

## PwC Case Studies in Taxation

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### Index of Cases

#### 2015 Edition



Case studies in this collection incorporate the tax laws in effect as of June 30, 2015. For the most part, tax forms available as of that date related to the 2014 tax year.

### Distribution

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Name of Case	Primary Tax Topics(s) Discussed in Case	Year Case Added to Collection
Accounting for Income Tax - Edgewood	In this case study, a US corporation applies ASC 740 / FAS 109 rules to compute its tax accruals and payables. Students perform all the steps to derive the financial statement tax accounts and footnotes. Students compute book income before taxes, identify book-tax differences and classify each as to temporary or permanent, compute federal and state income taxes, and complete the ASC 740 / FAS 109 journal entry. The tax-footnote income tax rate reconciliation is optional.	2007

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Accounting for Income Tax - Estabrook	This advanced case develops the issues found in the Edgewood case and adds ASC 740-10 / FIN 48 to the mix. In this case study, a US corporation applies ASC 740 / FAS 109 and ASC 740-10 / FIN 48 to compute its tax accruals and payables. Students perform all the steps to derive the financial statement tax accounts and footnotes. Students compute book income before taxes, identify book-tax differences and classify each as to temporary or permanent, compute federal and state income taxes, analyze several uncertain tax positions, and complete the ASC 740 / FAS 109 journal entry. The tax-footnote income tax rate reconciliation is optional. Completion of the related Schedule M-3 also can be assigned.	2007
Accounting for Income Tax - Extra	An entry-level case involving the financial reporting of the income tax provision. The provision amount is computed using trial balance data. Students first classify permanent and temporary differences between book and taxable income, including an identification of the current and non-current amounts. The solution discusses the IFRS treatment of income tax deferrals.	2008
Accounting for Income Tax – Wood Group	A compliance oriented view of book-tax differences. A federal consolidated group files a Schedule M-3 for its operating results. Students must analyze a series of transactions, perform intercompany eliminations, and complete Schedule M-3 for the consolidated group.	2007
Accounting for Income Tax - Wylie	A compliance oriented view of book-tax differences. A US C corporation prepares a Schedule UTP with respect to disclosures of certain of its tax positions. Students analyze the GAAP tax deferrals and adjustments, in preparing the schedule using the taxpayer's data.	2011
Accounting for Income Tax – Yost Partnership	A compliance oriented view of book-tax differences. A US partnership files a Schedule M-3 for its operating results. Students must determine whether the partnership must file a Schedule M-3 with its Form 1065. Then they analyze a series of transactions and complete Schedule M-3 for the entity.	2008
C-Corporation – Axle	An investor wishes to take over only one of the on-going businesses of the client. The student must weigh the pros and cons of the alternative forms that such a reorganization/liquidation could take. Considerations include the current gain/loss to the parties, and the investor's access to carryover tax attributes.	2008
C-Corporation – Carlstrom Products	This case study concerns the acquisition by one corporation of a previously unrelated target corporation through a triangular merger. The primary issue is the qualification of the acquisition as a nontaxable reorganization. The acquired corporation has net operating loss carryforwards and owns several assets, the values of which are substantially below their adjusted tax bases. Consequently, the case also requires an analysis of IRC §382 as it applies to the acquisition.	Prior to 2005
C-Corporation – Eaton Graphics	This case study focuses on the tax consequences of an IRC §332 liquidation of a controlled subsidiary to (1) the controlling parent, (2) the subsidiary, and (3) a minority shareholder. It also raises issues concerning the treatment of net operating losses as a subsidiary in a consolidated group. Finally, the case requires the student to apply the SRLY rules for both the loss subsidiary and its successor entity.	Prior to 2005

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C-Corporation - Grunwald	A private equity fund wants to acquire one of the two operating divisions of a US corporation. A “cash-rich spin-off” transaction is devised, involving significant amounts of cash that may be received by the corporation’s shareholders. Students determine whether the steps in the proposed restructuring qualify for tax-deferred treatment. They compare the proposed result to the tax consequences of a taxable sale of the division.	2012
C-Corporation – Wheeler Electrical	This case study examines the tax consequences to an individual shareholder of the liquidation of an insolvent subsidiary. It requires the application of the IRC §108 rules on forgiveness of indebtedness and the § 336 rules on gain or loss recognition to a liquidating corporation. The case also reviews the differing tax consequences of recourse and nonrecourse corporate debt assumed by a shareholder who receives assets in liquidation.	Prior to 2005
C-Corporation – Yellow Springs	The student conducts and “E&P study” for a corporation that never has determined its balance in the Earnings and Profits account. The case study requires that multi-year computations be made, using a spreadsheet format.	2014
Corporate AMT – Blazek Industries	The corporation may qualify for the small business corporation exemption from the alternative minimum tax, based upon the level of its gross receipts. Related effects are examined as to the treatment of various AMT adjustment items after the small business corporation exemption is lost.	2014
Corporate AMT - Chosen	This case study focuses on the alternative minimum tax for C corporations. Students calculate the regular tax and the AMT. Comments are required after making the computations, for instance, as to an unused general business credit, the minimum tax credit carryforward, and the effects on estimated tax payments.	2005
Exempt Orgs - Northside Mission	This case focuses on the public support tests under §§ 509(a)(1) and (a)(2). Students must determine whether the organization is a public foundation.	2006
Exempt Orgs – Tait College	This case study examines the unrelated business income tax rules. Students must analyze specific examples of activities that may potentially generate unrelated business taxable income for the college.	2006
Family Tax Planning – Benoit Family	This case study examines the alternatives that are available when an individual dies while holding a positive balance in a traditional IRA. Requirements and elections are examined as to the minimum distributions that are required of the surviving beneficiary.	2011
Family Tax Planning – Lopez Trust	A complex trust makes distributions and retains some entity accounting income, so it incurs a tax liability. The student must follow the sequence of income computations to determine the entity and beneficiary share of accounting income, and related tax effects.	2010

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Family Tax Planning – Moore Family	This case study concerns the family tax planning goals of a highly compensated corporate executive with three grown adult children and three minor grandchildren. Students analyze the income and transfer tax consequences of direct and indirect gifts of developed and undeveloped real estate. Recent trends in Family Limited Partnerships are explored. Secondary issues include the tax consequences of charitable contributions of appreciated capital gains property, and the role of life insurance in a family tax plan.	Prior to 2005
Family Tax Planning – Pyle Family	The founder of a closely held business wants to retire and pass the corporation and other investments to various family members. Consideration is given to the financial and other goals of the family, and various means by which to reduce transfer taxes. Students derive and diagram ideas for the family tax plan.	2008
Family Tax Planning – Scholz Family	A married couple owns substantial assets and wants to pass them to younger family members with minimal federal transfer tax cost. This advanced case considers gift and estate taxes, as well as the present value of income tax obligations of the heirs. Analysis of the use of the DSUEA also is required.	2015
International Tax – Beamon	A US corporation holds sizable foreign tax credit carryforwards and needs to use them up before the credits expire. The student analyzes sourcing rules for the entity's income and deduction items so as to best manage the credit carryover.	2009
International Tax – Estrada Distributing	The student performs basic research on the terms of an income tax treaty. A US entity intends to expand overseas, and the student derives information concerning the tax effects of the expansion on US taxable income.	2013
International Tax - Orange	This case study addresses various provisions of the Code applicable to US taxpayers with overseas operations. It is thorough and somewhat complex computationally. The first part of the case analyzes the tax consequences of organizing an overseas operation as a branch v a subsidiary. The second part analyzes the effect of repatriating substantial amounts of non-US income to the US parent.	Prior to 2005
International Tax – Williams	A planning case that traces the effects of host country tax rates and international entity structuring. A US corporation must arrange its operations so as to reduce total current income tax liabilities relative to its offshore operations. The effects of debt and equity investments, of host-country tax incentives, and of available marginal tax rates, are examined.	2009
Multistate – Brill Manufacturing	Analysis is made as to identifying the best location for a corporation's operations, in an entry-level case study. Tax differentials are computed when the entity moves inventory from one state to another, using a distribution center.	2015
Multistate – Olsen Group	A conglomerate of US corporations must employ methods by which to assign taxable income amounts for its affiliates to specific US states. Different reporting methods are available for this purpose, including applications of consolidation rules and the unitary theory, and the student examines several of them.	2009

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Multistate – Pallor Group	A more advanced view of consolidated returns and combined reporting methods. Students analyze group members' taxable incomes and apply various worldwide and waters'-edge computations to derive group state tax liabilities. The <i>Joyce v Finnegan</i> effects are examined as well.	2011
Multistate - Pike	This case focuses on a corporation with sales in multiple states. Students use apportionment and allocation principles to derive the corporation's taxable income in one jurisdiction in which the corporation operates.	2006
Partnerships – Blue	This case is designed to help the student to develop tax consulting skills of a sort that are used in the tax practice. A prospective client has submitted a prior-year Form 1065. The student must review the return and identify basic and advanced information about the client, potential tax issues, and additional information that is needed before the client's tax work can be undertaken.	2013
Partnerships – Chisum Enterprises	A partnership undergoes a so-called technical termination, and it wants to accelerate deductions for the amortization of its purchased goodwill, organizational costs, and start-up expenses. The student must examine how such items are treated after a technical termination occurs.	2014
Partnerships - Leland	This case explores the tax consequences of a contribution of appreciated property to a partnership in exchange for a limited partnership interest. It requires students to apply the allocation rules of IRC §704(b), as well as the loss limitation provisions of §§704(d), 465 and 469. The second issue in the case involves the complete liquidation of the partnership subsequent to a cash sale of all partnership properties.	Prior to 2005
Partnerships – Neeley	A partner retires from a general partnership and takes a series of payments over time as consideration for the interest that is surrendered. The student measures and characterizes the payments, chiefly under §736.	2010
Partnerships - Peachtree	This entry-level case study involves the choice of an LLC for a new entity. The treatment of flow-through losses and the consequences of asset distributions to LLC members also are explored in the case.	Prior to 2005
Partnerships - Wolford	This case study involves the installment sale of an interest in a partnership that owns inventory. The sale triggers a termination of the partnership under IRC §708. The case study also requires the students to analyze the transaction from the purchaser's point of view, and to determine the effects of a §754 election on the purchaser's basis in the proportionate share of partnership assets.	Prior to 2005
S-Corporation - Hawaiian	This case study concerns qualification requirements for an S corporation, curing an election when there exist nonqualifying stock and ineligible shareholders, and the deductibility of fringe benefits for 2 percent shareholders. A C corporation converts to S status and incurs a built-in-gains tax.	Prior to 2005
S – Corporation – Janis	An acquisition of the target, an existing S corporation, does not by itself qualify for §368 reorganization status. The student must analyze whether a restructuring prior to the takeover will trigger the step transaction doctrine, or if instead the tax deferral is allowed.	2010

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S-Corporation - Murray	This case involves the inadvertent termination of a corporation's Subchapter S election and the tax consequences of the termination to both the corporation and a major shareholder. Secondary issues include the tax consequences of the repayment of an S corporation's debt held by a shareholder when the basis of the debt has been reduced by the deduction of corporate losses, and the proper classification of interest expense on debt the proceeds of which were used to invest in an S corporation.	Prior to 2005
S-Corporation - Tyler	This case focuses on the tax consequences of a distribution of appreciated property by an S corporation to its shareholders and the effects of the distribution on the corporation's Accumulated Adjustments Account. It also raises the issue of reasonable compensation to shareholder/employees. The second part of the case study explores the tax consequences of a sale of S corporation stock during the corporation's taxable year.	Prior to 2005
Small Business - Bearden	This case involves the application of IRC §351 and includes the transfer of zero basis accounts receivable to a newly created corporation, the transfer of liabilities in excess of basis, a possible "prearranged" loss of control by the transferor, and capitalized organization expense. A second issue is the transfer of a passive activity to a closely held corporation. A third issue is the application of §2701 to value a gift using a corporate "freeze" as part of a business succession plan.	Prior to 2005
Small Business - Central Colorado	This case study involves a variety of problems often encountered by closely held corporations: choice of business form; the application of IRC §1239 to a sale by a shareholder to the corporation; constructive dividends; accrual of corporate expenses owed to a cash-basis shareholder; use by shareholders of company provided cars; and loans to shareholders at below-market rates of interest. Another issue concerns the creation of a brother-sister controlled group.	Prior to 2005
Small Business - Curtis	This case involves a proposed stock redemption from a closely held corporation, and requires the student to compare the consequences of a redemption treated as a sale with the consequences of a redemption treated as an IRC §301 distribution. It emphasizes tax planning with the §318 stock attribution rules. A second issue is the computation of earnings and profits and the effects of a stock redemption on earnings and profits	Prior to 2005
Small Business - Flatirons	This case study covers three sets of issues. The first part deals with taxable transfers of property and services to an existing corporation by new shareholders. The second part explores the deductibility of home office expenses and travel expenses while temporarily away from home and employer reporting requirements for reimbursed business expenses. The last part considers the deductibility of environmental clean-up expenditures.	Prior to 2005
Small Business – Hopwood Trust	A trust is a partner in a general partnership. The partnership passes through income to the fiduciary, but it does not make any cash distributions during the year. The student analyzes how these events affect the trust's accounting income and taxable income. The case also addresses the deductibility of fiduciary fees and the two-percent floor.	2010

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Small Business – Klug Manufacturing	An S corporation shareholder want to decrease the amount of flow-through income that is taxed in the current year. The self-charged interest rules can be used to accomplish this goal, as they interpret the passive activity provisions. The student compares the resulting AGI for the shareholder, depending on whether the self-charged rules apply.	2013
Small Business – Mimi’s Cupcakes	A sole proprietorship is planning to incorporate and bring in two new shareholders. In this entry-level case, the student offers planning ideas about which assets should be transferred to the new entity, and which the proprietor might withhold when the corporation is created.	2012
Tax Accounting – Bartz Corp	This case examines the application of installment sales rules when a third party wants to purchase an asset from an S corporation. The shareholder and entity want to defer gain recognition. Consideration also is needed as to whether the entity liquidates or stays in existence.	2015
Tax Accounting - Raven	A manufacturer is subject to the UNICAP rules in determining its inventory valuation. The student applies the simplified production method to determine the year’s absorption ratio, and to allocate indirect costs to inventory.	2012
Tax Profession and Ethics – Beach Time	The taxpayer is subject to multiple tax penalties. The student applies and computes the penalties using the ordering system suggested by the regulations. This advanced case demonstrates the difficulties presented by penalties that overlap in one tax year.	2013
Tax Profession and Ethics – Happy Ways	The client needs to construct a schedule of estimated federal income tax payments for the year, so as to minimize the amounts remitted to the government, and to avoid any penalty for underpayment of estimates. Three exceptions to the penalty are examined.	2009
Tax Profession and Ethics - Wise Holland	This case study deals with the various standards of conduct and penalties that apply to tax return preparers and taxpayers, including the standards established in the AICPA's Code of Professional Conduct and IRS Circular 230. The case addresses the applicability of the penalty for substantial understatement of tax liability resulting from the disallowance of deductions and errors on previous years' returns. The case also discusses the disclosure and other penalty abatement provisions available to taxpayers. Finally, the case analyzes the statute of limitations and taxpayer and preparer reporting standards, e.g., substantial authority, more-likely-than-not, and "realistic possibility of being sustained."	Prior to 2005

## FEEDBACK

The series editor revises all of the cases studies annually, taking into account law changes and various editorial enhancements. To maintain the security of the solution set, computational changes to selected cases are included in the annual revisions.

Please contribute to the series editor any pedagogical techniques you have found to be successful or unsuccessful. Any additional comments, ideas for new cases, or other contributions are welcomed. [Contact](#) Bill Raabe with these contributions.