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Question One

1. Incentive stock options - §422 Assuming all requirements are met there will be no federal tax consequences to
1 Betty @ time of grant or at time of exercise, She must be an employee (she's), must not be a price spread @ time
3 of grant (there isn't), it is within the $100,000 limit, and she must hold the stock for at least 1 year
So no income to Betty @ time of grant or exercise,
1 Her basis in the stock is $30,000 (the amount paid for the stock. When she eventually sells the stock
1 it will be a capital gain (or loss) and the amount of gain (loss) will be determined by the difference between the sale price & her adjusted basis ($30,000). If it is a capital gain she will include in capital income in year stock sold & will pay tax @ preferential tax rate. If it's a capital loss she can only deduct against capital gains (plus $3,000/year of her ordinary income), but she can carry the capital losses forward.

2. Dividend on stock - § 1(h)(11) There is a temporary
1 exception to 1222 that says dividends on stock are taxed @ capital gain rates, so the $9,000 check
2 will be taxed as capital gain in 2007 (Betty
1 received the payment in 2007 so it goes on that tax return).

3. Beachfront property - §1041 Since the transfer of property from Jason to Betty occurred after they were

married it is not taxable to Betty (or deductible
1 for Jason). The transfer is treated like a gift (although
no gift tax is required to be paid). This means
3 Betty will assume Jason's basis in the beachfront
property (§1015) since his basis is less than
the FMV. Therefore Betty's basis in the property
is $275,000. There will be no tax consequences
to Betty until she dispositions the land. It most
likely will be capital gain (or loss) @ that time
since this appears to be held for investment (if
personal use, then capital gain but losses won't be
deductible). If she sells it her gain (loss) will be
diff between sale price & basis. If she exchanges
she may avoid recognition & have no tax consequence.
Since it is land depreciation is not allowed so it
won't be a factor.

3. Attorney fees — If related to personal issue there
1 are not deductible. If related to business then
it is deductible §(162 or 262) * However, since
this is all about agreeing to get married, which
1 is a personal activity, this does not appear to be
a deductible expense. If it was it would be
subject to the 2% floor (§67). * But, since
2 it has to do with ~~purchase~~ obtaining property it probably
still wouldn't have been deductible – would have had to
be added to basis of property (§263).

4. Return/Correction of $4,000 – §1341 (claim of right doctrine).

1 Betty can choose one of two ways to deal with this. She can either take a $4,000 deduction on her
2 2008 tax return or she can re-open her 2007 tax return, figure out how much tax she pd on this
1 $4,000 and then take that amount as a credit on her 2008 tax return. Since the original income
1 was ordinary (salary), this deduction or credit also would be ordinary.

Question 2

1. Regarding the life insurance proceeds, there is a categorical rule that these payouts are not taxed, regardless of the amount (see IRC § 101). Therefore, there are no tax implications to Charles on the
3 $100,000 received from the insurance company. It is of no consequence that his mother only paid $65,000 in premiums. Life insurance is a gamble and, in this case, the insurance company lost.

2. Regarding the cabin property, since Charles inherited the property this is a gift by death and his basis is the FMV of the property at the time of his mother's
2 death ($1,000,000). (§1014). The amount of the equity loan may or may not be added to the property's basis, depending on how his mother used that money. If