

**FINAL EXAMINATION
FEDERAL INCOME TAX (LAW 838B)
PROFESSOR STANLEY
SUMMER 2007**

1. This examination is three (3) hours long.
2. There are two parts to this exam. There is, however, no formal restriction of time between the parts, and you may allocate the three hours as you deem best.
 - **Part I consists of 25 Multiple Choice questions. Each question in this Part is worth six points, with the total of all multiple-choice questions worth 150 points or one-half of the examination.** Part I should consume approximately 90 minutes of the allotted time. The answers are to be marked on the ParScore answer sheet form provided using pen or pencil and following the instructions on that form. If you change your answer, place a clear X through the wrong answer and mark the correct answer. A machine will score the exam and any ambiguities will be counted as a wrong answer.
 - **Part II consists of two essay questions, the first worth 100 points and the second worth 50 points, for a total of one-half of the examination.** You should allocate 90 minutes to the essay questions. Make sure you answer the questions that are asked, and include your reasoning and analysis as well as your conclusion. If you use Examsoft, please use a 12-point font and double space. If writing, please answer the essay question in the blue books provided to you, writing only on the right side of the page. Please use a blue or black ink pen.
3. This is an open book examination, and you may use any of the following written materials (with or without your hand-written notations): the Internal Revenue Code, Treasury Regulations, your casebook, your class notes, the class power point slides, and any self-prepared outlines, either handwritten or printed. You may use a calculator. You may use scratch paper provided by the Proctor. You may **not** use any notes or outlines that are commercially prepared or prepared by another member of the class or another student unless they are the joint work product of you and the other student. You may **not** use your computer other than in conjunction with ExamSoft. No other materials are permitted.
4. Read the essay questions *carefully* and explain the reasons for your answers, showing each step in your analysis and any computation necessary to resolve the issue. Address all reasonable arguments supporting your position. Credit will be given based on your ability to identify and analyze the relevant issues. If you find it necessary or appropriate to assume facts not given, please state them. Ignore any non-income tax issues (*e.g.*, estate and gift taxes, state taxes). **READ, THINK, and ORGANIZE** before you write.

5. Unless otherwise indicated, all parties are unrelated individuals, are on the cash receipts and disbursements method of accounting, and use the calendar year.
6. All topics listed on the course syllabus may be tested on this examination.
7. Internal Revenue Code sections, Treasury regulations and case names may be cited where known. Citations may include the entire case name or an identifiable abbreviation. Unless otherwise indicated, all "Section" references are to the Internal Revenue Code of 1986, as in effect on December 31, 2006.
8. Write your exam number on your exam envelope. Put your student exam number at the top of this page, each page of questions, ParScore answer form and each blue book. **Do not** use your name, student ID number or Social Security Number on any exam materials.
9. At the conclusion of the exam, return all exam materials to the exam envelope and submit it to the Proctor. **Do not** seal the envelope. Students who do not return all exam materials at the end of the exam may not be graded.

Good Luck!

Thanks for being such a great class!

PART II – ESSAY QUESTION #1
(100 points total – Suggested time: 60 Minutes)

Coreen is a partner in a San Francisco law firm. Accompanied by her husband, Harold, Coreen went to New York City to attend a conference on the new tax law. Coreen and Harold flew into New York on Tuesday evening. The conference began on Wednesday morning and ran through Friday afternoon. Coreen attended all sessions of the conference; Harold spent those days sightseeing and shopping. On Friday night, Coreen and Harold invited two clients and their spouses to be their guests at a local comedy club, at a cost (including drinks) of \$100 per person. Coreen and Harold both spent Saturday sightseeing and attending a Broadway play, and then flew home on Sunday.

Harold is a retired Army general, and has investment income of approximately \$200,000 per year. For most of his adult life, Harold's hobby has been big-game hunting, and before retiring he had made several safaris to Africa. After retirement Harold decided to make game-hunting films and to present lectures on the films. To this end he made several trips this year to Africa to hunt and film big game. He sent out many letters and brochures soliciting lecture engagements and stating the amount of his lecture fees. In the past three years since he retired from the military, Harold has generated the following amounts of gross income and expenses from his game hunting activities:

<u>Year</u>	<u>Income</u>	<u>Expenses</u>
1	\$ 900	\$12,000
2	2,500	9,000
Tax Year	2,800	14,500

Last year, Coreen divorced her first husband, Max. The divorce decree requires Coreen to pay Max \$3,000 a month for 10 years. If Max dies within the ten-year period, Coreen is required to pay \$2,000 a month to their daughter for the remainder of the ten-year period. The divorce decree specifically provides that all payments are to be deductible by Coreen and includable in Max's income.

Question: Discuss how should Coreen and Harold, who file a joint tax return, should treat the expenditures described above for federal income tax purposes this year?

ESSAY QUESTION #2
(50 points total – Suggested time: 30 Minutes)

Customer has breakfast at the Café Z nearly every weekday morning. Waitress is his usual server. Last week, Customer told Waitress that he was going to leave her a "real" tip. To her astonishment, Customer left Waitress \$10,000 cash. Waitress offered to return the money but Customer insisted that she keep it. Waitress and Customer never see each other apart from their encounters at the café.

Question: Must Waitress include the tip in gross income? What other information would you like to know in order to make this determination? In answering the question, be sure to fully address the arguments both in support of reporting the \$10,000 as income and for excluding the \$10,000 from income.

END OF THE EXAM