IMPORTANT NOTE

As part of your evaluation assignment, you need to answer any one question of your choice.

Please download and use the answering template available on step 1.

Kindly elaborate as much as possible.

1. John holds 10 percent interest in SS Partnership for past three years. His basis in the partnership is $200,000 which includes a $100,000 share of nonrecourse debt that is allocated to him.

If John sells his interest in the partnership to Sally for $400,000, what would be Sally’s tax basis in the partnership interest?

1. $200,000
2. $300,000
3. $400,000
4. $500,000
5. During the previous year, PCM Inc., a C corporation, purchased 16 percent common stock of BDC Inc., another C corporation from its only shareholder. Both PCM and BDC operated in the same industry. During the current year, BDC Inc., distributed $1,000,000 dividends. Assume that PCM’s marginal tax rate is 21%.

What amount of tax will PCM pay on the dividends received from BDC?

1. $210,000
2. $16,800
3. $33,600
4. $160,000
5. This year, Company J reported current earnings and profits of $200,000 and accumulated earnings and profits of $200,000. It distributed $250,000 to its only shareholder, Sam on the last day of the year. Sam’s tax basis in the company is $100,000.

How much of the $250,000 distribution will be treated as dividend to Sam?

1. $250,000
2. $200,000
3. $100,000
4. None of the above
5. July and August a married couple file a joint tax return and they itemize deductions. During the current year, they incurred $3,000 in employment-related miscellaneous itemized deductions and $3,500 of investment interest expense. July and August’s income for the year includes $170,000 salary and $2,000 of interest income.

How much can the couple claim as investment interest expense for the year?

1. $3,000
2. $3,500
3. $2,000
4. $1,500
5. At the end of the current year, Z Inc., an accrual-basis, calendar-year tax payer, accrued and deducted the following bonuses for its employees:

For L, a 30% shareholder - $7,500

For J, a 35% shareholder - $10,000

For H, a 20% shareholder - $12,500

For S, a 0% shareholder - $5,000

If, Z Inc., paid the bonuses on March 1 of the next year, how much of the accrued bonuses can the company deduct in the current year?

1. $5,000
2. $17,500
3. $27,500
4. $35,000