

FINAL EXAMINATION
Fed. INCOME TAX
PROFESSOR G. FLINT

ESSAY
PLEASE READ CAREFULLY

ALL ANSWERS ARE TO BE WRITTEN ON THE BLUE BOOKS PROVIDED WITH THIS EXAMINATION.

There are three questions of equal value (time and percent indicated). The time for completing the examination is three hours.

1. This examination is "open book." You may use your casebook, statutory supplement, and classnotes. Use of calculators is permitted.
2. Be sure to answer the specific question that is asked. Information supplied relating to some unasked question will not increase your score and consumes your time needed to answer the asked questions.
3. If additional facts are necessary to resolve an issue, specify what addition facts you believe to be necessary and why they are significant. You may not make an assumption that changes or contradicts the stated facts.
4. Quality, not quantity, is desired. Think through and briefly outline your answer before you begin to write.
5. Write legibly. Be sure to formulate your answers in complete sentences and paragraphs with proper grammar. Failure to so do will result in an appropriately lower score.
6. Do not seek an interpretation of language in the questions from anyone. If you sense ambiguity or typographical error, correct the shortcoming by shaping the question in a reasonable way and by recording your editorial corrections in your answer.

Under the Honor Code, when you turn in this examination, you affirm that you have neither given, received, nor obtained aid in connection with this examination, nor have you known of any one so doing. If you cannot make this affirmation, you shall note such fact on your examination and must immediately advise the Dean of the reason therefor.

I.
(34% — 1 hour)

You are an associate in the Blue Blood Law Firm, P.C. Otha Albert Gasaway, a firm client, has come into your office. Otha Albert Gasaway, age 55, wants to know how to structure his divorce to minimize the year 2000 tax consequences for his potential divorce. His spouse, age 40, currently is amenable to any reasonable proposal. What are your conclusions. Be sure to give support of Internal Revenue Code sections and relevant case law.

Otha Albert Gasaway is a professor law and earns annually \$90,000, with adjusted gross income of \$72,000. He has four children. Texas law will allow annual child support up to 35% of \$72,000. His wife of ten years has no job, although she is well educated, and may need support payments at least until she finds a decent job. Texas law does not allow court mandated alimony in her situation, but the parties can agree to any contractual alimony they want. The assets of the community consist of a house with a value of \$200,000 and an equity of \$25,000, furniture and personalty of \$50,000, two cars with equity of \$10,000 and \$5,000 respectively, a retirement plan worth \$230,000 of which a spouse under a Qualified Domestic Relations Order ("QDRO") can withdraw 7/12, and a 401(k) plan worth \$70,000 of which a spouse under a QDRO can withdraw all. Otha Albert Gasaway's separate estate consists of an investment fund of \$230,000 with a basis of \$100,000, life insurance with case value of \$0,000, and equity contributions to the house of \$30,000, and to the cars of \$30,000 and \$15,000 respectively. Texas law only requires equal division of community property, but the parties may agree to any split they want. In bankruptcy, property settlement obligations are dischargeable, alimony is not.

II.
(33% — 1 hour)

You are a partner in the Silk Stocking Law Firm, P.C. Bateson Crampton, a chemistry professor and a firm client, has come into your office. Bateson Crampton wants to know what are the year 1999 tax consequences with respect to the following transactions. What are your conclusions? Be sure to give support of Internal Revenue Code sections and relevant case law.

On April 1, 1999, Bateson Crampton sold his Brazos River bottom farm land with a basis of \$100,000. He received in the sale, raw land in the Hill Country, near Interstate 10, plus a tractor with a fair market value of \$10,000 and \$30,000 in cash. The raw land has a Fair Market Value of \$150,000. Before the sale, Bateson Crampton had spent \$30,000 in planting a crop of corn, had leased a pasture out to a neighbor for \$20,000, jointly with his spouse and has a professorial salary of \$90,000.

III.
(33% — 1 hour)

You are a pro-bono volunteer preparing tax returns in El Cenizo, Texas, for walk-ins. One

is Marie Juliet Alfaro, the local ice cream vendor. She wants to know how much tax she owes for the following business. What are your conclusions? Be sure to give support of Internal Revenue Code sections and relevant case law.

Marie Juliet Alfaro is aged 40 and lived the entire year in Texas. She has kept decent records. Her inventory started with about 100 ice cream bars, purchased at \$.25 each. During the year she purchased an additional 20,000 ice cream bars at \$.30 each, and sold 20,000 ice cream bars at \$.50 each. Expenses were \$300 for the coolant in the pushcart.