

Q1(a)

a) Good Luck Corporation, a calendar-year, accrual-basis Corporation, has \$500,000 of gross receipts and \$320,000 of expenses from its service business. In addition, it has \$5,000 of tax-exempt interest income, \$20,000 of dividends from an affiliated corporation, a \$10,000 short-term capital loss, and authorized a charitable contribution of \$15,000 on December 15, which it paid on March 31 of the next tax year.

Required:

What is Good Luck Corporation's taxable income and income tax liability for the current tax year?

Answer(Q1a):

1- We won't include the \$5,000 interest as an income because it is tax-exempt.

2- Even though the charitable contribution will be authorized in the current tax year, it will be paid in the next tax year, so from the tax point of view, it will be considered as an expense in the year it's paid. (We won't deduct the charitable contribution this year, we will deduct it next year)

3- Since the dividends are from the same company (100% ownership) so it is subjected to 100% DRD.

Dividends	50,000
Interest	5,000
Total Income	55,000
Charitable Contribution	(5,000)
Total Deductions	(5,000)
Total Taxable Income	50,000