

# Black Ilc essay sample



Bruce and Bob organize Black LLC on May 10 of the current year. What is the entity's default tax classification? Are any alternative classification(s) available? If so, (1) how do Bruce and Bob elect the alternative classification(s) and (2) what are the tax consequences of doing so? If Bruce and Bob are the only owners by default they will be billed as if they were a partnership. If they chose to, they could be taxed as an S Corp. The choice between the two is based on their expected income. If the income is lower than what is reasonable in their profession the partnership tax is preferable while if they are making a high level of income the S Corp election is advantageous. To make the election to be taxed as an S corp they need to fill out and file a form with the IRS for the adjustment. In either case the company will simply pass on profits to the owners to be paid on their personal taxes.

Alice purchased the land and building several years ago for \$12, 000 and \$50, 000, respectively. Alice has claimed straight-line depreciation on the building. Bob also receives a Bear note for \$10, 000 due in three years. The note bears interest at the prevailing market rate. Bob purchased the equipment three years ago for \$50, 000. Carla also receives \$5, 000 cash. Carla purchased the van two years ago for \$20, 000. a. Does the transaction satisfy the requirements of Sec. 351? Yes, the transaction does qualify. Dick's contribution of accounting services does not qualify as property. The other transferors own 750 of 850 shares (750/850 is 88%) which does meet the requirement for having control after the transaction.

b. What are the amount and character of the gains or losses recognized by Alice, Bob, Carla, Dick, and Bear? Alice receives a gain of 18, 000 on the land

(30,000-12,000) and a gain of 32,000 on the building for a total gain of 50,000. Alice can defer her taxes on the gain. Bob receives a gain of 15,000 (40,000 – 25,000) for the equipment. Bob receives a gain of 10,000 for the note. Bob must pay for the gain of 10,000 for note but not the 15,000 for the equipment. This is because the note is a boot and with a boot, Bob need only pay taxes on the higher of his gain or boot. Carla receives a loss of 5,000 which lowers her tax liability but this loss may be deferred. Dick recognizes the gain of 10,000 as income since he is providing services for stock. c. What is each shareholder's basis in his or her Bear stock? When does the holding period for the stock begin? d. What is Bear's basis in its property and services? When does the holding period for each property begin?

Eric purchased the land (a capital asset) five years ago for \$200,000. Florence purchased the equipment three years ago for \$48,000. The equipment has been fully depreciated. a. Does the transaction meet the requirements of Sec. 351?

No, The legal services of George do not count towards the control requirement. The other transferors own 750 of 1000 shares (750/1000 equals 75%) which fails to meet the control requirement. b. What are the amount and character of the gains or losses recognized by Eric, Florence, George, and Wildcat? Eric recognizes a loss of 150,000 for the land (50,000 – 200,000 equals loss of 150,000) which lowers his tax liability. Florence and George each see a gain of 25,000, Florence for the equipment and George for the services he provides in exchange for stock. c. What is each shareholder's basis in his or her Wildcat stock? When does the holding

period for the stock begin? d. What is Wildcat’s basis in the land, equipment, and services? When does the holding period for each property begin? C: 2-56

Assume the same facts as in Problem C: 2-55.

a. Under what circumstances is the tax result in Problem C: 2-55 beneficial, and for which shareholders? The Tax result is beneficial for Eric since it reduces his taxable income by the amount of the loss, thereby reducing his tax liability. b. Can you suggest ways to enhance the tax benefit?

If Eric were able to split the loss over two or more tax years it would be to his advantage.