Student name:\_\_\_\_\_\_\_\_\_\_

**TRUE/FALSE - Write 'T' if the statement is true and 'F' if the statement is false.  
1)** The amount realized is the sale proceeds less the adjusted basis.

⊚ true  
 ⊚ false

**2)** Generally, the amount realized is everything of value received in a sale less selling expenses.

⊚ true  
 ⊚ false

**3)** The adjusted basis is the initial basis less cost recovery deductions.

⊚ true  
 ⊚ false

**4)** An asset's tax-adjusted basis is usually greater than its book-adjusted basis.

⊚ true  
 ⊚ false

**5)** The gain or loss realized on the sale of an asset is the amount realized less the adjusted basis.

⊚ true  
 ⊚ false

**6)** The gain or loss realized on the sale of an asset is always recognized for tax purposes.

⊚ true  
 ⊚ false

**7)** All tax gains and losses are ultimately characterized as either ordinary or capital.

⊚ true  
 ⊚ false

**8)** Ordinary gains and losses are obtained on the sale of investments.

⊚ true  
 ⊚ false

**9)** Accounts receivable and inventory are examples of ordinary assets.

⊚ true  
 ⊚ false

**10)** Assets held for investment and personal use assets are examples of capital assets.

⊚ true  
 ⊚ false

**11)** §1231 assets include all assets used in a trade or business.

⊚ true  
 ⊚ false

**12)** A parcel of land is always a capital asset.

⊚ true  
 ⊚ false

**13)** Taxpayers can recognize a taxable gain on the sale of an asset even though an asset's real economic value has declined.

⊚ true  
 ⊚ false

**14)** After application of the look-back rule, net §1231 gains become capital while net §1231 losses become ordinary.

⊚ true  
 ⊚ false

**15)** Depreciation recapture changes both the amount and character of a gain.

⊚ true  
 ⊚ false

**16)** Only accelerated depreciation is recaptured for §1245 assets.

⊚ true  
 ⊚ false

**17)** §1250 recaptures the excess of accelerated depreciation over straight-line depreciation on real property placed in servicebefore 1987 as ordinary income.

⊚ true  
 ⊚ false

**18)** For corporations, §291 recaptures 20 percent of the lesser of depreciation taken or the realized gain as ordinary income.

⊚ true  
 ⊚ false

**19)** Unrecaptured §1250 gain is taxed at a maximum rate of 25 percent.

⊚ true  
 ⊚ false

**20)** Unrecaptured §1250 gains apply only to individuals.

⊚ true  
 ⊚ false

**21)** §1239 recharacterizes 50 percent of the gain on sales to a related party as ordinary income.

⊚ true  
 ⊚ false

**22)** A net §1231 gain becomes ordinary while a net §1231 loss becomes long-term capital gain.

⊚ true  
 ⊚ false

**23)** The §1231 look-back rule recharacterizes §1231 gains if §1231 losses have created ordinary losses in the last five years.

⊚ true  
 ⊚ false

**24)** The §1231 look-back rule applies whether there is a net gain or loss.

⊚ true  
 ⊚ false

**25)** Realized gains are recognized unless there is specific exception.

⊚ true  
 ⊚ false

**26)** For a like-kind exchange, realized gain is deferred if the exchange is solely for like-kind property.

⊚ true  
 ⊚ false

**27)** Residential real property is not like-kind with nonresidential real property.

⊚ true  
 ⊚ false

**28)** A simultaneous exchange must take place for a transaction to qualify as a like-kind exchange.

⊚ true  
 ⊚ false

**29)** Boot is not like-kind property involved in a like-kind exchange.

⊚ true  
 ⊚ false

**30)** In a deferred like-kind exchange, the like-kind property to be received must be identified within 45 days and acquired within 180 days from the initial exchange.

⊚ true  
 ⊚ false

**31)** A taxpayer that receives boot in a like-kind exchange resulting in a gain recognizes as gain the lesser of the fair market value of the boot received or the gain realized.

⊚ true  
 ⊚ false

**32)** A loss realized for property destroyed in a hurricane is deferred under the involuntary conversion rules.

⊚ true  
 ⊚ false

**33)** An installment sale is any sale where at least a portion of the sale proceeds is received in a subsequent taxable year.

⊚ true  
 ⊚ false

**34)** For an installment sale, the gross profit percentage is the gain recognized divided by the gain realized.

⊚ true  
 ⊚ false

**35)** Losses on sales between related parties are realized but not recognized.

⊚ true  
 ⊚ false

**MULTIPLE CHOICE - Choose the one alternative that best completes the statement or answers the question.  
36)** Which of the following is not used in the calculation of the amount realized:

A) Cash.   
 B) Adjusted basis.  
 C) Fair market value of other property received.  
 D) Buyer's assumption of liabilities.  
 E) All of the choices are used.

**37)** Which of the following is not true regarding an asset's adjusted basis?

A) Tax-adjusted basis is usually greater than book-adjusted basis.   
 B) Tax-adjusted basis is usually less than book-adjusted basis.  
 C) Adjusted basis is cost basis less cost recovery deductions.  
 D) Tax-adjusted basis may change over time.

**38)** Which of the following is not usually included in an asset's tax basis?

A) Purchase price.   
 B) Sales tax.  
 C) Shipping costs.  
 D) Installation costs.  
 E) None of the choices are correct.

**39)** Which of the following is how gain or loss realized is calculated?

A) Cash less selling costs.   
 B) Cost basis less cost recovery.  
 C) Cash less cost recovery.  
 D) Amount realized less adjusted basis.  
 E) None of the choices are correct.

**40)** Which of the following realized gains results in a recognized gain?

A) Farmland traded for an office building.   
 B) Sale to a related party.  
 C) Land seized for widening streets.  
 D) Iowa cropland exchanged for a Minnesota warehouse.

**41)** Leesburg sold a machine for $2,200 on November 10 th of the current year. The machine was purchased for $2,600. Leesburg had taken $1,200 of depreciation deductions on the machine through the date of the sale. What is Leesburg's gain or loss realized on the machine?

A) $800 gain.   
 B) $1,000 gain.  
 C) $1,200 loss.  
 D) $1,400 loss.  
 E) None of the choices are correct.

**42)** The sale of land held for investment results in which of the following types of gain or loss?

A) Capital.   
 B) Ordinary.  
 C) §1231.  
 D) §1245.  
 E) None of the choices are correct.

**43)** The saleat a loss of machinery that was used in a trade or business and held for more than one year results in which of the following types of loss?

A) Capital.   
 B) §291.  
 C) §1231.  
 D) §1245.  
 E) None of the choices are correct.

**44)** The sale of computer equipment used in a trade or business for nine months results in which of the following types of gain or loss?

A) Capital.   
 B) Ordinary.  
 C) §1231.  
 D) §1245.  
 E) None of the choices are correct.

**45)** The sale for more than the original cost basis (before depreciation) of machinery used in a trade or business and held for more than one year results in which of the following types of gain or loss?

A) Capital and ordinary.   
 B) Ordinary only.  
 C) Capital and §1231.  
 D) §1245 and §1231.  
 E) None of the choices are correct.

**46)** Which of the following results in an ordinary gain or loss?

A) Sale of a machine at a gain.   
 B) Sale of stock held for investment.  
 C) Sale of a §1231 asset.  
 D) Sale of inventory.  
 E) None of the choices are correct.

**47)** What is the character of land used in an active trade or business for two years?

A) Capital.   
 B) Ordinary.  
 C) §1231.  
 D) Investment.  
 E) None of the choices are correct.

**48)** Which of the following is true regarding depreciation recapture?

A) Changes the character of a loss.   
 B) Changes the character of a gain.  
 C) Changes the amount of a gain.  
 D) Only applies to ordinary assets.  
 E) None of the choices are correct.

**49)** Which of the following gains does not result solely in an ordinary gain or loss?

A) Sale of equipment held for less than a year.   
 B) Sale of inventory.  
 C) Sale of equipment where the gain realized exceeds the accumulated depreciation.  
 D) Sale of equipment where the accumulated depreciation exceeds the gain realized.  
 E) None of the choices are correct.

**50)** Which of the following is not a §1245 asset if held for more than one year?

A) Machinery.   
 B) Automobile.  
 C) Business cell phone.  
 D) Land.  
 E) None of the choices are correct.

**51)** Which of the following does not ultimately result in a capital gain or loss?

A) Sale of a personal use asset.   
 B) Sale of inventory.  
 C) Gain on equipment used in a trade or business and held for more than one year, if it is the only asset sale during the year.  
 D) Sale of capital stock in another company.  
 E) None of the choices are correct.

**52)** Foreaker LLC sold a piece of land that it uses in its business for $52,000. Foreaker bought the land two years ago for $42,500. What is the amount and character of Foreaker's gain?

A) $9,500 §1221.   
 B) $9,500 §1231.  
 C) $9,500 §1245.  
 D) $9,500 §1250.  
 E) None of the choices are correct.

**53)** Butte sold a machine to a machine dealer for $50,000. Butte bought the machine for $55,000 several years ago and has claimed $12,500 of depreciation expense on the machine. What is the amount and character of Butte's gain or loss?

A) $7,500 §1231 loss.   
 B) $5,000 §1231 loss.  
 C) $7,500 ordinary gain.  
 D) $7,500 capital gain.  
 E) None of the choices are correct.

**54)** Butte sold a machine to a machine dealer for $50,800. Butte bought the machine for $54,200 several years ago and has claimed $12,100 of depreciation expense on the machine. What is the amount and character of Butte's gain or loss?

A) $8,700 §1231 loss.   
 B) $3,400 §1231 loss.  
 C) $8,700 ordinary gain.  
 D) $8,700 capital gain.  
 E) None of the choices are correct.

**55)** Which of the following sections does not recapture or recharacterize a taxpayer's gain?

A) §1239.   
 B) §1250.  
 C) §1245.  
 D) §291.  
 E) None of the choices are correct.

**56)** Which of the following sections recaptures or recharacterizes only corporate taxpayers' gains?

A) §291.   
 B) §1239.  
 C) §1245.  
 D) Unrecaptured §1250 gains.  
 E) None of the choices are correct.

**57)** Which of the following transactions results solely in §1245 gain?

A) Sale of machinery held for less than one year.   
 B) Sale of machinery held for more than one year, where the gain realized exceeds the accumulated depreciation.  
 C) Sale of machinery held for more than one year, where the accumulated depreciation exceeds the gain realized.  
 D) Sale of land held for more than one year, where the amount realized exceeds the adjusted basis.  
 E) None of the choices are correct.

**58)** Bozeman sold equipment that it uses in its business for $80,000. Bozeman bought the equipment two years ago for $75,000 and has claimed $20,000 of depreciation expense. What is the amount and character of Bozeman's gain or loss?

A) $25,000 §1231 gain.   
 B) $20,000 ordinary gain, and $5,000 §1231 gain.  
 C) $5,000 ordinary gain, and $20,000 §1231 gain.  
 D) $25,000 capital gain.  
 E) None of the choices are correct.

**59)** Sumner sold equipment that it uses in its business for $30,000. Sumner bought the equipment a few years ago for $80,000 and has claimed $40,000 of depreciation expense. Assuming that this is Sumner's only disposition during the year, what is the amount and character of Sumner's gain or loss?

A) $10,000 §1231 loss.   
 B) $10,000 §1245 loss.  
 C) $50,000 ordinary loss.  
 D) $10,000 capital loss.  
 E) None of the choices are correct.

**60)** Sumner sold equipment that it uses in its business for $30,900. Sumner bought the equipment a few years ago for $79,550 and has claimed $39,775 of depreciation expense. Assuming that this is Sumner's only disposition during the year, what is the amount and character of Sumner's gain or loss?

A) $8,875 §1231 loss.   
 B) $8,875 §1245 loss.  
 C) $48,650 ordinary loss.  
 D) $8,875 capital loss.  
 E) None of the choices are correct.

**61)** Bateman Corporation sold an office building that it used in its business for $800,000. Bateman bought the building 10 years ago for $600,000 and has claimed $200,000 of depreciation expense. What is the amount and character of Bateman's gain or loss?

A) $40,000 ordinary and $360,000 §1231 gain.   
 B) $200,000 ordinary and $200,000 §1231 gain.  
 C) $400,000 ordinary gain.  
 D) $400,000 capital gain.  
 E) None of the choices are correct.

**62)** Bateman Corporation sold an office building that it used in its business for $800,850. Bateman bought the building 10 years ago for $599,575 and has claimed $201,275 of depreciation expense. What is the amount and character of Bateman's gain or loss?

A) $40,255 ordinary and $362,295 §1231 gain.   
 B) $201,275 ordinary and $201,275 §1231 gain.  
 C) $402,550 ordinary gain.  
 D) $402,550 capital gain.  
 E) None of the choices are correct.

**63)** Brad sold a rental house that he owned for $250,000. Brad bought the rental house five years ago for $225,000 and has claimed $50,000 of depreciation expense. What is the amount and character of Brad's gain or loss?

A) $25,000 ordinary and $50,000 unrecaptured §1250 gain.   
 B) $25,000 §1231 gain and $50,000 unrecaptured §1250 gain.  
 C) $25,000 capital and $50,000 ordinary gain.  
 D) $75,000 ordinary gain.  
 E) None of the choices are correct.

**64)** Brad sold a rental house that he owned for $246,000. Brad bought the rental house five years ago for $229,000 and has claimed $48,000 of depreciation expense. What is the amount and character of Brad's gain or loss?

A) $17,000 ordinary and $48,000 unrecaptured §1250 gain.   
 B) $17,000 §1231 gain and $48,000 unrecaptured §1250 gain.  
 C) $17,000 capital and $48,000 ordinary gain.  
 D) $65,000 ordinary gain.  
 E) None of the choices are correct.

**65)** Why does §1250 recapture generally no longer apply?

A) Congress repealed the code section.   
 B) Real property is depreciated using the straight-line method after 1986.  
 C) §1245 recapture trumps §1250 recapture.  
 D) Because unrecaptured §1250 gains now apply to all taxpayers instead.  
 E) None of the choices are correct.

**66)** When do unrecaptured §1250 gains apply?

A) When the taxpayer makes the election.   
 B) It applies only when noncorporate taxpayers sell depreciable real property at a gain.  
 C) It applies when §1245 recapture trumps §1250 recapture.  
 D) It applies only when real property purchased before 1986 is sold at a gain.  
 E) None of the choices are correct.

**67)** Alpha sold machinery that it used in its business to Beta, a related entity, for $40,000. Beta used the machinery in its business. Alpha bought the machinery a few years ago for $50,000 and has claimed $30,000 of depreciation expense. What is the amount and character of Alpha's gain?

A) $20,000 ordinary income under §1239.   
 B) $10,000 ordinary gain and $10,000 §1231 gain.  
 C) $20,000 §1231 gain.  
 D) $20,000 capital gain.  
 E) None of the choices are correct.

**68)** Alpha sold machinery that it used in its business to Beta, a related entity, for $39,650. Beta used the machinery in its business. Alpha bought the machinery a few years ago for $50,350 and has claimed $29,650 of depreciation expense. What is the amount and character of Alpha's gain?

A) $18,950 ordinary income under §1239.   
 B) $10,000 ordinary gain and $8,950 §1231 gain.  
 C) $18,950 §1231 gain.  
 D) $18,950 capital gain.  
 E) None of the choices are correct.

**69)** Brandon, an individual, began business four years ago and has never sold a §1231 asset. Brandon owned each of the assets for several years. In the current year, Brandon sold the following business assets:

|  |  |  |  |
| --- | --- | --- | --- |
| **Asset** | **Original Cost** | **Accumulated Depreciation** | **Gain/Loss** |
| Machinery | $ 30,000 | $ 7,000 | $ 10,000 |
| Computers | 10,000 | 6,000 | (2,000) |
| Building | 90,000 | 20,000 | (2,000) |

Assuming Brandon's marginal ordinary income tax rate is 32 percent, what effect do the gains and losses have on Brandon's tax liability?

A) $7,000 ordinary income, $1,000 §1231 loss, and $1,920 tax liability.   
 B) $6,000 ordinary income and $1,920 tax liability.  
 C) $7,000 §1231 gain and $2,240 tax liability.  
 D) $7,000 §1231 gain and $1,050 tax liability.  
 E) None of the choices are correct.

**70)** Brandon, an individual, began business four years ago and has sold §1231 assets with $5,000 of losses within the last five years. Brandon owned each of the assets for several years. In the current year, Brandon sold the following business assets:

|  |  |  |  |
| --- | --- | --- | --- |
| **Asset** | **Original Cost** | **Accumulated Depreciation** | **Gain/Loss** |
| Machinery | $ 30,000 | $ 7,000 | $ 10,000 |
| Land | 40,000 | 0 | 20,000 |
| Building | 90,000 | 20,000 | (5,000) |

Assuming Brandon's marginal ordinary income tax rate is 32 percent, what effect do the gains and losses have on Brandon's tax liability? Use dividends and capital gains tax rates for reference.

A) $25,000 ordinary income and $8,000 tax liability.   
 B) $25,000 §1231 gain and $3,750 tax liability.  
 C) $13,000 §1231 gain, $12,000 ordinary income, and $5,790 tax liability.  
 D) $12,000 §1231 gain, $13,000 ordinary income, and $5,960 tax liability.  
 E) None of the choices are correct.

**71)** Brandon, an individual, began business four years ago and has sold §1231 assets with $5,200 of losses within the last five years. Brandon owned each of the assets for several years. In the current year, Brandon sold the following business assets:

|  |  |  |  |
| --- | --- | --- | --- |
| **Asset** | **Original Cost** | **Accumulated Depreciation** | **Gain/Loss** |
| Machinery | $ 30,400 | $ 7,400 | $ 10,200 |
| Land | 44,000 | 0 | 22,000 |
| Building | 98,000 | 24,000 | (9,000) |

Assuming Brandon's marginal ordinary income tax rate is 32 percent, what effect do the gains and losses have on Brandon's tax liability? Use dividends and capital gains tax rates for reference.

A) $23,200 ordinary income and $7,424 tax liability.   
 B) $23,200 §1231 gain and $3,480 tax liability.  
 C) $10,600 §1231 gain, $12,600 ordinary income, and $5,622 tax liability.  
 D) $12,600 §1231 gain, $10,600 ordinary income, and $5,282 tax liability.  
 E) None of the choices are correct.

**72)** Ashburn reported a $105,000 net §1231 gain in Year 6. Assuming Ashburn reported $60,000 of nonrecaptured §1231 losses during Years 1 to 5, what amount of Ashburn's net §1231 gain for Year 6, if any, is treated as ordinary income?

A) $0.   
 B) $45,000.  
 C) $60,000.  
 D) $105,000.  
 E) None of the choices are correct.

**73)** Ashburn reported a $105,250 net §1231 gain in Year 6. Assuming Ashburn reported $55,000 of nonrecaptured §1231 losses during Years 1 to 5, what amount of Ashburn's net §1231 gain for Year 6, if any, is treated as ordinary income?

A) $0.   
 B) $50,250.  
 C) $55,000.  
 D) $105,250.  
 E) None of the choices are correct.

**74)** Winchester LLC sold the following business assets during the current year: (1) automobile, $30,000 cost basis, $12,000 depreciation, $20,000 proceeds; (2) machinery, $25,000 cost basis, $20,000 depreciation, $10,000 proceeds; (3) furniture, $15,000 cost basis, $10,000 depreciation, $4,000 proceeds; (4) computer equipment, $25,000 cost basis, $6,000 depreciation, $10,000 proceeds; (5) Winchester had unrecaptured §1231 losses of $3,000 in the prior five years. What are the amount and character of Winchester's gains and losses before the §1231 netting process? Assume all assets were held for more than one year.

A) $3,000 ordinary loss, $0 §1231 loss.   
 B) $7,000 ordinary gain, $10,000 §1231 loss.  
 C) $7,000 ordinary loss, $4,000 §1231 gain.  
 D) $1,000 ordinary gain, $4,000 §1231 loss.  
 E) None of the choices are correct.

**75)** Which of the following is true regarding the §1231 look-back rule?

A) It only applies when a §1231 loss occurs.   
 B) It only applies when a §1231 gain occurs.  
 C) It only applies when a §1231 gain occurs and there is a nonrecaptured §1231 loss in the prior five years.  
 D) It only applies when a §1231 gain occurs and there is a nonrecaptured §1231 gain in the prior five years.  
 E) None of the choices are correct.

**76)** Which of the following is not true regarding §1239?

A) It only applies to related taxpayers.   
 B) It only applies to gains on sales of depreciable property.  
 C) It only applies to gains on sales of nonresidential real property.  
 D) It does not apply to losses.  
 E) None of the choices are correct.

**77)** Koch traded Machine 1 for Machine 2when the fair market value of both machines was $50,000. Koch originally purchased Machine 1 for $75,000, and Machine 1's adjusted basis was $40,000 at the time of the exchange. Machine 2's seller purchased it for $65,000 and Machine 2's adjusted basis was $55,000 at the time of the exchange. What is Koch's adjusted basis in Machine 2 after the exchange?

A) $40,000.   
 B) $50,000.  
 C) $55,000.  
 D) $75,000.  
 E) None of the choices are correct.

**78)** Koch traded Machine 1 for Machine 2 when the fair market value of both machines was $49,850. Koch originally purchased Machine 1 for $75,300, and Machine 1's adjusted basis was $40,150 at the time of the exchange. Machine 2's seller purchased it for $64,850 and Machine 2's adjusted basis was $55,150 at the time of the exchange. What is Koch's adjusted basis in machine 2 after the exchange?

A) $40,150.   
 B) $49,850.  
 C) $55,150.  
 D) $75,300.  
 E) None of the choices are correct.

**79)** Maryexchanged an office building used in her business for some land. Mary originally purchased the building for $45,000, and it had an adjusted basis of $20,000 at the time of the exchange. The land had a fair market value of $40,000. Mary also gave $4,000 to the seller in the transaction. What is Mary's adjusted basis in the land after the exchange?

A) $20,000.   
 B) $24,000.  
 C) $36,000.  
 D) $40,000.  
 E) None of the choices are correct.

**80)** Which one of the following is not considered boot in a like-kind exchange?

A) Cash.   
 B) Other property.  
 C) Mortgage given.  
 D) Mortgage received.  
 E) All of the choices can be considered as boot.

**81)** Which one of the following is not true regarding a like-kind exchange?

A) Loss on like-kind property is not recognized.   
 B) Gains on boot given are deferred.  
 C) Losses on boot given are not recognized.  
 D) Land can be like-kind with a building.  
 E) All of the choices are true.

**82)** Which one of the following is not a requirement of a deferred like-kind exchange?

A) The like-kind property to be received must be identified within 45 days.   
 B) The exchange must be completed within the taxable year.  
 C) The like-kind property must be received within 180 days.  
 D) The exchanged property must be like-kind.  
 E) All of the choices are correct.

**83)** How long after the initial exchange does a taxpayer have to identify replacement property in a like-kind exchange?

A) The like-kind property to be received must be identified within 45 days.   
 B) The like-kind property to be received must be identified by the earlier of 45 days or the last day of the taxpayer's taxable year.  
 C) The like-kind property to be received must be identified within 180 days.  
 D) There is no deadline for the identification of replacement property.  
 E) All of the choices are correct.

**84)** The general rule regarding the exchanged basis in the new property received in a like-kind exchange is:

A) The basis is equal to the fair market value of the new property.   
 B) The basis is equal to the fair market value of the old property.  
 C) The basis is equal to the adjusted basis of the old property.  
 D) The basis is equal to the cost basis of the old property.  
 E) All of the choices are correct.

**85)** A deferred like-kind exchange does not help accomplish which of the following objectives?

A) To facilitate finding replacement property.   
 B) To help acquire the replacement property.  
 C) To reduce the possibility that the seller must receive cash (boot) that will taint the transaction.  
 D) To certify the taxpayer's Form 8824—Like-kind exchanges.  
 E) All of the choices are correct.

**86)** Arlington LLC exchanged land used in its business for some new land. Arlington originally purchased the land it exchanged for $28,000. The new land had a fair market value of $35,000. Arlington also received $2,000 of office equipment in the transaction. What is Arlington'srecognized gain or loss on the exchange?

A) $0.   
 B) $2,000.  
 C) $7,000.  
 D) $9,000.  
 E) None of the choices are correct.

**87)** Arlington LLC exchanged land used in its business for some new land. Arlington originally purchased the land it exchanged for $37,500. The new land had a fair market value of $39,750. Arlington also received $11,500 of office equipment in the transaction. What is Arlington'srecognized gain or loss on the exchange?

A) $0.   
 B) $11,500.  
 C) $2,250.  
 D) $13,750.  
 E) None of the choices are correct.

**88)** Each of the following is true except for:

A) a direct involuntary conversion occurs when property taken under eminent domain is replaced with other property.   
 B) qualified replacement property rules are more restrictive than the like-kind property rules.  
 C) an indirect involuntary conversion occurs when property is destroyed and insurance proceeds are used to purchase qualified replacement property.  
 D) losses realized in involuntary conversions are deferred.  
 E) all of the choices are true.

**89)** Which of the following is not an involuntary conversion?

A) Destruction caused by a hurricane.   
 B) Eminent domain.  
 C) A foreclosure.  
 D) Fire damage.  
 E) All of these choices are involuntary conversions.

**90)** Which of the following may qualify as an installment sale?

A) Sale of inventory at a gain.   
 B) Sale of securities.  
 C) Sale of asset used in a business at a gain.  
 D) Land sold at a loss.  
 E) All of the choices qualify for installment sale treatment.

**91)** Peroni Corporation sold a parcel of land valued at $300,000. Its basis in the land was $250,000. For the land, Peroni received $150,000 in cash in the current year and a note providing Peroni with $150,000 in the subsequent year. What is Peroni's recognized gain in the current and subsequent year, respectively?

A) $0, $50,000.   
 B) $10,000, $40,000.  
 C) $25,000, $25,000.  
 D) $50,000, $0.  
 E) None of the choices are correct.

**92)** Which of the following is not true regarding installment sales?

A) Only gains are eligible for installment sale reporting.   
 B) Depreciation recapture is deferred in an installment sale.  
 C) The gross profit percentage is needed to determine the annual gain recognized.  
 D) Stock sales are ineligible for installment sale treatment.  
 E) None of the choices are correct.

**93)** Which of the following is true regarding disallowed losses between related taxpayers?

A) The tax laws essentially treat related parties as the same taxpayer.   
 B) The holding period of the seller carries over to the buyer.  
 C) The related person always receives a carryover basis.  
 D) The seller's realized loss is deferred until the buyer sells the assets.  
 E) None of the choices are correct.

**94)** Sadie sold 10 shares of stock to her brother, George, for $500 16 months ago. Sadie had purchased the stock for $600 two years earlier. If George sells the stock for $700, what are the amount and character of his recognized gain or loss in the current year?

A) $0.   
 B) $100 short-term capital gain.  
 C) $100 long-term capital gain.  
 D) $200 short-term capital gain.  
 E) None of the choices are correct.

**95)** Sadie sold 11 shares of stock to her brother, George, for $630 16 months ago. Sadie had purchased the stock for $860 two years earlier. If George sells the stock for $1,090, what are the amount and character of his recognized gain or loss in the current year?

A) $0.   
 B) $230 short-term capital gain.  
 C) $230 long-term capital gain.  
 D) $460 short-term capital gain.  
 E) None of the choices are correct.

**ESSAY. Write your answer in the space provided or on a separate sheet of paper.  
96)** Sandra sold some equipment for $10,000 in cash, $1,000 of office products, the buyer's assumption of her $1,500 loan, and incurred selling expenses of $500. What is Sandra's amount realized in the transaction?

**97)** Manassas purchased a computer several years ago for $2,200. On November 10 th of the current year, the computer was worth $800. If $1,000 of depreciation deductions had been taken, what is Manassas's tax-adjusted basis for the computer?

**98)** Manassas purchased a computer several years ago for $2,350. On November 10th of the current year, the computer was worth $ 830. If $1,030 of depreciation deductions had been taken, what is Manassas's tax-adjusted basis for the computer?

**99)** Bull Run sold a computer for $1,200 on November 10 th of the current year. The computer was purchased for $2,800. Bull Run had taken $1,000 of depreciation deductions. What is Bull Run's gain or loss realized on the computer?

**100)** Explain whether the saleat a loss of a machine used in a trade or business generates an ordinary or capital loss?

**101)** Andrea sold a piece of machinery she used in her business for nine months. The amount realized was $50,000 and the adjusted basis was $55,000. What is Andrea's gain or loss realized, and what is the character of the gain or loss?

**102)** Andrea sold a piece of machinery she used in her business for eleven months. The amount realized was $50,110 and the adjusted basis was $55,550. What is Andrea's gain or loss realized, and what is the character of the gain or loss?

**103)** Jessie sold a piece of land held for investment for $250,000. Jessie bought the land two years ago for $195,000. What is the amount and character of Jessie's gain?

**104)** Jessie sold a piece of land held for investment for $252,000. Jessie bought the land two years ago for $176,000. What is the amount and character of Jessie's gain?

**105)** Sunshine LLC sold furniture for $75,000. Sunshine bought the furniture for $90,000 several years ago and has claimed $25,000 of depreciation expense on the machine. What is the amount and character of Sunshine's gain or loss?

**106)** Sunshine LLC sold furniture for $75,550. Sunshine bought the furniture for $89,890 several years ago and has claimed $24,945 of depreciation expense on the machine. What is the amount and character of Sunshine's gain or loss?

**107)** Alexandra sold equipment that she uses in her business for $100,000. Alexandra bought the equipment two years ago for $90,000 and has claimed $25,000 of depreciation expense. What is the amount and character of Alexandra's gain or loss?

**108)** Alexandra sold equipment that she uses in her business for $100,800. Alexandra bought the equipment two years ago for $90,400 and has claimed $17,600 of depreciation expense. What is the amount and character of Alexandra's gain or loss?

**109)** Frederique sold furniture that she uses in her business for $15,000. Frederique bought the furniture a few years ago for $40,000 and has claimed $20,000 of depreciation expense. What is the amount and character of Frederique's gain or loss?

**110)** Frederique sold furniture that she uses in her business for $15,600. Frederique bought the furniture a few years ago for $39,880 and has claimed $20,120 of depreciation expense. What is the amount and character of Frederique's gain or loss?

**111)** Buzz Corporation sold an office building that it used in its business for $500,000. Buzz bought the building 10 years ago for $650,000 and has claimed $200,000 of depreciation expense. What is the amount and character of Buzz's gain or loss?

**112)** Buzz Corporation sold an office building that it used in its business for $500,100. Buzz bought the building 10 years ago for $649,950 and has claimed $199,950 of depreciation expense. What is the amount and character of Buzz's gain or loss?

**113)** Brandy sold a rental house that she owned for $150,000. Brandy bought the house four years ago for $140,000 and has claimed $25,000 of depreciation expense. What is the amount and character of Brandy's gain or loss?

**114)** Silver sold machinerythat it used in its business to Gold, a related entity, for $55,000. Silver bought the equipment a few years ago for $50,000 and has claimed $15,000 of depreciation expense. What is the amount and character of Silver's gain?

**115)** Silver sold machinerythat it used in its business to Gold, a related entity, for $54,750. Silver bought the equipment a few years ago for $50,250 and has claimed $14,750 of depreciation expense. What is the amount and character of Silver's gain?

**116)** Andrew, an individual, began business four years ago and has never sold a §1231 asset. Andrew owned each of the assets for several years. In the current year, Andrew sold the following business assets:

|  |  |  |  |
| --- | --- | --- | --- |
| **Asset** | **Original Cost** | **Accumulated Depreciation** | **Gain/Loss** |
| Machinery | $ 12,000 | $ 7,000 | $ 6,000 |
| Furniture | 10,000 | 2,000 | 3,000 |
| Building | 90,000 | 20,000 | (5,000) |

Assuming Andrew's marginal ordinary income tax rate is 32 percent, what is the character of the gains and losses and what affect do they have on Andrew's tax liability?

**117)** Suzanne, an individual, began business four years ago and has never sold a §1231 asset. Suzanne owned each of the assets for several years. In the current year, Suzanne sold the following business assets:

|  |  |  |  |
| --- | --- | --- | --- |
| **Asset** | **Original Cost** | **Accumulated Depreciation** | **Gain/Loss** |
| Machinery | $ 12,000 | $ 7,000 | $ 6,000 |
| Furniture | 10,000 | 2,000 | (3,000) |
| Building | 90,000 | 20,000 | 15,000 |

Assuming Suzanne's marginal ordinary income tax rate is 32 percent, what is the character of the gains and losses and what affect do they have on Suzanne's tax liability?

**118)** Gainesville LLC sold the following business assets during the current year: (1) machinery, $20,000 cost basis, $4,000 depreciation, $22,000 proceeds; (2) automobile, $15,000 cost basis, $12,000 depreciation, $7,000 proceeds; (3) equipment, $15,000 cost basis, $10,000 depreciation, $4,000 proceeds; (4) computer equipment, $35,000 cost basis, $16,000 depreciation, $15,000 proceeds; (5) Winchester had unrecaptured §1231 losses of $5,000 in the prior five years. What is the amount and character of Winchester's gains and losses before the 1231 netting process?

**119)** Collins Corporation, of Camden, Maine, wants to exchange its manufacturing facility for Rockland Company's building. Both parties agree that Collins's facility is worth $200,000 and that Rockland's building is worth $175,000. Collins will not enter into the transaction unless it qualifies as a like-kind exchange. If Collins wants to avoid gain, what could the parties do to equalize the value exchanged but still allow the exchange to qualify as a like-kind exchange?

**120)** Odintz traded land for land. Odintz originally purchased its land for $150,000. The land received was purchased for $200,000 and was subject to a mortgage of $50,000 that was paid off before the transfer. The fair market value of the new land is $240,000. What is Odintz's adjusted basis in the new land after the exchange?

**121)** Misha traded computer equipment used in her business to a computer dealer for some new computer equipment. Misha originally purchased the computer equipment for $15,000, and it had an adjusted basis of $11,000 at the time of the exchange.The computer equipment was worth $12,000 at the time of the exchange. Misha also received a used copier worth $2,000 in the transaction. What is Misha's realized and recognized gain/loss on the exchange?

**122)** Misha traded computer equipment used in her business to a computer dealer for some new computer equipment. Misha originally purchased the computer equipment for $14,400, and it had an adjusted basis of $11,120 at the time of the exchange.The computer equipment was worth $18,000 at the time of the exchange. Misha also received a used copier worth $1,940 in the transaction. What is Misha's realized and recognized gain/loss on the exchange?

**123)** Tyson had a parcel of undeveloped investment land that he wanted to trade for a warehouse to be used in his business. He found a buyer willing to pay him $450,000 for the land. He transferred the land to a third party intermediary on April 1st of the current year. On May 10th, with the help of a commercial real estate agent, Tyson identified two suitable warehouses. On August 10th he made an offer on the first building and was rejected. On August 13th an offer was accepted on the second warehouse. On September 23rd the third party intermediary transferred $500,000 ($450,000 from the original property plus $50,000 from Tyson) to the seller and conveyed title to the warehouse to Tyson. Explain whether the exchange of property qualifies as a like-kind exchange.

**124)** Redoubt LLC exchanged an office building used in its business for a rental house. Redoubt originally purchased the building for $80,000, and it had an adjusted basis of $53,000 at the time of the exchange. The rental house had a fair market value of $62,000. Redoubt also received $7,000 of cash in the transaction. What is Redoubt's gain or loss recognized on the exchange? What is Redoubt’s basis in the rental house?

**125)** Redoubt LLC exchanged an office building used in its business for a rental house. Redoubt originally purchased the building for $80,180, and it had an adjusted basis of $52,820 at the time of the exchange. The rental house had a fair market value of $62,180. Redoubt also received $7,090 of cash in the transaction. What is Redoubt's gain or loss recognized on the exchange? What is Redoubt’s basis in the rental house?

**126)** Reid had a business building destroyed in a fire. The old building was purchased for $375,000, and $60,000 of depreciation deductions had been taken. Although the old building had a fair market value of $425,000 at the time of the fire, his insurance proceeds were limited to $400,000. Reid found qualified replacement property that he acquired six months later for $390,000. What is the amount of Reid's realized gain and recognized gain?

**127)** Reid had a business building destroyed in a fire. The old building was purchased for $375,900, and $58,200 of depreciation deductions had been taken. Although the old building had a fair market value of $424,910 at the time of the fire, his insurance proceeds were limited to $398,200. Reid found qualified replacement property that he acquired six months later for $389,100. What is the amount of Reid's realized gain and recognized gain?

**128)** Kristi had a business building destroyed in an earthquake. The old building was purchased for $250,000, and $80,000 of depreciation deductions had been taken. Her insurance proceeds were $550,000. Although the replacement property was much larger and nicer than her old building, Kristi's new property qualified as replacement property. She acquired the new property 13 months after the earthquake for $620,000. What is the amount of Kristi's realized gain and recognized gain and the basis in her new property?

**129)** Kristi had a business building destroyed in an earthquake. The old building was purchased for $254,500, and $80,900 of depreciation deductions had been taken. Her insurance proceeds were $552,250. Although the replacement property was much larger and nicer than her old building, Kristi's new property qualified as replacement property. She acquired the new property 13 months after the earthquake for $620,900. What is the amount of Kristi's realized gain and recognized gain and the basis in her new property?

**130)** Luke sold land valued at $210,000. His original basis in the land was $180,000. For the land, Luke received $60,000 in cash in the current year and a note providing $150,000 in the subsequent year. What is Luke's recognized gain in the current and subsequent year, respectively?

**131)** Luke sold land valued at $210,010. His original basis in the land was $179,995. For the land, Luke received $60,010 in cash in the current year and a note providing $150,000 in the subsequent year. What is Luke's recognized gain in the current and subsequent year, respectively? **(Do not round intermediate values. Round final values to whole number.)**

**132)** In the current year, Raven sold machinery with a fair market value of $200,000. The machinery's original basis was $190,000 and Raven's accumulated depreciation on the machinery was $40,000, so its adjusted basis to Raven was $150,000. Raven received $50,000 in the current year and a note paying Raven $75,000 a year for two years beginning next year. What is the amount and character of the gain that Raven will recognize in the current year?

**133)** In the current year, Raven sold machinery with a fair market value of $200,000. The machinery's original basis was $191,250 and Raven's accumulated depreciation on the machinery was $41,000, so its adjusted basis to Raven was $150,250. Raven received $49,750 in the current year and a note paying Raven $75,125 a year for two years beginning next year. What is the amount and character of the gain that Raven will recognize in the current year?

**134)** Sarah sold 1,000 shares of stock to her brother, David, for $18,000 more than a year ago. Sarah had purchased the stock for $20,000 several years earlier. What is the amount and character of David's recognized gain or loss in the current year if he sells the stock for either $15,000 or $25,000?

**135)** Sarah sold 1,000 shares of stock to her brother, David, for $18,600 more than a year ago. Sarah had purchased the stock for $20,300 several years earlier. What is the amount and character of David's recognized gain or loss in the current year if he sells the stock for either $15,150 or $25,150?

**Answer Key**Test name: ch3

1) FALSE

2) TRUE

3) TRUE

4) FALSE

5) TRUE

6) FALSE

7) TRUE

8) FALSE

9) TRUE

10) TRUE

11) FALSE

12) FALSE

13) TRUE

14) TRUE

15) FALSE

16) FALSE

17) TRUE

18) TRUE

19) TRUE

20) TRUE

21) FALSE

22) FALSE

23) TRUE

24) FALSE

25) TRUE

26) TRUE

27) FALSE

28) FALSE

29) TRUE

30) TRUE

31) TRUE

32) FALSE

33) TRUE

34) FALSE

35) TRUE

36) B

37) A

38) E

39) D

40) B

41) A

42) A

43) C

44) B

45) D

46) D

47) C

48) B

49) C

50) D

51) B

52) B

53) C

54) C

55) E

56) A

57) C

58) B

59) A

60) A

61) A

62) A

63) B

64) B

65) B

66) B

67) A

68) A

69) B

70) C

71) C

72) C

73) C

74) B

75) C

76) C

77) B

78) B

79) B

80) D

81) C

82) B

83) A

84) C

85) D

86) B

87) B

88) D

89) C

90) C

91) C

92) B

93) A

94) C

95) C

96) $12,000.<br> <br> The amount realized is everything of value received: $10,000 cash, plus $1,000 fair market value of office products, plus the $1,500 buyer's assumption of liabilities, less $500 selling costs.

97) $1,200.  
   
 The adjusted basis is the cost basis less cost recovery deductions. ($2,200 − $1,000).

98) ${{[a(4)]:#,###}}.  
   
 The adjusted basis is the cost basis less cost recovery deductions. (${{[a(1)]:#,###}} − ${{[a(3)]:#,###}}).

99) $600 loss realized.  
   
 The gain or loss realized is the $1,200 amount realized less the $1,800 ($2,800 − $1,000) adjusted basis.

100) The sale at a loss of a machine used in a trade or business generates an ordinary loss.  
   
 A machine is a §1231 asset if used in a trade or business and held for more than one year. The character of a net §1231 loss is ordinary. A gain on the sale of a §1231 asset can generate ordinary income from depreciation recapture or capital gain if the gain exceeds the depreciation taken. If the machine is used in a trade or business and sold for a gain within the first year, the character of the gain is also ordinary.

101) $5,000 ordinary loss.  
   
 The realized loss is $5,000 ($50,000 amount realized less $55,000 adjusted basis). The loss is ordinary because the character of a §1231 loss is always ordinary.

102) ${{[a(4)]:#,###}} ordinary loss.  
   
 The realized loss is ${{[a(4)]:#,###}} (${{[a(3)]:#,###}} amount realized less ${{[a(2)]:#,###}} adjusted basis). The loss is ordinary because the character of a §1231 loss is always ordinary.

103) Capital gain of $55,000.  
   
 The $55,000 ($250,000 − $195,000) gain is capital because the land was held for investment.

104) Capital gain of ${{[a(3)]:#,###}}.  
   
 The ${{[a(3)]:#,###}} (${{[a(1)]:#,###}} − ${{[a(2)]:#,###}}) gain is capital because the land was held for investment.

105) $10,000 ordinary gain.  
   
 §1245 recaptures the lesser of depreciation taken ($25,000) or recognized gain ($10,000) as ordinary income. Any remaining gain would be §1231 gain.

106) ${{[a(5)]:#,###}} ordinary gain.  
   
 §1245 recaptures the lesser of depreciation taken (${{[a(3)]:#,###}}) or recognized gain (${{[a(5)]:#,###}}) as ordinary income. Any remaining gain would be §1231 gain.

107) $25,000 ordinary gain, and $10,000 §1231 gain.  
   
 §1245 recaptures the lesser of depreciation taken ($25,000) or recognized gain ($35,000) as ordinary income. The remaining $10,000 gain would be §1231 gain.

108) ${{[a(6)]:#,###}} ordinary gain, and ${{[a(7)]:#,###}} §1231 gain.  
   
 §1245 recaptures the lesser of depreciation taken (${{[a(6)]:#,###}}) or recognized gain (${{[a(5)]:#,###}}) as ordinary income. The remaining ${{[a(7)]:#,###}} gain would be §1231 gain.

109) $5,000 §1231 loss.  
   
 There is no depreciation recapture when a §1231 asset is sold at a loss.

110) ${{[a(5)]:#,###}} §1231 loss.  
   
 There is no depreciation recapture when a §1231 asset is sold at a loss.

111) $10,000 ordinary and $40,000 §1231 gain.  
   
 For corporations, §291 recaptures 20 percent of the lesser of depreciation taken or the recognized gain as ordinary income. The remaining gain is §1231.

112) ${{[a(8)]:#,###}} ordinary and ${{[a(9)]:#,###}} §1231 gain.  
   
 For corporations, §291 recaptures [a(7)] percent of the lesser of depreciation taken or the recognized gain as ordinary income. The remaining gain is §1231.

113) $10,000 §1231 gain and $25,000 unrecaptured §1250 gain.  
   
 Unrecaptured §1250 recaptures the lesser of depreciation taken ($25,000) or gain ($35,000) and is taxed at 25 percent. The remaining $10,000 gain would be §1231 gain.

114) $20,000 of ordinary income under §1239.  
   
 §1239 recharacterizes the entire gain as ordinary income when depreciable property is sold to a related person.

115) ${{[a(5)]:#,###}} of ordinary income under §1239.  
   
 §1239 recharacterizes the entire gain as ordinary income when depreciable property is sold to a related person.

116) $4,000 ordinary income and $1,280 of tax liability.  
   
 The depreciation recapture of $8,000 ($6,000 on the machinery; $2,000 on the furniture) becomes ordinary income. The remaining $1,000 is netted with the other §1231 losses of $5,000. The $4,000 §1231 loss becomes an ordinary loss and offsets the ordinary income. The $4,000 gain is taxed at 32 percent, which results in $1,280 of tax.

117) $6,000 ordinary gain, $12,000 unrecaptured §1250 gain, $4,920 in tax liability.  
   
 The depreciation recapture of $6,000 becomes ordinary income. The $3,000 §1231 loss is offset against the unrecaptured §1250 gain of $15,000. The $6,000 gain is taxed at 32 percent and the $12,000 gain is taxed at 25 percent, which results in $4,920 of tax.

118) $8,000 ordinary gain and $3,000 §1231 loss.  
   
 All of the assets are §1231 assets: machinery $2,000 §1231 gain, $4,000 recapture; automobile $4,000 recapture; equipment $1,000 §1231 loss, and computer equipment $4,000 §1231 loss. This results in $8,000 ordinary income recapture and $3,000 §1231 loss. The §1231 look-back rule only applies when there is a net §1231 gain.

119) Rockland could equalize the transaction with additional real property (additional land) and transfer it with its existing building. Rockland could increase the amount of like-kind property transferred. Alternatively, Collins could transfer its facility subject to a preexisting liability if one exists.

120) $150,000.<br> <br> The exchange qualifies as a like-kind exchange. Since no boot was transferred, Odintz's basis in the new land is the basis in its old land.

121) $3,000 realized and recognized gain.  
  
The exchange does not qualify as a like-kind exchange because personal property is not eligible. The realized gain is $3,000 ($12,000 FMV new computer equipment + $2,000 FMV copier less $11,000 adjusted basis − old computer equipment). Since the exchange does not qualify for a nontaxable transaction, the $3,000 is also the recognized gain.

122) ${{[a(5)]:#,###}} realized and recognized gain.  
  
The exchange does not qualify as a like-kind exchange because personal property is not eligible. The realized gain is ${{[a(5)]:#,###}} (${{[a(3)]:#,###}} FMV new computer equipment + ${{[a(4)]:#,###}} FMV copier less ${{[a(2)]:#,###}} adjusted basis − old computer equipment). Since the exchange does not qualify for a nontaxable transaction, the ${{[a(5)]:#,###}} is also the recognized gain.

123) Yes, the exchange of property qualifies as a like-kind exchange.<br> <br> Tyson transferred the parcel of land to a third party intermediary who received the cash. The replacement property was identified within 45 days, and the replacement property was received within 180 days. Real property (parcel of land) qualifies as like-kind property with any other piece of real property (warehouse).

124) $7,000 gain. $53,000 basis in the rental house.  
  
The gain recognized is the lesser of the fair market value of the boot ($7,000 of cash) or realized gain of $16,000 ($62,000 fair market value plus $7,000 boot less $53,000 adjusted basis). The basis in the rental house is $53,000 ($53,000 A/B office building + $7,000 gain recognized − $7,000 FMV boot received).

125) ${{[a(6)]:#,###}} gain. ${{[a(7)]:#,###}} basis in the rental house.  
  
The gain recognized is the lesser of the fair market value of the boot (${{[a(4)]:#,###}} of cash) or realized gain of ${{[a(5)]:#,###}} (${{[a(3)]:#,###}} fair market value plus ${{[a(6)]:#,###}} boot less ${{[a(7)]:#,###}} adjusted basis). The basis in the rental house is ${{[a(7)]:#,###}} (${{[a(7)]:#,###}} A/B office building + ${{[a(4)]:#,###}} gain recognized − ${{[a(6)]:#,###}} FMV boot received).

126) $85,000 realized gain and $10,000 recognized gain.<br> <br> The realized gain is the amount realized ($400,000 insurance proceeds) less the $315,000 adjusted basis ($375,000 cost basis less $60,000 of depreciation). The recognized gain is the lesser of $85,000 realized gain or the amount not reinvested in qualified replacement property ($10,000 = $400,000 of insurance proceeds less $390,000 cost of new property).

127) ${{[a(7)]:#,###}} realized gain and ${{[a(8)]:#,###}} recognized gain.  
   
 The realized gain is the amount realized (${{[a(3)]:#,###}} insurance proceeds) less the ${{[a(6)]:#,###}} adjusted basis (${{[a(1)]:#,###}} cost basis less ${{[a(4)]:#,###}} of depreciation). The recognized gain is the lesser of ${{[a(7)]:#,###}} realized gain or the amount not reinvested in qualified replacement property (${{[a(8)]:#,###}} = ${{[a(3)]:#,###}} of insurance proceeds less ${{[a(5)]:#,###}} cost of new property).

128) $380,000 realized gain, $0 recognized gain, basis of $240,000.<br> <br> The realized gain is the amount realized ($550,000 insurance proceeds) less the $170,000 adjusted basis ($250,000 cost basis less $80,000 of depreciation). The recognized gain is the lesser of $380,000 realized gain or the amount not reinvested in qualified replacement property ($0 = $550,000 of insurance proceeds less $620,000 cost of new property). The basis of qualified replacement property in an involuntary conversion is a carryover basis ($170,000) increased by any new investment by the taxpayer ($70,000 = $620,000 purchase price less $550,000 insurance proceeds).

129) ${{[a(6)]:#,###}} realized gain, $0 recognized gain, basis of ${{[a(10)]:#,###}}.  
   
 The realized gain is the amount realized (${{[a(3)]:#,###}} insurance proceeds) less the ${{[a(7)]:#,###}} adjusted basis (${{[a(1)]:#,###}} cost basis less ${{[a(2)]:#,###}} of depreciation). The recognized gain is the lesser of ${{[a(6)]:#,###}} realized gain or the amount not reinvested in qualified replacement property ($0 = ${{[a(3)]:#,###}} of insurance proceeds less ${{[a(5)]:#,###}} cost of new property). The basis of qualified replacement property in an involuntary conversion is a carryover basis (${{[a(7)]:#,###}}) increased by any new investment by the taxpayer (${{[a(9)]:#,###}} = ${{[a(5)]:#,###}} purchase price less ${{[a(3)]:#,###}} insurance proceeds).

130) $8,571 gain recognized in the current year and $21,429 gain recognized in the subsequent year.<br> <br> The gain recognized in each year is calculated as follows. The gross profit percentage is multiplied by the amount realized in each year to determine the recognized gain. The gross profit percentage is the gain realized over the total contract price. The $30,000 gain realized is the $210,000 amount realized ($60,000 cash plus $150,000 note) less the $180,000 adjusted basis. In the current year, the $60,000 proceeds (cash) is multiplied by the 14.29 percent gross profit percentage ($150,000 next year) to determine the $8,571 gain recognized ($21,429 next year).

131) ${{[a(7)]:#,###}} gain recognized in the current year and ${{[a(8)]:#,###}} gain recognized in the subsequent year.  
   
 The gain recognized in each year is calculated as follows. The gross profit percentage is multiplied by the amount realized in each year to determine the recognized gain. The gross profit percentage is the gain realized over the total contract price. The ${{[a(5)]:#,###}} gain realized is the ${{[a(1)]:#,###}} amount realized (${{[a(3)]:#,###}} cash plus ${{[a(4)]:#,###}} note) less the ${{[a(2)]:#,###}} adjusted basis. In the current year, the ${{[a(3)]:#,###}} proceeds (cash) is multiplied by the {{[a(6)]:0.00}} percent gross profit percentage (${{[a(4)]:#,###}} next year) to determine the ${{[a(7)]:#,###}} gain recognized (${{[a(8)]:#,###}} next year).

132) $42,500 gain recognized: $40,000 ordinary income (§1245 depreciation recapture) and $2,500 §1231 gain.  
   
 Depreciation recapture cannot be deferred under the installment method. As a result, $40,000 depreciation recapture (lesser of $50,000 gain realized or $40,000 depreciation taken) is recognized immediately and is added back to the adjusted basis of the property for calculating the gross profit percentage. The gain recognized in each year is calculated as follows. The gross profit percentage is multiplied by the amount realized in each year to determine the recognized gain. The gross profit percentage is the gain realized over the contract price. The $10,000 gain realized is the $200,000 amount realized ($50,000 cash plus $150,000 note) less the $190,000 adjusted basis ($150,000 adjusted basis plus the $40,000 of depreciation recapture). In the current year, the $50,000 proceeds (cash) is multiplied by the 5 percent gross profit percentage ($10,000/$200,000) to determine the $2,500 §1231 gain recognized in the current year.

133) ${{[a(13)]:#,###}} gain recognized: ${{[a(3)]:#,###}} ordinary income (§1245 depreciation recapture) and ${{[a(12)]:#,###}} §1231 gain.  
   
 Depreciation recapture cannot be deferred under the installment method. As a result, ${{[a(8)]:#,###}} depreciation recapture (lesser of ${{[a(5)]:#,###}} gain realized or ${{[a(3)]:#,###}} depreciation taken) is recognized immediately and is added back to the adjusted basis of the property for calculating the gross profit percentage. The gain recognized in each year is calculated as follows. The gross profit percentage is multiplied by the amount realized in each year to determine the recognized gain. The gross profit percentage is the gain realized over the contract price. The ${{[a(10)]:#,###}} gain realized is the ${{[a(1)]:#,###}} amount realized (${{[a(5)]:#,###}} cash plus ${{[a(14)]:#,###}} note) less the ${{[a(9)]:#,###}} adjusted basis (${{[a(14)]:#,###}} adjusted basis plus the ${{[a(8)]:#,###}} of depreciation recapture). In the current year, the ${{[a(5)]:#,###}} proceeds (cash) is multiplied by the {{[a(11)]:0.00}} percent gross profit percentage (${{[a(10)]:#,###}}/${{[a(1)]:#,###}}) to determine the ${{[a(12)]:#,###}} §1231 gain recognized in the current year.

134) $3,000 long-term capital loss if sold for $15,000; $5,000 long-term capital gain if sold for $25,000.<br><br>Sarah's loss of $2,000 is deferred and her brother receives a dual basis in the stock. If David sells the stock at a loss, he receives an $18,000 cost basis in the stock. If he sells the stock at a gain, he receives a $20,000 carryover basis from Sarah. David's holding period begins when he purchases the stock.

135) ${{[a(7)]:#,###}} long-term capital loss if sold for ${{[a(4)]:#,###}}; ${{[a(8)]:#,###}} long-term capital gain if sold for ${{[a(5)]:#,###}}.  
  
Sarah's loss of ${{[a(6)]:#,###}} is deferred and her brother receives a dual basis in the stock. If David sells the stock at a loss, he receives an ${{[a(2)]:#,###}} cost basis in the stock. If he sells the stock at a gain, he receives a ${{[a(9)]:#,###}} carryover basis from Sarah. David's holding period begins when he purchases the stock.