ALL ANSWERS ARE TO BE WRITTEN ON THE BLUE BOOKS PROVIDED WITH THIS EXAM. BE SURE TO NUMBER EACH RESPONSE.

There are two 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 cell-phones, calculators and laptops and other electronic devices is not permitted.

2. Be sure to answer the specific question that is asked. No question asks for a general recitation about a topic from your notes. Information supplied relating to general material from your notes or 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, 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 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 2005 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)

You have graduated from law school and obtained an associate’s position at the Blue Stocking Law Firm, P.C. The following are your particulars for your first taxable year as an associate. Your task is to compute your income tax. Be sure to provide support for everything you do in computing income, taxable income, and the tax. You are single. Your salary is $140,000 per year, but his taxable year you only worked since September 1. You paid interest on your student loans of $1000 and school tuition of $7,000. You paid $5,000 for school room and board. You paid $500 as interest on your credit card. You paid $700 in state sales taxes. You paid $100 for the personal property tax on your car. You paid fees to the state for visiting various parks in the amount of $150. You paid premiums on your law firm’s health plan of $1600 and co-pays of $50. You subscribed to the Wall Street Journal for $450, paid parking fees of $300 in the downtown area near your law firm’s office, purchased a three-piece suit for $2,000 that you use to trial appearances, and spent $500 for paintings to decorate your law office. Your car, which cost $20,000 when purchased three years ago, had expenses of $1200 for insurance, $1100 for gas, and $500 for repairs and maintenance. In October you purchased a new house in the suburbs. This year you paid $4,000 in interest for the mortgage and pro-rated state taxes of $2,000.