

**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. BE SURE TO NUMBER EACH RESPONSE.

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 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 you 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, 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 2007 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 %. For those items not on the 2007 tax return, the "applicable amount" for itemized deductions is \$156,400 and the "threshold amount" for personal exemptions is \$156,400.

Also attached as pages 5 and 6 of this exam are the 2007 Optional State and Certain Local Sales Tax Tables and the 2007 Earned Income Credit Table.

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

Davis Flint expects inflation to be relatively high for the next two decades. As a result Davis Flint wants to put some of his money into precious metals, but rather than buy gold bars, Davis Flint has decided to buy Roman and Medieval coins, both gold and silver. Davis Flint is concerned that choosing this form of investment might impact his taxes.

Davis Flint has entered your associate's office at the Silk Stocking Law Firm, P.C. Davis Flint has a number of concerns. First is the expense of insurance to protect against possible theft or other casualty. Second is the cost of journals and excursions to coin shows to keep abreast of which coins would be the better investment. Third is the conversion of gold coins into silver coins when the ratio of the gold price to the silver price goes down, and vice versa. Fourth should he ultimately sell his coins when inflation subsides, or keep them for his heirs. What is your advice? Be sure to provide support.

II. (50 %--1 ½ hours)

Otha Gasaway is a young associate in the Blue Blood Law Firm, P.C. Otha Gasaway has entered your associate's office to inquire about what his taxes might be. What is your advice? Be sure to provide support.

During the last calendar year, Otha Gasaway made \$160,000 in salary, his investments in municipal bonds earned \$8,000, he paid \$4,000 in gifts to his church, he paid \$7,000 in interest on his mortgage for his house, he paid \$6,000 in property taxes on his house, he paid \$400 for his legal journal subscriptions useful in his practice, and his automobile insurance and gas expenses were \$10,000. Otha Gasaway used his automobile, bought in February of the last calendar year for \$40,000 to ferry clients around town and to negotiate out of town contracts, so his usage for the firm amounted to 60% of the use of the automobile. Otha Gasaway has a crush on Gladys Etta Christian, but he has yet to ask her to marry him.

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

Nicolas Pelletier has entered your office at a VITA location. Nicolas Pelletier wants you to prepare his tax return. What is your advice? Be sure to give support. Nicolas Pelletier made \$12,000 last calendar year as a file organizer for the Joseph Baker National Bank. Joseph Baker National Bank withheld \$500 from Nicolas Pelletier's paycheck. Nicolas Pelletier is unmarried and has no children.

2007 Optional State and Certain Local Sales Tax Tables (Continued)

Income	Exemptions						Exemptions						Exemptions						Exemptions						Exemptions							
	At least	But less than	1	2	3	4	5	Over 5	1	2	3	4	5	Over 5	1	2	3	4	5	Over 5	1	2	3	4	5	Over 5	1	2	3	4	5	Over 5
			Nevada² 6.5000%						New Jersey⁴ 7.0000%						New Mexico 5.0000%						New York 4.0000%						North Carolina 4.2500%					
\$0	\$20,000	242	281	307	327	343	366	252	290	315	334	350	371	223	259	282	300	315	335	144	166	180	191	200	212	171	202	223	239	252	271	
20,000	30,000	398	462	504	536	563	600	416	478	518	549	575	610	367	425	463	493	517	550	238	274	297	315	329	349	278	328	362	388	409	439	
30,000	40,000	479	557	607	646	678	722	501	576	624	662	692	734	442	512	558	593	622	662	287	330	358	379	397	421	334	394	434	465	490	526	
40,000	50,000	551	639	697	742	778	829	576	661	716	759	793	842	507	587	639	680	713	758	330	379	411	435	455	482	383	451	496	531	560	601	
50,000	60,000	616	714	779	829	870	926	643	737	799	847	885	939	566	655	713	758	795	845	369	423	459	486	508	538	427	502	553	592	624	669	
60,000	70,000	676	784	855	909	953	1015	705	808	876	927	969	1028	620	717	781	830	870	926	404	464	502	532	556	590	467	549	605	647	682	731	
70,000	80,000	733	850	927	985	1033	1100	763	875	948	1004	1049	1112	671	776	846	898	942	1001	438	502	544	576	602	638	505	594	654	700	737	790	
80,000	90,000	786	911	994	1057	1108	1180	818	937	1015	1075	1124	1191	719	832	905	962	1008	1072	470	538	583	617	645	684	541	636	699	748	789	845	
90,000	100,000	837	970	1058	1125	1180	1256	870	997	1080	1143	1194	1266	765	884	962	1022	1071	1139	500	572	620	656	686	727	575	676	743	795	838	898	
100,000	120,000	905	1049	1143	1215	1274	1356	939	1075	1164	1232	1288	1365	825	954	1036	1102	1155	1228	539	618	669	708	740	784	620	728	801	857	903	967	
120,000	140,000	999	1157	1261	1341	1406	1496	1034	1184	1282	1356	1417	1501	908	1049	1142	1213	1271	1351	594	690	735	779	814	862	682	801	880	942	992	1062	
140,000	160,000	1082	1253	1366	1452	1522	1619	1118	1279	1385	1465	1531	1621	981	1133	1233	1310	1372	1459	643	735	796	842	879	932	737	865	951	1016	1071	1146	
160,000	180,000	1166	1350	1471	1563	1639	1743	1202	1375	1488	1574	1644	1742	1055	1218	1328	1407	1474	1567	691	790	855	904	945	1001	792	929	1021	1091	1149	1231	
180,000	200,000	1243	1438	1566	1665	1745	1856	1278	1461	1581	1672	1747	1850	1121	1294	1405	1485	1566	1665	735	840	909	961	1004	1064	842	987	1084	1159	1221	1307	
200,000 or more		1633	1888	2055	2183	2288	2433	1663	1899	2053	2170	2266	2399	1456	1680	1826	1938	2030	2157	956	1092	1181	1248	1304	1380	1094	1282	1407	1503	1582	1692	
			North Dakota 5.0000%						Ohio 5.5000%						Oklahoma 4.5000%						Pennsylvania 6.0000%						Rhode Island 7.0000%					
\$0	\$20,000	183	218	242	260	275	296	222	256	279	296	310	330	222	271	305	332	355	386	199	229	248	263	275	292	243	277	298	314	327	346	
20,000	30,000	302	358	396	425	449	483	367	423	460	489	512	544	349	426	479	520	555	604	335	384	416	441	461	489	406	460	495	522	544	574	
30,000	40,000	364	431	476	511	540	581	442	511	555	589	617	658	414	505	567	616	656	714	406	466	505	535	559	593	491	556	593	631	657	693	
40,000	50,000	418	495	547	587	620	666	509	587	638	677	709	753	471	573	643	698	744	809	469	538	583	617	645	684	565	640	689	726	756	797	
50,000	60,000	468	553	611	655	692	743	569	656	713	756	798	841	521	634	711	772	822	894	526	603	653	692	723	766	633	717	771	812	846	892	
60,000	70,000	513	607	670	718	758	814	624	719	781	829	868	922	568	690	773	839	894	972	579	663	718	760	795	842	695	787	846	891	928	978	
70,000	80,000	557	658	726	778	822	882	676	779	847	898	940	995	612	743	833	903	962	1045	629	721	780	826	863	914	754	854	918	967	1006	1061	
80,000	90,000	598	706	778	834	881	945	725	836	908	963	1008	1071	653	792	888	962	1025	1113	676	774	838	887	927	982	809	916	985	1037	1080	1138	
90,000	100,000	637	752	829	888	937	1006	772	889	966	1025	1073	1139	692	839	940	1019	1085	1178	721	825	893	945	988	1046	862	976	1049	1104	1150	1212	
100,000	120,000	689	812	895	959	1012	1086	834	960	1043	1106	1158	1229	744	901	1009	1093	1164	1264	781	893	967	1023	1068	1132	932	1054	1134	1193	1242	1309	
120,000	140,000	761	897	988	1058	1116	1197	920	1059	1150	1219	1276	1355	816	987	1104	1196	1273	1381	863	987	1068	1130	1180	1250	1029	1164	1251	1317	1370	1444	
140,000	160,000	825	972	1070	1145	1208	1295	996	1146	1244	1319	1380	1465	879	1062	1188	1286	1369	1485	936	1070	1158	1225	1279	1354	1114	1260	1354	1425	1483	1563	
160,000	180,000	890	1047	1152	1233	1308	1394	1072	1233	1338	1419	1484	1575	942	1138	1272	1377	1464	1588	1010	1154	1248	1320	1378	1459	1200	1357	1458	1534	1596	1682	
180,000	200,000	948	1115	1227	1313	1385	1484	1141	1312	1424	1509	1579	1676	999	1206	1348	1459	1551	1682	1077	1230	1330	1406	1468	1554	1278	1444	1552	1633	1699	1790	
200,000 or more		1250	1467	1611	1723	1815	1944	1491	1713	1858	1969	2059	2185	1291	1553	1732	1872	1989	2154	1417	1616	1747	1846	1927	2038	1674	1890	2030	2136	2221	2339	
			South Carolina³ 5.5863%						South Dakota 4.0000%						Tennessee 7.0000%						Texas 6.2500%						Utah 4.2500%					
\$0	\$20,000	243	291	323	348	369	399	222	271	306	333	356	388	358	438	493	537	573	625	252	298	328	352	371	398	226	270	300	323	342	368	
20,000	30,000	393	469	521	560	594	640	343	419	471	512	547	595	557	679	763	829	884	962	414	487	537	575	606	650	362	431	477	513	543	585	
30,000	40,000	471	561	622	670	709	764	405	493	554	602	642	699	658	801	899	976	1040	1132	498	586	645	691	728	781	432	513	568	611	646	696	
40,000	50,000	538	640	710	764	808	871	457	556	625	678	723	787	745	905	1015	1101	1174	1276	571	672	739	791	834	894	492	584	647	695	735	791	
50,000	60,000	598	712	789	847	898	968	504	613	688	747	796	866	822	998	1119	1213	1293	1405	637	749	824	881	929	995	546	648	717	770	815	876	
60,000	70,000	654	778	862	927	980	1056	547	664	745	809	862	937	893	1083	1213	1315	1401	1522	698	820	901	964	1016	1089	596	707	781	830	887	955	
70,000	80,000	706	840	930	1000	1058	1140	587	712	799	867	924	1004	959	1163	1302	1412	1503	1633	755	887	975	1043	1099	1178	643	762	842	905	956	1028	
80,000	90,000	755	8																													

2007 Earned Income Credit (EIC) Table—Continued

(Caution: This is not a tax table.)

If the amount you are looking up from the worksheet is—		And your filing status is—						If the amount you are looking up from the worksheet is—		And your filing status is—					
		Single, head of household, or qualifying widow(er) and you have—			Married filing jointly and you have—					Single, head of household, or qualifying widow(er) and you have—			Married filing jointly and you have—		
		No children	One child	Two children	No children	One child	Two children			No children	One child	Two children	No children	One child	Two children
At least	But less than	Your credit is—			Your credit is—			At least	But less than	Your credit is—			Your credit is—		
11,000	11,050	120	2,853	4,410	273	2,853	4,410	13,500	13,550	0	2,853	4,716	81	2,853	4,716
11,050	11,100	116	2,853	4,430	269	2,853	4,430	13,550	13,600	0	2,853	4,716	78	2,853	4,716
11,100	11,150	112	2,853	4,450	265	2,853	4,450	13,600	13,650	0	2,853	4,716	74	2,853	4,716
11,150	11,200	108	2,853	4,470	261	2,853	4,470	13,650	13,700	0	2,853	4,716	70	2,853	4,716
11,200	11,250	104	2,853	4,490	257	2,853	4,490	13,700	13,750	0	2,853	4,716	66	2,853	4,716
11,250	11,300	101	2,853	4,510	254	2,853	4,510	13,750	13,800	0	2,853	4,716	62	2,853	4,716
11,300	11,350	97	2,853	4,530	250	2,853	4,530	13,800	13,850	0	2,853	4,716	59	2,853	4,716
11,350	11,400	93	2,853	4,550	246	2,853	4,550	13,850	13,900	0	2,853	4,716	55	2,853	4,716
11,400	11,450	89	2,853	4,570	242	2,853	4,570	13,900	13,950	0	2,853	4,716	51	2,853	4,716
11,450	11,500	85	2,853	4,590	238	2,853	4,590	13,950	14,000	0	2,853	4,716	47	2,853	4,716
11,500	11,550	81	2,853	4,610	234	2,853	4,610	14,000	14,050	0	2,853	4,716	43	2,853	4,716
11,550	11,600	78	2,853	4,630	231	2,853	4,630	14,050	14,100	0	2,853	4,716	39	2,853	4,716
11,600	11,650	74	2,853	4,650	227	2,853	4,650	14,100	14,150	0	2,853	4,716	36	2,853	4,716
11,650	11,700	70	2,853	4,670	223	2,853	4,670	14,150	14,200	0	2,853	4,716	32	2,853	4,716
11,700	11,750	66	2,853	4,690	219	2,853	4,690	14,200	14,250	0	2,853	4,716	28	2,853	4,716
11,750	11,800	62	2,853	4,716	215	2,853	4,716	14,250	14,300	0	2,853	4,716	24	2,853	4,716
11,800	11,850	59	2,853	4,716	212	2,853	4,716	14,300	14,350	0	2,853	4,716	20	2,853	4,716
11,850	11,900	55	2,853	4,716	208	2,853	4,716	14,350	14,400	0	2,853	4,716	16	2,853	4,716
11,900	11,950	51	2,853	4,716	204	2,853	4,716	14,400	14,450	0	2,853	4,716	13	2,853	4,716
11,950	12,000	47	2,853	4,716	200	2,853	4,716	14,450	14,500	0	2,853	4,716	9	2,853	4,716
12,000	12,050	43	2,853	4,716	196	2,853	4,716	14,500	14,550	0	2,853	4,716	5	2,853	4,716
12,050	12,100	39	2,853	4,716	192	2,853	4,716	14,550	14,600	0	2,853	4,716	0	2,853	4,716
12,100	12,150	36	2,853	4,716	189	2,853	4,716	14,600	14,650	0	2,853	4,716	0	2,853	4,716
12,150	12,200	32	2,853	4,716	185	2,853	4,716	14,650	14,700	0	2,853	4,716	0	2,853	4,716
12,200	12,250	28	2,853	4,716	181	2,853	4,716	14,700	14,750	0	2,853	4,716	0	2,853	4,716
12,250	12,300	24	2,853	4,716	177	2,853	4,716	14,750	14,800	0	2,853	4,716	0	2,853	4,716
12,300	12,350	20	2,853	4,716	173	2,853	4,716	14,800	14,850	0	2,853	4,716	0	2,853	4,716
12,350	12,400	16	2,853	4,716	169	2,853	4,716	14,850	14,900	0	2,853	4,716	0	2,853	4,716
12,400	12,450	13	2,853	4,716	166	2,853	4,716	14,900	14,950	0	2,853	4,716	0	2,853	4,716
12,450	12,500	9	2,853	4,716	162	2,853	4,716	14,950	15,000	0	2,853	4,716	0	2,853	4,716
12,500	12,550	5	2,853	4,716	158	2,853	4,716	15,000	15,050	0	2,853	4,716	0	2,853	4,716
12,550	12,600	0	2,853	4,716	154	2,853	4,716	15,050	15,100	0	2,853	4,716	0	2,853	4,716
12,600	12,650	0	2,853	4,716	150	2,853	4,716	15,100	15,150	0	2,853	4,716	0	2,853	4,716
12,650	12,700	0	2,853	4,716	146	2,853	4,716	15,150	15,200	0	2,853	4,716	0	2,853	4,716
12,700	12,750	0	2,853	4,716	143	2,853	4,716	15,200	15,250	0	2,853	4,716	0	2,853	4,716
12,750	12,800	0	2,853	4,716	139	2,853	4,716	15,250	15,300	0	2,853	4,716	0	2,853	4,716
12,800	12,850	0	2,853	4,716	135	2,853	4,716	15,300	15,350	0	2,853	4,716	0	2,853	4,716
12,850	12,900	0	2,853	4,716	131	2,853	4,716	15,350	15,400	0	2,853	4,716	0	2,853	4,716
12,900	12,950	0	2,853	4,716	127	2,853	4,716	15,400	15,450	0	2,847	4,709	0	2,853	4,716
12,950	13,000	0	2,853	4,716	124	2,853	4,716	15,450	15,500	0	2,839	4,698	0	2,853	4,716
13,000	13,050	0	2,853	4,716	120	2,853	4,716	15,500	15,550	0	2,831	4,688	0	2,853	4,716
13,050	13,100	0	2,853	4,716	116	2,853	4,716	15,550	15,600	0	2,823	4,677	0	2,853	4,716
13,100	13,150	0	2,853	4,716	112	2,853	4,716	15,600	15,650	0	2,815	4,667	0	2,853	4,716
13,150	13,200	0	2,853	4,716	108	2,853	4,716	15,650	15,700	0	2,807	4,656	0	2,853	4,716
13,200	13,250	0	2,853	4,716	104	2,853	4,716	15,700	15,750	0	2,799	4,645	0	2,853	4,716
13,250	13,300	0	2,853	4,716	101	2,853	4,716	15,750	15,800	0	2,791	4,635	0	2,853	4,716
13,300	13,350	0	2,853	4,716	97	2,853	4,716	15,800	15,850	0	2,783	4,624	0	2,853	4,716
13,350	13,400	0	2,853	4,716	93	2,853	4,716	15,850	15,900	0	2,775	4,614	0	2,853	4,716
13,400	13,450	0	2,853	4,716	89	2,853	4,716	15,900	15,950	0	2,767	4,603	0	2,853	4,716
13,450	13,500	0	2,853	4,716	85	2,853	4,716	15,950	16,000	0	2,759	4,593	0	2,853	4,716

(Continued on page 54)

*If the amount you are looking up from the worksheet is at least \$12,550 (\$14,550 if married filing jointly) but less than \$12,590 (\$14,590 if married filing jointly), your credit is \$2. Otherwise, you cannot take the credit.