

**RETIREMENT PLANNING & EMPLOYEE BENEFITS FOR FINANCIAL PLANNERS
4TH EDITION UPDATES**

CHAPTER 6

Multiple Choice #2, Page 276

2. Mike, age 60, is a participant in the stock bonus plan of Tantalus, Inc., a closely held corporation. Mike received contributions in shares to the stock bonus plan and Tantalus, Inc. took income tax deductions as follows:

Year	# of Shares	Value per Share (At Time of Contribution)
<u>2005</u>	100	\$10
<u>2006</u>	125	\$12
<u>2007</u>	150	\$13
<u>2008</u>	200	\$15
<u>2009</u>	400	\$18

Mike terminates employment and takes a distribution from the plan of 975 shares of Tantalus, Inc., having a fair value of \$19,500. What are Mike's tax consequences?

- a. There are no immediate tax consequences because he has not sold the stock.
- b. Mike has ordinary income of \$14,650 at distribution.
- c. Mike has net unrealized appreciation of \$19,500 at distribution.
- d. Mike has ordinary income of \$19,500 at distribution.

The correct answer is b.

Mike's ordinary income is exactly equal to Tantalus, Inc.'s deduction at the time of contribution, \$14,650 (see chart below). Mike's net unrealized appreciation is \$4,850 (\$19,500 - \$14,650) and will be taxed as long-term capital gains when the stock is sold.

# of Shares	Value per Share	Value of Contribution
100	\$10	\$1,000
125	\$12	\$1,500
150	\$13	\$1,950
200	\$15	\$3,000
400	\$18	\$7,200
Total		\$14,650