

# Taxation

LEX 7816 (Laptops Permitted)

Maximum Time: 4 hours

Maximum Points: 100

Monday, December 12, 2011

1:30 p.m. to 5:30 p.m., Room 1515

## Instructions (Taxation)

1. Your copy of this examination *must be returned to the proctor* before you may leave the examination room. Laptop computers are permitted in accordance with Law School rules. Do **not** remove staples from your copy of the examination and do **not** put your name or information about your personal status (i.e., graduating senior, graduate student) anywhere on the exam.
2. **Write your examination number (if it is not already there) in the upper right hand corner of this cover sheet in the space provided.** Also put your examination number, the name of this course (Taxation), and the name of the instructor (McIntyre) in the appropriate spaces on your **bluebook** (or follow Laptop instructions). Please do this now. If you are using a laptop computer, put your exam number and the name of the course and instructor on the front page of your answer sheets.
3. *Thank you for putting your exam number and other information in the appropriate spaces.* This is an **open book** examination. You are expected to have with you your copy of the casebook, supplemental materials, a 2009 or later edition of the Internal Revenue Code ("Code"), and an edited version of the Income Tax Regulations. You are permitted to have any books, notes, commercial outlines, or other materials you have used during the course. You may use a pocket calculator.
4. This examination has three (3) parts. The answers to Part I (Essay) go in your bluebook or, if you are typing your exam on a laptop computer, on your answer sheets. *There are four (4) questions in Part I.* Answers to Part II (Multiple Choice) go on your copy of the exam *for all students* taking the exam, including laptop users. Answers to Part III (True/False) also go on your copy of the exam. Read the instructions for each part carefully and follow those instructions.
5. Certain assumptions are stated below which are applicable to all questions in Parts I, II, and III unless a question explicitly asks you to make some other assumptions.

### Note To Proctor:

All copies of the Examination **MUST** be returned to you by the end of the examination period. Please check carefully to be sure you can account for all copies. Persons allowed to leave the examination room **for any reason** must leave their copy of the examination with you to hold until they return.

## **Assumptions Applicable to Parts I and II**

Unless a question specifies otherwise, make the following assumptions in answering the questions in Parts I, II, and III of this examination:

1. Taxpayers are using the cash method of accounting and are not eligible to use any of the special accounting rules, such as those provided for farmers.
2. Taxpayers are using the calendar year as their taxable year.
3. Except for the transactions described in the questions, no transactions relevant to the answers have occurred during the relevant taxable years.
4. Technical terms and words of art are used in their exact tax sense.
5. The tax acts of 1986 through 2010 are fully effective.
6. All taxpayers are solvent.
7. Taxpayers have properly taken the amount of depreciation indicated.
8. All taxpayers are single.
9. All expenditures can be substantiated.
10. All taxpayers are itemizing their personal deductions rather than claiming the standard deduction.
11. The possible effects on tax liability of any floors, ceilings, or phase-outs that might apply to specific itemized deductions are to be ignored.
12. The taxpayers have not made an election (1) not to be governed by the installment method or (2) to deduct capital expenditures under Code section 179. They have made elections, when appropriate, for availing themselves of the benefits of Code section 195.
13. All transactions occur at arm's length.
14. All capital assets have been held for more than 12 months.

**I. Essay**  
**(maximum points: 40)**

*Instructions.* Answer the four (4) questions below in your bluebook or on your laptop computer. Observe the maximum space limitations (lines for handwritten exams, words for laptop users). *You will suffer a grade penalty, proportionate to the offense, for exceeding the space limitations.* A penalty is not imposed for exceeding the limits by two lines or less (bluebook users) or by 22 words or less (laptop users).

*Note to Those Writing in a Bluebook.* If you are writing the exam, write in ink on every other line (**double space**). Do not write on the back side of any page, and **do not write in the margins**. One page of a bluebook, double-spaced, is 14 lines. A person with normal-sized handwriting typically gets about 10 to 12 words per line. Make an appropriate adjustment if your handwriting is unusually large or small. Please, do not count your words.

*Note to Laptop Users.* The space limits for laptop users are stated in words. I estimate that one line of writing is equal to 10-12 words, so I have set the word limit at 11 times the lines allowed to those writing in a bluebook. So, if the maximum lines is 14, the maximum words is 154.

## II. Multiple Choice (maximum points: 50)

*Instructions.* Mark your choice of alternative answers to each question by circling the **letter** of the correct answer on this exam. **Do NOT mark more than one alternative answer, or your answer will be scored as incorrect.** Those using laptop computers **MUST** answer these questions here and not on the computer.

Each question is worth 2.5 points. No points are taken off for wrong answers. Thus, you should guess at the answer if you do not know the answer.

**In answering each question, make the assumptions stated on page two (2) of this exam unless a contrary assumption is stated in the question.**

If you believe that unstated facts are crucial to your answer, or if you believe that a question is ambiguous, go ahead and answer the question as best you can. Then circle the **number** of the **question** on this exam, and, *in the space provided on the last page of the exam*, identify the unstated facts or the ambiguities and explain their relevance to the question. If your grounds for challenging a question are well-founded and you have properly shown the relevance of an alleged omission of fact or ambiguity to the answer, you will receive full credit for your answer. There are **no intentional ambiguities** or omissions of necessary facts.

***WARNING:** If you decide to explain your answer, you do so at your own risk. Your answer to a question will be treated as incorrect if you have challenged that question and your grounds for doing so are unfounded or incorrectly stated even if you have selected the correct answer.*

## III. True/False Questions (maximum points: 10 — 1 point each)

Mark your choice of alternative answers to each question by circling its identifying letter **on your copy of the exam**. Ambiguous questions may be challenged according to the rules set forth in Part II. Again, there are no intentional ambiguities.