**Homework-Chapter 03.** Assume the depreciation computations provided in these questions   
are accurate, even where there are special tax rules that may require other answers   
(rules for year of acquisition or disposal). The current year is **2017.**

Questions about material in Chapter 3 that will not be covered in this class have been moved   
to a separate file that will be posted on the course webpage in the same area.

Cathy owns property subject to a mortgage of $5,000. Annual real estate taxes are $1,000 and   
are due and payable on December 31. Cathy sells her property on **July 1.** The buyer assumes her $5,000 mortgage, and Cathy agrees to finance the sale by taking a mortgage note of $50,000 and property valued at $7,500. The buyer agrees to pay the seller's portion of the property taxes.   
What is Cathy's amount realized?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $72,000 | **b.** | $63,500 | **c.** | $63,000 | **d.** | $62,500 | **e.** | $57,500 | **C** |

**On December 20, 2016**, Beth sold land for $35,000. Beth inherited the land from   
Ann (Beth’s mother) upon Ann’s death **on June 1, 2016**, when the property was worth $30,000.   
Ann acquired the land for $20,000 in 1990. Beth reports a:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **a.** | Short-term capital gain of $15,000 | **b.** | Short-term capital gain of $5,000 | **D** |
| **c.** | Long-term capital gain of $15,000 | **d.** | Long-term capital gain of $5,000 |

Terry received investment property from her mother as a gift in 2013.   
Her mother paid $15,000 for the property in 2005, and it was valued at $18,000 on the date of gift.   
Terry sold the property eight months later for $16,000. Terry's gain or loss is

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **a.** | Short-term ordinary loss. | **b.** | Short-term capital gain. | **D** |
| **c.** | Short-term capital loss. | **d.** | Long-term capital gain. |
| **e.** | Long-term ordinary gain |  |  |

In 1995, your Father bought 20,000 shares of Duke Energy stock at a total cost of $200,000.

On January 1, 2015, your father gave you one-half of his Duke Energy stock (10,000 shares)   
having a value of $250,000 on the date of the gift. No gift tax was paid.

On August 1, 2015, your father died and left you the remaining 10,000 shares of Duke Energy  
stock having a value at date of death of $300,000.

On December 31, 2015, you sold all 20,000 shares of Duke Energy for $600,000. What is your gain?

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $0 | **b.** | $50,000 | **c.** | $200,000 | **d.** | $250,000 | **e.** | $400,000 |  | **C** |

Bob Rich purchased a tract of land for $20,000 in 2005 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 $175,000. The highway project was abandoned in **2016** and the land’s value fell to $15,000. Rich can claim a loss in **2016** of:

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | Zero | **b.** | $185,000 | **c.** | $180,000 | **d.** | $160,000 | **e.** | $5,000 | **A** |

Which of the following is a capital asset?

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **a.** | Business auto. | **b.** | Machinery used in manufacturing a product. | **D** |
| **c.** | Business building. | **d.** | Family auto. |

An individual had AGI of $100,000 for the current year, before considering the following:

|  |  |
| --- | --- |
| Long-term capital gain of | $3,000 |
| Short-term capital loss of | (9,000) |
| Loss from sale of business auto (owned 2 years) | (1,000) |

What is her adjusted gross income for the current year?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $96,000 | **b.** | $97,000 | **c.** | $98,000 | **d.** | $93,000 | **e.** | $94,000 | **A** |

Sue is single and earns a salary of $200,000 per year. Sue claims the standard deduction and   
one personal exemption for **2016.** She had short-term capital gain of $10,000 and a short-term   
capital loss of $8,000. What tax rate will apply to her net capital gain?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | 5% | **b.** | 10% | **c.** | 15% | **d.** | 25% | **e.** | 33% | **E** |

Cook Corp., a calendar year C corporation, had taxable income of $50,000 from its regu­lar   
business operations for **2016**. In addition, Cook had a long-term capital gain of $10,000.   
Cook did not have any other capital gains or losses since it began operations.   
What is Cook's federal income tax liability before credits?

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $7,500 | **b.** | $9,000 | **c.** | $10,000 | **d.** | Other | CPA | **C** |

Baker Corp., a calendar year C corporation, realized taxable income of $36,000 from   
its regu­lar business operations for **2016**. In addition, Baker had a short-term capital gain   
of $8,000 and a long-term capital loss of $12,000. Baker did not realize any other   
capital gains or losses since it began operations. What is Baker's taxable income for **2016**?

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $35,000 | **b.** | $33,000 | **c.** | $36,000 | **d.** | $32,000 | CPA | **C** |

Matthew has the following capital gains and losses for the current tax year

|  |  |
| --- | --- |
| Short-term capital gains | $12,000 |
| Long-term capital gains | 5,000 |
| Short-term capital losses | (7,000) |
| Long-term capital losses | (6,000) |

What is Matthew's net capital gain or loss position for the year?

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **a.** | $4,000 net short-term capital gain | **b.** | $2,000 net long-term capital loss. | **A** |
| **c.** | $2,000 net short-term capital gain. | **d.** | $4,000 net long-term capital loss. |

O'Donnell Corporation had the following capital gains and losses for 2012 through **2016**:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **2012** | **2013** | **2014** | **2015** | **2016** |
| $30,000 | $(20,000) | $15,000 | $(30,000) | $60,000 |

O'Donnell's net capital gain for **2016** is:

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $25,000 | **b.** | $30,000 | **c.** | $35,000 | **d.** | $55,000 | **e.** | $60,000 | **D** |

On September 2, **2016**, Arthur sold stock he bought in **October 2015** at a gain of $5,000.   
Arthur is in the 25% marginal tax rate bracket. He has no other capital asset sales in **2016**.   
What is his tax on the stock sale?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $ - 0 - | **b.** | $ 500 | **c.** | $ 750 | **d.** | $1,000 | **e.** | $1,250 | **E** |

Section 1231 assets include

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **a.** | Inventory. | **b.** | Stocks and bonds. | **D** |
| **c.** | Personal residence. | **d.** | Business-use realty. |
| **e.** | Personal automobile. |  |  |

Sally owns 700 shares of *Fashion Clothing* common stock. Sally bought the stock as follows:

|  |  |  |
| --- | --- | --- |
| **Purchase Date** | **Number of Shares** | **Total Cost** |
| March 2007 | 200 | $ 2,000 |
| August 2007 | 300 | $ 3,600 |
| January 2008 | 200 | $ 3,000 |

As of December 29, 2016, Sally has not sold any securities. She needs $5,200 for her daughter's   
tuition before year-end. Fashion Clothing stock is selling for $13 per share. Sally will sell   
400 shares to cover the tuition. Ignoring commissions and transaction costs, what is the   
optimal tax result of selling 400 shares?

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **a.** | $- 0 - gain or loss. | **b.** | $200 long-term capital loss. | **B** |
| **c.** | $100 long-term capital gain. | **d.** | $800 long-term capital gain |

Barbara has taxable income of $200,000 before considering these Section 1231 gains and losses:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Section 1231** | **Year 1** | **Year 2** | **Year 3** | **Year 4** |
| **gain (loss)** | $50,000 | (45,000) | $20,000 | $15,000 |

How will Barbara treat the $15,000 gain in year 4?

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Ordinary Income** | **Capital Gain** |  | **Ordinary Income** | **Capital Gain** |  | **C** |
| **a.** | $5,000 | $10,000 | **c.** | $15,000 | $0 |  |
| **b.** | $10,000 | $5,000 | **d.** | $0 | $15,000 |  |

In 2016, Stan sold land (bought in 2005) which he used in his auto repair business. He realized   
at a gain of $9,000 in **2016**. In addition, Stan sold equipment for $8,000 which he purchased in 2007.   
He had paid $20,000 for the equipment and it had an adjusted basis of $12,000 when it was sold.   
He also sold some stock in **2016** at a loss of $11,000. No losses on the disposition of assets were recognized in prior years. The effect of these transactions on Stan's **2016** taxable income is:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **a.** | Decrease of $ 6,000. | **b.** | Zero, with a long-term capital loss carryback of $2,000. | **C** |
| **c.** | Decrease of $ 3,000. | **d.** | Zero, with a long-term capital loss carryback of $6,000. |

Arch Corp. bought some equipment for $68,000 in 2006. **In 2016,** Arch sold that equipment for $80,000, when the balance of accumulated depreciation was $28,000. Arch should report the sale as:

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Ordinary Income** | **Sec. 1231 Gain** |  | **Ordinary Income** | | **Sec. 1231 Gain** |  | **B** |
| **a.** | $12,000 | $28,000 | **c.** | $40,000 | |  |
| **b.** | $28,000 | $12,000 | **d.** |  | $40,000 | |

A corporation bought some equipment for $250,000 in 2006.  
**In 2016,** the company sold that equipment for $240,000, when accumulated   
depreciation was $30,000. The company should report the sale as:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **a.** | Ordinary income of $20,000. | **b.** | Sec. 1231 gain of $20,000. |  | **A** |
| **c.** | Capital gain of $20,000. | **d.** | Sec. 1231 gain of $30,000. |

Gail bought an apartment building for $400,000 in six years ago. **In 2016,** Gail   
sold that apartment building to an unrelated party for $390,000. Accumulated   
Depreciation (straight-line) was $60,000 on date of the sale. Gail had taxable income   
of $400,000 before considering this sale. What is Gail’s tax rate on the gain from this sale?

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | 5% | **b.** | 10% | **c.** | 15% | **d.** | 25% | **d** | 33% |  | **D** |

Jane bought an apartment building for $400,000 in **2006.** **In 2016,** Jane sold the building   
to an unrelated party for $425,000. Accumulated Depreciation (straight-line) was $60,000.   
What is the tax result of this sale?

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Ordinary Income** | **Capital Gain** |  | **Ordinary Income** | **Capital Gain** |  | **A** |
| **a.** | $0 | $85,000 | **c.** | $60,000 | $25,000 |
| **b.** | $85,000 | $0 | **d.** | $30,000 | $55,000 |

Angel Corporation bought the warehouse in 1994 for $600,000. **In 2016,** Angel sold   
the warehouse for $500,000, when the balance in accumulated depreciation was $200,000.   
Angel should report the sale as:

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Sec. 291 recapture** | | **Sec. 1231 Capital Gain** |  | **Sec. 291 recapture** | **Sec. 1231 Capital Gain** | |  | **A** |
| **a.** | $20,000 | $80,000 | | **c.** | $100,000 | | $0 |
| **b.** | $0 | $100,000 | | **d.** | $20,000 | | $0 |

**K**aty and Nikki each own investment realty that they would like to trade.

Katy's property has a FMV of $25,000, and is subject to mortgage debt of $10,000.   
Nikki's property has a FMV of $25,000 and is subject to mortgage debt of $17,000.

Katy and Nikki agree to exchange the properties and assume each other's debt.   
To complete the exchange, who pays cash and how much will that person have to pay?

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **a.** | Katy pays $15,000 | **b.** | Nikki pays $7,000. | **B** |
| **c.** | Nikki pays $8,000. | **d.** | Katy pays $7,000. |
| **e.** | Neither person pays anything. |  |  |

**In April of 2015**, **Pam** sold stock with a basis of $15,000 to **Lisa** (her sister)   
for $10,000 (FMV). How much loss does **Pam** deduct?

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $0 | **b.** | $2,000 | **c.** | $5,000 | **d.** | $7,000 |  | **A** |

Continue preceding question. Later in the year, **Lisa** sold this   
stock to her neighbor, **Niki**, for $16,000. How much gain does **Lisa** report?

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $6,000 | **b.** | $5,000 | **c.** | $1,000 | **d.** | $0 |  | **C** |

Lisa sold stock (she bought 5 years ago) for $10,000 to her brother Bart for $8,000.   
Later Bart sold the stock for $12,000. The tax consequences to Lisa and Bart are:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Lisa** | **Bart** |  | **C** |
| **a.** | $2,000 loss | $4,000 gain |
| **b.** | No gain or loss | $4,000 gain |
| **c.** | No gain or loss | $2,000 gain |
| **d.** | $2,000 gain | No gain or loss |
| **e.** | $2,000 loss | $2,000 gain |

Georgia Corporation sold stock (that had been purchased for $20,000) to Ms. Rich, who   
owns Georgia Company, for $18,000. Two months later, Ms. Rich sold the stock to Allie,   
an unrelated individual, for $21,000. What is Georgia Corporation's recognized gain or loss?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $ 0 | **b.** | $ 2,000 gain | **c.** | $10,000 gain | **d.** | $ 8,000 loss | **e.** | $ 6,000 loss | **A** |

Georgia Corporation sold stock (that had been purchased for $20,000) to Ms. Rich,   
who owns Georgia Company, for $18,000. Two months later, Ms. Rich sold the stock   
to Allie, an unrelated individual, for $21,000. What is Ms. Rich's recognized gain or loss?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $ 0 | **b.** | $ 1,000 gain | **c.** | $10,000 gain | **d.** | $ 8,000 loss | **e.** | $ 6,000 loss | **B** |