

Corporate tax case study

[Business](#)



Does it make better tax sense for us to pay off the mortgage, sell the house, and buy a new house, or should we just use the money to buy the new house after selling the old house? Also, I sell handcrafted jewelry which earned me \$20,000 last year. Do my business satellites constitute a trade or business for federal income tax purposes? Or, is this just a hobby? Should I establish a separate trade or business to get tax benefits on these earnings? Does it make any difference that I use my car primarily for transporting my jewelry to different shops around town?

Finally, I think I can earn more money if John were willing to invest \$15,000 for new jewelry making equipment since my original equipment, which cost \$10,000 five years ago, is almost obsolete. Does this make sense from a tax perspective? " Given the scenario, your role and the information provided by the key players involved, it is time for you to make a decision. If you are finished reviewing this scenario, close this window and return to this week's You Decide Item, in your course window, to complete the activity for this scenario.

You can return to Ana review this scenario again at any time. Prepare a three-page memo (at least 900-1,500 words per page) to John and Jane Smith addressing the issues presented: 1 .

John Smith tax issues: a. How is the \$300,000 treated for purposes of federal tax income? . How is the \$25,000 treated for purposes of federal tax income? C. What is your determination regarding reducing the taxable amount of income for both (a) and (b) above? D. Is it more beneficial to

continue leasing the business space or to buy the building? 2. Jane Smith tax issues: a.

What are the different tax consequences between paying down the mortgage (debt) and assuming a new mortgage (debt) for federal income tax purposes? B. Can John and Jane Smith utilize a 1031 tax exchange to buy a more expensive house using additional money from John's case? C. Does Jane have a business or hobby? Why is his distinction important? D. Would Jane (and John) realize better tax benefits if she had a separate business for her Jewelry-making activities? E. What tax benefits would John realize if he invested \$15,000 in Cane's Jewelry making? .

Can Jane depreciate her vehicle or Jewelry-making equipment? How? 3. John and Jane Smith tax issue: a. Should John and Jane file separate or joint tax returns? You Decide: It's your turn as a tax professional to decide on the best course of action from a tax perspective on their issues as presented above. For each issue, begin by restating the issue and numbering as shown above [I. .

, I(a), I(b), etc.]. Next, explain and discuss the tax rules that apply to the issue, which you gleaned from your tax research.

Then, conclude with a definitive answer to the issue, supported by citations to the sources used. So for each issue, you should 1 .

State the issue; 2. Explain and discuss the applicable law (IIRC sections, regulations, court decision, and so forth); and 3. Present your answer in the form of a concluding paragraph that refers to specific language from the IIRC

sections, regulations, court decisions, and other sources (if applicable) to support the conclusion. *A template has been revived for your use in preparing this activity. Please use it!

Citations Citations are required. You must provide citations whenever you refer to the sources of tax law used in this memorandum.

You may cite your sources in numbered footnotes, numbered endnotes, or in parentheses immediately after the sentence mentioning the cited source.

Grading Rubric Category Points Description Superior 100-125 Content and subject: Easily identifiable, clear; meets or exceeds page or word-length requirement; all required citations are provided Structure: Apparent, understandable, and applicable; excellent flow and well structured

Analysis: Interesting and novel; provides different perspectives; demonstrates critical thinking and critical analysis at a high level Mechanics: Virtually devoid of errors in grammar, syntax, punctuation, Ana spelling Canceling 80-99 Content and subject: Concrete overall, but may be slightly unclear; meets or exceeds page- or word-length requirement; some citations missing Structure: Generally clear and appropriate Analysis: Evidence relates to the content; evidence may lack some clarity; critical analysis and critical thinking apparent Mechanics