

FEDERAL INCOME TAX - DAY- Prof. Wendy Gerzog

This is a (3) three hour exam.

There are three questions on the exam and the number of points assigned to each question is indicated at the beginning of each question.

The only materials allowed in the examination room are:

- 1. The students' "Selected Sections Federal Income Tax Code and Regulations" book, which may be annotated and tabbed; and**
- 2. A non-programmable calculator.**
- 3. Computers may not be used for this exam.**

I. (25 Points -45 minutes): Write an essay, using four (4) specific examples, citing to appropriate authority (the Code, regulations, case law, and/or article excerpts), to illustrate your analysis of the following question:

a) In your introductory paragraph, explain why the timing of the taxation of income is an important issue. In this first paragraph, you do not need to cite any authorities. You may, however, create an example of your own to illustrate your point. (5 points)

b) In the rest of your essay, discuss **4 examples**, citing to appropriate authority, **(the Code, regulations, case law, and/or article excerpts)**, explain how the issue of timing of the taxation of income is dealt with in our income tax system. (20 points)

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II. (50 points (90 minutes) total- 10 points (18 minutes) each A-E):
Explain fully, citing to specific authority (the Code, regulations, case law, and/or article excerpts), the tax consequences of the following:

- A. A (personal use) car loan secured by your house (the one you live in).
- B. A law firm partner takes associates to lunch at a nearby restaurant, weekly, to discuss business.
- C. As part of a written divorce settlement, Alex pays Barbara \$40,000 a year, to be reduced to \$30,000 when their child graduates from high school, and gives her stock (basis: \$20,000; FMV: \$100,000).
- D. A painting bought by an art collector two years ago for \$10k that Mr. Taxpayer contributed to a museum (a section 501(c)(3) organization) at a time when it was worth \$15k.
- E. Tom, taxpayer, purchases §1231 tangible personal property in 2004 for \$100,000. He properly depreciates the 10-year property using the straight line method of depreciation. In 2006, he sells the property for \$120,000.

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III. (25 points- 45 minutes): Explain fully, using appropriate authority (the Code, regulations, case law, and/or article excerpts), the tax consequences of the following:

A. (10 point (18 minutes) essay) In a paragraph or two, explain the significance of (1) the recent D.C. Circuit *Murphey* case **OR** (2) the U.S. Supreme Court *Hernandez* case. Discuss **only one** of these two cases—you will *not* get additional credit for discussing both.

B. (15 point (27 minutes) problem) Agnes and Bob trade farms in an exchange that qualifies for like-kind treatment under section 1031. Agnes' farm has a basis of \$20,000 and a fair market value of \$140,000; Bob's farm has a basis of \$30,000 and a fair market value of \$110,000. To make the exchange even, Bob pays an extra \$30,000 in cash to Agnes. How much gain, if any do Agnes and Bob recognize on the exchange and what is each party's basis in her or his new farm at the end of the exchange?