**Problem Set #5**

1. Jessie, an individual, owns stock in Pixar, an entity treated as a corporation for tax purposes. On July 1 of year 2, Pixar makes a distribution of $20,000 cash to Jessie with respect to her stock. Jessie’s basis in the Pixar stock is $10,000 prior to the distribution. Pixar has no earnings and profits during year 2, but, as of December 31, Year 1, Pixar had earnings and profits of $30,000. Assuming nothing else happens during year 2:
   1. What are the tax consequences of the distribution to Jessie?
   2. What will Pixar’s accumulated earnings and profits be as of December 31, year 2?
2. Answer the same questions presented in problem #2 but assume that the amount of the distribution is $35,000 rather than $20,000.
3. Answer the same questions presented in problem #2 but assume that the amount of the distribution is $45,000 rather than $20,000.
4. Buzz, an individual, owns stock in Pixar, an entity treated as a corporation for tax purposes. Assume Buzz is subject to 20% tax on dividend income received from Pixar. Also, assume Buzz has held shares in Pixar as a capital asset and for more than one year so that Buzz would be subject to 20% tax on gain from sale of shares in Pixar. On July 1 of year 2, Pixar makes a distribution of $20,000 cash to Buzz with respect to his stock. Buzz’s basis in Pixar stock is $10,000 prior to the distribution. Pixar has no earnings and profits during year 2. Assuming nothing else happens during year 2, how much tax liability does Buzz incur as a result of the distribution if:
   1. As of December 31, year 1, Pixar had earnings and profits of $20,000?
   2. As of December 31, year 1, Pixar had no earnings and profits?

How would the answers to (a) and (b) above change if Buzz were subject to 35% tax on dividend income received from Pixar but still only 20% tax on gain from sale of shares in Pixar?

1. Woody, an individual, owns stock in Pixar, an entity treated as a corporation for tax purposes. Woody’ss basis in his stock is $100. As of December 31, year 1, Pixar has an accumulated earnings and profits deficit of $50. During year 2, Pixar has earnings and profits of $25. During year 3, Pixar has no earnings and profits. Assuming nothing else happens in years 1-3, what are the tax consequences to Woody if:
   1. Pixar distributes $25 cash to Woody in **year 2**, with respect to Woody’s stock? Also, what are Pixar’s accumulated E&P as of December 31, year 2?
   2. Pixar, instead, distributes $25 cash to Woody in **year 3**, with respect to Woody’s stock?
2. Jessie, Buzz and Woody are three individuals. Pixar is an entity treated as a corporation for tax purposes. Jessie owned 100% of the stock of Pixar from January 1, Year 2 through March 31, Year 2. Buzz owned 100% of the stock of Pixar from April 1, Year 2 through June 30, Year 2. Woody owned 100% of the stock of Pixar from July 1, Year 2 through December 31, Year 2. As of December 31, Year 1, Pixar had $75 of accumulated earnings and profits. From January 1, Year 2 through March 31, Year 2, Pixar had $100 of current earnings and profits. From April 1, Year 2 through June 30, Year 2, Pixar had $200 of current earnings and profits. From July 1, Year 2 through December 31, Year 2, Pixar had a $150 current earnings and profits deficit. Each of Jessie, Buzz and Woody received a $100 distribution with respect to his or her stock during the time period during which he or she owned the stock. How much, if any, of each distribution is treated as a dividend for tax purposes?
3. Pixar, an entity treated as a corporation for tax purposes, has one class of stock outstanding. Rex, an individual, owns two shares of Pixar stock. Because Rex acquired the shares at different times, Share 1 has a $1 basis and Share 2 has a $10 basis. In year 2, when Pixar has no accumulated earnings and profits and no current earnings and profits, Pixar distributes $6 cash to Rex with respect to his stock. If nothing else happens during year 2, what are the tax consequences to Rex of the distribution?
4. Determine the tax consequences to the shareholder in the following situations. Also determine what Pixar’s accumulated earnings and profits will be at the end of year 2:
   1. On July 1, Year 2, Pixar, an entity treated as a corporation for tax purposes, made a distribution of $20,000 to its sole shareholder, whose stock had a $5,000 basis. No other distributions were made in year 2. As of December 31, Year 1, Pixar had no accumulated earnings and profits. In year 2, Pixar had current earnings and profits of $15,000 as of July 1 but only $5,000 for the entire year.
   2. Suppose in (a) that Pixar had an accumulated earnings and profits deficit of $15,000 as of December 31, year 1.
   3. Suppose in (a) that Pixar had accumulated earnings and profits of $15,000 as of December 31, year 1, and that in year 2, Pixar corp had a $15,000 earnings and profits deficit on July 1, but a $5,000 earnings and profits account for the entire year.
   4. Suppose that Pixar had a current E&P deficit of $20,000 for the entire year for year 2 and accumulated earnings and profits of $15,000 as of December 31, year 1. On July 1, Year 2, Pixar distributed $20,000 to its sole shareholder, whose stock has a $5,000 basis.