

FINAL EXAMINATION
FEDERAL INCOME TAXATION
PROFESSOR G. FLINT

ESSAY
PLEASE READ CAREFULLY

**ALL ANSWERS ARE TO BE WRITTEN ON THE BLUE BOOKS
PROVIDED WITH THIS EXAM**

There are three questions (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 class notes. Use of calculators and cleansed laptops 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 you time needed to answer the asked questions.
3. If additional facts are necessary to resolve an issue, specify what additional 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 do so will result in an appropriately lower score.
6. Do not seek an interpretation of language in the question 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 correction in your answer.

Under the Honor Code, when you turn in this examination, you affirm that you have neither given, received, not 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 therefore.

NOTE FOR ALL QUESTIONS--For purposes of those items that are adjusted annually by the Treasury Department to reflect inflation, use the numbers on the 2002 tax return provided with the syllabus. Also use the tax rates contained in the version of the Internal Revenue Code contained in the Supplement. Assume a federal rate of 10 %.

I. (50 %--1 ½ hours)

Davis Flint is a doctor client of your law firm, Nailem & Pegem, P.C., that does tax returns and tax planning. Davis Flint has come into your associate's office desiring to find out what this year's tax will be. What is your conclusion. Be sure to give support of Internal Revenue Code sections and relevant case law.

Davis Flint, age 49, makes is paid by Joseph Ferguson Hospital Corporation a salary of \$125,000. Davis Flint is single but lives with his 14-year old daughter. Davis Flint owns a bond issued by San Antonio, Texas, that pays \$2,500 on each February 1 and August 1. He also owns 2000 shares of Robert Lee Motors that paid dividends of \$750 on March 1, June 1, Sept. 1, and Dec. 1 this year. Robert Lee Motors Inc. also paid a 5 % stock dividend on Dec. 1. At that time the price of Robert Lee Motors Inc. was \$55. Davis Flint also sold 1000 shares of Moses Smith Company Inc. on Dec. 1 for \$70,000, paying a commission of \$125. He had purchased these on Jan. 2, 1999, for \$20,000, paying a commission of \$75. To help him select which shares to buy and sell, Davis Flint subscribes to a number of services. He paid \$500 to Isador Peltier Company for charts on 1500 stocks, \$200 to Augustine Rivard News Corporation for daily stock prices, and \$100 to Arunah Hubbell Sports Corporation for articles on sporting events. Davis Flint also attended a shareholder meeting of Ananias Carll Corporation in Orlando Florida. Davis Flint also took his daughter. The air fare for both cost \$1500, the room at the resort hotel cost \$800 for six days, the entrance fees to the amusement parks cost \$200, the food cost \$300, and trinkets cost \$200. Early in the year Davis Flint withdrew \$2000 from his Individual Retirement Account at Mary Jane Irwin Brokerage Inc. in order to pay for pressing bills. Davis Flint has a two-story house on which he paid \$6,000 in taxes to Bexar County, San Antonio, Northside Independent School District, and Alamo Community College District. This house has a mortgage from Francis Burpee National Bank with outstanding balance as of Dec. 30 of \$150,000. The interest paid on this loan during the year was \$9,500. Davis Flint keeps meticulous records. These records indicate that Davis Flint paid a total of \$4,000 in sales taxes to San Antonio. Davis Flint has a car for which he paid \$100 to register with Bexar County. Davis Flint's records also indicate that he paid \$2000 in interest to Elizabeth Thompson Credit Card Company and \$1000 in interest on a loan against his life insurance policies to Lucy Holmes Insurance Company. Davis Flint is a member of the John Hartt Community Center, a religious sponsored club, to which he paid \$57 each month in dues so that he daughter could take tennis lessons, which cost \$250 each month. On Dec. 20, Davis Flint contributed \$3000 to his Individual Retirement Account.

II. (25%--3/4 hour)

You are an associate in the Blue Blood Law Firm, P.C. James Madison Rogers, a firm client, has come into your office. James Madison Rogers is general partner of James Rogers Limited Partnership that invests in real estate. He wants to know the tax implications for the following real estate transactions. What are your conclusions. Be sure to give support of Internal Revenue Code sections and relevant case law.

James Rogers Limited Partnership purchased an apartment complex for \$400,000 on June 3, 2003. In 2003 the land was worth \$50,000 according to the Bexar County Appraisal District. James Rogers Limited Partnership paid \$100,000 down and borrowed \$300,000 from Otha Gasaway National Bank. The interest payment on this loan for 2003 was \$7,000. The units of the complex were rented out. James Madison Rogers managed the complex for a fee of 15 % of the rentals. James Madison Rogers also had the responsibility for advertising and arranging for repairs, but the James Rogers Limited Partnership would pay the advertising and repair bills. For 2003, the apartment brought in rents of \$45,000 and needed repairs costing \$3000 for labor and \$6000 for parts. The tenants had security deposits totaling \$5000 at the Draper Voshell National Bank bearing 2% interest.

III. (25 %--3/4 hour)

You are an associate in the Silk Stocking Law Firm, P.C. Nicholas Pelletier, a firm client, has come into your office. Nicholas Pelletier, age 55, wants to know how to structure his divorce to minimize the year 2004 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.

Nicholas Pelletier is an engineer and earns annually \$100,000, with adjusted gross income of \$75,000. He has four children. Texas law will allow annual child support up to 35 % of \$75,000. His wife of ten years has a teaching job and earns annually \$40,000. 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 \$220,000 and an equity of \$50,000, furniture and personalty of \$70,000, two cars with equity of \$10,000 and \$5,000 respectively, a retirement plan worth \$250,000 of which a spouse under a qualified Domestic Relations Order ("QDRO") can withdraw 7/12, and a 401k plan worth \$90,000 of which a spouse under a QDROI can withdraw all. Nicholas Pelletier's separate estate consists of an investment fund of \$300,000 with a basis of \$50,000, live insurance with cash value of \$30,000 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.