

Homework 5 solution

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Tax 4001 Spring 2011 Homework Set #5 Solution PAGE 1 # 1 a) Amount Realized \$37,500 Basis (45,000) Real Loss (7,500) Recognized Loss \$0 because personal use asset c. The real loss is \$0. b) Same as (a). Like-kind exchange rules do not apply to personal-use assets c) Her recognized loss is \$0. Since the form of the transaction is a theft, the recognized loss is the lesser of the adjusted basis or the fair market value of the asset, reduced by the insurance proceeds that she received (see Chapter 6).

Therefore, the opportunity for the theft loss deduction on personal use property is not present in this case because the insurance proceeds received of \$37,500 equal the fair market value of \$37,500. #2 a. amt realized \$65,000 "loss" basis 76,000 Recognized Loss (11,000) b. \$0. The proceeds of \$68,000 are between the gain basis of \$80,000 and the loss basis of \$60,000. Therefore, neither gain nor loss is recognized. #3 a. \$225,000 b. \$200,000 (note: only the building can be depreciated) c. \$225,000 Basis for the gain is adjusted basis d. She would be better off to sell the house and buy another one.

Because the house is her personal residence, she could exclude the gain on sale. Then she would be able to depreciate the new house at a higher basis #4 a. Amt. Realized \$265,000 Adj Basis 175,000 Real Gain 90,000 b. Recognized Gain is \$65,000 which is the less of realized gain or boot received. c. Adjusted basis of Land | \$175,000 | Gain Recognized | 65,000 | Boot | (65,000) | Adj Basis of Building | 175,000 | . Tax 4001 Spring 2011 Homework Set #5 Solution PAGE 2 . #5 Amt. Realized \$1,235,000 [125,000 + 900,000 + 210,000] Less: Basis of Apt 850,000 Real Gain 385,000 b. Recog Gain \$335,000 Cash plus mortgage Postponed Gain \$50,000 . | | Basis of Apt

Bldg| \$850, 000| + gain recognized| 335, 000| Less: Boot received| (335, 000)| Basis of Office Bldg| \$850, 000| #6| | Cost| \$200, 000| Legal Fees| \$21, 500| Streets and Sewers| \$700, 000| Basis| \$921, 500| #7 Basis b4 casualty\$10, 000 Insurance proceeds 13, 500 Casualty Gain3, 500 Basis after insurance - #8 FIFO method used to determine which shares were sold, therefore Tommy is treated as having sold 100 of the shares he purchased on 10/16/06 Per Share Basis = $\$7500/125 \text{ shares} = \60 X Number of Shares Sold (100) = \$6,000 per share Basis of Shares Sold Sales Proceeds| 18, 000| Less: Basis| (6, 000)|

LTCG| \$ 12, 000| Tax 4001 Spring 2011 Homework Set #5 Solution PAGE3
 30. | a. | Realized gain- \$9, 000 [(\$12, 000 fair market value of new asset+ \$4, 000 boot received)-\$7, 000 adjusted basis of old asset]. Recognized gain= \$4, 000. | | | Postponed gain= \$5, 000. | | | New basis= \$7, 000 (\$12, 000 fair market value of new asset- \$5, 000 postponed gain). | | b. | Realized loss = \$1, 000. | | | Recognized loss= \$-0-. | | | Postponed loss= \$1, 000. | | | New basis= \$16, 000 (\$15, 000 fair market value of new asset+ \$1, 000 postponed loss). | | c. | Realized loss = \$1, 500. Recognized loss= \$-0-. | | | Postponed loss= \$1, 500. | | New basis= \$9, 500 (\$8, 000 fair market value of new asset+ \$1, 500 postponed loss). | | d. | Realized gain= \$10, 000. Recognized gain = \$-0-. | | | Postponed gain= \$10, 000. | | | New basis = \$22, 000 (\$32, 000 fair market value of new asset - \$10, 000 postponed| | | gain). | | e. | Realized gain = \$2, 000. | | | Recognized gain= \$1, 000. | | | Postponed gain= \$1, 000. | | | New basis= \$10, 000 (\$11, 000 fair market value of new asset- \$1, 000 postponed gain). | | f. | Realized loss = \$2, 000. Recognized loss= \$-0-. | | | Postponed loss= \$2, 000. | | | New basis= \$10,

000 (\$8,000 fair market value of new asset + \$2,000 postponed loss). Tax
 4001 Spring 2011 Homework Set #5 Solution PAGE4 32. a. Since the owner
 is an owner-investor, the taxpayer use test applies. Replacing the warehouse
 that is rented to various tenants with a shopping mall that is rented to various
 tenants in a different location qualifies as replacement property. Amount
 realized Adjusted basis Realized gain \$ 700,000 (470,000) \$ 230,000
 Recognized gain \$ -0- The basis for the replacement property is: Cost
 Postponed gain Basis \$ 700,000 (230,000) \$ 470,000 b. Since the owner is
 an owner-user, the functional use test applies.

Replacing the warehouse used in his business with another warehouse in a
 different state which is to be used in his business qualifies as replacement
 property under the functional use test. Amount realized Adjusted basis
 Realized gain Recognized gain \$ 400,000 (300,000) \$ 100,000 \$ -0- The
 basis for the replacement property is: Cost Postponed gain Basis \$ 400,000
 (100,000) \$ 300,000 c. Since Swallow was an owner-user of the building,
 the functional use test applies. Thus, Swallow's use of the replacement
 property and of the involuntarily converted property must be the same.

Since Swallow's use of the four-unit apartment building is different from the
 use of the building in its retail business, the apartment building does not
 qualify as replacement property. Amount realized Adjusted basis Realized
 gain Recognized gain \$ 300,000 (250,000) \$ 50,000 \$ 50,000 The basis for
 the apartment building is its cost of \$300,000. d. Not qualified replacement
 property because they are owner-users so functional-use test applies. Thus
 they must recognize their realized gain of \$30,000 and their basis in the
 duplex is \$200,000.