Pool Canvas

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Add Calculated Formula GO | Creation Settings

Name CHAPTER 14--PROPERTY TRANSACTIONS: DETERMINATION OF GAIN OR LOSS AND BASIS CONSIDERATIONS

Description

Instructions

Modify

Add Question Here

Question 1 **True/False** **0 points** Modify Remove

Question Realized gain or loss is measured by the difference between the amount realized from the sale or other disposition of property and the property's adjusted basis at the date of disposition.

Answer
✓ True
False

Correct Feedback Realized gain or loss is the difference between the amount realized and the property's adjusted basis.

Incorrect Feedback Realized gain or loss is the difference between the amount realized and the property's adjusted basis.

Add Question Here

Question 2 **True/False** **0 points** Modify Remove

Question Molanda sells a parcel of land for $18,000 in cash and the buyer assumes Molanda's mortgage of $12,000 on the land. Molanda's amount realized is $18,000.

Answer
True
✓ False

Correct Feedback The amount realized includes the cash of $18,000 and the mortgage of $12,000 assumed by the buyer. If a buyer assumes a seller's mortgage, it is equivalent to the buyer giving cash to the seller.

Incorrect Feedback The amount realized includes the cash of $18,000 and the mortgage of $12,000 assumed by the buyer. If a buyer assumes a seller's mortgage, it is equivalent to the buyer giving cash to the seller.

Add Question Here

Question 3 **True/False** **0 points** Modify Remove

Question If Wal-Mart stock increases in value during the tax year by $4,500, the amount realized is a positive $4,500.

Answer
True
✓ False

Correct Feedback Increases or decreases in the value of an asset during the tax year do not affect the amount realized.

Incorrect Feedback Increases or decreases in the value of an asset during the tax year do not affect the amount realized.

Add Question Here

Question 4 **True/False** **0 points** Modify Remove

Question If the buyer assumes the seller's liability on the property acquired, the seller's amount realized is increased by the amount of the liability assumed.

Answer
✓ True
False

Correct Feedback The seller's amount realized is increased (not decreased) by the amount of the liabilities assumed by the buyer.

Incorrect Feedback The seller's amount realized is increased (not decreased) by the amount of the liabilities assumed by the buyer.

Add Question Here

Question 5 **True/False** **0 points** Modify Remove

Question The fair market value of property received in a sale or other disposition is the price at which property will change hands between a willing seller and a willing buyer when neither is compelled to sell or buy.

Answer
✓ True
False

Add Question Here

Question 6 **True/False** **0 points** Modify Remove

Question If a seller assumes the buyer's liability on the property acquired, the buyer's adjusted basis for the property is decreased by the amount of the liability assumed.

Answer
✓ True
False

Correct Feedback In this situation, the buyer's adjusted basis is decreased by the amount of liability assumed.

Incorrect Feedback In this situation, the buyer's adjusted basis is decreased by the amount of liability assumed.

Add Question Here

Question 7 **True/False** **0 points** Modify Remove

Question Expenditures made for ordinary repairs and maintenance of property are *not* added to the original basis in the determination of the property's adjusted basis whereas capital expenditures are added to the original basis.

Answer
✓ True
False

Correct Feedback Only expenditures that are capitalized are added to a property's adjusted basis. Expenditures for ordinary repairs and maintenance may be deductible in the current tax year if they are for business or income-producing property.

Incorrect Feedback Only expenditures that are capitalized are added to a property's adjusted basis. Expenditures for ordinary repairs and maintenance may be deductible in the current tax year if they are for business or income-producing property.

Add Question Here

Question 8 | **True/False** | **0 points** | Modify | Remove

Question Louis purchases land and an office building for his business for $150,000 with $50,000 being allocated to the land. During the first year, Louis deducts cost recovery of $2,247. Louis' adjusted basis for the building at the end of the first year is $97,753 ($100,000 – $2,247).

Answer
✓ True
False

Correct Feedback Cost recovery reduces the adjusted basis of the building.

Incorrect Feedback Cost recovery reduces the adjusted basis of the building.

Add Question Here

Question 9 | **True/False** | **0 points** | Modify | Remove

Question The adjusted basis of property that is stolen is reduced by the amount of insurance proceeds received and by any recognized loss.

Answer
✓ True
False

Add Question Here

Question 10 | **True/False** | **0 points** | Modify | Remove

Question Monroe's delivery truck is damaged in an accident. Monroe's adjusted basis for the delivery truck prior to the accident is $20,000. If Monroe receives insurance proceeds of $21,000 and recognizes a casualty gain of $1,000, his adjusted basis for the delivery truck after the accident is $21,000.

Answer
True
✓ False

Correct Feedback Initially, Monroe does increase the adjusted basis of the delivery truck by the casualty gain of $1,000 ($20,000 + $1,000 = $21,000). However, Monroe must then reduce the adjusted basis of the delivery truck by the amount of the insurance proceeds received ($21,000 – $21,000 = $0). Thus, Monroe now has two assets; cash with an adjusted basis of $21,000 and a delivery truck with an adjusted basis of $0. Note that if Monroe uses some or all of the cash to repair the delivery truck, the adjusted basis of the delivery truck is increased by this amount.

Incorrect Feedback Initially, Monroe does increase the adjusted basis of the delivery truck by the casualty gain of $1,000 ($20,000 + $1,000 = $21,000). However, Monroe must then reduce the adjusted basis of the delivery truck by the amount of the insurance proceeds received ($21,000 – $21,000 = $0). Thus, Monroe now has two assets; cash with an adjusted basis of $21,000 and a delivery truck with an adjusted basis of $0. Note that if Monroe uses some or all of the cash to repair the delivery truck, the adjusted basis of the delivery truck is increased by this amount.

Add Question Here

Question 11 | **True/False** | **0 points** | Modify | Remove

Question If insurance proceeds are received for property used in a trade or business, a casualty transaction can result in recognized gain or recognized loss.

Answer
✓ True
False

Correct Feedback A recognized gain will result if the insurance proceeds exceed the adjusted basis of the property. A recognized loss can result if the insurance proceeds are less than the adjusted basis of the property.

Incorrect Feedback A recognized gain will result if the insurance proceeds exceed the adjusted basis of the property. A recognized loss can result if the insurance proceeds are less than the adjusted basis of the property.

Add Question Here

Question 12 | **True/False** | **0 points** | Modify | Remove

Question If the amount of a corporate distribution is less than the amount of the corporate earnings and profits, the return of capital concept does *not* apply and the shareholders' adjusted basis for the stock remains unchanged.

Answer
✓ True
False

Correct Feedback The distribution to a shareholder in this situation is classified as dividend income. Therefore, there is no effect on the shareholder's stock basis.

Incorrect Feedback The distribution to a shareholder in this situation is classified as dividend income. Therefore, there is no effect on the shareholder's stock basis.

Add Question Here

Question 13 | **True/False** | **0 points** | Modify | Remove

Question Ricky owns all the stock of Amethyst, Inc. (adjusted basis of $72,000). If he receives a distribution from Amethyst of $65,000 and corporate earnings and profits are $15,000, Ricky has a capital gain of $7,000 and an adjusted basis for his Amethyst stock of $0.

Answer
True
✓ False

Correct Feedback The distribution to Ricky is treated as a dividend to the extent of earnings and profits ($15,000). The return of capital concept applies to any excess of the amount of the distribution over the corporation's earnings and profits. As Amethyst's earnings and profits are $15,000, the return of capital concept applies to $50,000 of the $65,000 distribution. The return of capital part of the distribution of $50,000 ($65,000 – $15,000) is less than Ricky's adjusted basis of $72,000. Consequently, his recognized gain is $0 and his adjusted basis for the stock is reduced to $22,000 ($72,000 – $50,000).

Incorrect Feedback The distribution to Ricky is treated as a dividend to the extent of earnings and profits ($15,000). The return of capital concept applies to any excess of the amount of the distribution over the corporation's earnings and profits. As Amethyst's earnings and profits are $15,000, the return of capital concept applies to $50,000 of the $65,000 distribution. The return of capital part of the distribution of $50,000 ($65,000 – $15,000) is less than Ricky's adjusted basis of $72,000. Consequently, his recognized gain is $0 and his adjusted basis for the stock is reduced to $22,000 ($72,000 – $50,000).

Add Question Here

Question 14 | **True/False** | **0 points** | Modify | Remove

Question The amount of a corporate distribution qualifying for capital recovery treatment which exceeds the recipient's stock basis is treated as an ordinary gain.

Answer
True
✓ False

Correct Feedback The gain is treated as a capital gain. Ordinary gain treatment would result only if the recipient were a dealer (i.e., the stock is inventory).

Incorrect Feedback The gain is treated as a capital gain. Ordinary gain treatment would result only if the recipient were a dealer (i.e., the stock is inventory).

Add Question Here

Question 15 **True/False** **0 points** Modify Remove

Question The adjusted basis for a taxable bond purchased at a premium is reduced if the amortization election is made. The amount of the amortized premium is treated as an interest deduction.

Answer
✓ True
False

Add Question Here

Question 16 **True/False** **0 points** Modify Remove

Question Ginger purchases a $1,000 corporate bond at a premium of $100 and elects to amortize the premium. On the later sale of the bond for $1,090, she has amortized $30 of the premium. Ginger has a recognized gain of $120 ($1,090 amount realized – $970 adjusted basis).

Answer
True
✓ False

Correct Feedback Ginger has a recognized gain of $20 [$1,090 amount realized – ($1,100 – $30) adjusted basis].

Incorrect Feedback Ginger has a recognized gain of $20 [$1,090 amount realized – ($1,100 – $30) adjusted basis].

Add Question Here

Question 17 **True/False** **0 points** Modify Remove

Question The amount received for a utility easement on land is included in the gross income of the taxpayer.

Answer
True
✓ False

Correct Feedback The amount received for a utility easement reduces the basis of the land.

Incorrect Feedback The amount received for a utility easement reduces the basis of the land.

Add Question Here

Question 18 **True/False** **0 points** Modify Remove

Question A realized gain on the sale or exchange of a personal use asset is recognized, but a realized loss on the sale, exchange, or condemnation of a personal use asset is *not* recognized.

Answer
✓ True
False

Add Question Here

Question 19 **True/False** **0 points** Modify Remove

Question A realized gain whose recognition is postponed results in the temporary recovery of more than the taxpayer's cost or other basis.

Answer
✓ True
False

Add Question Here

Question 20 **True/False** **0 points** Modify Remove

Question A realized loss whose recognition is postponed results in the temporary recovery of more than the taxpayer's cost or other basis.

Answer
True
✓ False

Correct Feedback A realized loss whose recognition is postponed results in the temporary recovery of less than the taxpayer's cost or other basis.

Incorrect Feedback A realized loss whose recognition is postponed results in the temporary recovery of less than the taxpayer's cost or other basis.

Add Question Here

Question 21 **True/False** **0 points** Modify Remove

Question As compensation for her services, Leslie purchases real estate from her employer for less than fair market value. Leslie's basis for the real estate is its fair market value.

Answer
✓ True
False

Correct Feedback The bargain portion (fair market value – cost) is compensation income to Leslie. If her basis were not increased by the bargain portion, Leslie would be taxed on the bargain amount a second time at disposition.

Incorrect Feedback The bargain portion (fair market value – cost) is compensation income to Leslie. If her basis were not increased by the bargain portion, Leslie would be taxed on the bargain amount a second time at disposition.

Add Question Here

Question 22 **True/False** **0 points** Modify Remove

Question When a taxpayer has purchased several lots of stock on different dates at different purchase prices and *cannot* identify the lot of stock that is being sold, he should use a weighted approach.

Answer
True
✓ False

Correct Feedback In this case, a FIFO presumption is made.

Incorrect Feedback In this case, a FIFO presumption is made.

Add Question Here

Question 23 **True/False** **0 points** Modify Remove

Question Cassie purchases a sole proprietorship for $125,000. The fair market value of the tangible assets is $100,000 and the agreed to value of goodwill is $15,000. Assuming there are no other intangible assets, Cassie's basis for the tangible assets is $108,696 ($100,000 + $8,696) and her basis for the goodwill is $16,304 ($15,000 + $1,304).

Answer True
✓ False

Correct Feedback The $100,000 fair market value is allocated to the tangible assets. Goodwill is then assigned the residual amount of the purchase price of $25,000 ($125,000 – $100,000).

Incorrect Feedback The $100,000 fair market value is allocated to the tangible assets. Goodwill is then assigned the residual amount of the purchase price of $25,000 ($125,000 – $100,000).

Add Question Here

Question 24 **True/False** **0 points** Modify Remove

Question Purchased goodwill is assigned a basis equal to cost, and developed or self-created goodwill is assigned a basis equal to one-fifteenth of the amount expended.

Answer True
✓ False

Add Question Here

Question 25 **True/False** **0 points** Modify Remove

Question Nontaxable stock dividends result in no change to the *total* basis of the old and new stock, but the basis per share decreases.

Answer ✓ True
False

Correct Feedback The total basis remains the same (i.e., equals the basis of the old stock). The basis per share decreases.

Incorrect Feedback The total basis remains the same (i.e., equals the basis of the old stock). The basis per share decreases.

Add Question Here

Question 26 **True/False** **0 points** Modify Remove

Question The holding period of nontaxable stock rights includes the holding period of the stock on which the rights were distributed.

Answer ✓ True
False

Add Question Here

Question 27 **True/False** **0 points** Modify Remove

Question The basis of property received by gift is always a carryover basis.

Answer True
✓ False

Correct Feedback The gain basis for gift property is always a carryover basis. However, if the fair market value at the date of the gift of gift property is less than the adjusted basis, the property has a loss basis of fair market value.

Incorrect Feedback The gain basis for gift property is always a carryover basis. However, if the fair market value at the date of the gift of gift property is less than the adjusted basis, the property has a loss basis of fair market value.

Add Question Here

Question 28 **True/False** **0 points** Modify Remove

Question This year, Fran receives a birthday gift of stock worth $75,000 from her aunt. The aunt has owned the stock (adjusted basis $50,000) for 10 years and pays gift tax of $27,000 on the transfer. Fran's basis in the stock is $75,000—the lesser of $77,000 ($50,000 + $27,000) *or* $75,000.

Answer True
✓ False

Correct Feedback The answer would be true if the gift was made before 1977. However, since the gift is this year, Fran's basis is as follows: $50,000 + [$25,000/($75,000 – $13,000) ´ $27,000] = $60,887.

Incorrect Feedback The answer would be true if the gift was made before 1977. However, since the gift is this year, Fran's basis is as follows: $50,000 + [$25,000/($75,000 – $13,000) ´ $27,000] = $60,887.

Add Question Here

Question 29 **True/False** **0 points** Modify Remove

Question Todd gives Sam stock (adjusted basis of $90,000; fair market value of $78,000). Sam later sells the stock for $85,000. Sam's recognized loss is $5,000 ($85,000 amount realized – $90,000 adjusted basis).

Answer True
✓ False

Correct Feedback If the amount realized is between the basis for loss ($78,000) and the basis for gain ($90,000), no gain or loss is recognized.

Incorrect Feedback If the amount realized is between the basis for loss ($78,000) and the basis for gain ($90,000), no gain or loss is recognized.

Add Question Here

Question 30 **True/False** **0 points** Modify Remove

Question A donee receives depreciable property worth $85,000 (basis to donor of $150,000) with no gift tax being paid on the transfer. The donee's basis for depreciation purposes is $85,000.

Answer True
✓ False

Correct Feedback The basis for depreciation of depreciable gift property is the same as the donor's basis, or $150,000.

Incorrect Feedback The basis for depreciation of depreciable gift property is the same as the donor's basis, or $150,000.

Add Question Here

Question 31 **True/False** **0 points** Modify Remove

Question The holding period for property acquired by gift is automatically long term.

Answer True
✓ False

Correct Feedback For gain basis purposes, the donee's holding period is a carryover holding period which includes the donor's holding period. For loss basis purposes, the donee has a new holding period which begins with the date of the gift.

Incorrect Feedback For gain basis purposes, the donee's holding period is a carryover holding period which includes the donor's holding period. For loss basis purposes, the donee has a new holding period which begins with the date of the gift.

Add Question Here

Question 32 **True/False** **0 points** Modify Remove

Question The basis of property received by inheritance in 2011 is a carryover basis if the property has declined in value while being held by the decedent.

Answer
True
✓ False

Correct Feedback Usually, the basis of inherited property is the fair market value at the date of the decedent's death or the fair market value six months later (if the alternate valuation date is elected). A carryover basis, however, applies for deathbed gifts.

Incorrect Feedback Usually, the basis of inherited property is the fair market value at the date of the decedent's death or the fair market value six months later (if the alternate valuation date is elected). A carryover basis, however, applies for deathbed gifts.

Add Question Here

Question 33 **True/False** **0 points** Modify Remove

Question The alternate valuation date amount *cannot* be elected in 2011 if the property in the estate appreciates in value during the six-month period after death.

Answer
✓ True
False

Add Question Here

Question 34 **True/False** **0 points** Modify Remove

Question If the alternate valuation date is elected by the executor in 2011, the total basis of inherited property will be more than what it would have been if the primary valuation date and amount had been used.

Answer
True
✓ False

Correct Feedback In this case, the total basis of inherited property will be less than what it would have been if the primary valuation date and amount had been used.

Incorrect Feedback In this case, the total basis of inherited property will be less than what it would have been if the primary valuation date and amount had been used.

Add Question Here

Question 35 **True/False** **0 points** Modify Remove

Question If the alternate valuation date is elected by the executor of the estate, the basis of *all* of the property included in the decedent's estate becomes the fair market value 6 months after the decedent's death.

Answer
True
✓ False

Correct Feedback Although 6 months after the decedent's death is the normal valuation date, any assets distributed during this 6-month period are valued as of the distribution date.

Incorrect Feedback Although 6 months after the decedent's death is the normal valuation date, any assets distributed during this 6-month period are valued as of the distribution date.

Add Question Here

Question 36 **True/False** **0 points** Modify Remove

Question If a husband inherits his deceased wife's share of jointly owned property in a common law state, both the husband's original share and the share inherited from the deceased wife are stepped-up or down to the fair market value at the date of the wife's death.

Answer
True
✓ False

Correct Feedback The step-up or step-down to the fair market value at the date of the wife's death applies only to the share inherited from the wife. For a community property state, the statement would be true. Compare Example 31 and Example 32

Incorrect Feedback The step-up or step-down to the fair market value at the date of the wife's death applies only to the share inherited from the wife. For a community property state, the statement would be true. Compare Example 31 and Example 32

Add Question Here

Question 37 **True/False** **0 points** Modify Remove

Question Parker bought a brand new Ferrari on January 1, 2011, for $125,000. Parker was fatally injured in an auto accident on June 23, 2011, when the fair market value of the car was $105,000. Parker was driving a loaner car from the Ferrari dealership while his car was being serviced. In his will, Parker left the Ferrari to his best friend, Ryan. Ryan's holding period for the Ferrari begins on June 23, 2011.

Answer
True
✓ False

Correct Feedback Ryan's holding period in the Ferrari is automatically long term. Property acquired from a decedent is deemed to have a long-term holding period.

Incorrect Feedback Ryan's holding period in the Ferrari is automatically long term. Property acquired from a decedent is deemed to have a long-term holding period.

Add Question Here

Question 38 **True/False** **0 points** Modify Remove

Question Section 267 provides that realized losses and realized gains from related party transactions are not recognized. The basis of the property received by the related party purchaser is a carryover basis.

Answer
True
✓ False

Correct Feedback Realized losses from related party transactions are disallowed by § 267, but this provision has no effect on the recognition of realized gains. In addition, the basis to the related party purchaser is his or her cost.

Incorrect Feedback Realized losses from related party transactions are disallowed by § 267, but this provision has no effect on the recognition of realized gains. In addition, the basis to the related party purchaser is his or her cost.

Add Question Here

Question 39 **True/False** **0 points** Modify Remove

Question For the loss disallowance provision under § 267, related parties include certain family members, a shareholder and his or her controlled corporation (i.e., greater than 50% in value of the corporation's outstanding stock), and a partner and his or her controlled partnership (i.e., greater than 50% of the capital interests or profits interest in the partnership).

Answer ✓ True
False

Add Question Here

Question 40 **True/False** **0 points** Modify Remove

Question A related party purchaser includes in the basis of the property acquired the seller's disallowed loss.

Answer True
✓ False

Correct Feedback The basis of the property acquired is the purchaser's cost. The purchaser may use the amount of the seller's disallowed loss to reduce realized gain on the subsequent sale of the property.

Incorrect Feedback The basis of the property acquired is the purchaser's cost. The purchaser may use the amount of the seller's disallowed loss to reduce realized gain on the subsequent sale of the property.

Add Question Here

Question 41 **True/False** **0 points** Modify Remove

Question Ben sells stock (adjusted basis of $25,000) to his son, Ray, for its fair market value of $15,000. Ray gives the stock to his daughter, Trish, who subsequently sells it for $26,000. Ben's recognized loss is $0 and Trish's recognized gain is $1,000 ($26,000 – $15,000 – $10,000).

Answer True
✓ False

Correct Feedback If Ray, rather than Trish, had sold the property for $26,000, his recognized gain would have been $1,000 ($26,000 – $15,000 – $10,000). However, the right of offset applies only to the original transferee (i.e., the related party buyer). Trish's recognized gain is $11,000 ($26,000 – $15,000).

Ben has *no* recognized loss as his realized loss of $10,000 ($15,000 – $25,000) is disallowed under § 267.

Incorrect Feedback If Ray, rather than Trish, had sold the property for $26,000, his recognized gain would have been $1,000 ($26,000 – $15,000 – $10,000). However, the right of offset applies only to the original transferee (i.e., the related party buyer). Trish's recognized gain is $11,000 ($26,000 – $15,000).

Ben has *no* recognized loss as his realized loss of $10,000 ($15,000 – $25,000) is disallowed under § 267.

Add Question Here

Question 42 **True/False** **0 points** Modify Remove

Question The basis of property acquired in a wash sale is its cost plus the loss recognized on the wash sale.

Answer True
✓ False

Correct Feedback The basis is the cost plus the loss *not* recognized on the wash sale. See Example 34 and related discussion.

Incorrect Feedback The basis is the cost plus the loss *not* recognized on the wash sale. See Example 34 and related discussion.

Add Question Here

Question 43 **True/False** **0 points** Modify Remove

Question Realized losses from the sale or exchange of stock are disallowed if within 30 days before or 30 days after the sale or exchange, the taxpayer acquires substantially identical stock.

Answer ✓ True
False

Add Question Here

Question 44 **True/False** **0 points** Modify Remove

Question Gene purchased an SUV for $42,000 which he uses 100% for personal purposes. When the SUV is worth $29,000, he contributes it to his business. The gain basis is $42,000, the loss basis is $29,000, and the basis for cost recovery is $29,000.

Answer ✓ True
False

Add Question Here

Question 45 **True/False** **0 points** Modify Remove

Question Property that has been converted from personal use to business or income-producing use will be dual basis property if the adjusted basis exceeds the fair market value at the date of conversion.

Answer ✓ True
False

Correct Feedback The basis for gain is the carryover basis. The basis for loss is the lesser of (1) the fair market value at the date of conversion and (2) the adjusted basis at the date of conversion.

Incorrect Feedback The basis for gain is the carryover basis. The basis for loss is the lesser of (1) the fair market value at the date of conversion and (2) the adjusted basis at the date of conversion.

Add Question Here

Question 46 **True/False** **0 points** Modify Remove

Question The basis for gain and loss of personal use property converted to business use is the lower of the adjusted basis or the fair market value on the date of conversion.

Answer True
✓ False

Correct Feedback The basis for loss of the converted property is the lower of the adjusted basis or the fair market value on the date of conversion. This loss basis is also used in calculating depreciation. The basis for gain, however, is the adjusted basis at the date of conversion.

Incorrect Feedback The basis for loss of the converted property is the lower of the adjusted basis or the fair market value on the date of conversion. This loss basis is also used in calculating depreciation. The basis for gain, however, is the adjusted basis at the date of conversion.

Add Question Here

Question 47 **True/False** **0 points** Modify Remove

Question Stuart owns land with an adjusted basis of $190,000 and a fair market value of $500,000. If the property is going to be given to the Stuart's nephew, Alex, it is preferable for the transfer to be by inheritance rather than by gift.

Answer
✓ True
False

Correct Feedback If the land is transferred by gift, the adjusted basis to the donee (Alex) will be a carryover basis (i.e., $190,000 adjusted for gift taxes paid on the appreciation). If the land is transferred by inheritance, the adjusted basis to the beneficiary (Alex) will be the fair market value at the date of the decedent's death (i.e., around $500,000).

Incorrect Feedback If the land is transferred by gift, the adjusted basis to the donee (Alex) will be a carryover basis (i.e., $190,000 adjusted for gift taxes paid on the appreciation). If the land is transferred by inheritance, the adjusted basis to the beneficiary (Alex) will be the fair market value at the date of the decedent's death (i.e., around $500,000).

Add Question Here

Question 48 **True/False** **0 points** Modify Remove

Question The taxpayer owns stock with an adjusted basis of $15,000 and a fair market value of $8,000. If the stock or cash is going to be given to her niece, it is preferable for the taxpayer to sell the stock and give the $8,000 of cash to her niece. The same preference would exist if the recipient were a qualified charitable organization.

Answer
✓ True
False

Correct Feedback The taxpayer can recognize the realized loss of $7,000 ($8,000 – $15,000) if she sells the stock. If the taxpayer gives the stock to her niece, the niece's adjusted basis for loss will be $8,000 and the $7,000 loss will benefit neither the taxpayer nor her niece. The same preference would exist if the recipient were a qualified charitable organization.

Incorrect Feedback The taxpayer can recognize the realized loss of $7,000 ($8,000 – $15,000) if she sells the stock. If the taxpayer gives the stock to her niece, the niece's adjusted basis for loss will be $8,000 and the $7,000 loss will benefit neither the taxpayer nor her niece. The same preference would exist if the recipient were a qualified charitable organization.

Add Question Here

Question 49 **True/False** **0 points** Modify Remove

Question Broker's commissions and points paid by the seller reduce the seller's amount realized.

Answer
✓ True
False

Add Question Here

Question 50 **True/False** **0 points** Modify Remove

Question Since wash sales do not apply to gains, it may be desirable to engage in this type of transaction before the end of the tax year.

Answer
✓ True
False

Correct Feedback The recognized capital gain may be used to offset capital losses or capital loss carryovers from prior years. In addition, the basis of the replacement stock increases to its purchase price.

Incorrect Feedback The recognized capital gain may be used to offset capital losses or capital loss carryovers from prior years. In addition, the basis of the replacement stock increases to its purchase price.

Add Question Here

Question 51 **Multiple Choice** **0 points** Modify Remove

Question Albert purchased a tract of land for $140,000 in 2008 when he heard that a new highway was going to be constructed through the property and that the land would soon be worth $200,000. Highway engineers surveyed the property and indicated that he would probably get $180,000. The highway project was abandoned in 2011 and the value of the land fell to $100,000. What is the amount of loss Albert can claim in 2011?

Answer
$40,000.
$60,000.
$80,000.
$100,000.
✓ None of the above.

Correct Feedback Neither gain nor loss is recognized by Albert associated with the perceived fluctuations in the value of the land. The requisite identifiable event (i.e., sale or other disposition) has not occurred.

Incorrect Feedback Neither gain nor loss is recognized by Albert associated with the perceived fluctuations in the value of the land. The requisite identifiable event (i.e., sale or other disposition) has not occurred.

Add Question Here

Question 52 **Multiple Choice** **0 points** Modify Remove

Question Ashley sells real property for $280,000. The buyer pays $4,000 in property taxes that had accrued during the year while the property was still legally owned by Ashley. In addition, Ashley pays $14,000 in commissions and $3,000 in legal fees in connection with the sale. How much does Ashley realize (the amount realized) from the sale of her property?

Answer
$259,000.
$263,000.
✓ $267,000.
$280,000.
None of the above.

Correct Feedback The amount realized is calculated as follows:

Sales price	$280,000
Taxes paid by buyer on behalf of seller	4,000
Less: Commissions	(14,000)
Legal fees	(3,000)
Amount realized	$267,000

Incorrect Feedback The amount realized is calculated as follows:

Sales price	$280,000
Taxes paid by buyer on behalf of seller	4,000
Less: Commissions	(14,000)
Legal fees	(3,000)
Amount realized	$267,000

Add Question Here

Question 53 **Multiple Choice** **0 points** Modify Remove

Question Alice owns land with an adjusted basis of $610,000, subject to a mortgage of $350,000. Real estate taxes are $9,000 per calendar year and are payable on December 31. On April 1, 2011, Alice sells her land subject to the mortgage for $650,000 in cash, a note for $600,000, and property with a fair market value of $120,000. What is the amount realized?

Answer

- $1,370,000.
- $1,372,219.
- $1,720,000.
- ✓ $1,722,219.
- None of the above.

Correct Feedback The amount realized includes the following:

Cash	$ 650,000
Note	600,000
Property	120,000
Mortgage assumed by buyer	350,000
Real estate taxes of seller paid by buyer ($9,000 ´ 90/365)	2,219
Amount realized	$1,722,219

Incorrect Feedback The amount realized includes the following:

Cash	$ 650,000
Note	600,000
Property	120,000
Mortgage assumed by buyer	350,000
Real estate taxes of seller paid by buyer ($9,000 ´ 90/365)	2,219
Amount realized	$1,722,219

Add Question Here

Question 54 **Multiple Choice** **0 points** Modify Remove

Question Pedro borrowed $50,000 to purchase a machine costing $75,000. He later borrowed $20,000 using the machine as collateral. Both notes are nonrecourse. Eight years later, the machine has an adjusted basis of zero and two outstanding note balances of $40,000 and $14,000. Pedro sells the machine subject to the two liabilities for $25,000. What is his realized gain or loss?

Answer

- $0.
- $25,000.
- ✓ $79,000.
- $95,000.
- None of the above.

Correct Feedback

Amount realized ($25,000 + $40,000 + $14,000)	$79,000
Adjusted basis	(–0–)
Realized gain	$79,000

The amount realized includes the two nonrecourse notes.

Incorrect Feedback

Amount realized ($25,000 + $40,000 + $14,000)	$79,000
Adjusted basis	(–0–)
Realized gain	$79,000

The amount realized includes the two nonrecourse notes.

Add Question Here

Question 55 **Multiple Choice** **0 points** Modify Remove

Question The bank forecloses on Lisa's apartment complex. The property had been pledged as security on a nonrecourse mortgage, whose principal amount at the date of foreclosure is $750,000. The adjusted basis of the property is $480,000, and the fair market value is $750,000. What is Lisa's recognized gain or loss?

Answer

- ✓ $270,000.
- ($750,000).
- $0.
- ($480,000).
- None of the above.

Correct Feedback

Amount realized	$750,000
Adjusted basis	(480,000)
Realized gain	$270,000
Recognized gain	$270,000

The amount realized includes the amount of the nonrecourse mortgage.

Incorrect Feedback

Amount realized	$750,000
Adjusted basis	(480,000)
Realized gain	$270,000
Recognized gain	$270,000

The amount realized includes the amount of the nonrecourse mortgage.

Add Question Here

Question 56 **Multiple Choice** **0 points** Modify Remove

Question Carlton purchases land for $400,000. He incurs legal fees of $8,000 associated with the purchase. He subsequently incurs additional legal fees of $25,000 in having the land rezoned from agricultural to residential. He subdivides the land and installs streets and sewers at a cost of $700,000. What is Carlton's basis for the land and the improvements?

Answer
- $400,000.
- $433,000.
- $1,100,000.
- ✓ $1,133,000.
- None of the above.

Correct Feedback All of the costs incurred by Carlton are capital expenditures. Thus, his adjusted basis for the land and the improvements is:

Cost	$ 400,000
Legal fees ($8,000 + $25,000)	33,000
Streets and sewers	700,000
Basis	$1,133,000

Incorrect Feedback All of the costs incurred by Carlton are capital expenditures. Thus, his adjusted basis for the land and the improvements is:

Cost	$ 400,000
Legal fees ($8,000 + $25,000)	33,000
Streets and sewers	700,000
Basis	$1,133,000

Add Question Here

Question 57 **Multiple Choice** **0 points** Modify Remove

Question Jamie bought her house in 2006 for $395,000. Since then, she has deducted $70,000 in depreciation associated with her home office and has spent $45,000 replacing all the old pipes and plumbing. She sells the house on July 1, 2011. Her realtor charged $34,700 in commissions. Prior to listing the house with the realtor, she spent $300 advertising in the local newspaper. Sammy buys the house for $500,000 in cash, assumes her mortgage of $194,000, and pays property taxes of $4,200 for the entire year on December 1, 2011. What is Jamie's adjusted basis at the date of the sale and the amount realized?

Answer
- $370,000 adjusted basis; $661,400 amount realized.
- ✓ $370,000 adjusted basis; $661,100 amount realized.
- $370,000 adjusted basis; $665,200 amount realized.
- $325,000 adjusted basis; $663,200 amount realized.
- $325,000 adjusted basis; $694,000 amount realized.

Correct Feedback

Cost	$395,000
Depreciation	(70,000)
Capital additions	45,000
Adjusted basis	$370,000
Cash received	$500,000
Mortgage assumed by Sammy	194,000
Commission to realtor	(34,700)
Advertising	(300)
Property tax paid by Sammy	
($4,200 ´ 6/12) allocated to Jamie	2,100
Amount realized	$661,100

Incorrect Feedback

Cost	$395,000
Depreciation	(70,000)
Capital additions	45,000
Adjusted basis	$370,000
Cash received	$500,000
Mortgage assumed by Sammy	194,000
Commission to realtor	(34,700)
Advertising	(300)
Property tax paid by Sammy	
($4,200 ´ 6/12) allocated to Jamie	2,100
Amount realized	$661,100

Add Question Here

Question 58 **Multiple Choice** **0 points** Modify Remove

Question Alicia buys a beach house for $425,000 which she uses as her personal vacation home. She builds an additional room on the house for $45,000. She sells the property for $510,000 and pays $30,000 in commissions and $4,000 in legal fees in connection with the sale. What is the recognized gain or loss on the sale of the house?

Answer
- $0.
- ✓ $6,000.
- $30,000.
- $40,000.
- None of the above.

Correct Feedback

Amount realized ($510,000 – $30,000 – $4,000)	$476,000
Adjusted basis ($425,000 + $45,000)	(470,000)
Realized gain	$ 6,000
Recognized gain	$ 6,000

Incorrect Feedback

Amount realized ($510,000 – $30,000 – $4,000)	$476,000
Adjusted basis ($425,000 + $45,000)	(470,000)
Realized gain	$ 6,000
Recognized gain	$ 6,000

Add Question Here

Question 59 **Multiple Choice** **0 points** Modify Remove

Question On May 1, 2011, Diane purchases real estate for $350,000. The annual property taxes of $6,000 are payable on December 31. Realizing that she will pay the property taxes for the entire year, Diane remits $348,027 to the seller at closing. Diane's adjusted basis for the real estate is:

Answer
- $348,027.
- ✓ $350,000.
- $354,027.
- $356,000.
- None of the above.

Correct Feedback The $1,973 reduction in the payment Diane made to the seller represents the seller's portion of the property taxes that Diane will pay that are allocated to the seller.

Selling price	$350,000
Property taxes allocated to seller ($6,000 ´ 120/365)	(1,973)
Remittance to seller	$348,027

Diane's adjusted basis is her cost of $350,000.

Incorrect Feedback The $1,973 reduction in the payment Diane made to the seller represents the seller's portion of the property taxes that Diane will pay that are allocated to the seller.

Selling price	$350,000
Property taxes allocated to seller ($6,000 ´ 120/365)	(1,973)
Remittance to seller	$348,027

Diane's adjusted basis is her cost of $350,000.

Add Question Here

Question 60 **Multiple Choice** **0 points** Modify Remove

Question Capital recoveries include:

Answer
- The cost of capital improvements.
- Ordinary repair and maintenance expenditures.
- Payments made on the principal of a mortgage on taxpayer's building.
- ✓ Amortization of bond premium.
- All of the above.

Add Question Here

Question 61 **Multiple Choice** **0 points** Modify Remove

Question Steve purchased his home for $500,000. As a sole proprietor, he operates a certified public accounting practice in his home. For this business, he uses one room exclusively and regularly as a home office. In Year 1, $3,042 of depreciation expense on the home office was deducted on his income tax return. In Year 2, Steve sustained losses in his business; therefore, no depreciation was taken on the home office. Had he been allowed to deduct depreciation expense, his depreciation expense would have been $3,175. What is the adjusted basis in the home?

Answer
- ✓ $493,783.
- $496,825.
- $496,958.
- $500,000.
- None of the above.

Correct Feedback The adjusted basis must be reduced by the greater of the depreciation allowed ($3,042) or allowable ($6,217). Thus, the adjusted basis is $493,783 ($500,000 – $6,217).

Incorrect Feedback The adjusted basis must be reduced by the greater of the depreciation allowed ($3,042) or allowable ($6,217). Thus, the adjusted basis is $493,783 ($500,000 – $6,217).

Add Question Here

Question 62 **Multiple Choice** **0 points** Modify Remove

Question Sandra's automobile, which is used exclusively in her trade or business, was damaged in an accident. The adjusted basis prior to the accident was $11,000. The fair market value before the accident was $10,000 and the fair market value after the accident is $6,000. Insurance proceeds of $3,200 are received. What is Sandra's adjusted basis for the automobile after the casualty?

Answer
- $0.
- ✓ $7,000.
- $7,800.
- $10,200.
- None of the above.

Correct Feedback The adjusted basis after the casualty is calculated as follows:

Adjusted basis before		$11,000
Casualty loss deduction*		(800)
Insurance proceeds		(3,200)
Adjusted basis after		$ 7,000

*Lesser of:		
Adjusted basis	$11,000	
Value decline	4,000	$4,000
Insurance proceeds		(3,200)
Casualty loss deduction		$ 800

There is no $100 floor or 10% of AGI floor in computing a business casualty loss.

Incorrect Feedback The adjusted basis after the casualty is calculated as follows:

Adjusted basis before		$11,000
Casualty loss deduction*		(800)
Insurance proceeds		(3,200)
Adjusted basis after		$ 7,000

*Lesser of:		
Adjusted basis	$11,000	
Value decline	4,000	$4,000
Insurance proceeds		(3,200)

Casualty loss deduction $\underline{\$\ 800}$

There is no $100 floor or 10% of AGI floor in computing a business casualty loss.

Add Question Here

Question 63 **Multiple Choice** **0 points** Modify Remove

Question Joyce's office building was destroyed in a fire (adjusted basis of $350,000; fair market value of $400,000). Of the insurance proceeds of $360,000 she receives, Joyce uses $310,000 to purchase additional inventory and invests the remaining $50,000 in short-term certificates of deposit. She received only $360,000 because of a co-insurance clause in her insurance policy. What is Joyce's recognized gain or loss?

Answer

- $0.
- $10,000 loss.
- ✓ $10,000 gain.
- $40,000 gain.
- None of the above.

Correct Feedback The receipt of insurance proceeds in excess of Joyce's adjusted basis for the office building creates a casualty gain to Joyce of $10,000 ($360,000 insurance proceeds – $350,000 adjusted basis).

Incorrect Feedback The receipt of insurance proceeds in excess of Joyce's adjusted basis for the office building creates a casualty gain to Joyce of $10,000 ($360,000 insurance proceeds – $350,000 adjusted basis).

Add Question Here

Question 64 **Multiple Choice** **0 points** Modify Remove

Question Elvis owns all of the stock of Shadow Corporation. The accumulated earnings and profits of Shadow Corporation at the end of the year are a deficit of $12,000. The current earnings and profits are $25,000. Elvis' basis for his stock is $290,000. He receives a distribution of $340,000 on the last day of the tax year. How much dividend income and/or capital gain should Elvis report?

Answer

- $0.
- Dividend income of $13,000 and capital gain of $37,000.
- ✓ Dividend income of $25,000 and capital gain of $25,000.
- Dividend income of $0 and capital gain of $50,000.
- None of the above.

Correct Feedback Due to current E & P, Elvis has dividend income of $25,000. The negative balance of $12,000 in accumulated E & P has no effect. The balance of the distribution of $315,000 ($340,000 – $25,000) is treated as a return of capital. The return of capital distribution reduces Elvis' stock basis to $0 ($290,000 – $290,000). Therefore, $25,000 of the distribution is taxable as a capital gain.

Incorrect Feedback Due to current E & P, Elvis has dividend income of $25,000. The negative balance of $12,000 in accumulated E & P has no effect. The balance of the distribution of $315,000 ($340,000 – $25,000) is treated as a return of capital. The return of capital distribution reduces Elvis' stock basis to $0 ($290,000 – $290,000). Therefore, $25,000 of the distribution is taxable as a capital gain.

Add Question Here

Question 65 **Multiple Choice** **0 points** Modify Remove

Question Karen owns City of Richmond bonds with a face value of $10,000. She purchased the bonds on January 1, 2011, for $11,000. The maturity date is December 31, 2020. The annual interest rate is 8%. What is the amount of taxable interest income that Karen should report for 2011, and the adjusted basis for the bonds at the end of 2011, assuming straight-line amortization is appropriate?

Answer

- $0 and $11,000.
- ✓ $0 and $10,900.
- $100 and $11,000.
- $100 and $10,900.
- None of the above.

Correct Feedback One-tenth of the bond premium is amortized each year under the straight-line method. This reduces the adjusted basis of the bond to $10,900 ($11,000 – $100). Because the bond is tax-exempt, the bond premium amortization is not deductible from gross income.

Incorrect Feedback One-tenth of the bond premium is amortized each year under the straight-line method. This reduces the adjusted basis of the bond to $10,900 ($11,000 – $100). Because the bond is tax-exempt, the bond premium amortization is not deductible from gross income.

Add Question Here

Question 66 **Multiple Choice** **0 points** Modify Remove

Question Milton owns a bond (face value of $25,000) for which he paid $28,000. Which of the following statements is correct?

Answer

- If the bond is taxable, Milton must amortize the $3,000 premium over its remaining life.
- The adjusted basis of the taxable bond remains at $28,000, as the amortized amount is deducted as interest.
- If the bond is tax-exempt, Milton can elect to amortize the $3,000 premium over the remaining life of the bond.
- The adjusted basis of the tax-exempt bond remains at $28,000, as the amortized amount cannot be deducted as interest.
- ✓ None of the above is correct.

Correct Feedback For tax-exempt bonds, the premium must be amortized over the remaining life of the bond. The amortized amount cannot be deducted, but the adjusted basis of the bond is reduced accordingly. For taxable bonds, the taxpayer can elect to amortize the premium over the remaining life of the bond. If the election is made, the amortized amount is deducted as interest and the adjusted basis of the bond is reduced accordingly. If the election is not made, the adjusted basis of the bond remains at $28,000.

Incorrect Feedback For tax-exempt bonds, the premium must be amortized over the remaining life of the bond. The amortized amount cannot be deducted, but the adjusted basis of the bond is reduced accordingly. For taxable bonds, the taxpayer can elect to amortize the premium over the remaining life of the bond. If the election is made, the amortized amount is deducted as interest and the adjusted basis of the bond is reduced accordingly. If the election is not made, the adjusted basis of the bond remains at $28,000.

Add Question Here

Question 67 **Multiple Choice** **0 points** Modify Remove

Question Which of the following is correct?

Answer

- Realized gains are always recognized and realized losses are never recognized.
- Realized gains and realized losses on the sale of personal use assets are not recognized.
- Realized gains and realized losses on the sale of personal use assets are recognized.
- Only a. and b. are correct.
- ✓ None of the above.

Correct Feedback Choice a. is incorrect because some realized gains and losses are recognized, whereas others are not. Choice b. and choice c. are incorrect because realized gains on the sale of personal use assets are recognized (subject to the § 121 exclusion on the sale of a qualified residence), whereas realized losses are disallowed.

Incorrect Feedback Choice a. is incorrect because some realized gains and losses are recognized, whereas others are not. Choice b. and choice c. are incorrect because realized gains on the sale of personal use assets are recognized (subject to the § 121 exclusion on the sale of a qualified residence), whereas realized losses are disallowed.

Add Question Here

Question 68 **Multiple Choice** **0 points** Modify Remove

Question Joy sells her personal use boat for $18,000. She purchased the boat two years ago for $15,000. What is her recognized gain or loss?

Answer

- $0.
- ✓ $3,000.
- $15,000.
- $18,000.
- None of the above.

Correct Feedback Realized gain of $3,000 ($18,000 – $15,000) on a personal use asset is recognized.

Incorrect Feedback Realized gain of $3,000 ($18,000 – $15,000) on a personal use asset is recognized.

Add Question Here

Question 69 **Multiple Choice** **0 points** Modify Remove

Question Noelle owns an automobile which she uses for personal use. Her adjusted basis is $45,000 (i.e., the original cost). The car is worth $22,000. Which of the following statements is correct?

Answer

- If Noelle sells the car for $22,000, her realized loss of $23,000 is not recognized.
- If Noelle exchanges the car for another car worth $22,000, her realized loss of $23,000 is not recognized.
- If the car is stolen and it is uninsured, Noelle may be able to recognize part of her realized loss of $23,000.
- Only a. and b. are correct.
- ✓ a., b., and c. are correct.

Correct Feedback Personal casualty losses (choice c.) can be deducted subject to a $100 floor and a 10% of AGI floor.

Incorrect Feedback Personal casualty losses (choice c.) can be deducted subject to a $100 floor and a 10% of AGI floor.

Add Question Here

Question 70 **Multiple Choice** **0 points** Modify Remove

Question Katie sells her personal use automobile for $15,000. She purchased the car four years ago for $31,000. What is Katie's recognized gain or loss?

Answer

- ✓ $0.
- $15,000.
- ($16,000).
- ($31,000).
- None of the above.

Correct Feedback Realized losses on the sale of personal use assets are not recognized. Therefore, none of the $16,000 ($15,000 – $31,000) realized loss is recognized.

Incorrect Feedback Realized losses on the sale of personal use assets are not recognized. Therefore, none of the $16,000 ($15,000 – $31,000) realized loss is recognized.

Add Question Here

Question 71 **Multiple Choice** **0 points** Modify Remove

Question Which of the following statements is false?

Answer

- ✓ A realized gain that is never recognized results in the temporary recovery of more than the taxpayer's cost or other basis for tax purposes.
- A realized gain on which recognition is postponed results in the temporary recovery of more than the taxpayer's cost or other basis for tax purposes.
- A realized loss that is never recognized results in the permanent recovery of less than the taxpayer's cost or other basis for tax purposes.
- A realized loss on which recognition is postponed results in the temporary recovery of less than the taxpayer's cost or other basis for tax purposes.
- All of the above.

Correct Feedback A realized gain that is never recognized results in the permanent recovery of more than the taxpayer's cost or other basis for tax purposes.

Incorrect Feedback A realized gain that is never recognized results in the permanent recovery of more than the taxpayer's cost or other basis for tax purposes.

Add Question Here

Question 72 **Multiple Choice** **0 points** Modify Remove

Question Alvin is employed by an automobile dealership as its manager. As such, he purchased an SUV for $20,000 (fair market value is $41,000). No other employees are permitted a discount. What is Alvin's basis in the SUV?

Answer

- $20,000.
- $21,000.
- ✓ $41,000.
- $61,000.
- None of the above.

Correct Feedback The bargain purchase results in a $21,000 increase in Alvin's gross income. Therefore, his basis for the SUV is the fair market value of $41,000 ($20,000 + $21,000).

Incorrect Feedback The bargain purchase results in a $21,000 increase in Alvin's gross income. Therefore, his basis for the SUV is the fair market value of $41,000 ($20,000 + $21,000).

Add Question Here

Question 73 **Multiple Choice** **0 points** Modify Remove

Question Over the past 20 years, Alfred has purchased 380 shares of Green, Inc., common stock. His first purchase was in 1990 when he acquired 30 shares for $20 a share. In 1995, Alfred bought 150 shares at $10 a share. In 2010, Alfred acquired 200 shares at $50 a share. Alfred intends to sell 125 shares at $60 per share in the current year. If Alfred's objective is to minimize gain, what is his recognized gain?

Answer
- ✓ $1,250.
- $3,520.
- $5,950.
- $6,250.
- None of the above.

Correct Feedback Alfred can minimize his recognized gain by selling the 125 shares from the lot acquired in 2010 (the specific identification method).

Amount realized	$7,500
Adjusted basis	(6,250)
Realized gain	$1,250
Recognized gain	$1,250

Incorrect Feedback Alfred can minimize his recognized gain by selling the 125 shares from the lot acquired in 2010 (the specific identification method).

Amount realized	$7,500
Adjusted basis	(6,250)
Realized gain	$1,250
Recognized gain	$1,250

Add Question Here

Question 74 **Multiple Choice** **0 points** Modify Remove

Question Mona purchased a business from Judah for $1,000,000. Judah's records and an appraiser provided her with the following information regarding the assets purchased:

	Adjusted Basis	FMV
Land	$195,000	$270,000
Building	310,000	450,000
Equipment	95,000	180,000

What is Mona's adjusted basis for the land, building, and equipment?

Answer
- ✓ Land $270,000, building $450,000, equipment $180,000.
- Land $195,000, building $575,000, equipment $230,000.
- Land $195,000, building $310,000, equipment $95,000.
- Land $270,000, building $521,429, equipment $208,571.
- None of the above.

Correct Feedback When the assets of a business are acquired in a lump-sum purchase, the purchase price is allocated in accordance with the fair market values of the assets on the date of acquisition. Any excess is assigned to goodwill.

	Mona's Adjusted Basis
Land	$ 270,000
Building	450,000
Equipment	180,000
Goodwill	100,000
	$1,000,000

Incorrect Feedback When the assets of a business are acquired in a lump-sum purchase, the purchase price is allocated in accordance with the fair market values of the assets on the date of acquisition. Any excess is assigned to goodwill.

	Mona's Adjusted Basis
Land	$ 270,000
Building	450,000
Equipment	180,000
Goodwill	100,000
	$1,000,000

Add Question Here

Question 75 **Multiple Choice** **0 points** Modify Remove

Question Nontaxable stock dividends result in:

Answer
- A higher cost per share for all shares than before the stock dividend.
- ✓ A lower cost per share for all shares than before the stock dividend.
- An increase in the total cost of the old and new stock combined.
- A decrease in the total cost of the old and new stock combined.
- None of the above.

Correct Feedback The basis for the stock is allocated among the original shares and the shares received as a nontaxable stock dividend. Thus, while the total basis does not change, the basis per share decreases.

Incorrect Feedback The basis for the stock is allocated among the original shares and the shares received as a nontaxable stock dividend. Thus, while the total basis does not change, the basis per share decreases.

Add Question Here

Question 76 **Multiple Choice** **0 points** Modify Remove

Question Kevin purchased 5,000 shares of Purple Corporation stock at $10 per share. Two years later, he receives a 5% common stock dividend. At that time, the common stock of Purple Corporation had a fair market value of $12.50 per share. What is the basis of the Purple Corporation stock, the per share basis, and gain recognized upon receipt of the common stock dividend?

Answer
- $50,000 basis in stock, $10 basis per share for the original stock and $0 basis per share for the dividend shares, $0 recognized gain.
- ✓ $50,000 basis in stock, $9.52 basis per share, $0 recognized gain.
- $53,125 basis in stock, $10 basis per share for the original stock and $12.50 basis per share for the dividend shares, $3,125 recognized gain.
- $53,125 basis in stock, $10.12 basis per share, $3,125 recognized gain.

None of the above.

Correct Feedback The $50,000 cost of the original shares must be allocated to the total shares owned after the stock dividend (5,000 + 250 = 5,250). Therefore, the basis per share is $9.52 ($50,000/5,250). No gain is recognized on the receipt of the stock dividend.

Incorrect Feedback The $50,000 cost of the original shares must be allocated to the total shares owned after the stock dividend (5,000 + 250 = 5,250). Therefore, the basis per share is $9.52 ($50,000/5,250). No gain is recognized on the receipt of the stock dividend.

Add Question Here

Question 77 **Multiple Choice** **0 points** Modify Remove

Question Etta received nontaxable stock rights on October 3, 2011. She allocated $5,000 of the $25,000 basis for the associated stock to the stock rights. The stock rights are exercised on November 15, 2011. The exercise price for the stock is $31,000. What is Etta's basis for the acquired stock?

Answer

- $26,000.
- $31,000.
- ✓ $36,000.
- $56,000.
- None of the above.

Correct Feedback

Cost	$31,000
Basis for stock rights	5,000
Basis for new stock	$36,000

Incorrect Feedback

Cost	$31,000
Basis for stock rights	5,000
Basis for new stock	$36,000

Add Question Here

Question 78 **Multiple Choice** **0 points** Modify Remove

Question Mike's basis in his stock in Tan Corporation is $75,000. He receives nontaxable stock rights (fair market value of $20,000) when the value of the stock is $100,000. What is the basis for the stock rights?

Answer

- $0.
- ✓ $12,500.
- $15,000.
- The basis is $0 unless the taxpayer elects to allocate a portion of the cost of the stock to the rights.
- None of the above.

Correct Feedback Since the value of the stock rights is at least 15% of the fair market value of the stock, part of the stock basis must be allocated to the stock rights as follows:

$$\frac{\$20,000}{\$120,000} \times \$75,000 = \$12,500$$

Incorrect Feedback Since the value of the stock rights is at least 15% of the fair market value of the stock, part of the stock basis must be allocated to the stock rights as follows:

$$\frac{\$20,000}{\$120,000} \times \$75,000 = \$12,500$$

Add Question Here

Question 79 **Multiple Choice** **0 points** Modify Remove

Question Carol received nontaxable stock rights on May 14, 2011. She allocated $6,000 of the $40,000 basis of the associated stock to the stock rights. The stock rights expire on September 14, 2011. What is Carol's recognized loss on the expiration of the stock rights?

Answer

- ✓ $0.
- $6,000.
- $34,000.
- $40,000.
- None of the above.

Correct Feedback No loss is recognized on the expiration of the stock rights. The $6,000 basis for the stock rights is returned to the basis for the associated stock.

Incorrect Feedback No loss is recognized on the expiration of the stock rights. The $6,000 basis for the stock rights is returned to the basis for the associated stock.

Add Question Here

Question 80 **Multiple Choice** **0 points** Modify Remove

Question In 2007, Harold purchased a classic car that he planned to restore for $12,000. However, Harold is too busy to work on the car and he gives it to his daughter Julia in 2011. At this time, the fair market value of the car has declined to $10,000. Harold paid no gift tax on the transaction. Julia completes some of the restoration herself with out-of-pocket costs of $5,000. She later sells the car for $30,000. What is Julia's recognized gain or loss on the sale of the car?

Answer

- $0.
- ✓ $13,000.
- $15,000.
- $18,000.
- None of the above.

Correct Feedback Julia's recognized gain on the sale of the car is calculated as follows:

Amount realized	$30,000
Less: Adjusted basis ($12,000 + $5,000)	(17,000)
Realized gain	$13,000
Recognized gain	$13,000

Julia's gain basis for the gift is $12,000. She increases her adjusted basis by the out-of-pocket costs of $5,000 she incurs in the restoration.

Incorrect Feedback Julia's recognized gain on the sale of the car is calculated as follows:

Amount realized	$30,000
Less: Adjusted basis ($12,000 + $5,000)	(17,000)
Realized gain	$13,000
Recognized gain	$13,000

Julia's gain basis for the gift is $12,000. She increases her adjusted basis by the out-of-pocket costs of $5,000 she incurs in the restoration.

Add Question Here

Question 81 **Multiple Choice** **0 points** Modify Remove

Question Abner gives his daughter, Melissa, stock (basis of $52,000; fair market value of $42,000). No gift tax is paid. If Melissa subsequently sells the stock for $54,000, what is her recognized gain or loss?

Answer
- $0.
- ✓ $2,000.
- $10,000.
- $12,000.
- None of the above.

Correct Feedback As Melissa's gain basis is $52,000, she has a recognized gain of $2,000 calculated as follows:

Amount realized	$54,000
Basis for stock	(52,000)
Realized gain	$ 2,000
Recognized gain	$ 2,000

Since the property was sold at a gain, Melissa's loss basis of $42,000 is not relevant.

Incorrect Feedback As Melissa's gain basis is $52,000, she has a recognized gain of $2,000 calculated as follows:

Amount realized	$54,000
Basis for stock	(52,000)
Realized gain	$ 2,000
Recognized gain	$ 2,000

Since the property was sold at a gain, Melissa's loss basis of $42,000 is not relevant.

Add Question Here

Question 82 **Multiple Choice** **0 points** Modify Remove

Question Gift property (disregarding any adjustment for gift tax paid by the donor):

Answer
- Has no basis to the donee because he or she did not pay anything for the property.
- ✓ Has the same basis to the donee as the donor's adjusted basis if the donee disposes of the property at a gain.
- Has the same basis to the donee as the donor's adjusted basis if the donee disposes of the property at a loss, and the fair market value on the date of gift was less than the donor's adjusted basis.
- Has no basis to the donee if the fair market value on the date of gift is less than the donor's adjusted basis.
- None of the above.

Correct Feedback Disregarding any adjustment for gift tax paid by the donor, the donee's gain basis for the property received is the same as that of the donor. The donee's loss basis is the lower of the donor's adjusted basis or fair market value on the date of the gift.

Incorrect Feedback Disregarding any adjustment for gift tax paid by the donor, the donee's gain basis for the property received is the same as that of the donor. The donee's loss basis is the lower of the donor's adjusted basis or fair market value on the date of the gift.

Add Question Here

Question 83 **Multiple Choice** **0 points** Modify Remove

Question Shontelle received a gift of income-producing property with an adjusted basis of $75,000 to the donor and fair market value of $69,000 on the date of gift. Gift tax of $7,000 was paid by the donor. Shontelle subsequently sold the property for $72,000. What is the recognized gain or loss?

Answer
- $3,000.
- ($3,000).
- ($4,000).
- ($10,000).
- ✓ None of the above.

Correct Feedback The gain basis for Shontelle is $75,000 and the loss basis is $69,000. Because the sales price is within this range, no gain or loss is recognized. In this case, the gift tax paid of $7,000 has no effect on the gain basis.

Incorrect Feedback The gain basis for Shontelle is $75,000 and the loss basis is $69,000. Because the sales price is within this range, no gain or loss is recognized. In this case, the gift tax paid of $7,000 has no effect on the gain basis.

Add Question Here

Question 84 **Multiple Choice** **0 points** Modify Remove

Question Rob was given a residence in 2011. At the time of the gift, the residence had a fair market value of $200,000, and its adjusted basis to the donor was $140,000. The donor paid a gift tax of $10,000 on the taxable gift of $187,000. What is Rob's basis for gain?

Answer
- $140,000.
- ✓ $143,209.
- $150,000.
- $200,000.
- None of the above.

Correct Feedback Rob's basis is calculated as follows:

$$\text{Donor's adjusted basis} + \left(\frac{\text{Unrealized appreciation}}{\text{Taxable gift}} \times \text{Gift tax paid}\right)$$

$$\$140,000 + \left(\frac{\$60,000*}{\$187,000**} \times \$10,000 \right) = \$143,209$$

*Fraction rounded to 32%.
**$200,000 – $13,000 = $187,000.

Incorrect Feedback Rob's basis is calculated as follows:

$$\text{Donor's adjusted basis} + \left(\frac{\text{Unrealized appreciation}}{\text{Taxable gift}} \times \text{Gift tax paid} \right)$$

$$\$140,000 + \left(\frac{\$60,000*}{\$187,000**} \times \$10,000 \right) = \$143,209$$

*Fraction rounded to 32%.
**$200,000 – $13,000 = $187,000.

Add Question Here

Question 85 **Multiple Choice** **0 points** Modify Remove

Question In addition to other gifts, Megan made a gift of stock to Jeri in 1975. Megan had purchased the stock in 1973 for $7,500. At the time of the gift, the stock was worth $20,000. If Megan paid $850 of gift tax on the transaction in 1975, what is Jeri's gain basis for the stock?

Answer
- $7,500.
- ✓ $8,350.
- $9,017.
- $20,000.
- None of the above.

Correct Feedback Since the gift occurred prior to 1977, all of the gift tax paid of $850 is added to Megan's adjusted basis of $7,500. Thus, Jeri's adjusted basis is $8,350 ($7,500 + $850).

Incorrect Feedback Since the gift occurred prior to 1977, all of the gift tax paid of $850 is added to Megan's adjusted basis of $7,500. Thus, Jeri's adjusted basis is $8,350 ($7,500 + $850).

Add Question Here

Question 86 **Multiple Choice** **0 points** Modify Remove

Question Noelle received dining room furniture as a gift from her friend, Jane. Jane's adjusted basis was $9,200 and the fair market value on the date of the gift was $7,000. Noelle decided she did not need the furniture and sold it to a neighbor six months later for $6,500. What is her recognized gain or loss?

Answer
- ✓ $0.
- ($500).
- ($2,700).
- $6,500.
- None of the above.

Correct Feedback Noelle has a loss basis of $7,000 (the lower of the adjusted basis of $9,200 or the fair market value of $7,000 on the date of the gift) for the furniture. Therefore, sale proceeds of $6,500 result in a realized loss of $500 ($6,500 amount realized – $7,000 adjusted basis). This is a loss on a personal asset and is not recognized.

Incorrect Feedback Noelle has a loss basis of $7,000 (the lower of the adjusted basis of $9,200 or the fair market value of $7,000 on the date of the gift) for the furniture. Therefore, sale proceeds of $6,500 result in a realized loss of $500 ($6,500 amount realized – $7,000 adjusted basis). This is a loss on a personal asset and is not recognized.

Add Question Here

Question 87 **Multiple Choice** **0 points** Modify Remove

Question The holding period of property acquired by gift may begin on:

Answer
- The date the property was acquired by the donor only.
- The date of gift only.
- ✓ Either the date the property was acquired by the donor or the date of gift.
- The end of the tax year in which the property was originally acquired by the donor.
- None of the above.

Correct Feedback The holding period associated with the gain basis rule includes the holding period of the donor. The holding period associated with the loss basis rule begins on the date of the gift.

Incorrect Feedback The holding period associated with the gain basis rule includes the holding period of the donor. The holding period associated with the loss basis rule begins on the date of the gift.

Add Question Here

Question 88 **Multiple Choice** **0 points** Modify Remove

Question Melba gives her niece a drill press to use in her business with a fair market value of $36,000 and a basis in Melba's hands of $41,000. No gift tax was paid. What is the niece's basis for depreciation (cost recovery)?

Answer
- $0.
- $5,000.
- $36,000.
- ✓ $41,000.
- None of the above.

Correct Feedback The basis for depreciation (cost recovery) for gift property is the gain basis of $41,000.

Incorrect Feedback The basis for depreciation (cost recovery) for gift property is the gain basis of $41,000.

Add Question Here

Question 89 **Multiple Choice** **0 points** Modify Remove

Question Abner, age 80 and in poor health, owns investment land with an adjusted basis of $50,000. He is considering transferring it to Stella, his niece. Regarding Stella's income tax position, should the transfer to her be by gift or by inheritance? (Assume neither gift tax nor estate tax would be due, and that the property is not expected to change in value.)

Answer

- If the fair market value of the land is $200,000, the transfer should be by inheritance.
- If the fair market value of the land is $10,000, the transfer should be by gift.
- If the fair market value of the land is $50,000, the transfer can be either by gift or by inheritance (i.e., the tax consequences are the same).
- ✓ Only a. and c. are correct.
- a., b., and c. are correct.

Correct Feedback The donee's basis for property received by gift is a carryover basis (i.e., $50,000). The beneficiary's basis for property received by inheritance is the fair market value at the date of death. Choice a. is correct because Stella's basis will be stepped up to the $200,000. Choice c. is correct because in either case Stella's basis will be $50,000. Choice b. is not correct. Rather than transferring the land to Stella by gift or inheritance, Abner should sell the land for $10,000 and generate a recognized loss of $40,000 ($10,000 – $50,000). The $10,000 in cash can be transferred to Stella by either gift or inheritance.

Incorrect Feedback The donee's basis for property received by gift is a carryover basis (i.e., $50,000). The beneficiary's basis for property received by inheritance is the fair market value at the date of death. Choice a. is correct because Stella's basis will be stepped up to the $200,000. Choice c. is correct because in either case Stella's basis will be $50,000. Choice b. is not correct. Rather than transferring the land to Stella by gift or inheritance, Abner should sell the land for $10,000 and generate a recognized loss of $40,000 ($10,000 – $50,000). The $10,000 in cash can be transferred to Stella by either gift or inheritance.

Add Question Here

Question 90 **Multiple Choice** **0 points** Modify Remove

Question Which of the following statements correctly reflects the rules regarding inherited property in 2011?

Answer

- ✓ A particular beneficiary's basis can be greater than, equal to, or less than the decedent's basis.
- A particular beneficiary's holding period includes the donor's holding period.
- The alternate valuation date election only applies to those assets which have declined in value (i.e., does not cover assets that have increased in value).
- Only a. and b. are correct.
- a., b., and c. are correct.

Correct Feedback A beneficiary's basis is the fair market value of the property on the date of the decedent's death (or the alternate valuation date if elected). Thus, a step-up or step-down in basis can occur (choice a.). A beneficiary's holding period is automatically long-term. If the alternate valuation date election is made, assets are assigned a basis equal to the fair market value six months after the decedent's death regardless of whether a specific asset has declined or increased in value.

Incorrect Feedback A beneficiary's basis is the fair market value of the property on the date of the decedent's death (or the alternate valuation date if elected). Thus, a step-up or step-down in basis can occur (choice a.). A beneficiary's holding period is automatically long-term. If the alternate valuation date election is made, assets are assigned a basis equal to the fair market value six months after the decedent's death regardless of whether a specific asset has declined or increased in value.

Add Question Here

Question 91 **Multiple Choice** **0 points** Modify Remove

Question Al owns stock with an adjusted basis of $100,000 and a fair market value of $300,000. He gives the stock to Jane on July 1, 2010. When Jane dies, the fair market value of the stock is $900,000. Jane's will provides that Al is to receive the stock. Which of the following is *false*?

Answer

- If Jane dies on June 1, 2011, Al's basis for the stock is $100,000.
- If Jane dies on August 1, 2011, Al's basis for the stock is $900,000.
- ✓ If Jane dies on June 15, 2011, Al's basis is $300,000.
- If Jane dies on July 1, 2011, Al's basis is $100,000.
- All of the above are true.

Correct Feedback Unless Jane lives for over one year after the date of the gift (i.e., until at least July 2, 2011), Al's basis is a carryover basis of $100,000. If Jane lives for over one year, Al's basis is the fair market value on the date of Jane's death (i.e., $900,000).

Incorrect Feedback Unless Jane lives for over one year after the date of the gift (i.e., until at least July 2, 2011), Al's basis is a carryover basis of $100,000. If Jane lives for over one year, Al's basis is the fair market value on the date of Jane's death (i.e., $900,000).

Add Question Here

Question 92 **Multiple Choice** **0 points** Modify Remove

Question Emma gives 1,000 shares of Green, Inc. stock to her niece, Margaret. Emma's adjusted basis for the stock is $400,000 and the fair market value is $600,000. Five months after the gift, Margaret is killed in an automobile accident. Emma inherits the stock which then is worth $700,000. What is the adjusted basis of the inherited stock to Emma?

Answer

- $0.
- ✓ $400,000.
- $600,000.
- $700,000.
- None of the above.

Correct Feedback The death-bed gift rules apply since the time period between the date of the gift by Emma and the date of Margaret's death is not greater than one year. Thus, Emma's basis is a carryover basis of $400,000.

Incorrect Feedback The death-bed gift rules apply since the time period between the date of the gift by Emma and the date of Margaret's death is not greater than one year. Thus, Emma's basis is a carryover basis of $400,000.

Add Question Here

Question 93 **Multiple Choice** **0 points** Modify Remove

Question Henrietta and Hollis have been married for 10 years when Hollis dies in a sky-diving accident. Their assets are summarized below.

Asset	Basis	Fair market value
Car	$ 20,000	$ 15,000
House	150,000	200,000
Life insurance (on Hollis' life)	10,000	100,000

Henrietta and Hollis reside in Wisconsin, a community property state. All of the assets were acquired with community funds and pass to Henrietta. Her basis for each of the assets becomes:

Car House Cash from life insurance proceeds

Answer

$20,000	$150,000	$ 10,000
$17,500	$175,000	$ 10,000
$17,500	$175,000	$100,000
✓ $15,000	$200,000	$100,000
None of the above.		

Correct Feedback Both the decedent's and the survivor's shares of community property assume a basis equal to fair market value on the date of the death. Thus, Henrietta's basis for each of the assets becomes:

Car	$ 15,000
House	200,000
Cash from life insurance proceeds	100,000

Incorrect Feedback Both the decedent's and the survivor's shares of community property assume a basis equal to fair market value on the date of the death. Thus, Henrietta's basis for each of the assets becomes:

Car	$ 15,000
House	200,000
Cash from life insurance proceeds	100,000

Add Question Here

Question 94 **Multiple Choice** **0 points** Modify Remove

Question Robert and Diane, husband and wife, live in Pennsylvania, a common law state. They purchased land as joint tenants in 2007 for $300,000. In 2011, Diane dies and bequeaths her share of the land to Robert. The land has a fair market value of $450,000. What is Robert's adjusted basis for the land?

Answer

- $300,000.
- ✓ $375,000.
- $450,000.
- $750,000.
- None of the above.

Correct Feedback Robert's adjusted basis for the land is calculated as follows:

Robert's original basis ($300,000 ´ 50%)	$150,000
Basis for inherited share ($450,000 ´ 50%)	225,000
Robert's adjusted basis	$375,000

Incorrect Feedback Robert's adjusted basis for the land is calculated as follows:

Robert's original basis ($300,000 ´ 50%)	$150,000
Basis for inherited share ($450,000 ´ 50%)	225,000
Robert's adjusted basis	$375,000

Add Question Here

Question 95 **Multiple Choice** **0 points** Modify Remove

Question Taylor inherited 100 acres of land on the death of his father in 2011. A Federal estate tax return was filed and this land was valued therein at $650,000, its fair market value at the date of the father's death. The father had originally acquired the land in 1965 for $112,000 and prior to his death he had expended $20,000 on permanent improvements. Determine Taylor's holding period for the land.

Answer

- Will begin with the date his father acquired the property.
- ✓ Will automatically be long-term.
- Will begin with the date of his father's death.
- Will begin with the date the property is distributed to him.
- None of the above.

Correct Feedback Section 1223(11) provides that the holding period for inherited property is automatically long-term regardless of whether the property is disposed of at a gain or a loss.

Incorrect Feedback Section 1223(11) provides that the holding period for inherited property is automatically long-term regardless of whether the property is disposed of at a gain or a loss.

Add Question Here

Question 96 **Multiple Choice** **0 points** Modify Remove

Question Kelly inherits land which had a basis to the decedent of $95,000 and a fair market value of $50,000 on August 4, 2011, the date of the decedent's death. The executor distributes the land to Kelly on November 12, 2011, at which time the fair market value is $49,000. The fair market value on February 4, 2012, is $45,000. In filing the estate tax return, the executor elects the alternate valuation date. Kelly sells the land on June 10, 2012, for $48,000. What is her recognized gain or loss?

Answer

- ✓ ($1,000).
- ($2,000).
- ($47,000).
- $1,000.
- None of the above.

Correct Feedback Kelly's basis for the inherited property is $49,000 (i.e., the fair market value on the date of distribution) because the alternate valuation date was elected by the executor. Thus, the recognized loss is calculated as follows:

Amount realized	$48,000
Basis	(49,000)
Recognized loss	($ 1,000)

Incorrect Feedback Kelly's basis for the inherited property is $49,000 (i.e., the fair market value on the date of distribution) because the alternate valuation date was elected by the executor. Thus, the recognized loss is calculated as follows:

Amount realized	$48,000
Basis	(49,000)
Recognized loss	($ 1,000)

Add Question Here

Question 97 **Multiple Choice** **0 points** Modify Remove

Question Iva owns Mauve, Inc. stock (adjusted basis of $40,000) which she sells to Joshua, her brother, for its fair market value of $32,000. Fifteen months later, he sells it to Faye, a friend, for its fair market value of $39,000. Determine Iva's recognized loss, Joshua's recognized gain or loss, and Faye's adjusted basis for the stock.

Iva's recognized loss	Joshua's recognized gain or loss	Faye's basis

Answer

✓	$ –0–	$ –0–	$39,000
	$ –0–	$7,000	$32,000
	$ –0–	$7,000	$39,000
	$8,000	$7,000	$39,000
	None of the above.		

Correct Feedback Iva's realized loss of $8,000 is disallowed because Joshua is a related party. Joshua has no recognized gain, calculated as follows:

Amount realized	$39,000
Adjusted basis	(32,000)
Realized gain	$ 7,000
Less portion of Iva's disallowed loss to reduce to $0	(7,000)
Recognized gain	$ –0–

Faye's basis for the stock is her cost of $39,000.

Incorrect Feedback Iva's realized loss of $8,000 is disallowed because Joshua is a related party. Joshua has no recognized gain, calculated as follows:

Amount realized	$39,000
Adjusted basis	(32,000)
Realized gain	$ 7,000
Less portion of Iva's disallowed loss to reduce to $0	(7,000)
Recognized gain	$ –0–

Faye's basis for the stock is her cost of $39,000.

Add Question Here

Question 98 **Multiple Choice** **0 points** Modify Remove

Question Paul sells property with an adjusted basis of $45,000 to his daughter Dean, for $38,000. Dean subsequently sells the property to her brother, Preston, for $38,000. Three years later, Preston sells the property to Hun, an unrelated party, for $50,000. What is Preston's recognized gain or loss on the sale of the property to Hun?

Answer

- $0.
- $5,000.
- ✓ $12,000.
- ($5,000).
- None of the above.

Correct Feedback

Amount realized	$50,000
Adjusted basis	(38,000)
Realized gain	$12,000
Recognized gain	$12,000

The right of offset under § 267 is available only to the original transferee (i.e., daughter in this case).

Incorrect Feedback

Amount realized	$50,000
Adjusted basis	(38,000)
Realized gain	$12,000
Recognized gain	$12,000

The right of offset under § 267 is available only to the original transferee (i.e., daughter in this case).

Add Question Here

Question 99 **Multiple Choice** **0 points** Modify Remove

Question Karen purchased 100 shares of Gold Corporation stock for $11,500 on January 1, 2003. In the current tax year, she sells 25 shares of the 100 shares purchased on January 1, 2003, for $2,500. Twenty-five days earlier, she had purchased 30 shares for $3,000. What is Karen's recognized gain or loss on the sale of the stock, and what is her basis in the 30 shares purchased 25 days earlier?

Answer

- $375 recognized loss, $3,000 basis in new stock.
- $0 recognized loss, $3,000 basis in new stock.
- ✓ $0 recognized loss, $3,375 basis in new stock.
- $0 recognized loss, $3,450 basis in new stock.
- None of the above.

Correct Feedback

Amount realized	$2,500
Adjusted basis (25 ´ $115)	(2,875)
Realized loss	($ 375)
Recognized loss	$ –0–

Since the transaction qualifies as a wash sale, the realized loss of $375 is disallowed. This amount is added to the adjusted basis of the shares purchased 25 days earlier. Therefore, the adjusted basis for these shares is $3,375 ($3,000 + $375).

Incorrect Feedback

Amount realized	$2,500
Adjusted basis (25 ´ $115)	(2,875)
Realized loss	($ 375)
Recognized loss	$ –0–

Since the transaction qualifies as a wash sale, the realized loss of $375 is disallowed. This amount is added to the adjusted basis of the shares purchased 25 days earlier. Therefore, the adjusted basis for these shares is $3,375 ($3,000 + $375).

Add Question Here

Question 100 **Multiple Choice** **0 points** Modify Remove

Question Andrew acquires 2,000 shares of Eagle Corporation stock for $100,000 on March 31, 2004. On January 1, 2011, he sells 125 shares for $5,000. On January 22, 2011, he purchases 135 shares of Eagle Corporation stock for $6,075. When does Andrew's holding period begin for the 135 shares?

Answer

- January 22, 2011.
- January 1, 2011.
- March 31, 2004.
- ✓ March 31, 2004, for 125 shares and January 22, 2011, for 10 shares.
- None of the above.

Correct Feedback The sale of the 125 shares at a loss and the purchase of 135 shares within 30 days results in the loss being disallowed under the wash sales provisions. Therefore, for 125 of the 135 shares, there is a carryover basis and a carryover holding period.

Incorrect Feedback The sale of the 125 shares at a loss and the purchase of 135 shares within 30 days results in the loss being disallowed under the wash sales provisions. Therefore, for 125 of the 135 shares, there is a carryover basis and a carryover holding period.

Add Question Here

Question 101 **Multiple Choice** **0 points** Modify Remove

Question If personal use property is converted to business use:

Answer

- Gain is recognized on the date of conversion to the extent of the excess of the fair market value over the adjusted basis.
- Loss is recognized on the date of conversion to the extent of the excess of the adjusted basis over the fair market value.
- The basis for gain is the lower of the taxpayer's adjusted basis or the fair market value at the date of conversion.
- The basis for loss is the taxpayer's adjusted basis on the date of conversion.
- ✓ None of the above is correct.

Correct Feedback Neither gain nor loss is recognized at the date of conversion. The basis for gain is the taxpayer's adjusted basis at the date of conversion and the basis for loss is the lower of the taxpayer's adjusted basis or the fair market value at the date of conversion.

Incorrect Feedback Neither gain nor loss is recognized at the date of conversion. The basis for gain is the taxpayer's adjusted basis at the date of conversion and the basis for loss is the lower of the taxpayer's adjusted basis or the fair market value at the date of conversion.

Add Question Here

Question 102 **Multiple Choice** **0 points** Modify Remove

Question Lynn purchases a house for $52,000. She converts the property to rental property when the fair market value is $115,000. After deducting depreciation (cost recovery) expense of $1,130, she sells the house for $120,000. What is her recognized gain or loss?

Answer

- $0.
- $6,130.
- $37,630.
- ✓ $69,130.
- None of the above.

Correct Feedback

Amount realized	$120,000
Adjusted basis ($52,000 – $1,130)	(50,870)
Realized gain	$ 69,130
Recognized gain	$ 69,130

Incorrect Feedback

Amount realized	$120,000
Adjusted basis ($52,000 – $1,130)	(50,870)
Realized gain	$ 69,130
Recognized gain	$ 69,130

Add Question Here

Question 103 **Essay** **0 points** Modify Remove

Question Robert sold his ranch which was his principal residence during the current taxable year. At the date of the sale, the ranch had an adjusted basis of $460,000 and was encumbered by a mortgage of $200,000. The buyer paid him $500,000 in cash, agreed to take the title subject to the $200,000 mortgage, and agreed to pay him $100,000 with interest at 6 percent one year from the date of sale. How much is Robert's recognized gain on the sale?

Answer Amount realized:

Cash	$500,000
Mortgage (property taken subject to)	200,000
Note receivable	100,000
	$800,000
Adjusted basis	(460,000)
Realized and recognized gain	$340,000

Add Question Here

Question 104 **Essay** **0 points** Modify Remove

Question Albert is considering two options for selling land for which he has an adjusted basis of $70,000 and on which there is a mortgage of $100,000. Under the first option, Albert will sell the land for $150,000 with a stipulation in the sales contract that he liquidate the mortgage before the sale is complete. Under the second option, Albert will sell the land for $50,000 and the buyer will assume the mortgage. Calculate Albert's recognized gain under both options.

Answer

	Option 1	Option 2
Amount realized	$150,000	$150,000
Less: Adjusted basis	(70,000)	(70,000)
Recognized gain	$ 80,000	$ 80,000

Since the liability assumption is included in the calculation of Albert's amount realized, the recognized gain is $80,000, the same as for the cash sale.

Add Question Here

Question 105 **Essay** **0 points** Modify Remove

Question Annette purchased stock on March 1, 2011, for $150,000. At December 31, 2011, it was worth $160,000. She also purchased a bond on September 1, 2011, for $20,000. At year end, it was worth $12,000. Determine Annette's realized and recognized gain or loss.

Answer Annette's realized gain or loss is zero and her recognized gain or loss is zero. Since a sale or other disposition has not occurred, there is no realization or recognition on either the stock or the bond.

Add Question Here

Question 106 **Essay** **0 points** Modify Remove

Question Nigel purchased a blending machine for $125,000 for use in his business. As to the machine, he has deducted MACRS cost recovery of $31,024, maintenance costs of $5,200, and repair costs of $4,000. Calculate Nigel's adjusted basis for the machine.

Answer Nigel's adjusted basis for the machine is calculated as follows:

Cost	$125,000
Less: Cost recovery	(31,024)
Adjusted basis	$ 93,976

Neither the maintenance cost of $5,200 nor the repair cost of $4,000 are capital expenditures. These costs are deducted in the tax year incurred.

Add Question Here

Question 107 **Essay** **0 points** Modify Remove

Question Amanda uses a delivery van in her business. The adjusted basis is $29,000, and the fair market value is $25,000. The delivery van is stolen and Amanda receives insurance proceeds of $25,000. Determine Amanda's realized and recognized gain or loss.

Answer

Amount realized	$25,000
Adjusted basis	(29,000)
Realized loss	($ 4,000)
Recognized loss	($ 4,000)

Since the proceeds received from the insurance company are less than the adjusted basis, the realized loss of $4,000 is recognized.

Add Question Here

Question 108 **Essay** **0 points** Modify Remove

Question Renee purchases taxable bonds with a face value of $200,000 for $212,000. The annual interest paid on the bonds is $10,000. Assume Renee elects to amortize the bond premium. The total premium amortization for the first year is $1,600.

a. What is Renee's interest income for the first year?
b. What is Renee's interest deduction for the first year?
c. What is Renee's adjusted basis for the bonds at the end of the first year?

Answer a. Renee receives interest payments of $10,000 each year. This amount is included in her gross income because the bonds are taxable.

b. Renee deducts the premium amortization of $1,600 for the first year because the bonds are taxable.

c. Renee's adjusted basis for the bonds at the end of the first year is $210,400 ($212,000 cost – $1,600 premium amortization).

Add Question Here

Question 109 **Essay** **0 points** Modify Remove

Question Boyd acquired tax-exempt bonds for $430,000 in December 2011. The bonds, which mature in December 2016, have a maturity value of $400,000. Boyd does not make any elections regarding the amortization of the bond premium. Determine the tax consequences to Boyd when he redeems the bonds in December 2016.

Answer When Boyd redeems the bonds in 2016, he has no realized or recognized gain or loss.

Amount realized	$400,000
Adjusted basis for bonds	(400,000)
Realized gain	$ –0–
Recognized gain	$ –0–

Amortization of the premium on tax-exempt bonds is mandatory. Thus, the adjusted basis of the bonds at the maturity date is $400,000 ($430,000 cost – $30,000 premium amortized). Since the bonds are tax-exempt, the amount of interest income included in Boyd's gross income (i.e., $0) is not affected by the amortization of the bond premium.

Add Question Here

Question 110 **Essay** **0 points** Modify Remove

Question Misty owns stock in Violet, Inc., for which her adjusted basis is $112,000. She receives a cash distribution of $40,000 from Violet.

a. What is Misty's adjusted basis for the stock if the distribution is a taxable dividend?
b. What is Misty's adjusted basis for the stock if the distribution is a return of capital?

Answer a. Since Misty must include the taxable dividend in her gross income, there is no effect on the adjusted basis for the stock. Thus, the adjusted basis for the stock after the distribution is $112,000.

b. Since the distribution is classified as a return of capital, there is no effect on Misty's gross income. She reduces the adjusted basis of her stock by the $40,000 distribution. Thus, the adjusted basis for the stock after the distribution is $72,000 ($112,000 – $40,000).

Add Question Here

Question 111 **Essay** **0 points** Modify Remove

Question Hilary receives $10,000 for a 15-foot wide utility easement along one of the boundaries to her property. The easement provides that no structure can be built on that portion of the property. Her adjusted basis for the property is $200,000 and the easement covers 15% of the total acreage. Determine the effect of the $10,000 payment on Hilary's gross income and her basis for the property.

Answer Hilary does not report the $10,000 payment in her gross income. Instead, she reduces the basis for the property by the $10,000 payment from $200,000 to $190,000.

Add Question Here

Question 112 **Essay** **0 points** Modify Remove

Question Ollie owns a personal use car for which he originally paid $42,000. He trades the car in on a sports utility vehicle (SUV) paying the automobile dealer cash of $24,000. If the negotiated price of the SUV is $45,000, what is Ollie's recognized gain or loss and his adjusted basis for the SUV?

Answer Ollie's realized loss on the trade of his personal use car is calculated as follows:

Amount realized (trade-in value)	$21,000
Adjusted basis	(42,000)
Realized loss	($21,000)

Since the car was a personal use asset, none of the realized loss of $21,000 is recognized. Ollie's adjusted basis for the SUV is his cost of $45,000.

Add Question Here

Question 113 **Essay** **0 points** Modify Remove

Question Omar has the following stock transactions during 2011:

Stock	Date purchased	Number of shares sold	Number of shares	Basis	Selling price
Orange	1/2009		100	$1,000	
Blue	6/2009		200	3,000	
Yellow	4/2010		50	1,250	
Blue	2/2011		150	1,800	
Yellow	3/2011		175	5,250	
Blue	7/2011	250			$3,500
Yellow	11/2011	200			7,200

a. What is Omar's recognized gain or loss on the stock sales if his objective is to minimize the recognized gain and to maximize the recognized loss?

b. What is Omar's recognized gain or loss if he does not identify the shares sold?

Answer a. Since Omar's objective is to minimize recognized gain and maximize recognized loss, he will identify the specific shares (i.e., specific identification method) being sold. He will select high basis shares to achieve his objective.

Sale of Blue stock

Amount realized		$3,500
Basis:		
200 shares from 6/2009 lot ($15 per share)	$3,000	
50 shares from 2/2011 lot ($12 per share)	600	(3,600)
Realized loss		($ 100)
Recognized loss		($ 100)

Sale of Yellow stock

Amount realized		$7,200
Basis:		
175 shares from 3/2011 lot ($30 per share)	$5,250	
25 shares from 4/2010 lot ($25 per share)	625	(5,875)
Realized gain		$1,325
Recognized gain		$1,325

b. Since Omar does not identify the shares sold, he is required to use the FIFO method.

Sale of Blue stock

Amount realized		$3,500
Basis:		
200 shares from 6/2009 lot ($15 per share)	$3,000	
50 shares from 2/2011 lot ($12 per share)	600	(3,600)
Realized loss		($ 100)
Recognized loss		($ 100)

Sale of Yellow stock

Amount realized		$7,200
Basis:		
50 shares from 4/2010 lot ($25 per share)	$1,250	
150 shares from 3/2011 lot ($30 per share)	4,500	(5,750)
Realized gain		$1,450
Recognized gain		$1,450

Add Question Here

Question 114 **Essay** **0 points** Modify Remove

Question Hubert purchases Fran's jewelry store for $950,000. The identifiable assets of the business are as follows:

	Basis	FMV
Inventory	$ 90,000	$ 97,000
Accounts receivable	55,000	50,000
Building	100,000	225,000
Land	280,000	300,000

Hubert and Fran agree to assign $110,000 to a 7-year covenant not to compete. How should Hubert allocate the $950,000 purchase price to the assets?

Answer The purchase price is allocated to the assets as follows:

Inventory	$ 97,000
Accounts receivable	50,000
Building	225,000
Land	300,000
Covenant	110,000
Goodwill	168,000
	$950,000

Under the residual method, $168,000 ($950,000 – $782,000) is assigned to goodwill.

Add Question Here

Question 115 **Essay** **0 points** Modify Remove

Question Marge purchases the Kentwood Krackers, a AAA level baseball team, for $1.5 million. The appraised values of the identified assets are as follows:

Prepaid season tickets	$150,000
Stadium lease	400,000
Player contracts	500,000
Equipment	100,000

The Krackers have won the pennant for the past two years. Determine Marge's adjusted basis for the assets of the Kentwood Krackers.

Answer The portion of the purchase price of $1.5 million assigned to the identified assets is as follows:

Prepaid season tickets	$ 150,000
Stadium lease	400,000
Player contracts	500,000
Equipment	100,000
	$1,150,000

The residual value of $350,000 ($1,500,000 – $1,150,000) is assigned to goodwill.

Add Question Here

Question 116 **Essay** **0 points** Modify Remove

Question Inez's adjusted basis for 7,000 shares of Cardinal, Inc. common stock is $700,000. During the year, she receives a 6% stock dividend that is a nontaxable stock dividend.

a. What is the amount of Inez's gross income?
b. What is Inez's total basis for the stock?
c. What is Inez's basis per share?

Answer a. Inez has no gross income because the dividend is a nontaxable stock dividend.

b. Inez's total stock basis remains at $700,000.

c. The basis per share decreases to $94.34 per share ($700,000/7,420 shares).

Add Question Here

Question 117 **Essay** **0 points** Modify Remove

Question Felix gives 100 shares of stock to his daughter, Monica. The stock was acquired in 2002 for $20,000, and at the time of the gift, it had a fair market value of $60,000. Felix paid a gift tax of $6,000.

a. Does the receipt of the stock result in gross income to Monica?
b. What is Monica's basis in the stock?

Answer a. The receipt of the gift does not result in gross income to Monica.
b. Monica's basis in the stock is calculated as follows:

$20,000 + ($40,000/$47,000* ´ $6,000) = $25,106

*The $47,000 is equal to the fair market value of the stock of $60,000 reduced by the per donee annual exclusion of $13,000.

Add Question Here

Question 118 **Essay** **0 points** Modify Remove

Question On September 18, 2011, Jerry received land and a building from Ted as a gift. Ted had purchased the land and building on March 5, 2008, and his adjusted basis and the fair market value at the date of the gift were as follows:

Asset	Adjusted Basis	FMV
Land	$150,000	$200,000
Building	90,000	100,000

Ted paid gift tax on the transfer to Jerry of $96,000.

a. Determine Jerry's adjusted basis and holding period for the land and building.
b. Assume instead that the FMV of the land was $89,000 and the FMV of the building was $60,000. Determine Jerry's adjusted basis and holding period for the land and building.

Answer a. Jerry's total basis for the assets received from Ted is:

$150,000 + $90,000 +[($60,000/$287,000*) ´ $96,000] = $260,070

The basis is allocated to the land and building as follows:

Land: ($200,000/$300,000) ´ $260,070 = $173,380

Building: ($100,000/$300,000) ´ $260,070 = $86,690

Jerry's holding period begins on March 5, 2008.

*The $287,000 is equal to the fair market value of the land and building of $300,000 reduced by the per donee annual exclusion of $13,000.

b. Since the land and building have declined in value, none of the gift tax paid by Ted is considered in calculating Jerry's adjusted basis. Jerry's basis for gain is:

Land $150,000
Building 90,000

Jerry's basis for loss (the lower of Ted's adjusted basis or the FMV at the date of the gift) is:

Land $89,000
Building 60,000

Jerry's holding period begins on March 5, 2008, for the gain basis and September 18, 2011, for the loss basis.

Add Question Here

Question 119 **Essay** **0 points** Modify Remove

Question Mel gives a parcel of land to his son, Scott. He had purchased the land in 1998 for $150,000 and its fair market value on the date of the gift is $142,000. No gift tax is paid. Scott subsequently sells the land for $148,000.

a. What is Scott's basis for the land?
b. What is Scott's realized and recognized gain or loss from the sale of the land?

Answer a. Scott's basis for gain is $150,000 and his basis for loss is $142,000.

b. Gain basis calculation:

Amount realized	$148,000
Basis for gain	(150,000)
Realized gain	$ –0–
Recognized gain	$ –0–

Note that a realized *loss* of $2,000 results if the basis for gain is used.

Loss basis calculation:

Amount realized	$148,000
Basis for loss	(142,000)
Realized loss	$ –0–
Recognized loss	$ –0–

Note that a realized *gain* of $6,000 results if the basis for loss is used.

Since the amount realized of $148,000 is between Scott's loss basis of $142,000 and gain basis of $150,000, neither gain nor loss results.

Add Question Here

Question 120 **Essay** **0 points** Modify Remove

Question Teresa inherits land from her first cousin, Drew, in 2011. Drew's adjusted basis in the land (purchased in September 2008) was $200,000 and it was included in his estate at a value of $270,000.

a. Determine Teresa's basis and holding period for the land.
b. Determine Teresa's basis and holding period for the land if it was included in her cousin's estate at a value of $170,000.

Answer a. Teresa's basis for the land is $270,000 and her holding period is automatically long term.

b. Teresa's basis for the land is $170,000 and her holding period is automatically long term.

Add Question Here

Question 121 **Essay** **0 points** Modify Remove

Question Elbert gives stock worth $28,000 (no gift tax resulted) to his friend, Jeff, on June 8, 2011. Elbert purchased the stock on September 1, 2004, and his adjusted basis is $22,000. Jeff dies on December 8, 2012, and bequeaths the stock to Elbert. At that date, the fair market value of the stock is $31,000.

a. What is Jeff's basis and holding period for the stock?
b. What is Elbert's basis and holding period for the stock?

Answer a. Jeff has a carryover basis of $22,000 and a carryover holding period of September 1, 2004.

b. Elbert has a new basis of $31,000. Since Elbert inherited the stock, his holding period is automatically long term. Since the period between the date of the gift (June 8, 2011) and the date of Jeff's death (December 8, 2012) is more than one year, the deathbed gift provision does not apply.

Add Question Here

Question 122 **Essay** **0 points** Modify Remove

Question Ed and Cheryl have been married for 27 years. They own land jointly with a basis of $300,000. Ed dies in 2011, when the fair market value of the land is $500,000. Under the joint ownership arrangement, the land passed to Cheryl.

a. If Ed and Cheryl reside in a community property state, what is Cheryl's basis in the land?
b. If Ed and Cheryl reside in a common law state, what is Cheryl's basis in the land?

Answer a. Cheryl's basis in the land is $500,000 ($250,000 + $250,000).

b. Cheryl's basis in the land is $400,000 [($300,000 ´ 50%) + $250,000].

Add Question Here

Question 123 **Essay** **0 points** Modify Remove

Question On January 15 of the current taxable year, Merle sold stock with a cost of $40,000 to his brother Ned for $25,000, its fair market value. On June 21, Ned sold the stock to a friend for $26,000.

a. What are the tax consequences to Merle and Ned?
b. Would Ned recognize any gain if he sold the stock for $41,000?

Answer a. Merle realizes a loss of $15,000 [i.e., $25,000 (amount realized) – $40,000 (adjusted basis)] which is disallowed because the stock was sold to a related party. Ned realizes a gain of $1,000 [i.e., $26,000 (amount realized) – $25,000 (adjusted basis)] on the sale to a friend, but does not recognize any gain. Ned's gain of $1,000 is less than Merle's previously disallowed loss of $15,000.

b. Ned would realize a gain of $16,000 [i.e., $41,000 (amount realized) – $25,000 (adjusted basis)]. Gain of $1,000 would be recognized [i.e., $16,000 (gain realized) – $15,000 (previously disallowed loss)].

Add Question Here

Question 124 **Essay** **0 points** Modify Remove

Question Monica sells a parcel of land to her son, Elbert, for $90,000. Monica's adjusted basis is $100,000. Three years later, Elbert gives the land to his fiancée, Karen. At that date, the land is worth $104,000. No gift tax is paid. Since Elbert is going to be stationed in the U.S. Army in Germany for 3 years, they do not plan on being married until his tour is completed. Six months after receiving the land, Karen sells it for $110,000. At the same time, Karen sends Elbert a "Dear John" email. Calculate Karen's realized and recognized gain or loss.

Answer Elbert's adjusted basis for the land is his purchase price of $90,000. When Elbert gives the land to Karen, her adjusted basis is a carryover basis of $90,000. Karen's gain on the sale is calculated as follows:

Amount realized	$110,000
Adjusted basis	(90,000)
Realized gain	$ 20,000
Recognized gain	$ 20,000

Monica's disallowed loss of $10,000 ($90,000 amount realized – $100,000 adjusted basis) could have been used as an offset by Elbert if he had sold the land at a realized gain. But, it cannot be used by Karen since she is not the original transferee (i.e., related-party buyer).

Add Question Here

Question 125 **Essay** **0 points** Modify Remove

Question Justin owns 1,000 shares of Oriole Corporation common stock (adjusted basis of $9,800). On April 27, 2011, he sells 300 shares for $2,800, while on May 5, 2011, he purchases 200 shares for $2,500.

a. What is Justin's recognized gain or loss resulting from these transactions?
b. What is Justin's basis for the stock acquired on May 5, 2011?
c. Could Justin have obtained different tax consequences in a. and b. if he had sold the 300 shares on December 27, 2011, and purchased the 200 shares on January 5, 2012?

Answer a. To the extent of the substantially identical shares purchased during the 60-day period beginning 30 days before April 27 and ending 30 days after April 27, the transaction is a wash sale. The realized loss on the April 27 sale is $140 ($2,800 amount realized – $2,940 adjusted basis of 300 shares). Because Justin acquired fewer shares than he sold, only a portion of the realized loss is disallowed. The disallowed loss is $93 [(200 shares acquired/ 300 shares sold) ´ $140] and the recognized loss is $47 ($140 – $93).

b. Justin's adjusted basis for the stock acquired on May 5, 2011, is $2,593 ($2,500 purchase price + $93 disallowed loss).

c. The tax consequences would have been the same. Justin has a wash sale to the extent of the 200 shares purchased. To avoid the limitations of the wash sale, Justin should not purchase substantially identical stock within the 60-day window for a wash sale.

Add Question Here

Question 126 **Essay** **0 points** Modify Remove

Question Laura transfers her personal use automobile to her business (a sole proprietorship). The car's adjusted basis is $32,000 and the fair market value is $20,000. No cost recovery had been deducted by Laura, since she held the car for personal use. Determine the adjusted basis of the car to Laura's sole proprietorship including the basis for cost recovery.

Answer In this circumstance, the car is dual basis property. The adjusted basis to the sole proprietorship for gain is $32,000 and the adjusted basis for loss is $20,000. The loss basis of $20,000 is used in calculating cost recovery.

Add Question Here

Question 127 **Essay** **0 points** Modify Remove

Question Jacob owns land with an adjusted basis of $140,000 and a fair market value of $115,000. Determine the amount of realized and recognized gain or loss to the seller and the adjusted basis for the buyer for each of the following.

a. Jacob sells the land for $115,000 to a corporation in which he owns 60% of the stock.
b. Jacob sells the land for $115,000 to a partnership in which he has a capital and profits interest of 60%.

Answer a. Jacob's realized and recognized loss is calculated as follows.

Amount realized	$115,000
Adjusted basis	(140,000)
Realized loss	($ 25,000)
Recognized loss	$ –0–

Losses on sales to a controlled corporation (greater than 50%) are disallowed under the related party rules. The corporation's adjusted basis for the land is its cost of $115,000.

b. Jacob's realized and recognized loss is calculated as follows.

Amount realized	$115,000
Adjusted basis	(140,000)
Realized loss	($ 25,000)
Recognized loss	$ –0–

Losses on sales to a controlled partnership (greater than 50%) are disallowed under the related party rules. The partnership's adjusted basis for the land is its cost of $115,000.

Add Question Here

Question 128 **Essay** **0 points** Modify Remove

Question When a property transaction occurs, what four questions should be considered with respect to the sale or other disposition?

Answer The following questions need to be answered.

- Is there a realized gain or loss?
- If so, is the gain or loss recognized?
- If the gain or loss is recognized, is it ordinary or capital?
- What is the basis of any replacement property that is acquired?

Add Question Here

Question 129 **Essay** **0 points** Modify Remove

Question Discuss the effect of a liability assumption on the seller's amount realized and the buyer's adjusted basis.

Answer If the buyer assumes the seller's liability associated with the acquisition of property, both the seller's amount realized and the buyer's adjusted basis are increased by the amount of the liability assumed.

Add Question Here

Question 130 **Essay** **0 points** Modify Remove

Question Define fair market value as it relates to property transactions.

Answer The fair market value of property received in a sale or other disposition has been defined by the courts as the price at which property will change hands between a willing seller and a willing buyer when neither is compelled to sell or to buy.

Add Question Here

Question 131 **Essay** **0 points** Modify Remove

Question What is the general formula for calculating the adjusted basis of property?

Answer Adjusted basis is determined as follows:

Cost (or other adjusted basis) on date of acquisition
+ Capital additions
– Capital recoveries
= Adjusted basis

Add Question Here

Question 132 **Essay** **0 points** Modify Remove

Question What is the difference between the depreciation (or cost recovery) allowed and the depreciation (or cost recovery) allowable and what effect does each have on the adjusted basis of property?

Answer Normally, there is no difference between the depreciation (or cost recovery) allowed or allowable. The allowed depreciation (or cost recovery) is the amount actually taken, whereas the allowable depreciation (cost recovery) is the amount that could have been taken under the applicable depreciation (or cost recovery) method. The basis of the property is reduced by the cost recovery allowed, but this amount cannot be less than the allowable amount.

Add Question Here

Question 133 **Essay** **0 points** Modify Remove

Question What effect does a deductible casualty loss have on the adjusted basis of property?

Answer A deductible casualty loss reduces the basis of property.

Add Question Here

Question 134 **Essay** **0 points** Modify Remove

Question For a corporate distribution of cash or other property to a shareholder, when does dividend income or a return of capital result?

Answer To the extent of corporate earnings and profits, a distribution to a shareholder is treated as dividend income. When the distribution exceeds corporate earnings and profits, a distribution to a shareholder is treated as a return of capital (i.e., tax-free to the extent of shareholder basis and capital gain for any excess).

Add Question Here

Question 135 **Essay** **0 points** Modify Remove

Question Under what circumstances will a distribution by a corporation to its only shareholder result in a capital gain?

Answer Capital gain will result if the amount of the distribution exceeds the corporation's earnings and profits and the shareholder's basis in the stock.

Add Question Here

Question 136 **Essay** **0 points** Modify Remove

Question If a taxpayer purchases taxable bonds at a premium, the amortization of the premium is elective. However, if a taxpayer purchases tax-exempt bonds at a premium, the amortization of the premium is mandatory. Explain this difference in the treatment.

Answer If mandatory amortization were not required for tax-exempt bonds, a taxpayer who held such bonds to maturity would have a recognized loss to the extent of the premium. This is not consistent with the rule that interest earned on the bonds is tax-exempt. Mandatory amortization, therefore, results in the adjusted basis of the bonds ultimately being equal to the maturity value. Thus, no loss results upon maturity. Furthermore, the amortization of the premium on tax-exempt bonds is not deductible.

For the taxable bonds and if the taxpayer does not elect to amortize the premium, a recognized capital loss results to this extent at maturity. Typically, the taxpayer will elect to amortize the premium so that it can be claimed over the life of the bond as an ordinary (rather than capital) deduction.

Add Question Here

Question 137 **Essay** **0 points** Modify Remove

Question Maurice sells his personal use automobile at a realized loss. Under what circumstances can Maurice deduct the loss?

Answer Under no circumstance can Maurice recognize (deduct) a loss on the sale of a personal use asset. Note that if the automobile had been used in a trade or business or held for the production of income, the loss could have been deducted.

Add Question Here

Question 138 **Essay** **0 points** Modify Remove

Question Describe the relationship between the recovery of capital doctrine and the realized and recognized gain and loss concepts.

Answer The relationship between the recovery of capital doctrine and the realized and recognized gain and loss concepts can be summarized as follows:

- A realized gain that is never recognized results in the permanent recovery of more than the taxpayer's cost or other basis for tax purposes.
- A realized gain on which recognition is postponed results in the temporary recovery of more than the taxpayer's cost or other basis for tax purposes.
- A realized loss that is never recognized results in the permanent recovery of less than the taxpayer's cost or other basis for tax purposes.
- A realized loss on which recognition is postponed results in the temporary recovery of less than the taxpayer's cost or other basis for tax purposes.

Add Question Here

Question 139 **Essay** **0 points** Modify Remove

Question Define a bargain purchase of property and discuss the related tax consequences.

Answer A bargain purchase can occur when an employer transfers property to an employee at less than the fair market value. It results in compensation for services. It also occurs when a corporation sells property to a shareholder at less than its fair market value. The result is a dividend. The amount included in income is the difference between the purchase price and the property's fair market value. The basis of the property acquired in the bargain purchase is the property's fair market value.

Add Question Here

Question 140 **Essay** **0 points** Modify Remove

Question If a taxpayer purchases a business and the price exceeds the fair market value of the listed assets, how is the excess allocated among the purchased assets?

Answer The excess is not allocated among the listed assets. Instead, the excess is assigned to goodwill.

Add Question Here

Question 141 **Essay** **0 points** Modify Remove

Question Taylor owns common stock in Taupe, Inc., with an adjusted basis of $100,000. She receives a preferred stock dividend which is nontaxable.

a. What effect does the preferred stock dividend have on Taylor's adjusted basis of the common stock?
b. How is the basis of the preferred stock calculated?

Answer a. Part of the adjusted basis of the common stock must be allocated to the preferred stock thereby decreasing the basis of the common.
b. The amount that is allocated to the preferred stock is based on the relative fair market values of the common stock and the preferred stock on the date of the distribution.

Add Question Here

Question 142 **Essay** **0 points** Modify Remove

Question Lois received nontaxable stock rights with a fair market value of $4,000. The fair market value of the stock on which the rights were received is $24,000 (cost $14,000). Assume the rights are exercised by paying $31,000 plus the rights. Discuss how to calculate the basis of the old stock and the basis of the new stock.

Answer Since the fair market value of the stock rights is at least 15% of the fair market value of the stock, part of the basis of the stock must be allocated to the stock rights. Thus, the basis of the new stock includes the basis of the old stock that is allocated to the stock rights.

Basis of new stock is $33,000 [$31,000 + ($4,000/$28,000 ´ $14,000)].
Basis of old stock is $12,000 ($14,000 – $2,000).

Add Question Here

Question 143 **Essay** **0 points** Modify Remove

Question For gifts made after 1976, when will part of the gift tax paid by the donor be added to the donee's basis?

Answer This result would occur if the fair market value at the date of the gift exceeds the donor's adjusted basis. In this case, the portion of the gift tax paid that is related to the appreciation is added to the donor's basis in calculating the donee's gain basis for the property.

Add Question Here

Question 144 **Essay** **0 points** Modify Remove

Question How is the donee's basis calculated for the gift of appreciated property for a gift made before 1977? Assume the donor pays gift tax.

Answer If the gift is made before 1977, the donee's adjusted basis is the sum of the donor's adjusted basis for the property plus all of the gift tax paid by the donor. However, the total cannot exceed the fair market value of the property at the date of the gift.

Add Question Here

Question 145 **Essay** **0 points** Modify Remove

Question Joseph converts a building (adjusted basis of $50,000 and fair market value of $40,000) from personal use to business use. Justin receives a building with a $40,000 fair market value ($50,000 donor's adjusted basis) from his mother as a gift. Discuss the tax consequences with respect to Joseph's and Justin's adjusted basis.

Answer Upon conversion from personal use to business use, the building receives dual basis treatment. That is, Joseph's gain basis for the building is $50,000, the adjusted basis on the date of the conversion from personal use to business use. Joseph's loss basis is $40,000, the lower of the adjusted basis or the fair market value on the date of the conversion. Justin's basis for the building upon receipt of the gift is treated in the same manner according to gift basis rules (i.e., dual basis treatment).

Add Question Here

Question 146 **Essay** **0 points** Modify Remove

Question Discuss the application of holding period rules to property acquired by gift and inheritance.

Answer The holding period for inherited property is always long-term. For gift property, if the donee's basis is the donor's adjusted basis (i.e., gain basis), the holding period starts on the date the property was acquired by the donor. If the donee's basis is fair market value (i.e., loss basis), the holding period starts on the date of the gift.

Add Question Here

Question 147 **Essay** **0 points** Modify Remove

Question What is a deathbed gift and what tax consequences apply?

Answer A deathbed gift occurs when a donor makes a gift of appreciated property to a terminal person with the understanding that the donor (or the donor's spouse) will inherit the property on the donee's death. If the period between the date of the gift and the date of the donee's death exceeds one year, the usual transfer-by-death basis rules apply. However, if this period is one year or less, the transfer-by-gift basis rules apply.

Add Question Here

Question 148 **Essay** **0 points** Modify Remove

Question Seth and Cheryl, husband and wife, own property jointly. The property has an adjusted basis of $25,000 and a fair market value of $30,000.

a. Discuss the rules for the calculation of the adjusted basis of the property to Seth if he inherits his wife's share of the property and Seth and Cheryl live in a community property state.
b. If they live in a common law state?

Answer a. In a community property state, Seth's basis for the property will be stepped-up to fair market value for both the decedent's share and the survivor's share of the community property (i.e., $15,000 + $15,000 = $30,000).

b. In a common law state, his basis will be stepped-up only for the decedent's share (i.e., $15,000 + $12,500 = $27,500).

Add Question Here

Question 149 **Essay** **0 points** Modify Remove

Question Explain how the sale of investment property at a loss to a brother is treated differently from a sale to a nephew.

Answer The brother is a related party under the § 267 loss disallowance provision. Consequently, the realized loss on the sale of the investment property is disallowed. The brother's basis for the investment property is its cost. However, if the brother sells the investment property at a realized gain, he can offset this gain with as much of the prior disallowed loss as is needed to reduce it to zero. Otherwise, the disallowed loss is wasted.

Because a nephew is not treated as a related party under § 267, the realized loss on the sale of the investment property is recognized. The nephew's basis for the investment property is its cost.

Add Question Here

Question 150 **Essay** **0 points** Modify Remove

Question For disallowed losses on related-party transactions, who has the *right of offset*?

Answer The *right of offset* is available only to the related-party buyer (i.e., the original transferee). If the related-party buyer transfers the property to another party by either gift or inheritance, the *right of offset* is not available to that party.

Add Question Here

Question 151 **Essay** **0 points** Modify Remove

Question What is the easiest way for a taxpayer who is going to sell property that has declined in value to avoid the § 267 loss disallowance provision?

Answer In this circumstance, the easiest way for a taxpayer to recognize the realized loss (by avoiding the § 267 loss disallowance provision) is to sell the property to someone who is not a related party as defined in § 267 (i.e., sell in the marketplace).

Add Question Here

Question 152 **Essay** **0 points** Modify Remove

Question Tariq sold certain U.S. Government bonds and State of Oregon bonds at a loss to offset short-term capital gain from a previous transaction. He felt that the U.S. Government and State of Oregon bonds were "good" investments, so he repurchased identical securities within one week. Do these transactions constitute wash sales?

If the bond sales resulted in the recognition of gain (rather than loss), would the wash sale provisions prevent the gains from being recognized?

Answer The wash sale rules apply because Tariq purchased substantially identical securities within the meaning of § 1091. If the bonds were sold at a gain, however, the wash sale rules would not apply.

Add Question Here

Question 153 **Essay** **0 points** Modify Remove

Question Mitchell owned an SUV that he had purchased two years ago for $48,000 and which he transfers to his sole proprietorship. How is the sole proprietorship's basis for the SUV calculated? What additional information does Mitchell need?

Answer Mitchell needs to calculate both the gain basis and the loss basis of the SUV for the sole proprietorship. The gain basis is a carryover basis and the loss basis is the lower of Mitchell's adjusted basis or the fair market value on the date of the transfer. So Mitchell needs to determine the FMV and to identify the beginning of the holding period. The holding period associated with the gain basis includes the two years that Mitchell has owned the SUV. The holding period associated with the loss basis starts on the date of the transfer.

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Question 154 **Essay** **0 points** Modify Remove

Question Alice is terminally ill and does not expect to live much longer. Pondering the consequences of her estate, she decides how to allocate her property to her nieces. She makes a gift of depreciated property (i.e., adjusted basis exceeds fair market value) to Marsha, a gift of appreciated property (i.e., fair market value exceeds adjusted basis) to Jan, and leaves appreciated property to Cindy in her will. Each of the properties has the same fair market value. From an income tax perspective, which niece is her favorite?

Answer Alice appears to like Cindy best. Cindy receives the most beneficial tax treatment by receiving a stepped-up basis (i.e., fair market value on the date of Alice's death) in the inherited property. Therefore, she would recognize less gain than Jan. Further, she would not have to deal with the dual basis issue like Marsha if she decided to sell the property. Because Jan receives a gift of appreciated property, she will realize gain equal to the amount of appreciation if she decides to sell. This is because her basis (i.e., carryover) is equal to Alice's adjusted basis.

Alice appears to be indifferent about Marsha. A gift of depreciated property receives a loss basis to Marsha of the lower of the adjusted basis or the fair market value on the date of the gift. This eliminates a possible loss deduction for Alice and also prevents Marsha from taking a loss deduction for the decline in value while Alice owned the property. On the other hand, Marsha's gain basis is equal to Alice's adjusted basis for the property (and is greater than Cindy's basis). Therefore, if the property appreciates while owned by Marsha, she will have recognized gain on the sale only if the property appreciates to a fair market value in excess of Alice's adjusted basis for the property.

Add Question Here

Question 155 **Essay** **0 points** Modify Remove

Question Why is it generally undesirable to pass property by death when its fair market value is less than basis?

Answer Assuming the property is not personal use property (where neither the decedent nor the beneficiary is able to deduct any of the loss), the decedent should sell the property prior to his or her death.

Add Question Here

Question 156 **Essay** **0 points** Modify Remove

Question Identify two tax planning techniques that can be used to avoid the wash sale disallowance of loss.

Answer One technique to avoid a wash sale result is to not purchase substantially identical stock or securities. Another is to avoid the 60-day wash sale window.

Add Question Here

OK