

Chapter 03: Corporations: Special Situations

True / False

1. The domestic production activities deduction is limited to corporations.

- a. True
- b. False

ANSWER: False

RATIONALE: The DPAD also applies to entities other than corporations.

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: CPET.SWFT.LO: 3-01 - LO: 3-01

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Reporting

KEYWORDS: Bloom's: Knowledge

OTHER: Time: 2 min.

2. Fewer corporations are subject to the AMT than to the domestic production activities deduction.

- a. True
- b. False

ANSWER: True

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: CPET.SWFT.LO: 3-01 - LO: 3-01

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - TX - AICPA: FN-Measurement
United States - AK - AICPA: FN-Reporting

KEYWORDS: Bloom's: Knowledge

OTHER: Time: 2 min.

3. In terms of the effect of the DPAD, the maximum tax savings for a corporation with \$10 million of taxable income is \$316,000 in 2017.

- a. True
- b. False

ANSWER: False

RATIONALE: \$10 million \times 9% \times 34% = \$306,000.

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: CPET.SWFT.LO: 3-01 - LO: 3-01

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Measurement -
AICPA: FN-Measurement

KEYWORDS: Bloom's: Comprehension

OTHER: Time: 2 min.

4. The domestic production activities deduction is intended to preserve U.S. manufacturing jobs and discourage their outsourcing.

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- a. True
- b. False

ANSWER: True

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: CPET.SWFT.LO: 3-01 - LO: 3-01

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - TX - AICPA: FN-Measurement
United States - AK - AICPA: FN-Reporting

KEYWORDS: Bloom's: Knowledge

OTHER: Time: 2 min.

5. The overall effect of the domestic production activities deduction is similar to a deduction.

- a. True
- b. False

ANSWER: False

RATIONALE: The tax effect is similar to a rate reduction or a tax credit.

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: CPET.SWFT.LO: 3-01 - LO: 3-01

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - TX - AICPA: FN-Measurement
United States - AK - AICPA: FN-Reporting

KEYWORDS: Bloom's: Knowledge

OTHER: Time: 2 min.

6. The DPAD is limited by 50% of the total W-2 wages paid by a taxpayer.

- a. True
- b. False

ANSWER: False

RATIONALE: Only those wages applicable to DPGR can be considered.

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: CPET.SWFT.LO: 3-01 - LO: 3-01
CPET.SWFT.LO: 3-02 - LO: 3-02

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Measurement -
AICPA: FN-Measurement

KEYWORDS: Bloom's: Comprehension

OTHER: Time: 2 min.

7. DPAD for 2017 is 9% of the greater of QPAI or TI, but not to exceed the W-2 wages limitation.

- a. True
- b. False

ANSWER: False

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RATIONALE: The determinant is the *lesser of* and not the *greater of*.
POINTS: 1
DIFFICULTY: Easy
LEARNING OBJECTIVES: CPET.SWFT.LO: 3-02 - LO: 3-02
NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension
STATE STANDARDS: United States - AK - AICPA: FN-Measurement - AICPA: FN-Measurement
KEYWORDS: Bloom's: Knowledge
OTHER: Time: 2 min.

8. The formula in determining the DPAD for individual taxpayers is the same as that applicable to corporations.
- True
 - False

ANSWER: False
RATIONALE: Modified adjusted gross income is substituted for taxable income.
POINTS: 1
DIFFICULTY: Easy
LEARNING OBJECTIVES: CPET.SWFT.LO: 3-02 - LO: 3-02
NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension
STATE STANDARDS: United States - AK - AICPA: FN-Measurement - AICPA: FN-Measurement
KEYWORDS: Bloom's: Comprehension
OTHER: Time: 2 min.

9. The percentage applicable for computing the DPAD will ultimately increase to 12%.
- True
 - False

ANSWER: False
RATIONALE: The maximum is 9%.
POINTS: 1
DIFFICULTY: Easy
LEARNING OBJECTIVES: CPET.SWFT.LO: 3-02 - LO: 3-02
NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension
STATE STANDARDS: United States - AK - AICPA: FN-Measurement - AICPA: FN-Measurement
KEYWORDS: Bloom's: Comprehension
OTHER: Time: 2 min.

10. The W-2 wages limitation as to the DPAD encourages the use of independent contractors.
- True
 - False

ANSWER: False
RATIONALE: The opposite is the case.
POINTS: 1

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DIFFICULTY: Easy

LEARNING OBJECTIVES: CPET.SWFT.LO: 3-02 - LO: 3-02
CPET.SWFT.LO: 3-11 - LO: 3-11

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Measurement -
AICPA: FN-Measurement

KEYWORDS: Bloom's: Comprehension

OTHER: Time: 2 min.

11. If QPAI cannot be used in any one year due to the TI limitation, it can be carried over for 3 years.

- a. True
- b. False

ANSWER: False

RATIONALE: If not used, QPAI is lost forever.

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: CPET.SWFT.LO: 3-02 - LO: 3-02

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Reporting

KEYWORDS: Bloom's: Knowledge

OTHER: Time: 2 min.

12. DPGR – Allowable Indirect Costs = QPAI. Is this formula correct?

- a. True
- b. False

ANSWER: False

RATIONALE: DPGR – Cost of Goods Sold – Direct Costs – Allocable Indirect Costs = QPAI

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: CPET.SWFT.LO: 3-03 - LO: 3-03

CPET.SWFT.LO: 3-04 - LO: 3-04

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Measurement -
AICPA: FN-Measurement

KEYWORDS: Bloom's: Comprehension

OTHER: Time: 2 min.

13. Green Company, a U.S. corporation based in Texas, manufactures and sells a product which includes some components made in the Dominican Republic. None of Green's income from sales constitute DPGR.

- a. True
- b. False

ANSWER: False

RATIONALE: They can be DPGR if the 20% safe harbor test is satisfied. Even if the safe harbor test is not satisfied, was Green's contribution "substantial" to the value of the finished product?

POINTS: 1

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DIFFICULTY: Easy
LEARNING OBJECTIVES: CPET.SWFT.LO: 3-03 - LO: 3-03
NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension
STATE STANDARDS: United States - AK - AICPA: FN-Measurement -
AICPA: FN-Measurement
KEYWORDS: Bloom's: Comprehension
OTHER: Time: 2 min.

14. DPGR cannot include the cost of an embedded service that is part of in the sale of a manufactured product.
- a. True
 - b. False

ANSWER: False
RATIONALE: It can if the product is not sold without the service and the service is not separately bargained for. Even if these conditions are not met, the embedded service can be DPGR if it meets the 5% *de minimis* test.
POINTS: 1
DIFFICULTY: Easy
LEARNING OBJECTIVES: CPET.SWFT.LO: 3-03 - LO: 3-03
NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension
STATE STANDARDS: United States - AK - AICPA: FN-Measurement -
AICPA: FN-Measurement
KEYWORDS: Bloom's: Comprehension
OTHER: Time: 2 min.

15. One of the components of DPGR is qualified production property (QPP). The QPP must be manufactured, produced, grown, or extracted entirely within the U.S.
- a. True
 - b. False

ANSWER: False
RATIONALE: In whole or in significant part within the U.S.
POINTS: 1
DIFFICULTY: Easy
LEARNING OBJECTIVES: CPET.SWFT.LO: 3-03 - LO: 3-03
NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension
STATE STANDARDS: United States - AK - AICPA: FN-Reporting
KEYWORDS: Bloom's: Comprehension
OTHER: Time: 2 min.

16. A taxpayer who prepares and sells Mexican food at several of its restaurant locations can qualify for DPAD as to the receipts only from take-out orders and home-delivery sales.
- a. True
 - b. False

ANSWER: False
RATIONALE: There is a prohibition against retail sales of prepared food.
POINTS: 1

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DIFFICULTY: Easy

LEARNING OBJECTIVES: CPET.SWFT.LO: 3-05 - LO: 3-05

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Measurement -
AICPA: FN-Measurement

KEYWORDS: Bloom's: Knowledge

OTHER: Time: 2 min.

17. Some of the meals a food service company prepares for its chain of restaurants is frozen and shipped to supermarkets for resale. The proceeds from such sales will qualify as DPGR.

- a. True
- b. False

ANSWER: True

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: CPET.SWFT.LO: 3-05 - LO: 3-05

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Measurement -
AICPA: FN-Measurement

KEYWORDS: Bloom's: Knowledge

OTHER: Time: 2 min.

18. Under some circumstances, the sale of prepared food at a taxpayer's retail facility can qualify as DPGR.

- a. True
- b. False

ANSWER: True

RATIONALE: If the sale is incidental to a wholesale operation involving prepared food, it can be DPGR.

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: CPET.SWFT.LO: 3-05 - LO: 3-05

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Measurement -
AICPA: FN-Measurement

KEYWORDS: Bloom's: Knowledge

OTHER: Time: 2 min.

19. In working with the W-2 wage limitation on DPAD, a partner can count any guaranteed payments he receives from the partnership.

- a. True
- b. False

ANSWER: False

RATIONALE: Guaranteed payments are not W-2 wages.

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: CPET.SWFT.LO: 3-05 - LO: 3-05

Chapter 03: Corporations: Special Situations

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Measurement -
AICPA: FN-Measurement

KEYWORDS: Bloom's: Knowledge

OTHER: Time: 2 min.

20. The objective of the AMT is to force taxpayers that are more profitable than their taxable income reflects to pay additional income taxes.

- a. True
- b. False

ANSWER: True

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: CPET.SWFT.LO: 3-06 - LO: 3-06

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Measurement -
AICPA: FN-Measurement

KEYWORDS: Bloom's: Knowledge

OTHER: Time: 2 min.

21. The DPAD is not allowed for AMT purposes.

- a. True
- b. False

ANSWER: False

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: CPET.SWFT.LO: 3-06 - LO: 3-06

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Measurement -
AICPA: FN-Measurement

KEYWORDS: Bloom's: Knowledge

OTHER: Time: 2 min.

22. The AMT rate for corporations is the same as for individuals.

- a. True
- b. False

ANSWER: False

RATIONALE: Rates for individuals are different.

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: CPET.SWFT.LO: 3-06 - LO: 3-06

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Measurement -
AICPA: FN-Measurement

KEYWORDS: Bloom's: Knowledge

Chapter 03: Corporations: Special Situations

OTHER: Time: 2 min.

23. Once a small corporation for AMT purposes, always a small corporation.

- a. True
- b. False

ANSWER: False

RATIONALE: The corporation must meet the \$7.5 million test.

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: CPET.SWFT.LO: 3-06 - LO: 3-06

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Reporting

KEYWORDS: Bloom's: Knowledge

OTHER: Time: 2 min.

24. Gerbil Corporation was formed in 2007. If in 2017, it has average gross receipts of under \$7.5 million, the company cannot be subject to the AMT.

- a. True
- b. False

ANSWER: False

RATIONALE: If Gerbil lost its small business status in the past, it is then liable for the AMT for that year and all future years.

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: CPET.SWFT.LO: 3-06 - LO: 3-06

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Reporting

KEYWORDS: Bloom's: Comprehension

OTHER: Time: 2 min.

25. Netting refers to the process of AMT adjustments reversing themselves and then being deducted from taxable income to arrive at AMTI.

- a. True
- b. False

ANSWER: True

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: CPET.SWFT.LO: 3-07 - LO: 3-07

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Measurement -
AICPA: FN-Measurement

KEYWORDS: Bloom's: Comprehension

OTHER: Time: 2 min.

26. NOLs are negative adjustments.

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- a. True
- b. False

ANSWER: True
POINTS: 1
DIFFICULTY: Easy
LEARNING OBJECTIVES: CPET.SWFT.LO: 3-06 - LO: 3-06
CPET.SWFT.LO: 3-07 - LO: 3-07
NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension
STATE STANDARDS: United States - AK - AICPA: FN-Measurement -
AICPA: FN-Measurement
KEYWORDS: Bloom's: Knowledge
OTHER: Time: 2 min.

27. Passive activity losses of certain closely held corporations and personal service corporations are not tax preferences.

- a. True
- b. False

ANSWER: True
RATIONALE: They are adjustments.
POINTS: 1
DIFFICULTY: Easy
LEARNING OBJECTIVES: CPET.SWFT.LO: 3-07 - LO: 3-07
NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension
STATE STANDARDS: United States - AK - AICPA: FN-Measurement -
AICPA: FN-Measurement
KEYWORDS: Bloom's: Knowledge
OTHER: Time: 2 min.

28. If mining exploration and development costs are capitalized and written off over 10 years, no adjustment is necessary for AMT purposes.

- a. True
- b. False

ANSWER: True
POINTS: 1
DIFFICULTY: Easy
LEARNING OBJECTIVES: CPET.SWFT.LO: 3-07 - LO: 3-07
NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension
STATE STANDARDS: United States - AK - AICPA: FN-Measurement -
AICPA: FN-Measurement
KEYWORDS: Bloom's: Comprehension
OTHER: Time: 2 min.

29. Tax-exempt interest on state and local private activity bonds (issued in 2010) is a tax preference item.

- a. True
- b. False

ANSWER: False

Chapter 03: Corporations: Special Situations

POINTS: 1
DIFFICULTY: Easy
LEARNING OBJECTIVES: CPET.SWFT.LO: 3-07 - LO: 3-07
NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension
STATE STANDARDS: United States - AK - AICPA: FN-Measurement -
AICPA: FN-Measurement
KEYWORDS: Bloom's: Knowledge
OTHER: Time: 2 min.

30. The ACE adjustment can be positive or negative.

- a. True
- b. False

ANSWER: True
POINTS: 1
DIFFICULTY: Easy
LEARNING OBJECTIVES: CPET.SWFT.LO: 3-06 - LO: 3-06
CPET.SWFT.LO: 3-08 - LO: 3-08
NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension
STATE STANDARDS: United States - AK - AICPA: FN-Measurement -
AICPA: FN-Measurement
KEYWORDS: Bloom's: Knowledge
OTHER: Time: 2 min.

31. A negative ACE adjustment is beneficial to a corporation.

- a. True
- b. False

ANSWER: True
POINTS: 1
DIFFICULTY: Easy
LEARNING OBJECTIVES: CPET.SWFT.LO: 3-06 - LO: 3-06
CPET.SWFT.LO: 3-08 - LO: 3-08
NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension
STATE STANDARDS: United States - AK - AICPA: FN-Measurement -
AICPA: FN-Measurement
KEYWORDS: Bloom's: Comprehension
OTHER: Time: 2 min.

32. AMTI may be defined as regular taxable income after AMT adjustments (other than the NOL and ACE adjustments) and after tax preferences.

- a. True
- b. False

ANSWER: False
RATIONALE: AMTI is also after the ACE adjustment and the AMT NOL (limited to 90%).
POINTS: 1
DIFFICULTY: Easy

Chapter 03: Corporations: Special Situations

LEARNING OBJECTIVES: CPET.SWFT.LO: 3-06 - LO: 3-06
CPET.SWFT.LO: 3-07 - LO: 3-07
CPET.SWFT.LO: 3-08 - LO: 3-08

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Measurement -
AICPA: FN-Measurement

KEYWORDS: Bloom's: Knowledge

OTHER: Time: 2 min.

33. The regular foreign tax credit is available to reduce AMT liability.

- a. True
- b. False

ANSWER: True

RATIONALE: The regular foreign tax credit is deducted from tentative minimum tax to arrive at AMT.

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: CPET.SWFT.LO: 3-06 - LO: 3-06
CPET.SWFT.LO: 3-07 - LO: 3-07
CPET.SWFT.LO: 3-08 - LO: 3-08

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Measurement -
AICPA: FN-Measurement

KEYWORDS: Bloom's: Comprehension

OTHER: Time: 2 min.

34. The AMT exemption amount of \$40,000 phases out entirely once a corporation's average gross receipts exceeds \$310,000.

- a. True
- b. False

ANSWER: False

RATIONALE: The exemption is reduced by 25% of the amount by which AMTI exceeds \$150,000 and disappears at \$310,000.

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: CPET.SWFT.LO: 3-08 - LO: 3-08

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Measurement -
AICPA: FN-Measurement

KEYWORDS: Bloom's: Knowledge

OTHER: Time: 2 min.

35. The personal holding company tax rate in 2017 is 39.6%.

- a. True
- b. False

ANSWER: False

RATIONALE: The rate is 20%.

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POINTS: 1
DIFFICULTY: Easy
LEARNING OBJECTIVES: CPET.SWFT.LO: 3-09 - LO: 3-09
CPET.SWFT.LO: 3-10 - LO: 3-10
NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension
STATE STANDARDS: United States - AK - AICPA: FN-Measurement -
AICPA: FN-Measurement
KEYWORDS: Bloom's: Knowledge
OTHER: Time: 2 min.

36. The accumulated earnings credit is always the greater of the minimum credit of \$250,000 or the current E & P for the year needed to meet the reasonable needs of the business.

- a. True
- b. False

ANSWER: False
RATIONALE: For a personal service corporation, the figure is \$150,000.
POINTS: 1
DIFFICULTY: Easy
LEARNING OBJECTIVES: CPET.SWFT.LO: 3-10 - LO: 3-10
NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension
STATE STANDARDS: United States - AK - AICPA: FN-Measurement -
AICPA: FN-Measurement
KEYWORDS: Bloom's: Knowledge
OTHER: Time: 2 min.

37. The accumulated earnings credit for a personal service corporation is the greater of \$150,000 or the current E & P for the year needed to meet the reasonable needs of the business.

- a. True
- b. False

ANSWER: True
POINTS: 1
DIFFICULTY: Easy
LEARNING OBJECTIVES: CPET.SWFT.LO: 3-10 - LO: 3-10
NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension
STATE STANDARDS: United States - AK - AICPA: FN-Measurement -
AICPA: FN-Measurement
KEYWORDS: Bloom's: Knowledge
OTHER: Time: 2 min.

38. Reasonable needs for purposes of the accumulated earnings tax do not include loans to shareholders.

- a. True
- b. False

ANSWER: True
POINTS: 1
DIFFICULTY: Easy

Chapter 03: Corporations: Special Situations

LEARNING OBJECTIVES: CPET.SWFT.LO: 3-10 - LO: 3-10

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Measurement -
AICPA: FN-Measurement

United States - TX - AICPA: FN-Reporting

KEYWORDS: Bloom's: Knowledge

OTHER: Time: 2 min.

39. The penalty tax rate for the AET and PHC is the highest rate applicable to individual taxpayers.

- a. True
- b. False

ANSWER: False

RATIONALE: Both taxes have specified rates (currently 20%).

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: CPET.SWFT.LO: 3-09 - LO: 3-09
CPET.SWFT.LO: 3-10 - LO: 3-10

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Measurement -
AICPA: FN-Measurement

United States - TX - AICPA: FN-Reporting

KEYWORDS: Bloom's: Knowledge

OTHER: Time: 2 min.

40. Long-term capital gains are taxed under the AET and PHC taxes.

- a. True
- b. False

ANSWER: False

RATIONALE: Long-term capital gains are not taxed under either of these penalty taxes.

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: CPET.SWFT.LO: 3-10 - LO: 3-10

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Measurement -
AICPA: FN-Measurement

United States - TX - AICPA: FN-Reporting

KEYWORDS: Bloom's: Knowledge

OTHER: Time: 2 min.

41. In the case of a sole proprietor, modified AGI is substituted for taxable income in the DPAD formula.

- a. True
- b. False

ANSWER: True

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POINTS: 1

OTHER: Time: 2 min

42. A company with a NOL carryforward for a tax year is ineligible for the DPAD if the carryforward eliminates current income.

- a. True
- b. False

ANSWER: True

POINTS: 1

43. As taxable income is reduced by an NOL carryback, there is a corresponding increase in the DPAD.

- a. True
- b. False

ANSWER: False

RATIONALE: Just the opposite is true.

POINTS: 1

OTHER: Time: 2 min

Multiple Choice

44. Which statement is false?

- a. The AMT is not limited to C corporations.
- b. The DPAD is not limited to C corporations.
- c. The penalty tax on PHCs is dependent on the existence of a tax avoidance motive.
- d. In the case of a sole proprietor, the DPAD is a deduction *for* adjusted gross income.
- e. All are true.

ANSWER: c

RATIONALE: The PHC tax is assessed if a corporation meets the PHC stock ownership and gross income tests and has undistributed PHC income.

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: CPET.SWFT.LO: 3-01 - LO: 3-01
CPET.SWFT.LO: 3-02 - LO: 3-02
CPET.SWFT.LO: 3-06 - LO: 3-06
CPET.SWFT.LO: 3-09 - LO: 3-09
CPET.SWFT.LO: 3-10 - LO: 3-10

NATIONAL STANDARDS: United States - BUSPROG: Technology: Technology: - BUSPROG: Technology

STATE STANDARDS: United States - AK - AICPA: FN-Reporting

KEYWORDS: Bloom's: Comprehension

OTHER: Time: 5 min.

45. Stacey, Inc., has taxable income of \$10 million in 2017. What is the maximum DPAD tax savings for this C corporation?

- a. None
- b. \$204,000
- c. \$306,000

Chapter 03: Corporations: Special Situations

- d. \$315,000
- e. None of the above

ANSWER: c
RATIONALE: \$10 million \times 9% \times 34% = \$306,000.
POINTS: 1
DIFFICULTY: Easy
LEARNING OBJECTIVES: CPET.SWFT.LO: 3-01 - LO: 3-01
CPET.SWFT.LO: 3-02 - LO: 3-02
CPET.SWFT.LO: 3-03 - LO: 3-03
NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension
STATE STANDARDS: United States - AK - AICPA: FN-Measurement -
AICPA: FN-Measurement
KEYWORDS: Bloom's: Application
OTHER: Time: 5 min.

46. Lime, Inc., has taxable income of \$13 million in 2017. What is the maximum DPAD tax savings for this C corporation?
- a. \$132,600
 - b. \$265,200
 - c. \$397,800
 - d. \$409,500
 - e. None of the above

ANSWER: d
RATIONALE: \$13 million \times 9% \times 35% = \$409,500.
POINTS: 1
DIFFICULTY: Easy
LEARNING OBJECTIVES: CPET.SWFT.LO: 3-01 - LO: 3-01
CPET.SWFT.LO: 3-02 - LO: 3-02
CPET.SWFT.LO: 3-03 - LO: 3-03
NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension
STATE STANDARDS: United States - AK - AICPA: FN-Measurement -
AICPA: FN-Measurement
KEYWORDS: Bloom's: Application
OTHER: Time: 5 min.

47. Which, if any, of the following is a characteristic of the DPAD?
- a. Not applicable in situations involving S corporations.
 - b. Applicable only to manufactured goods that are exported from the U.S.
 - c. Can never apply when the rendition of personal services is involved.
 - d. Can sometimes apply when some of the components of a product are manufactured in foreign countries.
 - e. None of the above.

ANSWER: d
RATIONALE: As long as the domestic portion of the production is substantial, DPGR results (choice d.). DPAD applies to most entities including S corporations (choice a.). Not only can DPGR result from the performance of engineering and architectural services, but certain embedded services can qualify (choice c.). There are no restrictions or requirements on where the

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manufactured goods have to be sent or sold (choice b.).

POINTS:

1

DIFFICULTY:

Easy

LEARNING OBJECTIVES:

CPET.SWFT.LO: 3-01 - LO: 3-01

CPET.SWFT.LO: 3-02 - LO: 3-02

CPET.SWFT.LO: 3-03 - LO: 3-03

NATIONAL STANDARDS:

United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS:

United States - AK - AICPA: FN-Reporting

KEYWORDS:

Bloom's: Knowledge

OTHER:

Time: 5 min.

48. In a sole proprietorship situation, a DPAD would be a:

- Deduction *from* AGI.
- Deduction *for* AGI.
- Possible deduction *from* and deduction *for*.
- Not deductible.
- All of the above.

ANSWER:

b

RATIONALE:

The deduction would flow through as a deduction *for* AGI.

POINTS:

1

DIFFICULTY:

Easy

LEARNING OBJECTIVES:

CPET.SWFT.LO: 3-01 - LO: 3-01

NATIONAL STANDARDS:

United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS:

United States - AK - AICPA: FN-Reporting

KEYWORDS:

Bloom's: Knowledge

OTHER:

Time: 5 min.

49. Which statement is false?

- The overall tax effect of a DPAD is a rate reduction or a tax credit.
- For a flow-through entity, modified AGI is substituted for taxable income.
- FASB requires the DPAD to be reported as a special charge.
- MPGE refers to a merge, paid, gain, and expense.
- All of the above are correct.

ANSWER:

d

RATIONALE:

Manufactured, produced, grown, or extracted.

POINTS:

1

DIFFICULTY:

Easy

LEARNING OBJECTIVES:

CPET.SWFT.LO: 3-01 - LO: 3-01

CPET.SWFT.LO: 3-02 - LO: 3-02

CPET.SWFT.LO: 3-03 - LO: 3-03

NATIONAL STANDARDS:

United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS:

United States - AK - AICPA: FN-Measurement -

AICPA: FN-Measurement

KEYWORDS:

Bloom's: Knowledge

OTHER:

Time: 5 min.

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50. Which formula is correct for DPAD?

- a. Smaller of 9% of QPAI or 9% of modified AGI, not to exceed 50% of allocable wages.
- b. Larger of 9% of QPAI or 9% of taxable income, not to exceed 50% of allocable wages.
- c. Smaller of 9% of QPAI or 9% of taxable income, not to exceed 60% of allocable wages.
- d. Larger of 9% of QPAI or 9% of alternative minimum tax, not to exceed 60% of allocable wages.
- e. None of the above.

ANSWER: a

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: CPET.SWFT.LO: 3-02 - LO: 3-02

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Measurement -
AICPA: FN-Measurement

KEYWORDS: Bloom's: Comprehension

OTHER: Time: 5 min.

51. Yvonne Corporation manufactures and sells ceramic dinnerware. The company also sells dinnerware that is purchased from unrelated foreign producers. During the 2017 tax year, Yvonne had a U. S. profit of \$1.3 million (QPAI) and a loss from the imported merchandise of \$200,000. What is Yvonne's DPAD?

- a. \$33,000
- b. \$66,000
- c. \$99,000
- d. \$1,080,000
- e. None of the above

ANSWER: c

RATIONALE: \$99,000 (9% × \$1.1 million). The taxable income limitation applies.

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: CPET.SWFT.LO: 3-02 - LO: 3-02

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Measurement -
AICPA: FN-Measurement

KEYWORDS: Bloom's: Application

OTHER: Time: 5 min.

52. Tanweer, Inc., manufactures and sells glassware. The company also sells dinnerware that is purchased from unrelated foreign producers. During the 2017 tax year, Tanweer had a U.S. profit of \$1.3 million (QPAI) and a loss from the imported dinnerware of \$300,000. What is Tanweer's DPAD?

- a. None
- b. \$33,000
- c. \$66,000
- d. \$90,000
- e. None of the above

ANSWER: d

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RATIONALE:	\$90,000 (9% × \$1 million). The taxable income limitation applies.
POINTS:	1
DIFFICULTY:	Easy
LEARNING OBJECTIVES:	CPET.SWFT.LO: 3-02 - LO: 3-02
NATIONAL STANDARDS:	United States - BUSPORG: Comprehension - BUSPORG:Comprehension
STATE STANDARDS:	United States - AK - AICPA: FN-Measurement - AICPA: FN-Measurement
KEYWORDS:	Bloom's: Application
OTHER:	Time: 5 min.

53. Jeff Corporation manufactures and sells ceramic dinnerware. The company also sells dinnerware that is purchased from unrelated foreign producers. During the 2017 tax year, Jeff had a U.S. profit of \$1.2 million (QPAI) and a profit from the imported merchandise of \$300,000. What is Jeff's DPAD?

- a. \$36,000
- b. \$72,000
- c. \$108,000
- d. \$117,000
- e. None of the above

ANSWER:	c
RATIONALE:	\$108,000 (9% × \$1.2 million). The \$300,000 profit from the imported goods is <i>not</i> QPAI.
POINTS:	1
DIFFICULTY:	Easy
LEARNING OBJECTIVES:	CPET.SWFT.LO: 3-02 - LO: 3-02
NATIONAL STANDARDS:	United States - BUSPORG: Comprehension - BUSPORG:Comprehension
STATE STANDARDS:	United States - AK - AICPA: FN-Measurement - AICPA: FN-Measurement
KEYWORDS:	Bloom's: Application
OTHER:	Time: 5 min.

54. Which of the following statements *does not* reflect the rules regarding pass-through entities and DPAD?

- a. Since the deduction is determined at the owner level, each owner must make the computation separately.
- b. The entity allocates to each owner his or her share of any QPAI.
- c. In the case of partnerships, guaranteed payments are regarded as W-2 wages.
- d. A partner cannot be allocated any W-2 wages if the share of QPAI is zero.
- e. None of the above.

ANSWER:	c
RATIONALE:	Guaranteed payments do not count as wages (choice c.), but a partner can count other W-2 wages paid (choice c.). Qualification for DPAD is determined at the partner (owner) level, not at the partnership (entity) level (choice d.).
POINTS:	1
DIFFICULTY:	Easy
LEARNING OBJECTIVES:	CPET.SWFT.LO: 3-05 - LO: 3-05
NATIONAL STANDARDS:	United States - BUSPORG: Comprehension - BUSPORG:Comprehension
STATE STANDARDS:	United States - AK - AICPA: FN-Reporting
KEYWORDS:	Bloom's: Knowledge

Chapter 03: Corporations: Special Situations

OTHER: Time: 5 min.

55. Kim's sole proprietorship consists of a bakery and retail food sales. The bakery's DPGR is \$700,000, but after CGS, direct expenses, and a ratable portion of indirect expenses are deducted, QPAI is \$100,000. W-2 wages related to DPGR are significant. The retail food sales have a loss of \$900,000. If Kim files a joint return and her modified AGI is \$119,500, what is her allowable DPAD, if any, for 2017?

- a. None
- b. \$6,000
- c. \$7,170
- d. \$9,000
- e. Some other amount

ANSWER: d

RATIONALE: \$100,000 QPAI \times 9% = \$9,000.

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: CPET.SWFT.LO: 3-01 - LO: 3-01
CPET.SWFT.LO: 3-02 - LO: 3-02
CPET.SWFT.LO: 3-04 - LO: 3-04

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Measurement -
AICPA: FN-Measurement

KEYWORDS: Bloom's: Application

OTHER: Time: 5 min.

56. Rose, Inc., an S corporation, has taxable income of \$14 million in 2017. Assume there are two shareholders, each in the 35% tax bracket. What is the maximum total DPAD tax savings for the S corporation shareholders?

- a. None
- b. \$168,000
- c. \$285,600
- d. \$441,000
- e. None of the above

ANSWER: d

RATIONALE: \$14 million \times 9% \times 35% = \$441,000.

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: CPET.SWFT.LO: 3-01 - LO: 3-01
CPET.SWFT.LO: 3-02 - LO: 3-02
CPET.SWFT.LO: 3-05 - LO: 3-05

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Measurement -
AICPA: FN-Measurement

KEYWORDS: Bloom's: Application

OTHER: Time: 5 min.

57. Which reason is *unlikely* to cause a regular corporation to have to pay AMT?

- a. A service-type of company with little inventory.

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- b. A high level of investment in assets such as equipment and structures.
- c. Low taxable income due to a cyclical downturn, strong international competition, a low-margin industry, or other factors.
- d. Investment at low real interest rates, which increases the company's deductions for depreciation relative to those for interest payments.
- e. None of the above.

ANSWER: a

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: CPET.SWFT.LO: 3-06 - LO: 3-06

NATIONAL STANDARDS: United States - BUSPROG: Technology: Technology: - BUSPROG: Technology

STATE STANDARDS: United States - AK - AICPA: FN-Reporting

KEYWORDS: Bloom's: Comprehension

OTHER: Time: 5 min.

58. Nickel Corporation, a calendar year corporation formed in 2015, has average gross receipts of \$5.7 million, \$4.2 million, and \$4.8 million in 2015, 2016, and 2017, respectively. In 2017, Nickel is:

- a. Not subject to the corporate income tax.
- b. A small corporation with respect to the AMT.
- c. Not subject to the AMT.
- d. Subject to the AMT.
- e. None of the above.

ANSWER: d

RATIONALE: The company is subject to the AMT. Nickel does not pass the \$5 million gross receipts test in 2016 (in that year, Nickel must examine 2015 gross receipts; \$5.7 million is greater than \$5 million and the small corporation exemption is no longer available).

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: CPET.SWFT.LO: 3-06 - LO: 3-06

NATIONAL STANDARDS: United States - BUSPROG: Comprehension - BUSPROG: Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Reporting

KEYWORDS: Bloom's: Application

OTHER: Time: 5 min.

59. Jackson, Inc., has the following items related to the AMT.

Alternative minimum tax base	\$9,850,290
Regular tax	1,120,152
Foreign AMT tax credit	123,000
Cost of goods sold	2,000,000

The corporation's AMT, if any, is:

- a. \$0.
- b. \$709,906.
- c. \$726,906.
- d. \$1,847,058.

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e. None of the above.

ANSWER: c

RATIONALE: \$726,906. The tentative minimum tax before AMT foreign tax credit is \$1,970,058 (\$9,850,290 × 20%). Thus, the alternative minimum tax is computed as follows:

Tentative minimum tax before AMT foreign tax credit	\$1,970,058
Less: AMT foreign tax credit	<u>(123,000)</u>
Tentative minimum tax	\$1,847,058
Less: Regular tax	<u>(1,120,152)</u>
AMT	<u>\$ 726,906</u>

POINTS: 3

DIFFICULTY: Moderate

LEARNING OBJECTIVES: CPET.SWFT.LO: 3-06 - LO: 3-06

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Measurement -
AICPA: FN-Measurement

KEYWORDS: Bloom's: Application

OTHER: Time: 10 min.

60. Lemon, Inc., has the following items related to the AMT:

Alternative minimum tax base	\$10,275,500
Regular corporate tax	1,112,500
Foreign AMT tax credit	187,020
Cost of goods sold	2,260,020

The corporation's AMT, if any, is:

- a. \$0.
- b. \$755,580.
- c. \$1,868,080.
- d. \$2,055,100.
- e. None of the above.

ANSWER: b

RATIONALE: \$755,580. The tentative minimum tax before AMT foreign tax credit is \$2,055,100 (\$10,275,500 × 20%). Thus, the alternative minimum tax is computed as follows:

Tentative minimum tax before AMT foreign tax credit	\$2,055,100
Less: AMT foreign tax credit	<u>(187,020)</u>
Tentative minimum tax	\$1,868,080
Less: Regular tax	<u>(1,112,500)</u>
AMT	<u>\$ 755,580</u>

POINTS: 3

DIFFICULTY: Easy

LEARNING OBJECTIVES: CPET.SWFT.LO: 3-06 - LO: 3-06

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Measurement -
AICPA: FN-Measurement

KEYWORDS: Bloom's: Application

OTHER: Time: 5 min.

61. Which of the following would not be a positive tax preference item in 2017?

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- a. Accelerated depreciation on real property in excess of straight-line.
- b. Intangible drilling costs.
- c. Alternative minimum tax NOL deduction.
- d. Percentage depletion in excess of adjusted basis.
- e. None of the above.

ANSWER: c

POINTS: 3

DIFFICULTY: Easy

LEARNING OBJECTIVES: CPET.SWFT.LO: 3-07 - LO: 3-07

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Reporting

KEYWORDS: Bloom's: Comprehension

OTHER: Time: 2 min.

62. Which statement, if any, is false?

- a. An S corporation is subject to the corporate AMT.
- b. A high level of investment in assets (e.g., equipment or structures) is a reason a company may be subject to the AMT.
- c. Many of the adjustments that apply to individuals also apply to corporations.
- d. The AMT is a separate tax system from the corporate income tax.
- e. None of the above.

ANSWER: a

POINTS: 3

DIFFICULTY: Easy

LEARNING OBJECTIVES: CPET.SWFT.LO: 3-06 - LO: 3-06

CPET.SWFT.LO: 3-07 - LO: 3-07

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Reporting

KEYWORDS: Bloom's: Knowledge

OTHER: Time: 2 min.

63. Which AMT adjustment would only be negative?

- a. Passive activity losses.
- b. AMT NOL deduction.
- c. DPAD.
- d. Completed contract method.
- e. None of the above.

ANSWER: b

POINTS: 3

DIFFICULTY: Easy

LEARNING OBJECTIVES: CPET.SWFT.LO: 3-07 - LO: 3-07

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Reporting

KEYWORDS: Bloom's: Knowledge

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OTHER: Time: 2 min.

64. Which of the following items will be a *deduction* from unadjusted AMTI in arriving at ACE?

- a. Federal income tax.
- b. 80% dividends received deduction.
- c. Penalties and fines.
- d. Premiums paid on key employee insurance.
- e. None of the above.

ANSWER: d

RATIONALE: Items a., b., and c. have no effect.

POINTS: 3

DIFFICULTY: Easy

LEARNING OBJECTIVES: CPET.SWFT.LO: 3-08 - LO: 3-08

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Reporting

KEYWORDS: Bloom's: Knowledge

OTHER: Time: 2 min.

65. Which of the following items will be an addition to AMTI in arriving at ACE?

- a. Excess capital loss.
- b. Federal income tax.
- c. Tax-exempt income.
- d. Excess charitable contributions.
- e. None of the above.

ANSWER: c

RATIONALE: Items a., b., and d. have no effect.

POINTS: 3

DIFFICULTY: Easy

LEARNING OBJECTIVES: CPET.SWFT.LO: 3-08 - LO: 3-08

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Reporting

KEYWORDS: Bloom's: Knowledge

OTHER: Time: 2 min.

66. Which of the following has no effect in arriving at ACE?

- a. Tax-exempt income (net of expenses).
- b. Excess charitable contributions.
- c. Key employee insurance proceeds.
- d. Deferred gain on installment sales.
- e. Premiums paid on key employee insurance.

ANSWER: b

POINTS: 3

DIFFICULTY: Easy

LEARNING OBJECTIVES: CPET.SWFT.LO: 3-08 - LO: 3-08

Chapter 03: Corporations: Special Situations

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Reporting

KEYWORDS: Bloom's: Knowledge

OTHER: Time: 2 min.

67. Which of the following is added in arriving at ACE?

- a. Tax-exempt income (net of expenses).
- b. Federal income tax.
- c. Premiums paid on key employees insurance.
- d. Loss on sale between related parties.
- e. None of the above.

ANSWER: a

POINTS: 3

DIFFICULTY: Easy

LEARNING OBJECTIVES: CPET.SWFT.LO: 3-08 - LO: 3-08

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Reporting

KEYWORDS: Bloom's: Knowledge

OTHER: Time: 2 min.

68. Which statement is false?

- a. The starting point for computing AMTI is taxable income.
- b. A tax preference is added to taxable income.
- c. The ACE adjustment can be a negative amount.
- d. The starting point for computing ACE is taxable income.
- e. None of the above.

ANSWER: d

POINTS: 3

DIFFICULTY: Easy

LEARNING OBJECTIVES: CPET.SWFT.LO: 3-06 - LO: 3-06

CPET.SWFT.LO: 3-07 - LO: 3-07

CPET.SWFT.LO: 3-08 - LO: 3-08

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Reporting

KEYWORDS: Bloom's: Comprehension

OTHER: Time: 2 min.

69. Which of the following items will have an effect (add or subtract) on unadjusted AMTI to arrive at ACE?

- a. Federal income tax.
- b. Tax-exempt interest income.
- c. Excess capital losses.
- d. 80% dividends received deduction.
- e. None of the above.

ANSWER: b

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POINTS: 3
DIFFICULTY: Easy
LEARNING OBJECTIVES: CPET.SWFT.LO: 3-08 - LO: 3-08
NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension
STATE STANDARDS: United States - AK - AICPA: FN-Reporting
KEYWORDS: Bloom's: Comprehension
OTHER: Time: 2 min.

70. A small corporation with unused minimum tax credits may use what percentage of regular tax as a minimum credit in 2017?

- a. 0
- b. 25%
- c. 50%
- d. 75%
- e. None of the above

ANSWER: e
RATIONALE: Allowable minimum tax credit is equal to [regular tax liability – 25% (regular tax – \$25,000)].
POINTS: 3
DIFFICULTY: Easy
LEARNING OBJECTIVES: CPET.SWFT.LO: 3-08 - LO: 3-08
NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension
STATE STANDARDS: United States - AK - AICPA: FN-Measurement -
AICPA: FN-Measurement
KEYWORDS: Bloom's: Knowledge
OTHER: Time: 2 min.

71. Ford Corporation, a calendar year corporation, has alternative minimum taxable income (before any exemption) of \$1.28 million for 2017. The company is *not* a small corporation. If the regular corporate tax is \$209,000, Ford's alternative minimum tax for 2017 is:

- a. \$47,000.
- b. \$209,000.
- c. \$256,000.
- d. \$1,280,000.
- e. None of the above.

ANSWER: a
RATIONALE: \$47,000. The exemption amount is zero. Tentative minimum tax is \$256,000 (\$1.28 million times 20%). Thus, the AMT liability is \$256,000, less the regular tax liability of \$209,000, or \$47,000.
POINTS: 3
DIFFICULTY: Easy
LEARNING OBJECTIVES: CPET.SWFT.LO: 3-06 - LO: 3-06
CPET.SWFT.LO: 3-07 - LO: 3-07
CPET.SWFT.LO: 3-08 - LO: 3-08
NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension
STATE STANDARDS: United States - AK - AICPA: FN-Measurement -

Chapter 03: Corporations: Special Situations

AICPA: FN-Measurement

KEYWORDS: Bloom's: Application

OTHER: Time: 5 min.

72. In 2017, May Corporation (a calendar year taxpayer) had the following transactions:

Taxable income	\$4,000,000
Mining exploration costs claimed	1,000,000
Percentage depletion claimed (the property had a zero adjusted basis)	2,400,000
Donation of stock held since 1988 as investment (basis of \$100,000 and fair market value of \$400,000) to a qualified charity	400,000
Costs of goods sold	960,000

For 2017 May Corporation's AMTI is:

- a. \$6,300,000.
- b. \$7,150,000.
- c. \$7,250,000.
- d. \$7,300,000.
- e. None of the above.

ANSWER: d

RATIONALE: AMTI is computed as follows:

Taxable income	\$4,000,000
Adjustments—	
Excess mining exploration costs [\$1,000,000 (amount expensed) – \$100,000 (amount allowed over a 10-year amortization period)]	900,000
Tax preferences—	
Excess percentage depletion	<u>2,400,000</u>
AMTI	<u>\$7,300,000</u>

POINTS: 3

DIFFICULTY: Moderate

LEARNING OBJECTIVES: CPET.SWFT.LO: 3-06 - LO: 3-06
CPET.SWFT.LO: 3-07 - LO: 3-07

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Measurement -
AICPA: FN-Measurement

KEYWORDS: Bloom's: Application

OTHER: Time: 10 min.

73. During 2017, Red Corporation (a calendar year taxpayer) has \$4,000,000 of taxable income and the following transactions:

AMTI (not including adjusted current earnings)	\$5,000,000
Adjusted current earnings	8,000,000

Red Corporation's *alternative minimum tax* (AMT) for 2017 is:

- a. \$1,360,000.
- b. \$700,000.

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- c. \$500,000.
- d. \$90,000.
- e. None of the above.

ANSWER: d

RATIONALE: The positive adjustment for ACE is \$2,250,000 [$\$8,000,000 \text{ ACE} - \$5,000,000 \text{ AMTI (not including ACE)} = \$3,000,000 \times 75\% = \$2,250,000$]. Thus, AMTI becomes \$7,250,000 ($\$5,000,000 + \$2,250,000$). Since no exemption is allowed when AMTI is \$310,000 or more, the AMT base becomes \$7,250,000. Multiplying \$7,250,000 by the 20% rate yields a tentative minimum tax of \$1,450,000. Deducting the regular corporate income tax of \$1,360,000 ($34\% \times \$4,000,000$) results in AMT of \$90,000.

POINTS: 3

DIFFICULTY: Moderate

LEARNING OBJECTIVES: CPET.SWFT.LO: 3-06 - LO: 3-06
CPET.SWFT.LO: 3-07 - LO: 3-07
CPET.SWFT.LO: 3-08 - LO: 3-08

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Reporting

KEYWORDS: Bloom's: Application

OTHER: Time: 10 min.

74. In 2017, Job Corporation, a calendar year taxpayer, has AMTI (before adjustment for adjusted current earnings) of \$7 million. If Job Corporation's ACE is \$16 million, its tentative minimum tax for 2017 is:

- a. \$2.55 million.
- b. \$2.75 million.
- c. \$3.45 million.
- d. \$4.2 million.
- e. None of the above.

ANSWER: b

RATIONALE: Job's AMT of \$7 million is increased by the \$6.75 million ACE adjustment [$(\$16 \text{ million} - \$7 \text{ million}) \times 75\%$]. The total of \$13,750,000 is multiplied by the AMT tax rate of 20% to yield a tentative minimum tax of \$2,750,000. No exemption is allowed as AMTI is greater than \$310,000.

POINTS: 3

DIFFICULTY: Easy

LEARNING OBJECTIVES: CPET.SWFT.LO: 3-06 - LO: 3-06
CPET.SWFT.LO: 3-07 - LO: 3-07
CPET.SWFT.LO: 3-08 - LO: 3-08

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Reporting

KEYWORDS: Bloom's: Application

OTHER: Time: 5 min.

75. Tanver Corporation, a calendar year corporation, has alternative minimum taxable income of \$7 million in 2017 (before adjustment for adjusted current earnings). If Tanver's adjusted current earnings is \$16 million, its tentative minimum tax for 2017 is:

- a. \$310,000.
- b. \$2,750,000.

Chapter 03: Corporations: Special Situations

- c. \$6,750,000.
- d. \$7,000,000.
- e. Some other amount.

ANSWER: b

RATIONALE: \$6.75 million [$75\% \times (\$16 \text{ million} - \$7 \text{ million})$] must be added to \$7 million. Thus, $20\% \times \$13,750,000 = \$2,750,000$ (tentative minimum tax). The exemption is not allowed as AMTI is \$310,000 or more.

POINTS: 3

DIFFICULTY: Easy

LEARNING OBJECTIVES: CPET.SWFT.LO: 3-06 - LO: 3-06
CPET.SWFT.LO: 3-07 - LO: 3-07
CPET.SWFT.LO: 3-08 - LO: 3-08

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Measurement -
AICPA: FN-Measurement

KEYWORDS: Bloom's: Application

OTHER: Time: 2 min.

76. Which of the following items will be an addition to AMTI in arriving at ACE?

- a. Tax-exempt income.
- b. Federal income tax.
- c. Excess capital loss.
- d. Excess charitable contributions.
- e. None of the above.

ANSWER: a

RATIONALE: Items b., c., and d. have no effect.

POINTS: 3

DIFFICULTY: Easy

LEARNING OBJECTIVES: CPET.SWFT.LO: 3-08 - LO: 3-08

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Reporting

KEYWORDS: Bloom's: Knowledge

OTHER: Time: 5 min.

77. The exemption amount is phased out entirely when AMTI reaches:

- a. \$40,000.
- b. \$310,000.
- c. \$1,000,000.
- d. \$5,000,000.
- e. Some other amount.

ANSWER: b

POINTS: 3

DIFFICULTY: Easy

LEARNING OBJECTIVES: CPET.SWFT.LO: 3-08 - LO: 3-08

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

Chapter 03: Corporations: Special Situations

STATE STANDARDS: United States - AK - AICPA: FN-Measurement -
AICPA: FN-Measurement

KEYWORDS: Bloom's: Knowledge

OTHER: Time: 5 min.

78. For purposes of the penalty tax on accumulated earnings under § 531, reasonable needs of the business *does not* include:

- a. Product liability losses.
- b. Self-insurance.
- c. Loans to suppliers and customers.
- d. Loans to employees.
- e. Plant expansion.

ANSWER: d

RATIONALE: All are justifiable reasons for accumulating except choice d.

POINTS: 3

DIFFICULTY: Easy

LEARNING OBJECTIVES: CPET.SWFT.LO: 3-10 - LO: 3-10

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Reporting

KEYWORDS: Bloom's: Knowledge

OTHER: Time: 5 min.

79. Ohio Corporation, a calendar year taxpayer, has a beginning balance in accumulated E & P of \$3.5 million and current earnings of \$1 million. If Ohio can justify accumulations for the needs of the business of \$4.1 million, its accumulated earnings credit for ATI purposes is:

- a. \$0.
- b. \$200,000.
- c. \$600,000.
- d. \$4.1 million.
- e. None of the above.

ANSWER: c

RATIONALE: \$4.1 million (reasonable needs) – \$3.5 million (beginning balance in E & P) = \$600,000 accumulated earnings credit.

POINTS: 3

DIFFICULTY: Easy

LEARNING OBJECTIVES: CPET.SWFT.LO: 3-10 - LO: 3-10

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Measurement -
AICPA: FN-Measurement

KEYWORDS: Bloom's: Application

OTHER: Time: 5 min.

80. Ace Corporation incurred the following taxes for the current year:

Regular tax liability	\$187,000
Tentative minimum tax	156,000

Chapter 03: Corporations: Special Situations

Personal holding company tax	67,000
Accumulated earnings tax	61,300

Ace Corporation's total tax liability is:

- a. \$187,000.
- b. \$254,000.
- c. \$265,000.
- d. \$421,000.
- e. Some other amount.

ANSWER: b

RATIONALE: \$187,000 + \$67,000 = \$254,000.

POINTS: 3

DIFFICULTY: Easy

LEARNING OBJECTIVES: CPET.SWFT.LO: 3-06 - LO: 3-06
CPET.SWFT.LO: 3-09 - LO: 3-09
CPET.SWFT.LO: 3-10 - LO: 3-10
CPET.SWFT.LO: 3-11 - LO: 3-11

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Measurement -
AICPA: FN-Measurement

KEYWORDS: Bloom's: Application

OTHER: Time: 2 min.

81. What amount of accumulated earnings of a service type corporation is considered within the reasonable needs of a business without the corporation having to show a bona fide business reason for the accumulation?

- a. \$150,000 or less.
- b. \$200,000 or less.
- c. \$250,000 or less.
- d. \$300,000 or less.
- e. None of the above.

ANSWER: a

POINTS: 3

DIFFICULTY: Easy

LEARNING OBJECTIVES: CPET.SWFT.LO: 3-10 - LO: 3-10

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Measurement -
AICPA: FN-Measurement

KEYWORDS: Bloom's: Knowledge

OTHER: Time: 2 min.

82. Rohan, Inc., a calendar year closely held corporation, is not a PHC. If the company reports the following items, the accumulated taxable income is:

Taxable income	\$200,000
Long-term capital gain (net of tax)	18,300
Federal income tax on LTCCG	11,700
Dividends received deduction	18,000
Accumulated earnings credit	90,000

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- Federal income taxes 65,150
- a. \$44,550.
 - b. \$62,850.
 - c. \$80,850.
 - d. \$109,700.
 - e. None of the above.

ANSWER: a

RATIONALE: \$44,550, calculated as follows:

Taxable income		\$200,000
Plus: Dividends received deduction		<u>18,000</u>
		\$218,000
Less: LTCG (net of tax)	\$18,300	
Federal income tax	65,150	
Accumulated earnings credit	<u>90,000</u>	<u>(173,450)</u>
Accumulated taxable income		<u>\$ 44,550</u>

POINTS: 3

DIFFICULTY: Easy

LEARNING OBJECTIVES: CPET.SWFT.LO: 3-09 - LO: 3-09
CPET.SWFT.LO: 3-10 - LO: 3-10

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Measurement -
AICPA: FN-Measurement

KEYWORDS: Bloom's: Application

OTHER: Time: 5 min.

83. Which of the following is *always* personal holding company income?

- a. Interest.
- b. Rent income.
- c. Gas royalties.
- d. Personal service contract income.
- e. All of the above.

ANSWER: a

POINTS: 3

DIFFICULTY: Easy

LEARNING OBJECTIVES: CPET.SWFT.LO: 3-10 - LO: 3-10

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Reporting

KEYWORDS: Bloom's: Knowledge

OTHER: Time: 2 min.

Multiple Response

84. Which statement is false?

- a. The AMT is not limited to C corporations.
- b. The DPAD is not limited to C corporations.
- c. The penalty tax on PHCs is not dependent on the existence of a tax avoidance motive.

Chapter 03: Corporations: Special Situations

- d. In the case of a sole proprietor, the DPAD is a deduction *from* adjusted gross income.
- e. All are true.

ANSWER: d

POINTS: 1

85. Which entity is subject to the ACE provisions?
- a. S corporation.
 - b. Real estate investment trust (REITs).
 - c. Real estate investment companies.
 - d. Real estate mortgage investment conduits
 - e. None of the above.

ANSWER: e

POINTS: 1

86. Rose Corporation, a calendar year corporation, has alternative minimum taxable income (before any exemption) of \$700,000 for 2018. The company is *not* a small corporation. If the regular corporate tax is \$85,000, Rose's alternative minimum tax for 2018 is:
- a. \$47,000.
 - b. \$55,000.
 - c. \$107,500.
 - d. \$111,000.
 - e. None of the above.

ANSWER: b

RATIONALE: \$55,000. The exemption amount is zero. Tentative minimum tax is \$140,000 (\$700,000 times 20%). Thus, the AMT liability is \$140,000, less the regular tax liability of \$85,000, or \$55,000.

POINTS: 1

87. Saffron Corporation, a calendar year taxpayer, has alternative minimum taxable income (before adjustment for adjusted current earnings) of \$2 million for 2018. If Saffron Corporation's adjusted current earnings is \$4 million, its *tentative* minimum tax for 2018 is:
- a. \$400,000.
 - b. \$692,000.
 - c. \$700,000.
 - d. \$800,000.
 - e. None of the above.

ANSWER: c

RATIONALE: To \$2 million must be added \$1,500,000 [75% X (\$4 million - \$2 million)]. Thus 20% X \$3,500,000 = \$700,000 (tentative minimum tax). No exemption is allowed as AMTI is \$310,000 or more.

POINTS: 1

Subjective Short Answer

88. Marker Corporation manufactures and sells birdhouses and feeders. The company also sells similar items that are imported from foreign countries. During the current year, Marker had a profit of \$700,000 from its own products but a loss of \$50,000 from the imported goods.

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a. What is Marker's QPAI?

b. What is Marker's DPAD?

ANSWER: a. \$700,000.

b. Even though QPAI is \$700,000, TI is \$650,000 ($\$700,000 - \$50,000$). DPAD is \$58,500 ($9\% \times \$650,000$).

POINTS: 3

DIFFICULTY: Easy

LEARNING OBJECTIVES: CPET.SWFT.LO: 3-02 - LO: 3-02

CPET.SWFT.LO: 3-03 - LO: 3-03

CPET.SWFT.LO: 3-04 - LO: 3-04

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Measurement -
AICPA: FN-Measurement

KEYWORDS: Bloom's: Application

OTHER: Time: 10 min.

89. Mayberry, Inc. engages in production activities that generate QPAI of \$460,000 and taxable income (without taking into account the DPAD and NOL) of \$600,000 in 2017. The company also has an NOL carryover to 2017 of \$500,000 and qualified W-2 wages of \$300,000. Calculate any DPAD.

ANSWER: \$9,000. Multiply 9% by the lesser of QPAI (\$460,000) and taxable income ($\$600,000 - \$500,000$), or $9\% \times \$100,000 = \$9,000$. The deduction is not limited by the wage limitation of \$150,000 ($50\% \times \$300,000$).

POINTS: 3

DIFFICULTY: Moderate

LEARNING OBJECTIVES: CPET.SWFT.LO: 3-01 - LO: 3-01

CPET.SWFT.LO: 3-02 - LO: 3-02

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Measurement -
AICPA: FN-Measurement

KEYWORDS: Bloom's: Application

OTHER: Time: 5 min.

90. In each of the following independent situations, determine the DPAD for 2017 for the corporation involved.

	Taxpayer	QPAI	TI	W-2 wages
a.	Siskin	\$400,000	\$500,000	\$ 30,000
b.	Ibis	800,000	700,000	130,000
c.	Scamp	700,000	900,000	200,000
d.	Pipits	900,000	900,000*	280,000
e.	Puffin	900,000	900,000	200,000**

*Does not include a \$120,000 NOL carryover from the prior year.

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****Only \$60,000 relates directly to manufacturing activities.**

ANSWER:

- a. \$15,000. The W-2 limitation of \$15,000 ($50\% \times \$30,000$) is less than the QPAI computation of \$36,000 ($9\% \times \$400,000$).
- b. \$63,000. The taxable income limitation of \$63,000 ($9\% \times \$700,000$) is less than the QPAI computation of \$72,000 ($9\% \times \$800,000$) and is under the W-2 limitation of \$65,000 ($50\% \times \$130,000$).
- c. \$63,000. The QPAI computation of \$63,000 ($9\% \times \$700,000$) is less than the taxable income limitation of \$81,000 ($9\% \times \$900,000$) and is under the W-2 limitation of \$100,000 ($50\% \times \$200,000$).
- d. \$70,200. After the NOL carryover of \$120,000, taxable income becomes \$780,000 ($\$900,000 - \$120,000$). Now, the taxable income limitation of \$70,200 ($9\% \times \$780,000$) is less than the QPAI computation of \$81,000 ($9\% \times \$900,000$) and is under the W-2 limitation of \$140,000 ($50\% \times \$280,000$).
- e. \$30,000. The QPAI computation of \$81,000 ($9\% \times \$900,000$) is the same as the taxable income limitation of \$81,000 ($9\% \times \$900,000$) but is not under the W-2 limitation of \$30,000 ($50\% \times \$60,000$). For purposes of the W-2 limitation, the wages considered have to relate to the manufacturing activities in 2017.

POINTS: 5

DIFFICULTY: Moderate

LEARNING OBJECTIVES: CPET.SWFT.LO: 3-03 - LO: 3-03

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Measurement -
AICPA: FN-Measurement

KEYWORDS: Bloom's: Application

OTHER: Time: 10 min.

91. Bluejay Corporation, a calendar year taxpayer, manufactures and sells candles. It has several factories in the U.S. and one in Jamaica. During 2017, it had DPGR of \$4.1 million from the U.S. factories.

a. If the gross receipts from the products made in Jamaica are \$200,000, what is Bluejay's DPGR for 2017?

b. If the gross receipts sourced to the Jamaica plant are \$300,000, what is Bluejay's DPGR for 2017?

ANSWER:

- a. \$4.3 million, as the 5% *de minimis* test is met. $\$200,000/\$4.3 \text{ million} = 4.65\%$ is less than 5%.
- b. \$4.1 million. The *de minimis* test is not satisfied. $\$300,000/\$4.4 \text{ million} = 6.8\%$ is 5% or more.

POINTS: 3

DIFFICULTY: Moderate

LEARNING OBJECTIVES: CPET.SWFT.LO: 3-03 - LO: 3-03

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Measurement -
AICPA: FN-Measurement

KEYWORDS: Bloom's: Application

Chapter 03: Corporations: Special Situations

OTHER: Time: 10 min.

92. Moon Corporation sells customized outdoor grills. It purchases various parts and materials from foreign sources for \$500 and incurs \$160 in labor costs at a factory in Virginia to fabricate and assemble the product. Moon also incurs packaging, selling, and other costs of \$40 and sells the grill for \$800. If tax year 2017 is involved, calculate Moon's per unit:

a. DPGR

b. QPAI

c. DPAD

ANSWER:

a. \$800. The full amount of the gross receipts can be counted as the grills are manufactured by Moon in "significant part" within the United States. Moon's labor cost of \$160 ($\$160/\$660 = 24\%$) meets the safe harbor test of 20%.

b. \$100 ($\$800 - \$500 - \$160 - \40).

c. \$9 ($9\% \times \100).

POINTS: 3

DIFFICULTY: Moderate

LEARNING OBJECTIVES: CPET.SWFT.LO: 3-02 - LO: 3-02
CPET.SWFT.LO: 3-03 - LO: 3-03
CPET.SWFT.LO: 3-04 - LO: 3-04

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Measurement -
AICPA: FN-Measurement

KEYWORDS: Bloom's: Application

OTHER: Time: 10 min.

93. Green, Inc., has \$2 million in gross receipts of which \$1.2 million is DPGR. Its cost of goods sold is \$850,000 and other deductions (marketing, administrative) are \$350,000. Using the small business simplified deduction method, determine Green's QPAI.

ANSWER: \$480,000. The appropriate percentage to use in allocating CGS and other expenses is 60% ($\$1.2 \text{ million}/\$2 \text{ million} = 60\%$). Thus:

DPGR	\$1,200,000
Cost of goods sold: $60\% \times \$850,000$	(510,000)
Other expenses: $60\% \times \$350,000$	<u>(210,000)</u>
QPAI	<u>\$ 480,000</u>

POINTS: 3

DIFFICULTY: Moderate

LEARNING OBJECTIVES: CPET.SWFT.LO: 3-02 - LO: 3-02
CPET.SWFT.LO: 3-04 - LO: 3-04

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

Chapter 03: Corporations: Special Situations

STATE STANDARDS: United States - AK - AICPA: FN-Measurement -
AICPA: FN-Measurement

KEYWORDS: Bloom's: Application

OTHER: Time: 10 min.

94. Swan Corporation has gross receipts of \$3 million of which \$1 million are non-DPGR. CGS identified with DPGR is \$1.3 million, while overall selling and administrative expenses are \$600,000. Under the simplified deduction method, determine Swan's QPAI.

ANSWER: \$300,000. Amount of overall expenses allocated to DPGR is \$400,000 (\$2 million/\$3 million \times \$600,000). Thus, QPAI is: (\$2 million – \$1.3 million – \$400,000) = \$300,000.

POINTS: 3

DIFFICULTY: Moderate

LEARNING OBJECTIVES: CPET.SWFT.LO: 3-02 - LO: 3-02
CPET.SWFT.LO: 3-03 - LO: 3-03
CPET.SWFT.LO: 3-04 - LO: 3-04

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Measurement -
AICPA: FN-Measurement

KEYWORDS: Bloom's: Application

OTHER: Time: 10 min.

95. Sweet Corporation, a new corporation, has gross receipts of \$4.9 million, \$6.9 million, and \$8.6 million in 2015, 2016, and 2017, respectively. Is this corporation a small corporation with respect to the AMT in years 2015, 2016, 2017, and 2018?

ANSWER: Yes, Sweet is a small corporation in 2015, the first year, irrespectively of the gross receipts.

Yes, for year 2016, because the average gross receipts for the first year do not exceed \$5 million.

Yes, for year 2017, because the average gross receipts for the first and second years do not exceed \$7.5 million [$(\$4.9 \text{ million} + \$6.9 \text{ million}) / 2 = \5.9]

Yes, for year 2018, because the average gross receipts for the three prior years [$(\$8.6 \text{ million} + \$6.9 \text{ million} + \$4.9 \text{ million}) / 3 = \6.8] are less than \$ 7.5 million.

POINTS: 5

DIFFICULTY: Moderate

LEARNING OBJECTIVES: CPET.SWFT.LO: 3-06 - LO: 3-06

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Measurement -
AICPA: FN-Measurement

KEYWORDS: Bloom's: Application

OTHER: Time: 5 min.

96. Campbell, Inc., a calendar year corporation that was created in February 2013, has gross receipts as follows:

Year	Gross Receipts
2013	\$2,990,220
2014	3,310,763

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2015	4,885,027
2016	7,626,681
2017	9,120,132

Does Campbell qualify for the small corporation exemption for each year (2013 through 2018)?

ANSWER: Since Campbell is a new corporation in 2013, the company is automatically exempt from the corporate AMT under the small corporation exemption regardless of gross receipts. Campbell also qualifies for the exemption in 2014 as 2013 gross receipts do not exceed \$5 million.

Campbell calculates average gross receipts in the later years to determine whether the small business exemption is available. These calculations for the subsequent tax years are as follows:

2013-2014	\$3,150,492	$[(\$2,990,220 + \$3,310,763)/2]$
2013-2015	3,728,670	$[(\$2,990,220 + \$3,310,763 + \$4,885,027)/3]$
2014-2016	5,274,157	$[(\$3,310,763 + \$4,885,027 + \$7,626,681)/3]$
2015-2017	7,210,613	$[(\$4,885,027 + \$7,626,681 + \$9,120,132)/3]$

Campbell qualifies for the exemption in 2015, since the average gross receipts for 2013-2014 do not exceed \$7.5 million. Likewise, Campbell continues to qualify for the exemption in 2016, 2017, and 2018, since the average gross receipts for each preceding three-year period (2013-2015, 2014-2016, and 2015-2017, respectively) do not exceed \$7.5 million.

POINTS: 5

DIFFICULTY: Moderate

LEARNING OBJECTIVES: CPET.SWFT.LO: 3-06 - LO: 3-06

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Measurement - AICPA: FN-Measurement

KEYWORDS: Bloom's: Application

OTHER: Time: 10 min.

97. In each of the following independent situations, calculate accumulated taxable income, if any. Assume the corporation is not a mere holding or investment company.

	Copper Corporation	Bronze Corporation
Taxable income	\$150,000	\$500,000
Accrued Federal income taxes	41,750	170,000
Capital loss adjustment	2,000	
Net LTCG		42,000
Tax on LTCG		14,280
Charitable contributions in excess of 10%	15,000	
NOL deduction	24,000	
70% dividends received deduction		35,000
Dividends paid deduction	7,200	18,000
Accumulated earnings credit	44,000	92,500

ANSWER: Copper Corporation has \$64,050 of accumulated taxable income and Bronze Corporation has \$226,780 of accumulated taxable income:

Chapter 03: Corporations: Special Situations

	Copper Corporation	Bronze Corporation
Taxable income	\$150,000	\$500,000
Less: Accrued Federal income taxes	(41,750)	(170,000)
Capital loss adjustment	(2,000)	
LTCG net of tax (\$42,000 – \$14,280)		(27,720)
Contributions in excess of 10%	(15,000)	
Plus: NOL deduction	24,000	
Dividends received deduction (70%)	<u> </u>	<u>35,000</u>
	\$115,250	\$337,280
Dividends paid deduction	(7,200)	(18,000)
Accumulated earnings credit	<u>(44,000)</u>	<u>(92,500)</u>
Accumulated taxable income	<u>\$ 64,050</u>	<u>\$226,780</u>

POINTS: 5

DIFFICULTY: Challenging

LEARNING OBJECTIVES: CPET.SWFT.LO: 3-09 - LO: 3-09
CPET.SWFT.LO: 3-10 - LO: 3-10

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Measurement -
AICPA: FN-Measurement

KEYWORDS: Bloom's: Application

OTHER: Time: 15 min.

98. a. Calculate the personal holding company tax in 2017 based upon the following information.

Taxable income	\$520,000
Dividends received deduction	46,000
Excess charitable contributions	23,400
Dividends paid	62,000
Federal income taxes	177,375

b. Calculate the effective tax rate of this company.

ANSWER:	a.	Taxable income	\$520,000
		Plus: Dividends received deduction	<u>46,000</u>
			\$566,000
		Less : Federal income tax	\$177,375
		Excess charitable contribution	<u>23,400</u>
			(200,775)
			\$365,225
		Less: Dividends paid	<u>(62,000)</u>
		UPHCI	\$303,225
		Applicable tax rate	× .20
		PHC tax	<u>\$ 60,645</u>

b. Effective tax rate: $\$177,375 + \$60,645 = \$238,020 \div \$520,000 = 45.77\%$.

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<i>POINTS:</i>	5
<i>DIFFICULTY:</i>	Challenging
<i>LEARNING OBJECTIVES:</i>	CPET.SWFT.LO: 3-09 - LO: 3-09 CPET.SWFT.LO: 3-10 - LO: 3-10
<i>NATIONAL STANDARDS:</i>	United States - BUSPORG: Comprehension - BUSPORG:Comprehension
<i>STATE STANDARDS:</i>	United States - AK - AICPA: FN-Measurement - AICPA: FN-Measurement
<i>KEYWORDS:</i>	Bloom's: Application
<i>OTHER:</i>	Time: 15 min.

Essay

99. Why is the DPAD benefit somewhat unique?

ANSWER: The domestic production activities deduction (DPAD) is designed to provide a tax benefit in a somewhat unique manner. Unlike other deductions, DPAD is not the result of a direct expenditure or other outlay. Instead, it is a deduction based on the net income earned from a specified source. A manufacturing concern, therefore, will determine its DPAD not on the cost of production but on the profit from the sale of the item produced. Thus, DPAD is a deduction based on income!

<i>POINTS:</i>	5
<i>DIFFICULTY:</i>	Easy
<i>LEARNING OBJECTIVES:</i>	CPET.SWFT.LO: 3-01 - LO: 3-01
<i>NATIONAL STANDARDS:</i>	United States - BUSPORG: Comprehension - BUSPORG:Comprehension
<i>STATE STANDARDS:</i>	United States - AK - AICPA: FN-Reporting
<i>KEYWORDS:</i>	Bloom's: Comprehension
<i>OTHER:</i>	Time: 5 min.

100. Explain the wages limitation that applies under the domestic production activities deduction (DPAD).

ANSWER: The DPAD is limited by 50% of an employer's qualified W-2 wages, including the sum of the aggregate amount of wages and elective deferrals required to be included on the W-2 wage statements for the employees during the employer's taxable year. W-2 wages do not include any amount which is not properly included in a return filed with the Social Security Administration on or before the 60th day after the due date (including extensions) for such return. Only those wages that are properly allocable to domestic production gross receipts (DPGR) may be used. Elective deferrals include those amounts deferred under § 457 plans and Roth contributions.

<i>POINTS:</i>	5
<i>DIFFICULTY:</i>	Moderate
<i>LEARNING OBJECTIVES:</i>	CPET.SWFT.LO: 3-01 - LO: 3-01 CPET.SWFT.LO: 3-02 - LO: 3-02
<i>NATIONAL STANDARDS:</i>	United States - BUSPORG: Comprehension - BUSPORG:Comprehension
<i>STATE STANDARDS:</i>	United States - AK - AICPA: FN-Reporting
<i>KEYWORDS:</i>	Bloom's: Comprehension
<i>OTHER:</i>	Time: 10 min.

101. How is DPAD handled in an S corporation or a partnership situation?

ANSWER: In the case of a pass-through entity, such as an S corporation or partnership, special rules

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apply for handling DPADs. Thus, because the deduction is determined at the owner level, each partner or shareholder must make the computation separately. Thus, the entity allocates to each owner his or her share of QPAI. The QPAI allocated is then combined with the domestic production activities the owner may have from other sources (e.g., a partner also conducts a manufacturing activity of his or her own).

In working with the wage limitation in a pass-through setting, an allocable portion of W-2 wages of the pass-through entity is passed through to the owner, but only those wages properly allocable to DPGR. The partner or shareholder, however, may add any wages separately paid to the amount allocated from the entity. In the case of a partnership, guaranteed payments are not regarded as W-2 wages. Also, if QPAI (computed taking into account only partnership items allocated to the partner for the tax year) is not greater than zero, a partner cannot use any partnership W-2 wages in calculating the DPAD.

Generally, the DPAD is determined at the owner level in a pass-through entity situation. In some instances, however, the pass-through of the data needed to make this determination can be cumbersome and burdensome. To simplify matters, therefore, the IRS allows eligible partnerships and S corporations to calculate QPAI and W-2 wages for some or all of the owners at the entity level.

<i>POINTS:</i>	5
<i>DIFFICULTY:</i>	Easy
<i>LEARNING OBJECTIVES:</i>	CPET.SWFT.LO: 3-05 - LO: 3-05
<i>NATIONAL STANDARDS:</i>	United States - BUSPORG: Comprehension - BUSPORG:Comprehension
<i>STATE STANDARDS:</i>	United States - AK - AICPA: FN-Reporting
<i>KEYWORDS:</i>	Bloom's: Comprehension
<i>OTHER:</i>	Time: 10 min.

102. What are some of the differences (at least three) between the application of the AMT for individuals and corporations?

ANSWER:

1. The corporate AMT rate is 20%, and the two-tier individual AMT rates are 26% and 28%.
2. The exemptions amounts differ. For a corporation the exemption amount is \$40,000. For individuals, the exemption amount is based on filing status. In 2017, the individual exemption amounts are \$53,900 (single and head of household), \$41,900 (married filing separately), and \$83,400 (joint return).
3. There is no ACE adjustment or small business exemption for individuals.
4. There is no corporate adjustment for the 50% (100%) exclusion for certain small business stock, incentive stock options, or a number of adjustments related to itemized deductions.

<i>POINTS:</i>	5
<i>DIFFICULTY:</i>	Easy
<i>LEARNING OBJECTIVES:</i>	CPET.SWFT.LO: 3-07 - LO: 3-07 CPET.SWFT.LO: 3-08 - LO: 3-08
<i>NATIONAL STANDARDS:</i>	United States - BUSPORG: Comprehension - BUSPORG:Comprehension
<i>STATE STANDARDS:</i>	United States - AK - AICPA: FN-Reporting
<i>KEYWORDS:</i>	Bloom's: Analysis
<i>OTHER:</i>	Time: 10 min.

103. With respect to the AMT, what is the minimum tax credit?

ANSWER: The AMT is a separate tax system that is computed side-by-side with the regular tax. Along

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with the “netting concept,” a *minimum tax credit* is available to eliminate the possibility of double taxation. Essentially, the AMT paid in one tax year may be carried forward indefinitely and used as a credit against the corporation’s future *regular* tax liability that exceeds its tentative minimum tax. The minimum tax credit may not be carried back and may not be offset against any *future* minimum tax liability. The credit can be used to reduce regular tax liability in future years (but not below the tentative AMT).

POINTS: 5
DIFFICULTY: Easy
LEARNING OBJECTIVES: CPET.SWFT.LO: 3-08 - LO: 3-08
NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension
STATE STANDARDS: United States - AK - AICPA: FN-Reporting
KEYWORDS: Bloom's: Comprehension
OTHER: Time: 10 min.

104. What is undistributed PHCI?

ANSWER: Undistributed PHCI is taxable income plus or minus various adjustments and less the dividends paid deduction. The adjustments are similar to those made in arriving at ATI (for purpose of the § 531 tax) and largely reflect the corporation’s financial capacity to pay dividends. Thus, the dividends received and NOL deductions are added back, and the corporate income tax, excess charitable contributions (i.e., in excess of the 10% limitation), and long-term capital gain (net of tax) are subtracted.

POINTS: 5
DIFFICULTY: Easy
LEARNING OBJECTIVES: CPET.SWFT.LO: 3-10 - LO: 3-10
NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension
STATE STANDARDS: United States - AK - AICPA: FN-Reporting
KEYWORDS: Bloom's: Comprehension
OTHER: Time: 2 min.