If Robert had no other items of income or loss in 2004, he should compute his tax liability on which amount?

A. $75,000
B. $85,000
C. $90,000
D. $115,000

**80.** Waco, Inc. reported net capital gains as follows:

Tax year 2000 at $6,000
Tax year 2002 at $8,000
Tax year 2003 at $1,000

In tax year 2004, Waco, Inc. had $40,000 in long-term capital losses and $25,000 in short-term capital gains. How much net capital loss will be available for Waco, Inc. to carry into tax year 2005?

A. $0
B. $6,000
C. $14,000
D. $15,000

## End of Part 3.