

FINAL EXAMINATION
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 three 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 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 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.

I.

(33 1/3% — 1 hour)

You are a young lawyer hunting for a job. You have two offers. One is with Otha Albert Gasaway and Associates, P.C., as an associate. The other is with Isaac Horatio Flint Incorporated as corporate counsel. Which of the two offers is the better from the economic viewpoint? Provide your reasoning. Be sure to give support of Internal Revenue Code sections and relevant case law. Assume you are single, rent an apartment, and contribute \$50 per week to your church.

Otha Albert Gasaway and Associates, P.C. intends to pay a starting salary of \$80,000. The firm is relatively new and so does not provide any fringe benefits. In contrast Isaac Horatio Flint Incorporated is a software company. Their starting salary is \$70,000 but they have several fringe benefits. The company pays \$100 per month towards medical insurance, which for a single person costs \$250 per month. Employees also may purchase disability insurance for \$30 per month. The company has a thrift plan. The employee pays 5% of his salary and the company matches it with 7%. The thrift plan also has a 401k feature that allows the employee to contribute an additional amount so that the employee contributions amount to \$10,000. The company also has an incentive stock option plan. Historically, the company counsel has received 1000 stock options each year typically at the calendar year-end, and the price of the company stock has increased annually by 20%. The company stock currently trades on NASDAQ at \$50.

II

(33 1/3%--1 hours)

You are a partner in the Silk Stocking Law Firm, P.C. You also have a partnership with two of your law partners, Bateson Crampton and Moses Smith, called B & M Partners. B & M Partners owns and operates an apartment complex. Bateson Crampton and Moses Smith, who own 30% and 40% of B & M Partners respectively, have approached you to determine how much tax they will owe in taxes for 1999 on income from B & M Partners. Bateson Crampton is in the 28% marginal tax bracket and Moses Smith in the 31% marginal tax bracket. You are the partner that prepares the partnership tax forms. What is your answer. Be sure to give support of Internal Revenue Code sections and relevant case law.

B & M Partners purchased the apartment complex for \$325,000 on May 1, 1994. In 1994 the land was worth \$30,000 according to the Bexar County Appraisal District. B & M Partners paid \$50,000 down and borrowed the remaining \$230,000 from Stephen Jewell Bank. The interest payment on this loan for the 1999 tax year was \$15,000, while state property taxes were \$5,000. In 1994 B & M Partners hired Joseph Baker to manage the complex. The contract between B & M Partners and Joseph Baker provides 6% of the rentals as the management fee and allows Joseph Baker

to make arrangements for repairs but B & M Partners pays for repairs. In 1999 the rentals aggregated \$50,000, while repairs amounted to \$4000 for labor and \$5000 for dishwashers, air conditioners, and the like, all of which have a life expectancy of about 8 years. The tenants are required to make security deposits, and in the 1999 these averaged \$5,000. Joseph Baker deposited these accounts in an interest bearing account (4%) at Stephen Jewell Bank.

III

(33 1/3%--1 hours)

You are a staff attorney in the Bush Campaign. George Bush desires to eliminate the marriage tax penalty.

Explain what the marriage tax penalty is. For this purpose assume husband makes \$150,000 and wife makes \$50,000, no dependent kids, and itemized deductions of \$20,000.

What are your recommendations to achieve this goal. Be sure to provide support of Internal Revenue Code sections and relevant case law.