

investors identical to Rudy. The remaining funds cannot be accounted for. Rudy continues discussions with the FBI agents over the next few weeks to monitor the progress of their investigation. On January 9, 2017 Rudy sees on the news that Terri has been indicted for fraud and embezzlement. Is Rudy entitled to a deduction for his lost investment? If so, how much and in what year may Rudy take a deduction?

#### **Part 4-(TEAMS ONLY)**

The Pretzel Wagon wants to retain Rudy services for 6 months and will employ him for 6 months as an employee for \$18,000 (with \$3,000 paid to Rudy per month) while a new manager is found. In addition, Pretzel Wagon will pay Rudy \$20,000 at closing for a covenant not to compete for \$10,000 per year. In exchange, Rudy will agree not to operate a competing business for 2 years (2017-2018) within a 30-mile distance from Dayton, Ohio. The first installment (\$10,000) is due at closing in 2016. If Rudy agrees to the above terms, how would he treat these items on this tax return? In which tax year(s) will Rudy recognize income from this transaction?

**Teams-** You must answer Parts 3 and 4.

**Individuals-** You must answer Part 3.

**Format for Memo-** Please use the IRAC formula in writing your memo. Please use a separate IRAC for each issue. You must follow the Accounting Department Writing Guidelines (attached) in preparing your memo.

- Identify the Issue (The issue is whether or not Rudy may...)
- State the Rule-i.e. Code or Regulations (Internal Revenue Code Section 2(a)(1)(A) states...)
- Analyze the Rule and Apply the rule to the particular facts stated (Section 2 (a)(1)(A) would apply to Rudy's particular circumstances...)
- Draw a Conclusion. (Based upon Section 2 (a)(1)(A), the couple may/may not deduct... and/or (In order to determine the answer to this question, the following questions must be answered...).