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## Roger CPA Review

Roger Philipp CPA, CGMA

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# **ROGER**

## *CPA Review*

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4 Tax Questions  
*for SJSU MST Contemporary Tax Journal*

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**Written By:**

Roger Philipp, CPA, CGMA

**Roger CPA Review**

**P.O. Box 590059**

**San Francisco, CA 94159**

**[www.rogercpareview.com](http://www.rogercpareview.com)**

**(877) 764-4272**

**(415) 346-4272**

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On behalf of Roger CPA Review  
San Francisco, CA  
USA

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1. Collins, a single taxpayer, is a 30% shareholder in an S corporation. For the current year, the S corporation reports the following:

- Qualified business income (QBI) - \$200,000
- W-2 wages - \$65,000
- Unadjusted basis of qualified property - \$25,000

Assume Collins has no other taxable income or deductions. The Section 199A threshold amount for the year is \$157,500. What is the QBI deduction for Collins' share of the S corporation QBI?

- a) \$5,500
- b) \$9,750
- c) \$12,000
- d) \$40,000

**c) Correct!** Normally, the deductible QBI is equal to 20% of the business's QBI, determined at the shareholder level; however, the QBI deduction may be subject to a wage/property limitation (i.e., greater of 50% of W-2 wages; or 25% of W-2 wages + 2.5% of unadjusted basis of qualified property) starting at the Section 199A threshold amount of \$157,500 for single taxpayers (multiply that by 2 for married taxpayers). Since Collins' \$60,000 taxable QBI (i.e., her 30% share of the \$200,000 QBI) does not exceed the \$157,500 threshold, the wage/property limitation does **not** apply. Thus, Collins' QBI deduction is \$12,000 (20% x \$60,000).

2. Calyx Corp. is a C corporation that began operations in Year 1. Calyx Corp's Year 1 through Year 3 taxable earnings and profits, prior to the distribution described below, are as follows:

Year	E&P
1	(5,000)
2	10,000
3	20,000

On the last day of Year 3, Calyx Corp. makes a distribution to its sole shareholder, Melver, in the form of property with an adjusted basis to Calyx of \$30,000 and a fair market value of \$40,000. Assuming Melver has sufficient basis in the Calyx stock investment, what amount of the property distribution to Melver is a nontaxable return of capital?

- a) \$20,000
- b) \$15,000
- c) \$30,000
- d) \$5,000

**d) Correct!** Corporate distributions are measured on the basis of the amount of cash and the fair value of property distributed. Thus, Calyx's distribution will be in the amount of \$40,000, the fair market value of the property distributed. Since the amount is greater than the basis in the property, the \$10,000 difference will be treated as if the entity had sold the property at a gain, increasing current earnings and profits from \$20,000 to \$30,000. Calyx's accumulated earnings and profits were \$5,000. Therefore, the distribution will be taxed as a dividend to the extent of the current period's earnings and profits of \$30,000 and the accumulated earnings and profits of \$5,000, for a total of \$35,000, leaving a \$5,000 return of capital.

3. In a qualifying reorganization, Currant Corp. exchanges \$700,000 of its own stock and \$50,000 of Pear Corp. stock with a basis of \$35,000 for all of the assets of Raisin Corp., which have a value of \$900,000 and a basis of \$600,000. Raisin Corp. retains the stock in Pear Corp., which is a party unrelated to the reorganization. What amount of gain or loss, if any, will Raisin Corp. recognize as a result of this reorganization?

- a) \$50,000 gain
- b) Neither gain nor loss
- c) \$15,000 gain
- d) \$150,000 gain

**a) Correct!** When an acquired entity receives boot (i.e., unlike property) in an exchange, whether or not gain is recognized depends on the disposition of the boot. If it is distributed to shareholders, no gain or loss is recognized by the entity. If it is retained, however, gain is recognized. Since Raisin is exchanging assets with a basis of \$600,000 for Currant stock with a value of \$700,000 and Pear stock with a value of \$50,000, the realized gain is \$150,000. However, gain will be recognized only to the extent of boot received and retained—i.e., the value of the Pear stock received, \$50,000.

4. Dale and Hillary were divorced in 2014. The divorce decree provides that Hillary pay alimony of \$10,000 per year, to be reduced by 20% on their child's 18th birthday. During 2019, Hillary paid \$7,000 directly to Dale and \$3,000 to the state university for tuition for their child, who turned 18 during 2018. What amount of these payments should be reported as income in Dale's 2019 income tax return?

- a) \$0
- b) \$5,600
- c) \$8,000
- d) \$10,000

**c) Correct!** Hillary made a total of \$10,000 in payments during 2019, including the \$7,000 paid directly to Dale and the \$3,000 paid for their child's tuition. Alimony would have been reduced by 20%, from \$10,000 to \$8,000, in the year when the child turned 18. As a result, \$8,000 of the payments made by Hillary would be considered alimony and would be taxable to Dale. The remainder would be considered child support. NOTE: Alimony is not deductible for divorces/separations executed after 2018. Alimony payments attributable to divorce/separation agreements finalized prior to 2019 remain deductible by the payer and includible in the recipient's income.