Capital Gains and Losses

This self-study course discusses investment gains and losses, including how to figure your basis in property. A gain from selling or trading stocks, bonds, or other investment property may be taxed or it may be tax free, at least in part. A loss may or may not be deductible. These chapters also discuss gains from selling property you personally use – including the special rules for selling your home. This is a Basic tax course with no prerequisites, and qualifies for 2 CE credit in IRS Federal Tax Law.

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Chapter 1: Basis Of Property

Chapter Objective
After completing this chapter, you should be able to:

- Identify the factors to consider in calculating the basis of property.

I. Introduction

This chapter discusses how to figure your basis in property. It is divided into the following sections.

- Cost basis.
- Adjusted basis.
- Basis other than cost.

Basis is the amount of your investment in property for tax purposes. Use the basis of property to figure gain or loss on the sale, exchange, or other disposition of property. Also use it to figure deductions for depreciation, amortization, depletion, and casualty losses.
If you use property for both business and personal purposes, you must allocate the basis based on the use. Only the basis allocated to the business use of the property can be depreciated.
Your original basis in property is adjusted (increased or decreased) by certain events. If you make improvements to the property, increase your basis. If you take deductions for depreciation or casualty losses, reduce your basis.

II. Cost Basis

The basis of property you buy is usually its cost. The cost is the amount you pay in cash, debt obligations, other property, or services. Your cost also includes amounts you pay for the following items.

- Sales tax.
- Freight.
- Installation and testing.
- Excise taxes.
- Legal and accounting fees (when they must be capitalized).
- Revenue stamps.
- Recording fees.
- Real estate taxes (if assumed for the seller).

In addition, the basis of real estate and business assets may include other items.
Loans with low or no interest. If you buy property on a time-payment plan that charges little or no interest, the basis of your property is your stated purchase price minus any amount considered to be unstated interest. You generally have unstated interest if your interest rate is less than the applicable federal rate.

REAL PROPERTY
Real property, also called real estate, is land and generally anything built on, growing on, or attached to land.
If you buy real property, certain fees and other expenses you pay are part of your cost basis in the property.
Lump sum purchase. If you buy buildings and the land on which they stand for a lump sum, allocate the basis among the land and the buildings so you can figure the allowable depreciation on the buildings. Land is not depreciable. Allocate the cost according to the fair market values of the land and buildings at the time of purchase. Figure the basis of each asset by multiplying the lump sum by a fraction. The numerator is the FMV of that asset and the denominator is the FMV of the whole property at the time of purchase.

Fair market value (FMV) is the price at which the property would change hands between a willing buyer and a willing seller, neither having to buy or sell, and both have reasonable knowledge of all the necessary facts. Sales of similar property on or about the same date may be helpful in figuring the FMV of the property.
Assumption of mortgage. If you buy property and assume (or buy the property subject to) an existing mortgage on the property, your basis includes the amount you pay for the property plus the amount to be paid on the mortgage.
Settlement costs. You can include in the basis of property you buy the settlement fees and closing costs for buying the property. (A fee for buying property is a cost that must be paid even if you buy the property for cash.) You cannot include fees and costs for getting a loan on the property in your basis.
The following are some of the settlement fees or closing costs you can include in the basis of your property.

- Abstract fees (abstract of title fees).
- Charges for installing utility services.
- Legal fees (including title search and preparation of the sales contract and deed).
- Recording fees.
- Survey fees.
- Transfer taxes.
- Owner's title insurance.
- Any amounts the seller owes that you agree to pay, such as back taxes or interest, recording or mortgage fees, charges for improvements or repairs, and sales commissions.

Settlement costs do not include amounts placed in escrow for the future payment of items such as taxes and insurance.
The following are some of the settlement fees and closing costs you cannot include in the basis of property.

1. Casualty insurance premiums.
2. Rent for occupancy of the property before closing.
3. Charges for utilities or other services related to occupancy of the property before closing.
4. Charges connected with getting a loan. The following are examples of these charges.
    a) Points (discount points, loan origination fees).
    b) Mortgage insurance premiums.
    c) Loan assumption fees.
    d) Cost of a credit report.
    e) Fees for an appraisal required by a lender.
5. Fees for refinancing a mortgage.

Real estate taxes. If you pay real estate taxes the seller owed on real property you bought, and the seller did not reimburse you, treat those taxes as part of your basis. You cannot deduct them as an expense.
If you reimburse the seller for taxes the seller paid for you, you can usually deduct that amount as an expense in the year of purchase. Do not include that amount in the basis of your property. If you did not reimburse the seller, you must reduce your basis by the amount of those taxes.
Points. If you pay points to get a loan (including a mortgage, second mortgage, line of credit, or a home equity loan), do not add the points to the basis of the related property. Generally, you deduct the points over the term of the loan.
Points on home mortgage. Special rules may apply to points you and the seller pay when you get a mortgage to buy your main home. If certain requirements are met, you can deduct the points in full for the year in which they are paid. Reduce the basis of your home by any seller-paid points.

III. Adjusted Basis

Before figuring gain or loss on a sale, exchange, or other disposition of property or figuring allowable depreciation, depletion, or amortization, you must usually make certain adjustments (increases and decreases) to the cost of the property. The result is the adjusted basis.

TABLE 1-1. EXAMPLES OF ADJUSTMENTS TO BASIS

Increases to Basis	Decreases to Basis
• Capital improvements: Putting an addition on your home Replacing an entire roof Paving your driveway Installing central air conditioning Rewiring your home • Assessments for local improvements: Water connections Extending utility service lines to the property Sidewalks Roads • Casualty losses: Restoring damaged property • Legal fees: Cost of defending and perfecting a title Fees for getting a reduction of an assessment • Zoning costs	• Exclusion from income of subsidies for energy conservation measures • Casualty or theft loss deductions and insurance reimbursements • Postponed gain from the sale of a home • Alternative motor vehicle credit • Alternative fuel vehicle refueling property credit • Residential energy credits • Depreciation and section 179 deduction • Nontaxable corporate distributions • Certain canceled debt excluded from income • Easements • Adoption tax benefits

INCREASES TO BASIS

Increase the basis of any property by all items properly added to a capital account. Examples of items that increase basis are shown in Table 1-1.

Improvements. Add to your basis in property the cost of improvements having a useful life of more than one year, that increase the value of the property, lengthen its life, or adapt it to a different use. For example, improvements include putting a recreation room in your unfinished basement, adding another bathroom or bedroom, putting up a fence, putting in new plumbing or wiring, installing a new roof, or paving your driveway.

Assessments for local improvements. Add assessments for improvements such as streets and sidewalks to the basis of the property if they increase the value of the property assessed. Do not deduct them as taxes. However, you can deduct as taxes assessments for maintenance or repairs, or for meeting interest charges related to the improvements.

Example

Your city changes the street in front of your store into an enclosed pedestrian mall and assesses you and other affected property owners for the cost of the conversion. Add the assessment to your property's basis. In this example, the assessment is a depreciable asset.

DECREASES TO BASIS

Decrease the basis of any property by all items that represent a return of capital for the period during which you held the property. Examples of items that decrease basis are shown in Table 1-1.

Casualty and theft losses. If you have a casualty or theft loss, decrease the basis in your property by any insurance proceeds or other reimbursement and by any deductible loss not covered by insurance. You must increase your basis in the property by the amount you spend on repairs that restore the property to its pre-casualty condition.

Depreciation and section 179 deduction. Decrease the basis of your qualifying business property by any section 179 deduction you take and the depreciation you deducted, or could have deducted, on your tax returns under the method of depreciation you selected.

Example

You owned a duplex used as rental property that cost you $40,000, of which $35,000 was allocated to the building and $5,000 to the land. You added an improvement to the duplex that cost $10,000. In February last year the duplex was damaged by fire. Up to that time you had been allowed depreciation of $23,000. You sold some salvaged material for $1,300 and collected $19,700 from your insurance company. You deducted a casualty loss of $1,000 on your income tax return for last year. You spent $19,000 of the insurance proceeds for restoration of the duplex, which was completed this year. You must use the duplex's adjusted basis after the restoration to determine depreciation for the rest of the property's recovery period. Figure the adjusted basis of the duplex as follows:

Original cost of duplex		$35,000
Addition to duplex		10,000
Total cost of duplex		$45,000
Minus: Depreciation		23,000
Adjusted basis before casualty		$22,000
Minus: Insurance proceeds	$19,700	
Deducted casualty loss	1,000	
Salvage proceeds	1,300	22,000
Adjusted basis after casualty		-0-
Add: Cost of restoring duplex		$19,000
Adjusted basis after restoration		**$19,000**

Note: Your basis in the land is its original cost of $5,000.

Easements. The amount you receive for granting an easement is generally considered to be from the sale of an interest in real property. It reduces the basis of the affected part of the property. If the amount received is more than the basis of the part of the property affected by the easement, reduce your basis in that part to zero and treat the excess as a recognized gain.

Exclusion of subsidies for energy conservation measures. You can exclude from gross income any subsidy you received from a public utility company for the purchase or installation of an energy conservation measure for a dwelling unit. Reduce the basis of the property for which you received the subsidy by the excluded amount.

Postponed gain from sale of home. If you postponed gain from the sale of your main home under rules in effect before May 7, 1997, you must reduce the basis of the home you acquired as a replacement by the amount of the postponed gain.

IV. Basis Other Than Cost

There are many times when you cannot use cost as basis. In these cases, the fair market value or the adjusted basis of the property can be used. Fair market value (FMV) and adjusted basis were discussed earlier.

TAXABLE EXCHANGES

A taxable exchange is one in which the gain is taxable or the loss is deductible. A taxable gain or deductible loss also is known as a recognized gain or loss. If you receive property in exchange for other property in a taxable exchange, the basis of the property you receive is usually its FMV at the time of the exchange.

NONTAXABLE EXCHANGES
A nontaxable exchange is an exchange in which you are not taxed on any gain and you cannot deduct any loss. If you receive property in a nontaxable exchange, its basis is generally the same as the basis of the property you transferred.

Like-Kind Exchanges
As of 2018, section 1031 like-kind exchange treatment applies only to exchanges of real property held for use in a trade or business or for investment, other than real property held primarily for sale.
The exchange of property for the same kind of property is the most common type of nontaxable exchange. To qualify as a like-kind exchange, you must hold for business or investment purposes both the property you transfer and the property you receive. There also must be an exchange of like-kind property.
The basis of the property you receive generally is the same as the adjusted basis of the property you gave up. If you trade property in a like-kind exchange and also pay money, the basis of the property received is the adjusted basis of the property you gave up increased by the money you paid.
Qualifying property. In a like-kind exchange, you must hold for investment or for productive use in your trade or business both the property you give up and the property you receive.
Like-kind property. There must be an exchange of like property. Like-kind properties are properties of the same nature or character, even if they differ in grade or quality. The exchange of real estate for real estate is an exchange of like property.
Partially nontaxable exchange. A partially nontaxable exchange is an exchange in which you receive unlike property or money in addition to like property. The basis of the property you receive is the total adjusted basis of the property you gave up, with the following adjustments.

1. Decrease the basis by the following amounts.
    a) Any money you receive.
    b) Any loss you recognize on the exchange.
2. Increase the basis by the following amounts.
    a) Any additional costs you incur.
    b) Any gain you recognize on the exchange.

If the other party to the exchange assumes your liabilities, treat the debt assumption as money you received in the exchange.
Allocation of basis. If you receive like-kind and unlike properties in the exchange, allocate the basis first to the unlike property, other than money, up to its FMV on the date of the exchange. The rest is the basis of the like-kind property.

PROPERTY RECEIVED AS A GIFT
To figure the basis of property you receive as a gift, you must know its adjusted basis to the donor just before it was given to you, its FMV at the time it was given to you, and any gift tax paid on it.
FMV less than donor's adjusted basis. If the FMV of the property at the time of the gift is less than the donor's adjusted basis, your basis depends on whether you have a gain or a loss when you dispose of the property. Your basis for figuring gain is the same as the donor's adjusted basis plus or minus any required adjustments to basis while you held the property. Your basis for figuring loss is its FMV when you received the gift plus or minus any required adjustments to basis while you held the property. See Adjusted Basis, earlier.

Example
You received an acre of land as a gift. At the time of the gift, the land had a FMV of $8,000. The donor's adjusted basis was $10,000. After you received the property, no events occurred to increase or decrease your basis. If you later sell the property for $12,000, you will have a $2,000 gain because you must use the donor's adjusted basis at the time of the gift ($10,000) as your basis to figure gain. If you sell the property for $7,000, you will have a $1,000 loss because you must use the FMV at the time of

the gift ($8,000) as your basis to figure loss. If the sales price is between $8,000 and $10,000, you have neither gain nor loss.

Business property. If you hold the gift as business property, your basis for figuring any depreciation, depletion, or amortization deduction is the same as the donor's adjusted basis plus or minus any required adjustments to basis while you hold the property.

FMV equal to or greater than donor's adjusted basis. If the FMV of the property is equal to or greater than the donor's adjusted basis, your basis is the donor's adjusted basis at the time you received the gift. Increase your basis by all or part of any gift tax paid, depending on the date of the gift, explained later.

Also, for figuring gain or loss from a sale or other disposition or for figuring depreciation, depletion, or amortization deductions on business property, you must increase or decrease your basis by any required adjustments to basis while you held the property. See Adjusted Basis, earlier.

If you received a gift during the tax year, increase your basis in the gift (the donor's adjusted basis) by the part of the gift tax paid on it due to the net increase in value of the gift. Figure the increase by multiplying the gift tax paid by a fraction. The numerator of the fraction is the net increase in value of the gift and the denominator is the amount of the gift.

The net increase in value of the gift is the FMV of the gift minus the donor's adjusted basis. The amount of the gift is its value for gift tax purposes after reduction by any annual exclusion and marital or charitable deduction that applies to the gift.

Example

In 2019, you received a gift of property from your mother that had an FMV of $50,000. Her adjusted basis was $20,000. The amount of the gift for gift tax purposes was $35,000 ($50,000 minus the $15,000 annual exclusion). She paid a gift tax of $7,100 on the property. Your basis is $26,106 figured as follows:

Fair market value	$50,000
Minus: adjusted basis	-20,000
Net increase in value	$30,000
Gift tax paid	$7,100
Multiplied by ($30,000 ÷ $35,000)	x.86
Gift tax due to net increase in value	$6,106
Adjusted basis of property to your mother	+20,000
Your basis in property	**$26,106**

INHERITED PROPERTY

Your basis in property you inherit from a decedent is generally one of the following.

- The FMV of the property at the date of the decedent's death.
- The FMV on the alternate valuation date if the personal representative for the estate elects to use alternate valuation.
- The value under the special-use valuation method for real property used in farming or a closely held business if elected for estate tax purposes.
- The decedent's adjusted basis in land to the extent of the value excluded from the decedent's taxable estate as a qualified conservation easement.

If a federal estate tax return does not have to be filed, your basis in the inherited property is its appraised value at the date of death for state inheritance or transmission taxes.

PROPERTY CHANGED FROM PERSONAL TO BUSINESS OR RENTAL USE

If you hold property for personal use and then change it to business use or use it to produce rent, you can begin to depreciate at the time of the change. To do so, you must figure its basis for depreciation

at the time of the change. An example of changing property held for personal use to business use would be renting out your former personal residence.
Basis for depreciation. The basis for depreciation is the lesser of the following amounts.
- The FMV of the property on the date of the change.
- Your adjusted basis on the date of the change.

Example
Several years ago, you paid $160,000 to have your house built on a lot that cost $25,000. You paid $20,000 for permanent improvements to the house and claimed a $2,000 casualty loss deduction for damage to the house before changing the property to rental use last year. Because land is not depreciable, you include only the cost of the house when figuring the basis for depreciation.
Your adjusted basis in the house when you changed its use was $178,000 ($160,000 + $20,000 - $2,000). On the same date, your property had an FMV of $180,000, of which $15,000 was for the land and $165,000 was for the house. The basis for figuring depreciation on the house is its FMV on the date of the change ($165,000) because it is less than your adjusted basis ($178,000).

Sale of property. If you later sell or dispose of property changed to business or rental use, the basis you use will depend on whether you are figuring gain or loss.
Gain. The basis for figuring a gain is your adjusted basis in the property when you sell the property.
Loss. Figure the basis for a loss starting with the smaller of your adjusted basis or the FMV of the property at the time of the change to business or rental use. Then make adjustments (increases and decreases) for the period after the change in the property's use, as discussed earlier under Adjusted Basis.

Example
Assume the same facts as in the previous example except that you sell the property at a gain after being allowed depreciation deductions of $37,500. Your adjusted basis for figuring gain is $165,500 ($178,000 + $25,000 (land) - $37,500).
Example
Assume the same facts as in the previous example, except that you sell the property at a loss after being allowed depreciation deductions of $37,500. In this case, you would start with the FMV on the date of the change to rental use ($180,000), because it is less than the adjusted basis of $203,000 ($178,000 + $25,000) on that date. Reduce that amount ($180,000) by the depreciation deductions to arrive at a basis for loss of $142,500 ($180,000 - $37,500).

STOCKS AND BONDS
The basis of stocks or bonds you buy generally is the purchase price plus any costs of purchase, such as commissions and recording or transfer fees. If you get stocks or bonds other than by purchase, your basis is usually determined by the FMV or the previous owner's adjusted basis, as discussed earlier.
You must adjust the basis of stocks for certain events that occur after purchase. For example, if you receive additional stock from nontaxable stock dividends or stock splits, divide the adjusted basis of the old stock by the number of shares of old and new stock. This rule applies only when the additional stock received is identical to the stock held. Also reduce your basis when you receive nontaxable distributions. The nontaxable distributions are a return of capital.

Example
In 2017 you bought 100 shares of XYZ stock for $1,000 or $10 a share. In 2018 you bought 100 shares of XYZ stock for $1,600 or $16 a share. In 2019 XYZ declared a 2-for-1 stock split. You now have 200 shares of stock with a basis of $5 a share and 200 shares with a basis of $8 a share.

Other basis. There are other ways to figure the basis of stocks or bonds depending on how you acquired them.

Identifying stocks or bonds sold. If you can adequately identify the shares of stock or the bonds you sold, their basis is the cost or other basis of the particular shares of stocks or bonds. If you buy and sell securities at various times in varying quantities and you cannot adequately identify the shares you sell, the basis of the securities you sell is the basis of the securities you acquired first.

Mutual fund shares. If you sell mutual funds you acquired at various times and prices and left on deposit in an account kept by a custodian or agent, you can elect to use an average basis.

Bond premium. If you buy a taxable bond at a premium and choose to amortize the premium, reduce the basis of the bond by the amortized premium you deduct each year. Although you cannot deduct the premium on a tax-exempt bond, you must amortize the premium each year and reduce your basis in the bond by the amortized amount.

Original issue discount (OID) on debt instruments. You must increase your basis in an OID debt instrument by the OID you include in income for that instrument.

CHAPTER 1: TEST YOUR KNOWLEDGE

The following questions are designed to ensure that you have a complete understanding of the information presented in the chapter (assignment). They are included as an additional tool to enhance your learning experience and do not need to be submitted in order to receive CPE credit.

We recommend that you answer each question and then compare your response to the suggested solutions on the following page(s) before answering the final exam questions related to this chapter (assignment).

1. The cost basis of property you buy is usually the sum of its costs. Which of the following would <u>not</u> be a cost added to the cost basis:

A. the amount you pay in cash
B. the amount of debt obligations obtained
C. other property or services provided
D. charges connected with getting a loan to purchase the property

2. A like-kind exchange requires which of the following to be true:

A. there must be an exchange of some money
B. one of the properties involved must be qualifying property
C. both properties are like-kind property
D. the cost basis of the old and new property must be the same

3. Your basis in stocks or bonds <u>cannot</u> change after purchase.

A. true
B. false

CHAPTER 1: SOLUTIONS AND SUGGESTED RESPONSES

Below are the solutions and suggested responses for the questions on the previous page(s). If you choose an incorrect answer, you should review the pages as indicated for each question to ensure comprehension of the material.

1.

A. Incorrect. The amount of cash paid for a property is part of its cost basis.
B. Incorrect. Any debt assumed or newly acquired in purchasing property is also a component of its cost basis.
C. Incorrect. All other property or services provided to a seller to induce them into transferring property is also part of the property's cost basis.

D. **CORRECT**. Fees and/or charges (for example, points, credit reporting, and loan assumption fees) associated with obtaining a loan used to purchase property are not usually added to the property's cost basis.

2.

A. Incorrect. There is no requirement for the exchange of money.
B. Incorrect. A like-kind exchange requires that both of the properties involved be "qualifying property" as specified in the tax code, not just one of the properties.
C. **CORRECT**. A like-kind exchange requires that the property involved be "like-kind property" as specified in the tax code.
D. Incorrect. Having the cost basis the same is not a condition required for a like-kind exchange to occur.

3.

A. Incorrect. There are a number of reasons that basis may change after purchase.
B. **CORRECT**. The basis of stocks or bonds may change after purchase because of nontaxable stock dividends or stock splits or nontaxable distributions.

Chapter 2: Sale Of Property

Chapter Objective
After completing this chapter, you should be able to:
- Recognize the taxability of the sale of personal use property.

I. Introduction

This chapter discusses the tax consequences of selling or trading investment property. It explains:
- What is a sale or trade,
- Figuring gain or loss,
- Nontaxable trades,
- Related party transactions,
- Capital gains or losses,
- Capital assets and noncapital assets, and
- Holding period.

II. Sales And Trades

If you sold property such as stocks, bonds, or certain commodities through a broker during the year, you should receive, for each sale, a Form 1099-B, Proceeds From Broker and Barter Exchange Transactions, or an equivalent statement from the broker. You should receive a Form 1099-B for 2019 by February 15, 2020. It will show the gross proceeds from the sale. It may also show your basis. The IRS will also get a copy of Form 1099-B from the broker.

Use Form 1099-B received from your broker to complete Form 8949 and/or Schedule D (Form 1040).

Sale and purchase. Ordinarily, a transaction is not a trade when you voluntarily sell property for cash and immediately buy similar property to replace it. The sale and purchase are two separate transactions. But see Like-kind exchanges under Nontaxable Trades, later.

Redemption of stock. A redemption of stock is treated as a sale or trade and is subject to the capital gain or loss provisions unless the redemption is a dividend or other distribution on stock.

Dividend versus sale or trade. Whether a redemption is treated as a sale, trade, dividend, or other distribution depends on the circumstances in each case. Both direct and indirect ownership of stock will be considered. The redemption is treated as a sale or trade of stock if:
1. The redemption is not essentially equivalent to a dividend,
2. There is a substantially disproportionate redemption of stock,
3. There is a complete redemption of all the stock of the corporation owned by the shareholder, or
4. The redemption is a distribution in partial liquidation of a corporation.

Redemption or retirement of bonds. A redemption or retirement of bonds or notes at their maturity is generally treated as a sale or trade.

In addition, a significant modification of a bond is treated as a trade of the original bond for a new bond.

Surrender of stock. A surrender of stock by a dominant shareholder who retains control of the corporation is treated as a contribution to capital rather than as an immediate loss deductible from taxable income. The surrendering shareholder must reallocate his or her basis in the surrendered shares to the shares he or she retains.

HOW TO FIGURE GAIN OR LOSS
You figure gain or loss on a sale or trade of property by subtracting the adjusted basis of the property from the amount you realize on the sale or trade.

Gain. If the amount you realize from a sale or trade is more than the adjusted basis of the property you transfer, the difference is a gain.
Loss. If the adjusted basis of the property you transfer is more than the amount you realize, the difference is a loss.
Adjusted basis. The adjusted basis of property is your original cost or other original basis properly adjusted (increased or decreased) for certain items.
Amount realized. The amount you realize from a sale or trade of property is everything you receive for the property minus your expenses of sale (such as redemption fees, sales commissions, sales charges, or exit fees). Amount realized includes the money you receive plus the fair market value of any property or services you receive.
If you finance the buyer's purchase of your property and the debt instrument does not provide for adequate stated interest, the unstated interest that you must report as ordinary income will reduce the amount realized from the sale.
Fair market value. Fair market value is the price at which the property would change hands between a buyer and a seller, neither being forced to buy or sell and both having reasonable knowledge of all the relevant facts.

Example
You trade A Company stock with an adjusted basis of $7,000 for B Company stock with a fair market value of $10,000, which is your amount realized. Your gain is $3,000 ($10,000 minus $7,000).

Debt paid off. A debt against the property, or against you, that is paid off as a part of the transaction, or that is assumed by the buyer, must be included in the amount realized. This is true even if neither you nor the buyer is personally liable for the debt. For example, if you sell or trade property that is subject to a nonrecourse loan, the amount you realize generally includes the full amount of the note assumed by the buyer even if the amount of the note is more than the fair market value of the property.

Example
You sell stock that you had pledged as security for a bank loan of $8,000. Your basis in the stock is $6,000. The buyer pays off your bank loan and pays you $20,000 in cash. The amount realized is $28,000 ($20,000 plus $8,000). Your gain is $22,000 ($28,000 minus $6,000).

Payment of cash. If you trade property and cash for other property, the amount you realize is the fair market value of the property you receive. Determine your gain or loss by subtracting the cash you pay plus the adjusted basis of the property you traded in from the amount you realize. If the result is a positive number, it is a gain. If the result is a negative number, it is a loss.
No gain or loss. You may have to use a basis for figuring gain that is different from the basis used for figuring loss. In this case, you may have neither a gain nor a loss.

NONTAXABLE TRADES

Note: Per the Tax Cuts and Jobs Act, like-kind exchanges are allowed only for real property after 2017.

Like-kind exchanges. If you trade business or investment property for other business or investment property of a like kind, you do not pay tax on any gain or deduct any loss until you sell or dispose of the property you receive. To be nontaxable, a trade must meet all six of the following conditions.

1. The property must be business or investment property. You must hold both the property you trade and the property you receive for productive use in your trade or business or for investment. Neither property may be property used for personal purposes, such as your home.

2. The property must not be held primarily for sale. The property you trade and the property you receive must not be property you sell to customers, such as merchandise.
3. The property must not be stocks, bonds, notes, choses in action, certificates of trust or beneficial interest, or other securities or evidences of indebtedness or interest, including partnership interests. However, you can have a nontaxable trade of corporate stocks under a different rule, as discussed later.
4. There must be a trade of like property. The trade of real estate for real estate is a trade of like property. The trade of an apartment house for a store building is a trade of like property. The trade of a piece of machinery for a store building is not a trade of like property. Real property located in the United States and real property located outside the United States are not like property.
5. The property to be received must be identified within 45 days after the date you transfer the property given up in the trade.
6. The property to be received must be received by the earlier of:
    a) The 180th day after the date on which you transfer the property given up in the trade, or
    b) The due date, including extensions, for your tax return for the year in which the transfer of the property given up occurs.

If you trade property with a related party in a like-kind exchange, a special rule may apply. See Related Party Transactions, later in this chapter.

Partly nontaxable exchange. If you receive cash or unlike property in addition to like property, and the above six conditions are met, you have a partially nontaxable trade. You are taxed on any gain you realize, but only up to the amount of the cash and the fair market value of the unlike property you receive. You cannot deduct a loss.

Like property and unlike property transferred. If you give up unlike property in addition to the like property, you must recognize gain or loss on the unlike property you give up. The gain or loss is the difference between the adjusted basis of the unlike property and its fair market value.

Like property and money transferred. If all of the above conditions (1) - (6) are met, you have a nontaxable trade even if you pay money in addition to the like property.

Basis of property received. To figure the basis of the property received, see Nontaxable Exchanges in this chapter.

How to report. You must report the trade of like property on Form 8824. If you figure a recognized gain or loss on Form 8824, report it on Schedule D of Form 1040 or on Form 4797, Sales of Business Property, whichever applies.

Corporate stocks. The following trades of corporate stocks generally do not result in a taxable gain or a deductible loss.

Corporate reorganizations. In some instances, a company will give you common stock for preferred stock, preferred stock for common stock, or stock in one corporation for stock in another corporation. If this is a result of a merger, recapitalization, transfer to a controlled corporation, bankruptcy, corporate division, corporate acquisition, or other corporate reorganization, you do not recognize gain or loss.

Stock for stock of the same corporation. You can exchange common stock for common stock or preferred stock for preferred stock in the same corporation without having a recognized gain or loss. This is true for a trade between two stockholders as well as a trade between a stockholder and the corporation.

Convertible stocks and bonds. You generally will not have a recognized gain or loss if you convert bonds into stock or preferred stock into common stock of the same corporation according to a conversion privilege in the terms of the bond or the preferred stock certificate.

Property for stock of a controlled corporation. If you transfer property to a corporation solely in exchange for stock in that corporation, and immediately after the trade you are in control of the corporation, you ordinarily will not recognize a gain or loss. This rule applies both to individuals and to groups who transfer property to a corporation. It does not apply if the corporation is an investment company.

For this purpose, to be in control of a corporation, you or your group of transferors must own, immediately after the exchange, at least 80% of the total combined voting power of all classes of stock entitled to vote and at least 80% of the outstanding shares of each class of nonvoting stock of the corporation.

If this provision applies to you, you may have to attach to your return a complete statement of all facts pertinent to the exchange.

U.S. Treasury notes or bonds. You can trade certain issues of U.S. Treasury obligations for other issues designated by the Secretary of the Treasury, with no gain or loss recognized on the trade.

TRANSFERS BETWEEN SPOUSES

Generally, no gain or loss is recognized on a transfer of property from an individual to (or in trust for the benefit of) a spouse, or if incident to a divorce, a former spouse. This nonrecognition rule does not apply if the recipient spouse or former spouse is a nonresident alien. The rule also does not apply if property is transferred in trust and liability exceeds basis. Gains must be recognized to the extent the amount of the liabilities assumed by the trust, plus any liabilities on the property, exceed the adjusted basis of the property.

Any transfer of property to a spouse or former spouse on which gain or loss is not recognized is treated by the recipient as a gift and is not considered a sale or exchange. The recipient's basis in the property will be the same as the adjusted basis of the giver immediately before the transfer. This carryover basis rule applies whether the adjusted basis of the transferred property is less than, equal to, or greater than either its fair market value at the time of transfer or any consideration paid by the recipient. This rule applies for purposes of determining loss as well as gain. Any gain recognized on a transfer in trust increases the basis.

A transfer of property is incident to a divorce if the transfer occurs within 1 year after the date on which the marriage ends, or if the transfer is related to the ending of the marriage.

RELATED PARTY TRANSACTIONS

Special rules apply to the sale or trade of property between related parties.

Gain on sale or trade of depreciable property. Your gain from the sale or trade of property to a related party may be ordinary income, rather than capital gain, if the property can be depreciated by the party receiving it.

Like-kind exchanges. Generally, if you trade business or investment property for other business or investment property of a like kind, no gain or loss is recognized. See Like-kind exchanges earlier under Nontaxable Trades.

This rule also applies to trades of property between related parties, defined next under Losses on sales or trades of property. However, if either you or the related party disposes of the like property within 2 years after the trade, you both must report any gain or loss not recognized on the original trade on your return filed for the year in which the later disposition occurs.

Losses on sales or trades of property. You cannot deduct a loss on the sale or trade of property, other than a distribution in complete liquidation of a corporation, if the transaction is directly or indirectly between you and the following related parties.

1. Members of your family. This includes only your brothers and sisters, half-brothers and half-sisters, spouse, ancestors (parents, grandparents, etc.), and lineal descendants (children, grandchildren, etc.).
2. A partnership in which you directly or indirectly own more than 50% of the capital interest or the profits interest.
3. A corporation in which you directly or indirectly own more than 50% in value of the outstanding stock.

4. A tax-exempt charitable or educational organization that is directly or indirectly controlled, in any manner or by any method, by you or by a member of your family, whether or not this control is legally enforceable.

Multiple property sales or trades. If you sell or trade to a related party a number of blocks of stock or pieces of property in a lump sum, you must figure the gain or loss separately for each block of stock or piece of property. The gain on each item may be taxable. However, you cannot deduct the loss on any item. Also, you cannot reduce gains from the sales of any of these items by losses on the sales of any of the other items.

Indirect transactions. You cannot deduct your loss on the sale of stock through your broker if, under a prearranged plan, a related party buys the same stock you had owned. This does not apply to a trade between related parties through an exchange that is purely coincidental and is not prearranged.

Property received from a related party. If you sell or trade at a gain property that you acquired from a related party, you recognize the gain only to the extent it is more than the loss previously disallowed to the related party. This rule applies only if you are the original transferee and you acquired the property by purchase or exchange. This rule does not apply if the related party's loss was disallowed because of the wash sale rules.

If you sell or trade at a loss property that you acquired from a related party, you cannot recognize the loss that was not allowed to the related party.

Example 1

Your brother sells you stock for $7,600. His cost basis is $10,000. Your brother cannot deduct the loss of $2,400. Later, you sell the same stock to an unrelated party for $10,500, realizing a gain of $2,900. Your reportable gain is $500 – the $2,900 gain minus the $2,400 loss not allowed to your brother.

Example 2

If, in Example 1, you sold the stock for $6,900 instead of $10,500, your recognized loss is only $700 (your $7,600 basis minus $6,900). You cannot deduct the loss that was not allowed to your brother.

III. Capital Gains And Losses

This section discusses the tax treatment of gains and losses from different types of investment transactions.

Character of gain or loss. You need to classify your gains and losses as either ordinary or capital gains or losses. You then need to classify your capital gains and losses as either short-term or long-term. If you have long-term gains and losses, you must identify your 28% rate gains and losses. If you have a net capital gain, you must also identify any unrecaptured section 1250 gain.

The correct classification and identification helps you figure the limit on capital losses and the correct tax on capital gains.

CAPITAL OR ORDINARY GAIN OR LOSS

If you have a taxable gain or a deductible loss from a transaction, it may be either a capital gain or loss or an ordinary gain or loss, depending on the circumstances. Generally, a sale or trade of a capital asset (defined next) results in a capital gain or loss. A sale or trade of a noncapital asset generally results in ordinary gain or loss. Depending on the circumstances, a gain or loss on a sale or trade of property used in a trade or business may be treated as either capital or ordinary. In some situations, part of your gain or loss may be a capital gain or loss, and part may be an ordinary gain or loss.

CAPITAL ASSETS

For the most part, everything you own and use for personal purposes, pleasure, or investment is a capital asset. Some examples are:

- Stocks or bonds held in your personal account,
- A house owned and used by you and your family,

- Household furnishings,
- A car used for pleasure or commuting,
- Coin or stamp collections,
- Gems and jewelry, and
- Gold, silver, or any other metal.

Investment Property

Investment property is a capital asset. Any gain or loss from its sale or trade is generally a capital gain or loss.

Gold, silver, stamps, coins, gems, etc. These are capital assets except when they are held for sale by a dealer. Any gain or loss you have from their sale or trade generally is a capital gain or loss.

Stocks, stock rights, and bonds. All of these (including stock received as a dividend) are capital assets except when held for sale by a securities dealer.

Personal Use Property

Property held for personal use only, rather than for investment, is a capital asset, and you must report a gain from its sale as a capital gain. However, you cannot deduct a loss from selling personal use property.

Discounted Debt Instruments

Treat your gain or loss on the sale, redemption, or retirement of a bond or other debt instrument originally issued at a discount or bought at a discount as capital gain or loss, except as explained in the following discussions.

Short-term government obligations. Treat gains on short-term federal, state, or local government obligations (other than tax-exempt obligations) as ordinary income up to your ratable share of the acquisition discount. This treatment applies to obligations that have a fixed maturity date not more than 1 year from the date of issue. Acquisition discount is the stated redemption price at maturity minus your basis in the obligation.

However, do not treat these gains as income to the extent you previously included the discount in income.

Short-term nongovernment obligations. Treat gains on short-term nongovernment obligations as ordinary income up to your ratable share of original issue discount (OID). This treatment applies to obligations that have a fixed maturity date of not more than 1 year from the date of issue. However, to the extent you previously included the discount in income, you do not have to include it in income again.

Tax-exempt state and local government bonds. If these bonds were originally issued at a discount before September 4, 1982, or you acquired them before March 2, 1984, treat your part of the OID as tax-exempt interest. To figure your gain or loss on the sale or trade of these bonds, reduce the amount realized by your part of the OID.

If the bonds were issued after September 3, 1982, and acquired after March 1, 1984, increase the adjusted basis by your part of the OID to figure gain or loss.

Any gain from market discount is usually taxable on disposition or redemption of tax-exempt bonds. If you bought the bonds before May 1, 1993, the gain from market discount is capital gain. If you bought the bonds after April 30, 1993, the gain is ordinary income.

You figure the market discount by subtracting the price you paid for the bond from the sum of the original issue price of the bond and the amount of accumulated OID from the date of issue that represented interest to any earlier holders.

A loss on the sale or other disposition of a tax-exempt state or local government bond is deductible as a capital loss.

Market discount bonds. If the debt instrument has market discount and you chose to include the discount in income as it accrued, increase your basis in the debt instrument by the accrued discount to figure capital gain or loss on its disposition. If you did not choose to include the discount in income as it accrued, you must report gain as ordinary interest income up to the instrument's accrued market discount. The rest of the gain is capital gain.

Retirement of debt instrument. Any amount that you receive on the retirement of a debt instrument is treated in the same way as if you had sold or traded that instrument.

Deposit in Insolvent or Bankrupt Financial Institution

If you lose money you have on deposit in a bank, credit union, or other financial institution that becomes insolvent or bankrupt, you may be able to deduct your loss in one of three ways.

1. Ordinary loss,
2. Casualty loss, or
3. Nonbusiness bad debt (short-term capital loss).

Sale of Annuity

The part of any gain on the sale of an annuity contract before its maturity date that is based on interest accumulated on the contract is ordinary income.

NONBUSINESS BAD DEBTS

If someone owes you money that you cannot collect, you have a bad debt. You may be able to deduct the amount owed to you when you figure your tax for the year the debt becomes worthless. A debt must be genuine for you to deduct a loss. A debt is genuine if it arises from a debtor-creditor relationship based on a valid and enforceable obligation to repay a fixed or determinable sum of money.

Generally, nonbusiness bad debts are bad debts that you did not get in the course of operating your trade or business and are deductible as short-term capital losses. To be deductible, nonbusiness bad debts must be totally worthless. You cannot deduct a partly worthless nonbusiness debt.

Basis in bad debt required. To deduct a bad debt, you must have a basis in it – that is, you must have already included the amount in your income or loaned out your cash. For example, you cannot claim a bad debt deduction for court-ordered child support not paid to you by your former spouse. If you are a cash method taxpayer (as most individuals are), you generally cannot take a bad debt deduction for unpaid salaries, wages, rents, fees, interest, dividends, and similar items.

LOSSES ON SECTION 1244 (SMALL BUSINESS STOCK)

You can deduct as an ordinary loss, rather than as a capital loss, your loss on the sale, trade, or worthlessness of section 1244 stock. Report an ordinary loss from the sale, exchange, or worthlessness of section 1244 stock on Form 4797. However, if the total loss is more than the maximum amount that can be treated as an ordinary loss, also report the transaction on Form 8949. See the instructions for Forms 4797 and 8949.

Any gain on section 1244 stock is a capital gain if the stock is a capital asset in your hands. Report the gain on Form 8949.

HOLDING PERIOD

If you sold or traded investment property, you must determine your holding period for the property. Your holding period determines whether any capital gain or loss was a short-term or long-term capital gain or loss.

Long term or short term. If you hold investment property more than 1 year, any capital gain or loss is a long-term capital gain or loss. If you hold the property 1 year or less, any capital gain or loss is a shortterm capital gain or loss.

To determine how long you held the investment property, begin counting on the date after the day you acquired the property. The day you disposed of the property is part of your holding period.

Example
If you bought investment property on February 3, 2018, and sold it on February 3, 2019, your holding period is not more than 1 year and you have a short-term capital gain or loss. If you sold it on February 6, 2019, your holding period is more than 1 year and you will have a long-term capital gain or loss.

Securities traded on established market. For securities traded on an established securities market, your holding period begins the day after the trade date you bought the securities, and ends on the trade date you sold them.

Example
You are a cash method, calendar year taxpayer. You sold stock at a gain on December 30, 2019. According to the rules of the stock exchange, the sale was closed by delivery of the stock and payment of the sale price in January 2020. Report your gain on your 2019 return, even though you received the payment in 2020. The gain is long term or short term depending on whether you held the stock more than 1 year. Your holding period ended on December 30.

Nontaxable trades. If you acquire investment property in a trade for other investment property and your basis for the new property is determined, in whole or in part, by your basis in the old property, your holding period for the new property begins on the day following the date you acquired the old property.

Property received as a gift. If you receive a gift of property and your basis is determined by the donor's adjusted basis, your holding period is considered to have started on the same day the donor's holding period started.

If your basis is determined by the fair market value of the property, your holding period starts on the day after the date of the gift.

Inherited property. Generally, if you inherit investment property, your capital gain or loss on any later disposition of that property is treated as a long-term capital gain or loss. This is true regardless of how long you actually held the property.

Real property bought. To figure how long you have held real property bought under an unconditional contract, begin counting on the day after you received title to it or on the day after you took possession of it and assumed the burdens and privileges of ownership, whichever happened first. However, taking delivery or possession of real property under an option agreement is not enough to start the holding period. The holding period cannot start until there is an actual contract of sale. The holding period of the seller cannot end before that time.

Stock dividends. The holding period for stock you received as a taxable stock dividend begins on the date of distribution.

The holding period for new stock you received as a nontaxable stock dividend begins on the same day as the holding period of the old stock. This rule also applies to stock acquired in a "spin-off," which is a distribution of stock or securities in a controlled corporation.

Nontaxable stock rights. Your holding period for nontaxable stock rights begins on the same day as the holding period of the underlying stock. The holding period for stock acquired through the exercise of stock rights begins on the date the right was exercised.

WASH SALES

You cannot deduct losses from sales or trades of stock or securities in a wash sale.

A wash sale occurs when you sell or trade stock or securities at a loss and within 30 days before or after the sale you:

1. Buy substantially identical stock or securities,
2. Acquire substantially identical stock or securities in a fully taxable trade,
3. Acquire a contract or option to buy substantially identical stock or securities, or
4. Acquire substantially identical stock for your individual retirement account (IRA) or Roth IRA.

If your loss was disallowed because of the wash sale rules, add the disallowed loss to the cost of the new stock or securities (except (4) above). The result is your basis in the new stock or securities. This adjustment postpones the loss deduction until the disposition of the new stock or securities. Your holding period for the new stock or securities includes the holding period of the stock or securities sold.

CHAPTER 2: TEST YOUR KNOWLEDGE

The following questions are designed to ensure that you have a complete understanding of the information presented in the chapter (assignment). They are included as an additional tool to enhance your learning experience and do not need to be submitted in order to receive CPE credit.

We recommend that you answer each question and then compare your response to the suggested solutions on the following page(s) before answering the final exam questions related to this chapter (assignment).

1. Generally, no gain or loss is recognized on the transfer of property from an individual to a spouse. In the case of divorce, such a transfer generally must occur within what time period:

A. 3 months of the final divorce date
B. 1 year of the final divorce date
C. 2 years of the final divorce date
D. 3 years of the final divorce date

2. To be deductible, a nonbusiness bad debt must meet all of the following conditions <u>except</u>:

A. it must be totally worthless
B. the owner must have a cost basis in the debt
C. the debt did not arise from running your trade or business
D. the debt must be less than $10,000

CHAPTER 2: SOLUTIONS AND SUGGESTED RESPONSES

Below are the solutions and suggested responses for the questions on the previous page(s). If you choose an incorrect answer, you should review the pages as indicated for each question to ensure comprehension of the material.

1.

A. Incorrect. Transfers within three months of the final divorce date is not correct.
B. **CORRECT**. The transfer of property is incident to a divorce if the transfer occurs within one year after the date on which the marriage ends, or if the transfer is related to the ending of the marriage. This carryover basis rule applies whether the adjusted basis of the transferred property is less than, equal to, or greater than either its fair market value at the time of transfer or any consideration paid by the recipient
C. Incorrect. Transfers within two years of the final divorce date is a longer period of time than allowed.
D. Incorrect. Transfers within three years of the final divorce date is a longer period of time than allowed.

2.

A. Incorrect. To be deductible, a nonbusiness bad debt must be totally worthless in order to make a claim.
B. Incorrect. A nonbusiness bad debt must originally have had a cost basis.
C. Incorrect. To be a nonbusiness deduction, it cannot arise from the operation of a trade or business.

D. **CORRECT**. A limit to the amount of debt is not a condition required for the deductibility of a nonbusiness bad debt. There is not a fixed amount requirement.

Chapter 3: Selling Your Home

Chapter Objective
After completing this chapter, you should be able to:
- Identify the special tax rules related to selling your home.

I. Important Information

Home sold with undeducted points. If you have not deducted all the points you paid to secure a mortgage on your old home, you may be able to deduct the remaining points in the year of the sale.

II. Introduction

This chapter explains the tax rules that apply when you sell your main home. In most cases, your main home is the one in which you live most of the time.
If you sold your main home in 2019, you may be able to exclude from income any gain up to a limit of $250,000 ($500,000 on a joint return in most cases). See Excluding the Gain, later. Generally, if you can exclude all of the gain, you do not need to report the sale on your tax return.
If you have gain that cannot be excluded, it is taxable. Report it on Form 8949 and Schedule D (Form 1040). You may also have to complete Form 4797, Sales of Business Property. See Reporting the Sale, later.
If you have a loss on the sale, you cannot deduct it on your return. However, you may need to report it.
The following are main topics in this chapter.
- Figuring gain or loss.
- Basis.
- Excluding the gain.
- Ownership and use tests.
- Reporting the sale.

III. Main Home

Usually, the home you live in most of the time is your main home and can be a:
- House,
- Houseboat,
- Mobile home,
- Cooperative apartment, or
- Condominium.

To exclude gain under the rules of this chapter, you generally must have owned and lived in the property as your main home for at least 2 years during the 5-year period ending on the date of sale.
Land. If you sell the land on which your main home is located, but not the house itself, you cannot exclude any gain you have from the sale of the land. However, if you sell vacant land used as part of your main home and that is adjacent to it, you may be able to exclude the gain from the sale under certain circumstances.

Example
You buy a piece of land and move your main home to it. Then you sell the land on which your main home was located. This sale is not considered a sale of your main home, and you cannot exclude any gain on the sale of the land.

More than one home. If you have more than one home, you can exclude gain only from the sale of your main home. You must include in income the gain from the sale of any other home. If you have two homes and live in both of them, your main home is ordinarily the one you live in most of the time during the year.

Example 1
You own two homes, one in New York and one in Florida. From 2015 through 2019, you live in the New York home for 7 months and in the Florida residence for 5 months of each year. In the absence of facts and circumstances indicating otherwise, the New York home is your main home. You would be eligible to exclude the gain from the sale of the New York home but not of the Florida home in 2019.
Example 2
You own a house, but you live in another house that you rent. The rented house is your main home.

Property used partly as your main home. If you use only part of the property as your main home, the rules discussed in this chapter apply only to the gain or loss on the sale of that part of the property. For details, see Business Use or Rental of Home, later.

IV. Figuring Gain Or Loss

To figure the gain or loss on the sale of your main home, you must know the selling price, the amount realized, and the adjusted basis. Subtract the adjusted basis from the amount realized to get your gain or loss.

SELLING PRICE

The selling price is the total amount you receive for your home. It includes money and the fair market value of any other property or any services you receive and all notes, mortgages, or other debts assumed by the buyer as part of the sale.
Payment by employer. You may have to sell your home because of a job transfer. If your employer pays you for a loss on the sale or for your selling expenses, do not include the payment as part of the selling price. Your employer will include it in box 1 of your Form W-2 and you will include it in your gross income as wages on Form 1040, line 1.
Option to buy. If you grant an option to buy your home and the option is exercised, add the amount you receive for the option to the selling price of your home. If the option is not exercised, you must report the amount as ordinary income in the year the option expires. Report this amount on Schedule 1 (Form 1040), line 21.
Form 1099-S. If you received Form 1099-S, Proceeds From Real Estate Transactions, box 2 (Gross proceeds) should show the total amount you received for your home.
However, box 2 will not include the fair market value of any property other than cash or notes, or any services, you received or will receive. Instead, box 4 will be checked to indicate your receipt (or expected receipt) of these items.

AMOUNT REALIZED

The amount realized is the selling price minus selling expenses.
Selling expenses. Selling expenses include:

- Commissions,
- Advertising fees,
- Legal fees, and
- Loan charges paid by the seller, such as loan placement fees or “points.”

ADJUSTED BASIS

While you owned your home, you may have made adjustments (increases or decreases) to the basis. This adjusted basis must be determined before you can figure gain or loss on the sale of your home. For information on how to figure your home's adjusted basis, see Determining Basis later.

AMOUNT OF GAIN OR LOSS

To figure the amount of gain or loss, compare the amount realized to the adjusted basis.

Gain on sale. If the amount realized is more than the adjusted basis, the difference is a gain and, except for any part you can exclude, in most cases is taxable.

Loss on sale. If the amount realized is less than the adjusted basis, the difference is a loss. A loss on the sale of your main home cannot be deducted.

Jointly owned home. If you and your spouse sell your jointly owned home and file a joint return, you figure your gain or loss as one taxpayer.

Separate returns. If you file separate returns, each of you must figure your own gain or loss according to your ownership interest in the home. Your ownership interest is determined by state law.

Joint owners not married. If you and a joint owner other than your spouse sell your jointly owned home, each of you must figure your own gain or loss according to your ownership interest in the home. Each of you applies the rules discussed in this chapter on an individual basis.

DISPOSITIONS OTHER THAN SALES

Trading (exchanging) homes. If you trade your old home for another home, treat the trade as a sale and a purchase.

Example

You owned and lived in a home that had an adjusted basis of $41,000. A real estate dealer accepted your old home as a trade-in and allowed you $50,000 toward a new home priced at $80,000. This is treated as a sale of your old home for $50,000 with a gain of $9,000 ($50,000 - $41,000).

If the dealer had allowed you $27,000 and assumed your unpaid mortgage of $23,000 on your old home, your sales price would still be $50,000 (the $27,000 trade-in allowed plus the $23,000 mortgage assumed).

Foreclosure or repossession. If your home was foreclosed on or repossessed, you have a disposition.

Transfer to spouse. If you transfer your home to your spouse, or to your former spouse incident to your divorce, you generally have no gain or loss. This is true even if you receive cash or other consideration for the home. Therefore, the rules in this chapter do not apply.

DETERMINING BASIS

You need to know your basis in your home to determine any gain or loss when you sell it. Your basis in your home is determined by how you got the home. Generally, your basis is its cost if you bought it or built it. If you got it in some other way (inheritance, gift, etc.), your basis is generally either its fair market value when you received it or the adjusted basis of the previous owner.

While you owned your home, you may have made adjustments (increases or decreases) to your home's basis. The result of these adjustments is your home's adjusted basis, which is used to figure gain or loss on the sale of your home. See Adjusted Basis, later.

Cost as Basis

The cost of property is the amount you pay for it in cash, debt obligations, other property, or services.

Purchase. If you bought your home, your basis is its cost to you. This includes the purchase price and certain settlement or closing costs. In most cases, your purchase price includes your down payment and any debt, such as a first or second mortgage or notes you gave the seller in payment for the home. If you build, or contract to build, a new home, your purchase price can include costs of construction.

Settlement fees or closing costs. When you bought your home, you may have paid settlement fees or closing costs in addition to the contract price of the property. You can include in your basis the settlement fees and closing costs you paid for buying the home, but not the fees and costs for getting a mortgage loan. A fee paid for buying the home is any fee you would have had to pay even if you paid cash for the home (that is without the need for financing).

Adjusted Basis

Adjusted basis is your cost or other basis increased or decreased by certain amounts.

Increases to basis. These include any:

- Additions and other improvements that have a useful life of more than 1 year.
- Special assessments for local improvements.
- Amounts you spent after a casualty to restore damaged property.

Improvements. These add to the value of your home, prolong its useful life, or adapt it to new uses. You add the cost of additions and other improvements to the basis of your property.

Example

Putting a recreation room or another bathroom in your unfinished basement, putting up a new fence, putting in new plumbing or wiring, putting on a new roof, or paving your unpaved driveway are improvements. An addition to your house, such as a new deck, a sunroom, or a garage, is also an improvement.

Repairs. These maintain your home in good condition but do not add to its value or prolong its life. You do not add their cost to the basis of your property.

Example

Repainting your house inside or outside, fixing your gutters or floors, repairing leaks or plastering, and replacing broken window panes are examples of repairs.

Decreases to basis. These include any:

- Discharge of qualified principal residence indebtedness which was discharged before January 1, 2018, or was subject to an arrangement that was entered into and evidenced in writing before January 1, 2018.
- Some or all of the cancellation of debt income that was excluded due to your bankruptcy or insolvency.
- Gain you postponed from the sale of a previous home before May 7, 1997.
- Deductible casualty losses.
- Insurance payments you received or expect to receive for casualty losses.
- Payments you received for granting an easement or right-of-way.
- Depreciation allowed or allowable if you used your home for business or rental purposes.
- Adoption credit you claimed for improvements added to the basis of your home.
- Nontaxable payments from an adoption assistance program of your employer that you used for improvements you added to the basis of your home.
- Energy conservation subsidy excluded from your gross income because you received it (directly or indirectly) from a public utility after 1992 to buy or install any energy conservation measure. An energy conservation measure is an installation or modification that is primarily designed either to reduce consumption of electricity or natural gas or to improve the management of energy demand for a home.
- General sales taxes (beginning in 2004) claimed as an itemized deduction on Schedule A (Form 1040) that were imposed on the purchase of personal property, such as a houseboat used as your home or a mobile home.

V. Excluding The Gain

You may qualify to exclude from your income all or part of any gain from the sale of your main home. This means that, if you qualify, you will not have to pay tax on the gain up to the limit described under Maximum Exclusion, next. To qualify, you must meet the ownership and use tests described later.
You can choose not to take the exclusion. In that case, you must include in gross income your entire gain in the year of sale.

MAXIMUM EXCLUSION
You can exclude up to $250,000 of the gain (other than gain allocated to periods of nonqualified use) on the sale of your main home if all of the following are true.

1. You meet the ownership test.
2. You meet the use test.
3. During the 2-year period ending on the date of the sale, you did not exclude gain from the sale of another home.

You may be able to exclude up to $500,000 of the gain (other than gain allocated to periods of nonqualified use) on the sale of your main home if you are married and file a joint return and meet the requirements listed in the discussion of the special rules for joint returns, later, under Married Persons.

OWNERSHIP AND USE TESTS
To claim the exclusion, you must meet the ownership and use tests. This means that during the 5-year period ending on the date of the sale, you must have:

1. Owned the home for at least 2 years (the ownership test), and
2. Lived in the home as your main home for at least 2 years (the use test).

Exception
If you owned and lived in the property as your main home for less than 2 years, you can still claim an exclusion in some cases. However, the maximum amount you may be able to exclude will be reduced. See Reduced Maximum Exclusion, later.

Period of Ownership and Use
The required 2 years of ownership and use during the 5-year period ending on the date of the sale do not have to be continuous, nor do they both have to occur at the same time.
You meet the tests if you can show that you owned and lived in the property as your main home for either 24 full months or 730 days (365 × 2) during the 5-year period ending on the date of sale.
Temporary absence. Short temporary absences for vacations or other seasonal absences, even if you rent the property during the absences, are counted as periods of use.

Example
Professor Paul Beard, who is single, bought and moved into a house on August 19, 2016. He lived in it as his main home continuously until January 5, 2018, when he went abroad for a 1-year sabbatical leave. On February 5, 2019, 1 month after returning from leave, he sold the house at a gain. Because his leave was not a short temporary absence, he cannot include the period of leave to meet the 2-year use test. He cannot exclude any part of his gain, because he did not use the residence for the required 2 years.

Ownership and use tests met at different times. You can meet the ownership and use tests during different 2-year periods. However, you must meet both tests during the 5-year period ending on the date of the sale.

Example
Beginning in 2008, Helen Jones lived in a rented apartment. The apartment building was later converted to condominiums, and she bought her same apartment on December 2, 2016. In 2017, Helen became ill and on April 14 of that year she moved to her daughter's home. On July 7, 2019, while still living in her daughter's home, she sold her condominium.
Helen can exclude gain on the sale of her condominium because she met the ownership and use tests during the 5-year period from July 8, 2014 to July 7, 2019 (more than 2 years). She owned her condominium from December 2, 2016, to July 7, 2019 (over 2 years). She lived in the property from July 8, 2014 (the beginning of the 5-year period), to April 14, 2017 (over 2 years).
The time Helen lived in her daughter's home during the 5-year period can be counted toward her period of ownership, and the time she lived in her rented apartment during the 5-year period can be counted toward her period of use.

Cooperative apartment. If you sold stock in a cooperative housing corporation, the ownership and use tests are met if, during the 5-year period ending on the date of sale, you:

1. Owned the stock for at least 2 years, and
2. Lived in the house or apartment that the stock entitles you to occupy as your main home for at least 2 years.

Exception for individuals with a disability. There is an exception to the use test if:

1. You become physically or mentally unable to care for yourself, and
2. You owned and lived in your home as your main home for a total of at least 1 year during the 5-year period before the sale of your home.

Under this exception, you are considered to live in your home during any time within the 5-year period that you own the home and live in a facility (including a nursing home) licensed by a state or political subdivision to care for persons in your condition.
If you meet this exception to the use test, you still have to meet the 2-out-of-5-year ownership test to claim the exclusion.
Previous home destroyed or condemned. For the ownership and use tests, you add the time you owned and lived in a previous home that was destroyed or condemned to the time you owned and lived in the home on which you wish to exclude gain. This rule applies if any part of the basis of the home you sold depended on the basis of the destroyed or condemned home. Otherwise, you must have owned and lived in the same home for 2 of the 5 years before the sale to qualify for the exclusion.

Married Persons
If you and your spouse file a joint return for the year of sale and one spouse meets the ownership and use test, you can exclude up to $250,000 of the gain. (But see Special rules for joint returns, next.)
Special rules for joint returns. You can exclude up to $500,000 of the gain on the sale of your main home if all of the following are true.

- You are married and file a joint return for the year.
- Either you or your spouse meets the ownership test.
- Both you and your spouse meet the use test.
- During the 2-year period ending on the date of the sale, neither you nor your spouse excluded gain from the sale of another home.

If either spouse does not satisfy all these requirements, the maximum exclusion that can be claimed by the couple is the total of the maximum exclusions that each spouse would qualify for if not married and the amounts were figured separately. For this purpose, each spouse is treated as owning the property during the period that either spouse owned the property.

Example 1
One spouse sells a home. Emily sells her home in June 2019 for a gain of $300,000. She marries Jamie later in the year. She meets the ownership and use tests, but Jamie does not. She can exclude up to

$250,000 of gain on a separate or joint return for 2019. The $500,000 maximum exclusion for certain joint filers does not apply because Jamie does not meet the use test.

Example 2

Each spouse sells a home. The facts are the same as in Example 1 except that Jamie also sells a home in 2019 for a gain of $200,000 before he marries Emily. He meets the ownership and use tests on his home, but Emily does not. Emily can exclude up to $250,000 of gain and Jamie can exclude $200,000 of the gain on the respective sales of their individual homes. However, Emily cannot use Jamie's unused exclusion to exclude more than $250,000 of gain. Therefore, Emily and Jamie must recognize $50,000 of gain on the sale of Emily's home. The $500,000 maximum exclusion for certain joint returns does not apply because Emily and Jamie do not jointly meet the use test for the same home.

Home transferred from spouse. If your home was transferred to you by your spouse (or former spouse if the transfer was incident to divorce), you are considered to have owned it during any period of time when your spouse owned it.

Use of home after divorce. You are considered to have used property as your main home during any period when:

1. You owned it, and
2. Your spouse or former spouse is allowed to live in it under a divorce or separation instrument and uses it as his or her main home.

REDUCED MAXIMUM EXCLUSION

If you fail to meet the requirements to qualify for the $250,000 or $500,000 exclusion, you may still qualify for a reduced exclusion. This applies to those who:

- Fail to meet the ownership and use tests, or
- Have used the exclusion within 2 years of selling their current home.

In both cases, to qualify for a reduced exclusion, the sale of your main home must be due to one of the following reasons.

- A change in place of employment.
- Health.
- Unforeseen circumstances.

Unforeseen circumstances. The sale of your main home is because of an unforeseen circumstance if your primary reason for the sale is the occurrence of an event that you could not reasonably have anticipated before buying and occupying your main home.

VI. Business Use Or Rental Of Home

You may be able to exclude your gain from the sale of a home that you have used for business or to produce rental income. But you must meet the ownership and use tests.

Example 1

On May 24, 2013, Amy, who is unmarried for all years in this example, bought a house. She moved in on that date and lived in it until May 31, 2015, when she moved out of the house and put it up for rent. The house was rented from June 1, 2015, to March 31, 2017. Amy claimed depreciation deductions in 2015 through 2017 totaling $10,000. Amy moved back into the house on April 1, 2017, and lived there until she sold it on January 28, 2019 for a gain of $200,000. During the 5-year period ending on the date of the sale (January 29, 2014 - January 28, 2019), Amy owned and lived in the house for more than 2 years as shown in the table below.

Five Year Period	Used as Home	Used as Rental

1/29/14 – 5/31/15	16 months	
6/1/15 – 3/31/17		22 months
4/1/17 – 1/28/19	21 months	
	37 months	22 months

Next, Amy must figure how much of her gain is allocated to qualified use.

During the period Amy owned the house (2,076 days), her period of nonqualified use was 670 days. Amy divides 670 by 2,076 and obtains a decimal (rounded to at least three decimal places) of 0.323. To figure her gain attributable to the period of nonqualified use, she multiplies $190,000 (the gain not attributable to the $10,000 depreciation deduction) by 0.323. Because the gain attributable to periods of nonqualified use is $61,370, Amy can exclude $128,630 of her gain.

Example 2
William owned and used a house as his main home from 2013 through 2016. On January 1, 2017, he moved to another state. He rented his house from that date until April 29, 2019, when he sold it. During the 5-year period ending on the date of sale (April 30, 2014 - April 29, 2019), William owned and lived in the house for more than 2 years. He must report the sale on Form 4797 because it was rental property at the time of sale. Because the period of nonqualified use does not include any part of the 5-year period after the last day William lived in the house, he has no period of nonqualified use. Because he met the ownership and use tests, he can exclude gain up to $250,000. However, he cannot exclude the part of the gain equal to the depreciation he claimed or could have claimed for renting the house, as explained next.

Depreciation after May 6, 1997. If you were entitled to take depreciation deductions because you used your home for business purposes or as rental property, you cannot exclude the part of your gain equal to any depreciation allowed as a deduction for periods after May 6, 1997. If you can show by adequate records or other evidence that the depreciation deduction allowed was less than the amount allowable, then you may limit the amount of gain recognized to the depreciation allowed.

VII. Reporting The Sale

Do not report the 2019 sale of your main home on your tax return unless:

- You have a gain and you do not qualify to exclude all of it,
- You have a gain and you choose not to exclude it, or
- You received Form 1099-S.

If any of these conditions apply, report the entire gain. For details on how to report the gain, see the Instructions for Schedule D (Form 1040) and the Instructions for Form 8949.
If you used the home for business or to produce rental income, you may have to use Form 4797 to report the sale of the business or rental part (or the sale of the entire property if used entirely for business or rental).
Installment sale. Some sales are made under arrangements that provide for part or all of the selling price to be paid in a later year. These sales are called “installment sales.” If you finance the buyer’s purchase of your home yourself, instead of having the buyer get a loan or mortgage from a bank, you probably have an installment sale. You may be able to report the part of the gain you cannot exclude on the installment basis.
Use Form 6252, Installment Sale Income, to report the sale. Enter your exclusion on line 15 of Form 6252.

CHAPTER 3: TEST YOUR KNOWLEDGE

The following questions are designed to ensure that you have a complete understanding of the information presented in the chapter (assignment). They are included as an additional tool to enhance your learning experience and do not need to be submitted in order to receive CPE credit.
We recommend that you answer each question and then compare your response to the suggested solutions on the following page(s) before answering the final exam questions related to this chapter (assignment).

1. To figure the gain or loss on the sale of your main home, you must know all of the following <u>except</u>:

A. selling price
B. age of the home
C. amount realized
D. adjusted basis

2. To qualify for the maximum exclusion on the sale of your main home, the required years to meet the ownership and use tests must be continuous.

A. true
B. false

CHAPTER 3: SOLUTION AND SUGGESTED RESPONSES

Below are the solutions and suggested responses for the questions on the previous page(s). If you choose an incorrect answer, you should review the pages as indicated for each question to ensure comprehension of the material.

1.

A. Incorrect. The selling price is the amount you received for your home.
B. **CORRECT**. The age of the home does not have any impact on the gain or loss calculation of the sale of a home.
C. Incorrect. The amount realized is the selling price less the selling expenses.
D. Incorrect. The adjusted basis is your original basis (determined when you got the home) increased or decreased by certain amounts.

2.

A. Incorrect. You meet the tests if you can show that you owned and lived in the property as your main home for either 24 full months or 730 days during the 5-year period ending on the date of sale.
B. **CORRECT**. Not only do the 2 of 5 years not have to be continuous, they do not have to occur at the same time.

Chapter 4: Reporting Gains And Losses

Chapter Objective
After completing this chapter, you should be able to:

- Recall the capital gain rates for the current year.

I. Important Information

Special rules for capital gains invested in Qualified Opportunity Funds. Effective December 22, 2017, IRC 1400Z-2 provides a temporary deferral of inclusion in gross income for certain capital gains invested in Qualified Opportunity Funds (QOF), and a potential permanent exclusion of gains from the sale or exchange of an investment in a QOF if the investment is held for at least 10 years. For more information, see the Instructions for Form 8949.

II. Introduction

This chapter discusses how to report capital gains and losses from sales, exchanges, and other dispositions of investment property on Schedule D of Form 1040. The discussion includes:

- How to report short-term gains and losses,
- How to report long-term gains and losses,
- How to figure capital loss carryovers, and
- How to figure your tax on a net capital gain.

III. Reporting Capital Gains And Losses

Generally, report capital gains and losses on Form 8949. Complete Form 8949 before you complete line 1b, 2, 3, 8b, 9, or 10 of Schedule D (Form 1040).
Use Form 8949 to report:

- The sale or exchange of a capital asset not reported on another form or schedule,
- Gains from involuntary conversions (other than from casualty or theft) of capital assets not held for business or profit,
- Nonbusiness bad debts, and
- Securities that become worthless.

Use Schedule D (Form 1040) to report:

- Overall gain or loss from transactions reported on Form 8949;
- Certain transactions you do not have to report on Form 8949;
- Gain from Form 2439 or 6252 or Part I of Form 4797;
- Gain or loss from Form 4684, 6781, or 8824;
- Gain or loss from a partnership, S corporation, estate, or trust;
- Capital gain distributions not reported directly on your Form 1040; and
- Capital loss carryover from the previous year to the current year.

On Form 8949, enter all sales and exchanges of capital assets, including stocks, bonds, etc., and real estate (if not reported on Form 4684, 4797, 6252, 6781, 8824 or line 1a or 8a of Schedule D). Include these transactions even if you did not receive a Form 1099-B or 1099-S for the transaction. Report short-term gains or losses in Part II. Use as many Forms 8949 as you need.
Passive activity gains and losses. If you have gains or losses from a passive activity, you may also have to report them on Form 8582. In some cases, the loss may be limited under the passive activity rules. Refer to Form 8582 and its instructions for more information about reporting capital gains and losses from a passive activity.

Sale expenses. On Form 8949, include in column (g) any expense of sale, such as broker's fees, commissions, state and local transfer taxes, and option premiums, unless you reported the net sales price in column (d). If you include an expense of sale in column (g), enter "E" in column (f).

Short-term gains and losses. Capital gain or loss on the sale or trade of investment property held 1 year or less is a short-term capital gain or loss. You report it in Part I of Form 8949.

You combine your share of short-term capital gains or losses from partnerships, S corporations, estates, and trusts, and any short-term capital loss carryover, with your other short-term capital gains and losses to figure your net short-term capital gain or loss on Schedule D (Form 1040), line 7.

Long-term gains and losses. A capital gain or loss on the sale or trade of property held more than 1 year is a long-term capital gain or loss. You report it in Part II of Form 8949.

You also report the following in Part II of Schedule D (Form 1040):

1. Undistributed long-term capital gains from a mutual fund (or other regulated investment company) or real estate investment trust (REIT),
2. Your share of long-term capital gains or losses from partnerships, S corporations, estates, and trusts,
3. All capital gain distributions from mutual funds and REITs not reported directly on Schedule 1 (Form 1040), line 13, and
4. Long-term capital loss carryovers.

The result after combining these items with your other long-term capital gains and losses is your net long-term capital gain or loss on Schedule D (Form 1040), line 15.

CAPITAL LOSSES

If your capital losses are more than your capital gains, you can claim a capital loss deduction. Report the deduction on Schedule 1 (Form 1040), line 13, enclosed in parentheses.

Limit on deduction. Your allowable capital loss deduction, figured on Schedule D (Form 1040), is the lesser of:

1. $3,000 ($1,500 if you are married and file a separate return), or
2. Your total net loss as shown on Schedule D (Form 1040).

You can use your total net loss to reduce your income dollar for dollar, up to the $3,000 limit.

Capital loss carryover. If you have a total net loss on Schedule D (Form 1040), line 16 that is more than the yearly limit on capital loss deductions, you can carry over the unused part to the next year and treat it as if you had incurred it in that next year. If part of the loss is still unused, you can carry it over to later years until it is completely used up.

When you figure the amount of any capital loss carryover to the next year, you must take the current year's allowable deduction into account, whether or not you claimed it, and whether or not you filed a return for the current year.

When you carry over a loss, it remains long term or short term. A long-term capital loss you carry over to the next tax year will reduce that year's long-term capital gains before it reduces that year's short-term capital gains.

Figuring your carryover. The amount of your capital loss carryover is the amount of your total net loss that is more than the lesser of:

1. Your allowable capital loss deduction for the year, or
2. Your taxable income increased by your allowable capital loss deduction for the year and your deduction for personal exemptions.

If your deductions are more than your gross income for the tax year, use your negative taxable income in computing the amount in item (2).

Complete the Capital Loss Carryover Worksheet in the Schedule D (Form 1040) instructions to determine the part of your capital losses that you can carry over.

Example

Bob and Gloria sold securities in 2019. The sales resulted in a capital loss of $7,000. They had no other capital transactions. Their taxable income was $26,000. On their joint 2019 return, they can deduct $3,000. The unused part of the loss, $4,000 ($7,000 - $3,000), can be carried over to 2020.
If their capital loss had been $2,000, their capital loss deduction would have been $2,000. They would have no carryover.

Use short-term losses first. When you figure your capital loss carryover, use your short-term capital losses first, even if you incurred them after a long-term capital loss. If you have not reached the limit on the capital loss deduction after using short-term losses, use the long-term losses until you reach the limit.
Decedent's capital loss. A capital loss sustained by a decedent during his or her last tax year (or carried over to that year from an earlier year) can be deducted only on the final income tax return filed for the decedent. The capital loss limits discussed earlier still apply in this situation. The decedent's estate cannot deduct any of the loss or carry it over to following years.
Joint and separate returns. If you and your spouse once filed separate returns and are now filing a joint return, combine your separate capital loss carryovers. However, if you and your spouse once filed a joint return and are now filing separate returns, any capital loss carryover from the joint return can be deducted only on the return of the person who actually had the loss.

CAPITAL GAIN TAX RATES

The tax rates that apply to a net capital gain are generally lower than the tax rates that apply to other income. These lower rates are called the maximum capital gain rates.
The term "net capital gain" means the amount by which your net long-term capital gain for the year is more than your net short-term capital loss.
For 2019, the maximum capital gain rates are 0%, 15%, 20%, 25%, or 28%.
Investment interest deducted. If you claim a deduction for investment interest, you may have to reduce the amount of your net capital gain that is eligible for the capital gain tax rates. Reduce it by the amount of the net capital gain you choose to include in investment income when figuring the limit on your investment interest deduction. This is done on the Schedule D Tax Worksheet or the Qualified Dividends and Capital Gain Tax Worksheet.
Tax computation using maximum capital gains rates. Use the Qualified Dividends and Capital Gain Tax Worksheet or the Schedule D Tax Worksheet (whichever applies) to figure your tax if you have qualified dividends or net capital gain. You have net capital gain if Schedule D (Form 1040), lines 15 and 16, are both gains.

CHAPTER 4: TEST YOUR KNOWLEDGE

The following question is designed to ensure that you have a complete understanding of the information presented in the chapter (assignment). It is included as an additional tool to enhance your learning experience and does not need to be submitted in order to receive CPE credit.
We recommend that you answer the question and then compare your response to the suggested solution on the following page before answering the final exam question(s) related to this chapter (assignment).

1. What is the maximum amount of a capital loss, in excess of that year's capital gain, that a married couple (filing jointly) can deduct:

A. $1,500
B. $3,000
C. $6,000
D. unlimited

CHAPTER 4: SOLUTION AND SUGGESTED RESPONSES

Below is the solution and suggested responses for the question on the previous page. If you choose an incorrect answer, you should review the page(s) as indicated for the question to ensure comprehension of the material.

1.

A. Incorrect. The maximum capital loss deduction is greater than $1,500.
B. **CORRECT**. The maximum capital loss deduction is $3,000 ($1,500 if married and file separate returns).
C. Incorrect. Any amounts greater than $3,000 can be carried over to future tax years.
D. Incorrect. The capital loss deduction is not unlimited in any one year.

FINAL EXAM

Capital Gains and Losses

The following exam is attached only for your convenience. To access the official exam for this self-study course, please log into your account online and take the Final Exam from the course details page. A passing score of 70 percent or better will receive course credit and a Certificate of Completion.

1. To figure the basis of property a taxpayer receives as a gift, the taxpayer must know each of the following <u>except</u>:

A. the property's adjusted basis to the donor just before it was gifted
B. the property's fair market value at the time it was given
C. any gift tax paid on the property
D. how long the donor owned the property before gifting it

2. When property is converted from personal use to business use, what is the basis for depreciation:

A. the fair market value of the property on the date of the change
B. your adjusted basis on the date of the change
C. the lesser of A or B above
D. the greater of A or B above

3. In order for a trade to be nontaxable, it must meet six conditions. Which of the following is <u>not</u> one of these conditions:

A. the property must be business or investment property
B. the property must be held primarily for sale
C. the property must be identified within 45 days after the date the property was given up in the trade
D. there must be a trade of like property

4. No gain or loss is recognized on the transfer of property from an individual to a spouse or former spouse (if incident to divorce), unless which of the following is true:

A. the spouse is a nonresident alien
B. the spouse is over age 70½
C. the spouse earns over $100,000 in the taxable year
D. the spouse has been married to the transferor less than 3 years

5. To be deductible, which of the following <u>must</u> be true of a nonbusiness bad debt:

A. it must be totally worthless
B. it must be greater than $500
C. it must have had a basis of $0
D. it must have not been in your income

6. A wash sale occurs when a taxpayer sells or trades stock or securities at a loss and within how many days before or after that sale the taxpayer buys substantially identical stocks or securities:

A. 10 days
B. 15 days
C. 30 days
D. 45 days

7. When calculating the amount realized on the sale of a home, you can subtract all of the following from the selling price <u>except</u>:

A. the cost of the land
B. loan charges paid by the seller
C. advertising fees
D. commissions

8. Married persons filing a joint return can exclude up to how much if one of them meets the ownership test, they both meet the use test, and during the 2-year period ending on the date of sale, neither spouse excluded gain from the sale of another home:

A. $0
B. $250,000
C. $500,000
D. $1,000,000

9. How long must a capital asset be held for a capital gain or loss to be considered long term:

A. 30 days
B. 180 days
C. more than 1 year
D. more than 2 years

10. What is the lowest possible capital gain tax rate for 2019:

A. 0%
B. 10%
C. 15%
D. 28%