

**Business 223A**  
**Research Memo and Letter Analysis**

**Sample Memo to be Critiqued in Class**

June 25, 2006

To: Client File  
From: Pat Smith  
Re: Tax Effect of Found Money

**Facts:** In 2000, the client purchased an old music box at a charity auction for \$25. In May 2006, they found 50 \$100 bills stuffed inside the box and were unable to locate the owner.

The client wants to know whether the \$5000 has any tax effect?

According to CCH ¶631.6916, this situation is similar to a case where a taxpayer found old currency in a piano bought for \$15. The money was held to be includable in gross income. The court also held that the income was not entitled to capital gains treatment. There was one other case where the holding was similar.

Also, I found Revenue Ruling 61 that simply states that the finder of treasure trove has taxable income to the extent of its value in US currency for the tax year in which it is reduced to undisputed possession. So, it would appear that the client won't have to amend his 2000 return as the income should be reported on his 2006 return.

**Conclusion:** We should let the client know that the \$5000 is taxable income that must be included on his 2006 tax return.

## LETTER FOR CRITIQUE

Mr. Michael Olsen  
Tax Director  
XZ Corporation  
55 Main St.  
San Jose, CA 90098

Dear Mike:

In response to your inquiry regarding the merger of XZ Corp. and its newly formed subsidiaries S1 and S2, I have come to the following conclusions:

- The legal and accounting services for drafting new charters and for accounting advice regarding the merger as well as the three weeks salary for the accounting personnel, will be amortizable over a period not less than 60 months. If a timely election to amortize these costs is not made, the \$59,000 will be capitalized and no tax benefit will be obtained.

- The previously unamortized organizational expenses of XZ Corporation will be a tax attribute that carries over to the surviving corporation, in this case, S2. The costs will continue to be amortized over the remaining life.

- The \$5,000 incurred to issue new stock certificates is a capital expenditure and not currently deductible. These expenses can offset the proceeds of the issuance of the new stock.

Please feel free to call me at 555-1212 if you have any concerns or questions about the results discussed above.

Very truly yours,

Jane Doe  
Tax Manager