Supplemental Homework for Chapter 4-Part-2

Introduction – Combinations of Questions

1. Which of the following taxes is not reported on a schedule attached to the annual income tax return?
   a. Alternative Minimum Tax
   b. Accumulated Earnings Tax
   c. Personal Holding Company Tax

2. [§533] Which of these taxes is affected by the motives of management for its decisions regarding dividend policy?
   a. Alternative Minimum Tax
   b. Accumulated Earnings Tax
   c. Personal Holding Company Tax
   d. All of these

3. [§541, 543] Sue owned stocks that pay dividends of $100,000 per year. Sue put those stocks in a newly organized SueCorp owned by Sue. This was done to reduce the tax burden on the dividends. SueCorp does not pay dividends. SueCorp reported the following:

| Dividends from domestic taxable corporations | $100,000 |
| Dividends received deduction (Owns 25% of stock) | -80,000 |
| Taxable Income | 20,000 |
| Corporate income tax rate | 15% |
| Corporate income tax | $3,000 |

The corporation is subject to:
   a. Accumulated earnings tax
   b. Personal holding company tax

4. [§541, 543] Alston Corp. has three stockholders and derives all of its income from investments in stock and securities. Alston regularly distributes 51% of its taxable income as dividends to its stockholders. Alston Corporation is a (an)
   a. Corporation subject to accumulated earnings tax
   b. Exempt organization
   c. Regulated investment company.
   d. Personal holding company

5. [§533, 547] When you determine (or the IRS determines) that a tax is due, you often wish you could do something to avoid having to pay that tax. Which of the following is least likely to be avoided after the tax liability is computed?
   a. Alternative Minimum Tax
   b. Accumulated Earnings Tax
   c. Personal Holding Company Tax

Determine whether a corporation is a personal holding company (PHC).

6. Cromwell Investors, Inc. has ten unrelated equal stockholders. For the current year, Cromwell's income comprised the following:

| Dividends from domestic taxable corporations | $10,000 |
| Interest earned on notes receivable | 6,000 |
| Net rental income | 3,000 |

The corporation paid no dividends during the taxable year. Deductible expenses totaled $4,000 for the year. Cromwell's liability for PHC tax for the year will be based on undistributed personal holding company income of:
   a. $0
   b. $3,500
   c. $6,500
   d. $15,000

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7. A corporation is classified as a personal holding company.

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income per books- before income taxes</td>
<td>$325,000</td>
</tr>
<tr>
<td>Dividends-received deduction</td>
<td>25,000</td>
</tr>
<tr>
<td>Taxable income</td>
<td>300,000</td>
</tr>
<tr>
<td>Regular federal income tax liability</td>
<td>100,250</td>
</tr>
<tr>
<td>Pays dividends to its shareholders</td>
<td>19,000</td>
</tr>
</tbody>
</table>

The personal holding company tax for the year is:

- $80,448
- $62,930
- $57,610
- $41,150
- Other

8. A corporation reported taxable income of $140,000 for the year.

The company has provided the following information:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividends received deduction</td>
<td>37,000</td>
</tr>
<tr>
<td>Contributions in excess of 10%</td>
<td>4,000</td>
</tr>
<tr>
<td>Federal income taxes for the year</td>
<td>37,850</td>
</tr>
<tr>
<td>Dividends paid in the year</td>
<td>12,000</td>
</tr>
</tbody>
</table>

No additional dividends were paid. What is the UPHCI for the year?

- Less than $100,000
- More than $100,000, but not more than $125,000
- More than $125,000, but not more than $150,000
- More than $150,000, but not more than $200,000
- More than $200,000

9. A corporation is classified as a personal holding company. Its taxable income is $300,000 and its regular federal income tax liability is $100,250 for the current year.

The company claims a $25,000 dividends-received deduction and pays $19,000 dividends to its shareholders. The personal holding company tax for the current year is

- $41,150
- $62,930
- $57,610
- $50,610
- Other

10. The accumulated earnings tax can be imposed

- On both partnerships and corporations.
- On companies that make distributions in excess of accumulated earnings.
- On personal holding companies.
- Regardless of the number of stockholders in a corporation. (CPA)
11. Atlanta Corporation (a construction corporation) is accumulating a significant amount of earnings and profits. Although the corporation is closely held, it is not a personal holding company. The following facts relate to the tax year:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividend income from a qualified domestic corporation (less than 20% owned)</td>
<td>$30,000</td>
</tr>
<tr>
<td>Taxable income</td>
<td>$450,000</td>
</tr>
<tr>
<td>Federal income tax</td>
<td>$153,000</td>
</tr>
<tr>
<td>Dividends paid in current year</td>
<td>$119,000</td>
</tr>
<tr>
<td>Accumulated earnings credit</td>
<td>$13,000</td>
</tr>
</tbody>
</table>

What is **Accumulated Taxable Income** on which the accumulated earnings tax is based?

a. Less than $175,000  

b. More than $175,000, but not more than $180,000  

c. More than $180,000, but not more than $185,000  

d. More than $185,000, but not more than $190,000  

e. More than $190,000  

12. A manufacturing corporation has beginning balance of Accumulated Earnings and Profits of $125,000. During the current year, the corporation has current earnings and profits (and adjusted taxable income) of $400,000. The business has business needs for retaining $100,000 of the current earnings.

What is the accumulated earnings credit for the current year?

a. $0.  

b. $25,000  

c. $100,000  

d. $125,000.  

e. Other  

13. Dart Corp., a calendar-year domestic C corporation, is not a personal holding company. For purposes of the accumulated earnings tax, Dart has accumulated taxable income for the current year.

Which step(s) can Dart take to eliminate or reduce any accumulated earnings tax?

I. Demonstrate that the “reasonable needs" of its business require the retention of all or part of the current year accumulated taxable income  
II. Pay dividends by March 15 by the following year.  

a. I only.  

b. II only.  

c. Both I and II  

d. Neither I nor II  

14. The accumulated earnings tax does not apply to

a. Corporations that have more than 100 stockholders.  

b. Personal holding companies.  

c. Corporations filing consolidated returns.  

d. Corporations that have more than one class of stock.  

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