FINAL EXAMINATION
FEDERAL 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 two 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 and cleansed laptops are 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.
INCOME TAX EXAM

1. (50%--1 ½ hours)

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 wants to know what are the 1998 tax consequences for his business with respect to the following the real estate transactions. What are your conclusions. Be sure to give support of Internal Revenue Code sections and relevant case law.

Otha Albert Gasaway purchased an apartment complex for $320,000 on April 3, 1992. In 1992 the land was worth $45,000 according to the Bexar County Appraisal District. Otha Albert Gasaway paid $100,000 down and borrowed the remaining $220,000 from James Madison Rogers Bank. The interest payment on this loan for the 1998 tax year was $12,500. The units of the complex were rented out. Otha Albert Gasaway had tired of operating the complex, so at the beginning of 1998 he hired Isaac Horatio Flint to manage the complex. Isaac Horatio Flint claimed to be an independent contractor and in management of the complex was not under the direction of Otha Albert Gasaway. Otha Albert Gasaway paid Isaac Horatio Flint 5% of the rentals as the management fee. Isaac Horatio Flint had the responsibility for advertising and arranging for repairs, but Otha Albert Gasaway would pay for repairs. In the 1998 tax year, the rentals aggregated $55,000, while the repairs amounted to $3,000 for labor and $6,000 for dishwashers, air conditioners, and the like. The tenants were required to make security deposits, and in the 1998 tax year these averaged $6,000. Isaac Horatio Flint deposited the security accounts in an interest bearing account (2%) at Bateson Crampton Bank. On October 5, 1998, Otha Albert Gasaway sold the apartment complex for $600,000. In November Otha Albert Gasaway contributed $3,000 to his keough plan (a retirement plan for the self-employed), which Otha Albert Gasaway had established in 1992 for his real estate business.

II. (50%--1 ½ hours)

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 1998 tax consequences with respect to the following the securities transactions. What are your conclusions. Be sure to give support of Internal Revenue Code sections and relevant case law. Assume a federal rate of 5%.

On April 1, 1997, Bateson Crampton bought 100 General Motors 8% corporate bonds for $85,000 plus accrued interest of $2,000. The commission on the trade was $320. On September 30, 1998, these bonds matured and paid Bateson Crampton $100,000. On January 30, 1998, Bateson Crampton purchased for $550 a year’s subscription to Value Line, a stock market advisory service. On April 1, 1998, Bateson Crampton bought 100 shares of Parametric Technology at $36 in his margin account at Stephen Jewell Brokerage, Inc. Bateson Crampton sold the 1000 shares on August 20, 1998, at $9.50. The commission for the purchase was $20 and for the sale was $15. The margin interest charged during the period was $1,200. On June 15, 1998, Parametric Technology paid a dividend of $.25 per share. On May 1, 1998, bought 10 State of Texas
5% bonds for $10,000 from the issuer. These bonds paid interest of $250 on October 30, 1998.