

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 2001 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. (33.3 %--1 hour)

Arunah Hubbell purchased an apartment complex on September 1, 2001. The price was not fixed. Instead Arunah Hubbell executed four promissory notes, each for \$100,000 and bearing 7 % interest. The first was due on August 31, 2002. The other notes are due on the successive August 31s. Arunah Hubbell is considering whether to donate \$10,000 to St. Matthews Catholic Church, if it does not seriously impact his cash flow.

For the calendar year 2002, Arunah Hubbell will collect annual rents of \$40,000 from the apartment complex. He hires a part-time maintenance person for \$10,000 for the apartment complex. The materials supplied in repairs for the apartment complex so far have been \$5,000. Arunah Hubbell is married to Ruth Marie Smith and has four children. Arunah Hubbell expects a salary from his employer of \$100,000. Ruth Marie Smith also works and expects a salary of \$30,000. They are purchasing a home and pay \$12,000 in mortgage interest on the home and \$6,000 in local taxes. Their withholding taxes will amount to \$35,000.

Arunah Hubbell has entered your associate's office at Blue Blood Law Firm, P.C. You are tax counsel for Arunah Hubbell. Arunah Hubbell wants you to estimate his taxes so he can decide whether to make the contribution or not. Arunah Hubbell has a savings account with \$12,000. Can he comfortably make the contribution? Be sure to give support of Internal Revenue Code sections and relevant case law.

II. (33.3%--1 hour)

Isidor Peltier is retired. Isidor Peltier receives each year \$10,000 in social security and \$100,000 of interest from bonds he inherited from his parents. The bonds are general obligation bonds of the State of Texas.

You are a pro-bono volunteer at the Julia Rivard Volunteer Income Tax Assistance Center. Isidor Peltier has come to you to complete his tax return. What is tax. Be sure to give support of Internal Revenue Code sections and relevant case law.

III. (33.3 %--1 hour)

Otha Gasaway buys and sells wheat futures on the Chicago Board of Trade through the computer. Otha Gasaway is also registered as a dealer with the Commodities Futures Trading Commission. Otha Gasaway sells and buys both for customers and for speculation in his own account, for which he keeps separate records. Otha Gasaway presently works for a commission at Rogers & Lynch, Inc., a commodities firm. Otha

Gasaway wants to break away from the firm and go into business for himself. One of his concerns is whether his cash flow position would be better or worse.

During a calendar year, Otha Gasaway ordinarily makes purchases of \$7,000,000 and sales of \$10,000,000 for his clients for which he is paid a .5% commission, both on sales and purchases. His company gets an additional .5%, which Otha Gasaway intends to remit to the customers to win their loyalty to him. In his own account he generally makes purchases of \$500,000 and sales of \$550,000. Rogers & Lynch, Inc. provide him with free news services costing about \$10,000 that he will have to pay if he makes the move. He also pays about \$1000 per month in gas and \$3000 in parking at Rogers & Lynch, Inc. The utilities at his \$100,000 house with 1500 square feet are about \$4000. He plans to use one of the bedrooms as his office. It has 300 square feet. Otha Gasaway is single and generally has itemized deductions of \$10,000.

Otha Gasaway has entered your associate's office at Silk Stocking Law Firm, P.C. You are tax counsel for Otha Gasaway. Otha Gasaway wants you to estimate the impact of this career change on his taxes so he can decide whether to make the move or not. What is your recommendation? Be sure to give support of Internal Revenue Code sections and relevant case law.