UNIVERSITY OF FLORIDA
COLLEGE OF LAW
FINAL EXAMINATION
INCOME TAX
SPRING SEMESTER 1995
PROFESSOR WILLIS

DATE: MAY 3, 1995
TIME: 2:00 p.m.
TIME LIMIT: 3-1/2 HOURS

INSTRUCTIONS

1. Any written materials you believe are helpful are allowed.

2. Write your exam number on the top of this page.

3. You should attempt to answer the questions in the space provided. You may use additional space; however, you should not need to.

4. Your answers may be written in ink or pencil or typed.

5. Unless otherwise indicated, all parties are on the cash method of accounting and use the calendar year. All parties are unrelated unless otherwise indicated.

6. If you feel you need further facts, indicate what sort of facts you would want to know and what difference they would make in your answer.

7. Count the pages of this booklet. There should be 8 remaining pages.

8. Assume that the Internal revenue code, as in existence on January 1, 1995 was in existence at all relevant times (i.e. without considering any amendments which were enacted after that date even if there are retroactive).

9. Plan your answer before you write in the space provided. Part of the test considers whether you can present an organized, logical, coherent answer. You need not use complete sentences; however, you should write clearly.

10. Write legibly!

11. Relax.
QUESTION ONE

Taxpayer purchased a crane which he used in the construction of a building for his own business use. The crane cost $250,000 and was purchased on March 1, 1993. He expects to complete the construction of the building on December 31, 1995, at which point he will likely want to sell the crane.

For this problem, you should assume that the crane has a class-life of seven years and a salvage value of $10,000, and is used exclusively for business purposes.

a. Assuming Taxpayer deducted the maximum permissible correct amount of depreciation attributable to the crane in 1993, how much would he have actually deducted on his tax return for that year for depreciation on the crane?

$ ______________________________

On what case authority did you base your answer?
________________________________________

Explain, if you care to:

b. Assuming Taxpayer used the maximum permissible depreciation method for the crane for the years 1993, 1994, and 1995, what would be his basis in the crane (assuming he made no additions to it and it suffered no casualties) on December 31, 1995?

$ ______________________________

Explain, if you care to:

c. Taxpayer wants to know the character of any gain or loss attributable to his anticipated sale of the crane on January 1, 1996. Naturally, your answer must be function of the possible sale price and expected adjusted basis of the crane (as you determined above). Explain (using numbers and words) how different possible sales prices will result in differing characters of gain or loss.

QUESTION TWO
Taxpayer's uncle inherited Whiteacre (a residential lot) in 1950 from his father, who had purchased it in 1930 for $500. On the date of death (and six months thereafter) it had a fair market value of $5,000. The uncle (who is married) gave the lot to Taxpayer on July 1, 1990. On that date the lot had a fair market value of $20,000.

On July 1, 1993, when the lot was worth $50,000, Taxpayer borrowed $30,000 from Bank, providing a mortgage on the lot as security for the debt. Taxpayer used the full loan proceeds to purchase a new car.

On July 1, 1994, the city added curbing and sidewalks in the neighborhood containing the lot. The city assessed Taxpayer, as the property owner, $5,000 as his share of the cost of improvements.

Also on July 1, 1994, Taxpayer began construction of his new primary residence on the lot. The construction was completed on December 1, 1994, at a cost of $200,000. Taxpayer moved into the house on that date. On February 1, 1995, a strong wind blew a tree down onto the house causing $50,000 damage. Taxpayer's insurance company paid his only $45,000 for the loss (after subtracting the policy deductible). Taxpayer spent $50,000 in April, 1995, repairing the house.

What is Taxpayer's basis in the house on May 3, 1995?

$ ________________________

Explain, if you care to:

If Taxpayer were to sell the house on May 3, 1995, for $250,000, what would be the amount and character of his gain or loss, if any?

$ ________________________

Character: ___________________________

Explain, if you care to:
If Taxpayer uses one room of the house exclusively for office space in managing his various investments, may he deduct any amount attributable to the house for depreciation?

YES   NO

What is the authority for your answer?

Explain your answer:

QUESTION THREE

Taxpayer received $50,000 as a bonus in 1993. In 1994 he learned that his employer computed the amount incorrectly and agreed to restore $45,000. During 1994 he restored $25,000 and during 1995 he has restored the remaining $20,000.

In 1993 his taxable income, including the bonus, was $100,000, including $15,000 of net long term capital gains.

In 1994 his taxable income, not counting the restoration, was $40,000, including $10,000 of net long term capital gains.

In 1995 his taxable income, not counting the restoration, will be $40,000, including $3000 of net long term capital gains.

What is taxpayer's tax due for 1994 and 1995?
1994: $________________
1995: $________________

Show your computations:

QUESTION FOUR

Pursuant to a marital settlement agreement (dated today) Taxpayer agreed to transfer to his ex-wife the following amounts.

1. $100,000 due upon signing of the agreement.

2. $2,000 per month for 110 months beginning today.

3. $1000 per month until their child (who is six - today is her birthday) reaches the age of nineteen, beginning today.

4. The mineral rights in 640 acres of land he inherited from his father in 1960. At the time of his father's death, the land (including the minerals) was worth $50,000. Today, the land is worth $1,000,000, of which 40% is attributable to the minerals. The transfer must occur by June 11995.

Taxpayer's obligation to make the transfers listed in "2" ends on the death of his ex-wife or on her
remarriage. His obligation to make the transfers listed in “3” ends on the death of his ex-wife, but not on her re-marriage.

The marital settlement agreement is silent as to the tax consequences of the payments.

Assuming taxpayer makes all payments when due, what are the tax consequences to Taxpayer and to his ex-wife?