**Homework 2**

**B. LETTER TO JEROME HOWARD**

Attention: Jerome Howard

Date: 11/07/16

Subject: ……………………

Dear Mr. Howard

In response to your question whether or not you must report a gain on the transfer on your tax return, the answer is yes, you must because it is taxable.

The Internal Revenue Code, the Publication 544-Sales and Other Dispositions of Assets-, Chapter 1 provides:

“IF your adjusted basis is more than the amount realized, then you have a Loss. IF your amount realized is morethan the adjusted basis, then you have a Gain.”

 In your case, you transferred your property for stocks. The basis of your property is $300,000 and a fair market value of $900,000. Therefore you realized a gain of $600,000. In addition, you do not own, immediately after the exchange, at least 80% of the total combined voting power of all classes of stock of the corporation. Therefore, the Nontaxable provision of Property for stock of a controlled corporation does not apply. As a result your gain is taxable.

Closing sentence

**B. MEMO**

TO: All CPAs In Private Practice

FROM: Raza Kami, CPA In Private Practice

DATE: 11/07/16

SUBJECT:

The purpose of this Memo is to bring your attention to the Jerome Howard. The context of this case is the application of the Internal Revenue Code of 1954, Gains or Losses From Sales and Exchanges in Publication 544.“This CodePublication 544 imposes that a gain is realized from a sale or exchange of property that is more than its adjusted basis. Whereas a loss is the adjusted basis of the property that is more than the amount you realize.”

**FACTS**

Jerome Howard has an exchange of the transfer of property of the market value. Jerome exchanges the property of $300,000 and a fair market value of $900,000 for 70% of the stock of Stooges Corporation. Jerome Howard then gets a gain realized for $600,000. The other 30% of the stock is owned by Jules White who acquired his stock several years ago. In addition, you do not own, immediately after the exchange, at least 80% of the total combined voting power of all classes of stock of the corporation. Therefore, the Nontaxable provision of Property for stock of a controlled corporation does not apply. As a result your gain is taxable.

**ISSUES**

The issue here is whether or not he qualifies for exemption. Since Jerome has not done anything illegal or found guilty of violating the IRS Code. He is just trying to report a gain on from his stock.

**LAW AND ANALYSIS**

The applicable law, in this case, is the Internal Revenue Code of 1954.,Section 441 in particularprovides:

“The period for which the return is made, if a return is made for a period of less than 12 months. Thus, under Section C if in the annual accounting period the basis of which the taxpayer regularly computes his or her income to keep his or her books.”

**CONCLUSION**

I will recommend that of whatever money that you earn and gain.So that these things are safeguarded better from where it needs to be. I will be glad to answer your questions during our next meeting.

**ATTACHMENTS**

Law.cornell.edu. (n.d.).26 U.S. Code § 441 - Period for computation of taxable income. Retrieved November 07, 2016, from https://www.law.cornell.edu/uscode/text/26/441

Www.irs.gov. (n.d.).2015 Publication 544.Retrieved November 7, 2016.