

ID # _____

Individual Taxation

Massachusetts School of Law- Fall 2008
Professor McLellan

MIDTERM EXAM

PLEASE READ THE INSTRUCTIONS CAREFULLY BEFORE BEGINNING THE EXAM.

Instructions:

1. This exam makes up 30% of your class grade for the semester.
2. Write your id number, for identification on the top of this page of the exam.
3. You have 1 hour and 20 minutes to complete this exam. As a guideline, you may spend 7 minutes per question and then you will have 24 minutes left to review your answers.
4. This is an open book exam. You may use your text book, the income tax code, and your notes. You may not use commercial outlines. You may use a calculator.
5. This exam is a short-answer exam; most questions require a one word or very short response. Please limit your answers to three sentences or less. Each answer is worth 4 points.
6. You do not need to provide rationale for your answers or support your answers with legal authority, such as Internal Revenue Code sections, Treasury regulations, and cases unless specifically asked.
7. If you feel that it is necessary, you may indicate or suggest the need for additional facts to answer a question, but briefly explain why you believe additional facts are necessary and the result of assuming them. Do not answer questions that were not asked.
8. Except as otherwise indicated, you may assume that all taxpayers use the cash receipts and disbursements method of accounting and use the calendar year as their taxable year. Any mention of the tax consequences refers to the U.S. federal income tax consequences.

4. Indicate whether the following are income, a gift, or neither:

A) John leaves his favorite law professor \$10,000 in his will.

B) John names Tom as Executor of his will and leaves him \$10,000 for his services.

C) Same as (B) above, except that Tom never pays himself.

5. Gary specializes as an image consultant to political figures and sells designer clothes. He gives his employees a special 50% discount on two outfits per year to encourage them to dress for their position. He grosses about 2 million per year and has expenses of 1.5 million. An employee buys a \$200 suit for \$100. Does she have income? If so, how much?

6. Chris buys a \$400,000 house with \$100,000 cash and \$300,000 recourse mortgage. The house drops in value to \$250,000 and he has only paid interest on the mortgage (he still owes \$300,000). If the mortgage company agrees to take the house in exchange for releasing Chris from the mortgage, does he have income? If so, how much?

