

## 8-50 Corporations ► Chapter 8

- Officer's salaries are \$80,000 for Flying Gator and \$65,000 for T. These amounts are included in salaries and wages in Table C:8-2.
- Flying Gator's capital losses include a \$9,000 long-term loss on a sale of land to T in the current year. T holds the land at year-end.
- The corporations have no nonrecaptured net Sec. 1231 losses from prior tax years.
- Estimated tax payments for the current year are \$100,000.

Determine the consolidated group's 2018 tax liability. Prepare the first page of the consolidated group's current year corporate income tax return (Form 1120). Hint: Prepare a worksheet similar to the one included in Appendix B to arrive at consolidated taxable income.

**CASE STUDY PROBLEM****C:8-69**

Carol owns all the stock of P Corporation and J Corporation. P operates six automotive service franchises in a metropolitan area. The service franchises have been a huge success in their first three years of operation, and P's annual taxable income exceeds \$600,000. Carol owns the real estate associated with the six service franchises and leases it to P. J receives a large interest and MACRS depreciation deductions because of a highly leveraged, capital-intensive operation. As a result, J has reported NOLs in its first three years of operation. P and J file separate tax returns.

Carol sees the idea for the automotive service franchise chain starting to really develop and expects to add six more locations in each of the next two years. Because of the rapid expansion that is planned, she feels that she has outgrown her father's accountant and needs to have new ideas to help her save tax dollars so she can reinvest more money in the business.

*Required:* The tax partner that you are assigned to requests that you prepare a memorandum outlining your thoughts about Carol's tax problems and suggested solutions to those problems in preparation for his meeting next week with Carol.

**TAX RESEARCH PROBLEMS****C:8-70**

Angela owns all the stock of A, B, and P Corporations. P has owned all the stock of S1 Corporation for six years. The P-S1 affiliated group has filed a consolidated tax return for each of these six years using the calendar year as its tax year. On July 10 of the current year (a nonleap year), Angela sells her entire stock investment in A, which uses the calendar year as its tax year. No change takes place in Angela's ownership of B's and P's stock during the tax year. At the close of business on November 25 of this year, S1 purchases 90% of the common stock and 80% of the nonconvertible, nonvoting preferred stock (measured by value) of S2 Corporation. All the corporations are includible corporations. Which corporations are included in the affiliated group? In the controlled group? What income is included in the various tax returns? How is the allocation of the income between tax years made if the books are not closed on the sale or acquisition dates?

A partial list of resources includes:

- IRC Sec. 1504
- IRC Sec. 1563
- Reg. Sec. 1.1502-76

**C:8-71**

P, R, and T Corporations have filed a consolidated tax return for a number of years using the calendar year as its tax year. Current plans call for P to purchase all of X Corporation's stock at the close of business on June 30 of the current year from three individuals. X was created seven years ago and always has been an S corporation using the calendar year as its tax year. The chief financial officer of P comes to your office and makes a number of inquiries about the tax consequences of the acquisition including: Can X retain its S election? If so, does X file a federal income tax return separate from the consolidated group? Does X have income included in the P-R-T group's consolidated tax return? Assuming the acquisition takes place as planned, what tax returns are required of the consolidated group and X? What income is included in the pre-affiliation tax return of X (if required) and the consolidated group's post-acquisition consolidated tax return? Prepare a brief memo for the chief financial officer outlining the answers to these questions and any other questions you feel are relevant.

A partial list of resources includes:

11. PARTIAL LIST OF RESOURCES INCLUDED

- IRC Sec. 1361(b)
- IRC Sec. 1362(d)(2)
- Reg. Sec. 1.1502-76