Instructions

1. You may consult any written (including electronic) materials you consider helpful.

2. Unless otherwise indicated, all parties are on the cash method of accounting and use the calendar year. All parties are single and not heads of households, unless otherwise indicated.

3. Some questions have space provided for a short answer, such as a dollar amount or a single word (e.g., correct or incorrect). You must write an appropriate answer in such spaces. For example, if a question calls for a dollar amount, anything other than arabic numerals stated in terms of U.S. dollars will be incorrect. You may thereafter add any explanatory information you wish.

4. This exam is due by 12:30 p.m. If you are picking up the test, you may take an extra 30 minutes for travel time.

5. Place your exam number or other form of identification at the top of this page.

6. I will answer no questions until you turn in your exam.

7. Some questions may lack essential facts. In such a case, clearly state the question you would ask your client to elicit the need fact. Then assume your client responds with “What difference would it make?” and answer your client’s question.

8. **If you take this test electronically**, follow the instructions found at:

   [http://nersp.nerdc.ufl.edu/~acadian/emailexams/emailxam.htm](http://nersp.nerdc.ufl.edu/~acadian/emailexams/emailxam.htm)
QUESTION ONE

A's wife, W, is deceased. During their marriage – in 1987 - W gave $10,000 to a private foundation, PF. As of the end of 1987, PF had received a total of $300,000 in contributions during its existence. A has never made a contribution to PF. A's daughter, D, is married to H. H owns 25% of HC Corporation. His law partner in the HP partnership – P – owned the remaining 75% of HC. H's mother, M, is a foundation manager of PF2, a private operating foundation. M’s daughter – MD – owns 25% of LLC Corporation. MD and H are half-brother and sister and have substantial family hostility.

With respect to PF, list any disqualified persons (from among the above persons). Cite the applicable provision making the person disqualified (e.g., 4946(a)(1)(A) for a substantial contributor).

QUESTION TWO

Client has a contribution base of $300,000 in every year. He gave capital gain real property with a basis of $10,000 and a fair market value of $100,000 to a charity described in 509(a)(2) in 2003. He gave $50,000 cash to a private operating foundation in 2004. He gave capital gain real property with a basis of 100,000 and a fair market value of $125,000 to a private foundation not described in section 170(b)(1)(E) in 2004. How much do you recommend he deduct as a charitable contribution for 2004?

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QUESTION THREE

You formed TEOPF, a private foundation, today by filing its articles of incorporation with the appropriate official. When is the last date you can file a FORM 1023 such that exempt status will relate back to today. Do not consider any period for which you must file for a waiver of any deadlines.

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QUESTION FOUR

Metropolitan Science Museum is exempt under section 501(c)(3) as an educational organization. It is not described in section 170(b)(1)(A)(iii). The entity borrowed $3,000,000 to build a planetarium, which cost a total of $10,000,000. Included in the facility are a 500 seat auditorium and sophisticated audio/video equipment. The facility is two years old. The debt is currently $2,500,000. The organization would like to rent the equipment and auditorium to a newly formed church which as yet lacks its own place of worship. The church will pay $2000 per Sunday for the use of the facility, including the equipment. Approximately how much, if any, of the rent income will be taxable to the museum under the following assumptions:
A. Assume MSM is a private foundation.
B. Assume MSM is a public charity.
C. Assume church is a wholly owned subsidiary of MSM.

QUESTION FIVE

Provide an example of a section 509(a)(3) entity that satisfies the flush language of 509(a).