**Problem Set #6**

1. Assume Christy, an individual, owns 100% of Christy’s Computer, Inc. (CCI), a domestic entity treated as a corporation for tax purposes. Assume CCI, in turn, owns 100% of Hurt’s Happy Apps, Inc. (HHA), a domestic entity treated as a corporation for tax purposes. In 2016, HHA earns $200 of taxable income, and HHA pays 35% \* $200 = $70 of tax on that income. At the end of 2016, HHA consequently has $130 of earnings and profits. In 2017, HHA distributes $130 to CCI. In 2017, CCI, in turn, distributes whatever cash remains after paying taxes to Christy. Assuming nothing else happens in 2016 or 2017:
	1. How much tax liability would be incurred by Christy and CCI as a result of the distributions if Section 243 were not a part of the Internal Revenue Code, ignoring any implication of the consolidated return rules?
	2. How much tax liability is, in fact, incurred by Christy and CCI, given that Section 243 is a part of the Internal Revenue Code, assuming that any dividends received by CCI from HHA are “qualifying dividends” as defined in Section 243(b), ignoring any implication of the consolidated return rules?
	3. What are the answers above given the 2018 tax rate of 21% for corporations?
2. CCI, a domestic entity treated as a corporation for tax purposes owns 50% of Goofy Games, Inc. (GGI) (by vote and value), another domestic entity treated as a corporation for tax purposes. In 2017, GGI makes a Section 301 distribution of $100 to CCI. GGI has sufficient earnings and profits so that all $100 is treated as a dividend. How much tax liability does CCI incur as a result of the distribution?

(a) What is the answer above given the 2018 dividends received deduction rates?

(3) CCI owns 80% of HHA, a subsidiary corporation. The remaining 20% of HHA’s stock is owned by individual minority shareholders. In 2017, HHA distributes $40k to CCI and $10k to the other minority shareholders pro rata. What are the tax consequences of the distribution to both CCI and to the minority shareholders?

1. What is the answer above given the 2018 dividends received deduction rates?