

Corporate tax in the united states essay

[Business](#), [Accounting](#)



Question 11 out of 1 points Schedule M-2 is used to reconcile unappropriated retained earnings at the beginning of the year with unappropriated retained earnings at the end of the year. Answer Selected Answer: True Correct

Answer: True • Question 21 out of 1 points For a corporation in 2012, the domestic production activities deduction is equal to 9% of the higher of (1) qualified production activities income or (2) taxable income. However, the deduction cannot exceed 50% of the W-2 wages related to qualified production activities income.

Answer Selected Answer: False Correct Answer: False Response Feedback: For a corporation in 2012, the domestic production activities deduction is equal to 9% of the lower of (1) qualified production activities income or (2) taxable income. The deduction cannot exceed 50% of the W-2 wages related to qualified production activities income. • Question 31 out of 1 points During the current year, Violet, Inc., a closely held corporation (not a PSC), has \$130,000 of passive loss, \$90,000 of active business income, and \$70,000 of portfolio income. How much is Violet's taxable income for the current year? Answer Selected Answer: \$70,000.

Correct Answer: \$70,000. Response Feedback: A closely held corporation that is not a PSC can deduct passive losses against active income but not portfolio income. Thus, Violet's taxable income is \$70,000 [$\$90,000$ (active income) + $\$70,000$ (portfolio income) - $\$90,000$ (passive loss limited to active income)]. • Question 41 out of 1 points A corporation with \$5 million or more in assets must file Schedule M-3 (instead of Schedule M-1).

Answer Selected Answer: False Correct Answer: False Response Feedback: A corporation with \$10 million or more in assets must file Schedule M-3

(instead of Schedule M-1). • Question 50 out of 1 points During the current year, Thrasher, Inc.

, a closely held personal service corporation, has \$67,500 of active business income, \$52,500 of portfolio income, and \$120,000 of passive loss. How much of the passive loss can Thrasher deduct in the current year?

Answer Selected Answer: \$120,000. Correct Answer: \$0. Response Feedback:

Personal service corporations cannot offset passive losses against either active or portfolio income. • Question 61 out of 1 points

On December 31, 2012, Flamingo, Inc., a calendar year, accrual method C corporation, accrues a bonus of \$50,000 to its president (a cash basis taxpayer), who owns 75% of the corporation's outstanding stock. The \$50,000 bonus is paid to the president on February 1, 2013.

For Flamingo's 2012 Form 1120, the \$50,000 bonus will be a subtraction item on Schedule M-1. Answer Selected Answer: False Correct Answer:

False Response Feedback: The bonus is entered as an addition item on

Schedule M-1. Since Flamingo is accruing an expenditure with respect to a cash basis related party (i. e., more than 50% shareholder), the \$50,000 bonus is not deductible until such time it is included in the president's gross income (2013). An item that is an expense in computing net income per

books but not deductible in computing taxable income is an addition item on Schedule M-1. • Question 71 out of 1 points

Katherine, the sole shareholder of Purple Corporation, a calendar year C corporation, has the corporation pay her a salary of \$450,000 in the current year. The Tax Court has held that \$150,000 represents unreasonable compensation.

Purple Corporation's taxable income is unaffected by the Tax Court's determination. Answer Selected Answer: False Correct Answer: False Response Feedback: To the extent a salary paid to a shareholder/employee is considered reasonable, the corporation is allowed a salary deduction, which reduces corporate taxable income. To the extent a salary payment is not considered reasonable, the payment is treated as a dividend, which does not reduce corporate taxable income. Therefore, Purple's taxable income increases by \$150,000, the amount of the unreasonable compensation (constructive dividend) paid to Katherine. • Question 81 out of 1 points Red Corporation, which owns stock in Blue Corporation, had net operating income of \$200,000 for the year. Blue pays Red a dividend of \$40,000.

Red takes a dividends received deduction of \$28,000. Which of the following statements is correct? Answer Selected Answer: Red owns less than 20% of Blue Corporation. Correct Answer: Red owns less than 20% of Blue Corporation. Response Feedback: Red's dividends received deduction is 70% of the dividend received ($\$28,000 \div \$40,000$). The 70% dividends received deduction applies if ownership is less than 20%. • Question 91 out of 1 points Bjorn owns a 60% interest in an S corporation that earned \$150,000 in 2012.

He also owns 60% of the stock in a C corporation that earned \$150,000 during the year. The S corporation distributed \$30,000 to Bjorn and the C corporation paid dividends of \$30,000 to Bjorn. How much income must Bjorn report from these businesses? Answer Selected Answer: \$90,000 income from the S corporation and \$30,000 income from the C corporation.

Correct Answer: \$90,000 income from the S corporation and \$30,000 income from the C corporation. Response Feedback: Bjorn must report his \$90,000 share ($\$150,000 \times 60\%$) of the S corporation's income on his individual tax return. He will report \$30,000 of dividend income from the C corporation.

• Question 101 out of 1 points
Copper Corporation, a C corporation, had gross receipts of \$5 million in 2009, \$6 million in 2010, and \$3 million in 2011. Gold Corporation, a personal service corporation (PSC), had gross receipts of \$4 million in 2009, \$7 million in 2010, and \$5 million in 2011.

Which of the corporations will be allowed to use the cash method of accounting in 2012? Answer Selected Answer: Both Copper Corporation and Gold Corporation. Correct Answer: Both Copper Corporation and Gold Corporation. Response Feedback: Copper Corporation can use the cash receipts method because it had average annual gross receipts of \$5 million or less ($\$14 \text{ million} \div 3 = \4.67 million) during the three preceding years.

Gold Corporation, a PSC, may use the cash method without regard to its gross receipts.

• Question 111 out of 1 points
In 2012, Bluebird Corporation had net income from operations of \$75,000. Further, Bluebird recognized a long-term capital loss of \$30,000, and a short-term capital gain of \$10,000. Which of the following statements is correct? Answer Selected Answer: Bluebird Corporation will have taxable income in 2012 of \$75,000 and will have a net capital loss of \$20,000 that can be carried back 3 years and forward 5 years.

Correct Answer: Bluebird Corporation will have taxable income in 2012 of \$75,000 and will have a net capital loss of \$20,000 that can be carried back 3 years and forward 5 years. Response Feedback: The capital loss will offset the \$10,000 capital gain. The remaining \$20,000 capital loss can be carried back to the three preceding years to reduce any capital gains in those years. Any remaining loss not offset against capital gains in the three preceding taxyears can be carried forward for five years to offset capital gains in those years. The long-term capital loss will be treated as short-term capital loss when carried back or forward.

•Question 121 out of 1 pointsAs a general rule, a personal service corporation (PSC) must use a calendar year as its accounting period.

AnswerSelected Answer: TrueCorrect Answer: TrueResponse Feedback: Such entities generally must use the calendar year as their reporting period, but several exceptions to this rule apply (e. g., business purpose for fiscal year).

•Question 131 out of 1 pointsWhich of the following statements is incorrect about LLCs and the check-the-box Regulations? AnswerSelected Answer: If a limited liability company with more than one owner does not make an election, the entity is taxed as a corporation. Correct Answer: If a limited liability company with more than one owner does not make an election, the entity is taxed as a corporation. Response Feedback: If a limited liability company with more than one owner does not make an election, the entity is taxed as a partnership.

The other statements are correct. •Question 141 out of 1 pointsOn December 31, 2012, Lavender, Inc., an accrual basis C corporation, accrues a \$90,000

bonus to Barry, its vice president and a 70% shareholder. Lavender pays the bonus to Barry, who is a cash basis taxpayer, on March 15, 2013.

Lavender can deduct the bonus in 2013, the year in which it is included in Barry's gross income. Answer Selected Answer: True Correct Answer:

True Response Feedback: Because Barry is a related party (more than 50% shareholder), Lavender's deduction for the bonus occurs in 2013, the year in which the \$90,000 is included in Barry's gross income. • Question 151 out of 1 points

A personal service corporation with taxable income of \$100,000 will have a tax liability of \$22,250. Answer Selected Answer: False Correct

Answer: False Response Feedback: A personal service corporation is subject to the 35% rate on all taxable income; thus, the tax liability is \$35,000

(\$100,000 × 35%). • Question 161 out of 1 points Thrush Corporation files Form 1120, which reports taxable income of \$200,000. The corporation's tax is \$56,250. Answer Selected Answer: False Correct Answer: False Response

Feedback: The tax is equal to \$61,250 [(\$50,000 × 15%) + (\$25,000 × 25%) + (\$25,000 × 34%) + (\$100,000 × 39%)]. • Question 171 out of 1 points

No dividends received deduction is allowed unless the corporation has held the stock for more than 90 days.

Answer Selected Answer: False Correct Answer: False Response Feedback: The corporation must hold the stock for more than 45 days in order to qualify for the dividends received deduction. • Question 181 out of 1 points

Juanita owns 60% of the stock in a C corporation that had a profit of \$200,000 in 2012.

Carlos owns a 60% interest in a partnership that had a profit of \$200,000 during the year. The corporation distributed \$45,000 to Juanita, and the

partnership distributed \$45, 000 to Carlos. Which of the following statements relating to 2012 is incorrect? AnswerSelected Answer: Juanita must report \$120, 000 of income from the corporation.

Correct Answer: Juanita must report \$45, 000 of income from the corporation. Response Feedback: Shareholders of C corporations report the dividends received from the corporation during the year. Thus, Juanita must report \$45, 000 of income from the corporation.

The other statements are correct. •Question 191 out of 1 pointsThe due date (not including extensions) for filing a 2012 Federal income tax return for a calendar year C corporation (Form 1120) is April 15, 2013. AnswerSelected Answer: FalseCorrect Answer: FalseResponse Feedback: The due date for filing a Form 1120 is the fifteenth day of the third month following the end of the corporation's tax year.

Thus, a 2012 Form 1120 for a calendar year C corporation would be due March 15, 2013. •Question 201 out of 1 pointsAzure Corporation, a C corporation, had a long-term capital gain of \$50, 000 in the current year. The maximum amount of tax applicable to the capital gain is \$7, 500 (\$50, 000 ? 15%). AnswerSelected Answer: FalseCorrect Answer: FalseResponse Feedback: While the maximum rate on long-term capital gains of individuals is limited to 15%, there is no tax rate preference applicable to long-term capital gains of C corporations. Thus, the maximum amount of tax applicable to Azure Corporation's capital gain is \$19, 500 [\$50, 000 ?? 39% (highest marginal rate)].