Basis of Equipment Exchanged	*FMV of Boot Received*	*FMV of Equipment Received*
$20,000	$ –0–	$85,000
45,000	14,000	70,000
60,000	25,000	65,000
70,000	38,000	60,000
90,000	22,000	55,000

I:12-29 *Like-Kind Exchange: Personal Property.* Beach Corporation owns a computer with a $34,000 adjusted basis. The computer is used in the company's trade or business. What is the realized and recognized gain or loss for each of the following independent transactions where the computer is exchanged for?

a. A used computer with a $70,000 FMV plus $16,000 cash.
b. A used computer with a $18,000 FMV plus $7,000 cash.
c. Marketable securities with a $61,000 FMV.

I:12-30 *Like-Kind Exchange: Personal Property.* Boise Corporation exchanges a machine with a $14,000 basis for a new machine with an $18,000 FMV and $3,000 cash. The machines are used in Boise's business and are in the same General Asset Class.

a. Determine Boise Corporation's recognized gain and the basis for the new machine.
b. How would your answer to Part a change if the corporation's machine is also subject to a $6,000 liability, and the liability is assumed by the other party?

I:12-31 *Exchange of Personal Property.* Lithuania Corporation operates a ferry service and owns four barges. Lithuania exchanges one of the barges with an adjusted basis of $350,000 for a used smaller barge with a FMV of $444,000 and a $26,000 computer. Without considering the exchange, Lithuania Corporation's taxable income is $700,000. Determine Lithuania's

a. realized gain on the exchange.
b. recognized gain.
c. basis of the new barge.
d. basis of the computer.
e. Assume that the recognized gain is $26,000 and the gain is not capital gain. What is the increase in Lithuania's tax liability as a result of the exchange?

I:12-32 *Like-Kind Exchange: Liabilities.* Paul owns a building used in his business with an adjusted basis of $340,000 and a $750,000 FMV. He exchanges the building for a building owned by David. David's building has a $950,000 FMV but is subject to a $200,000 liability. Paul assumes David's liability and uses the building in his business. What is Paul's

a. realized gain?
b. recognized gain?
c. basis for the building received?

I:12-33 *Like-Kind Exchange: Liabilities.* Helmut exchanges his apartment complex for Heidi's farm, and the exchange qualifies as a like-kind exchange. Helmut's adjusted basis for the apartment complex is $600,000 and the complex is subject to a $180,000 liability. The FMV of Heidi's farm is $770,000 and the farm is subject to a $100,000 liability. Each asset is transferred subject to the liability. What is Helmut's recognized gain and the basis of the new farm?

I:12-34 *Like-Kind Exchange: Liabilities.* Carol owns land used in her business with a basis of $70,000 and a fair market value of $90,000. She is planning to exchange the land for a warehouse owned by Jeff and used in his business. Jeff's warehouse has a basis of $50,000 and a fair market value of $110,000. The warehouse is also subject to a liability of $20,000. Carol has agreed to assume the liability for Jeff. What is Jeff's recognized gain and his basis in the new land?

I:12-35 *Like-Kind Exchange: Transfer of Boot.* Wayne exchanges unimproved land with a $50,000 basis and marketable securities with a $10,000 basis for an eight-unit apartment building having a $150,000 FMV. The land and marketable securities are held by Wayne as investments, and the apartment building is held as an investment. The marketable securities have a $25,000 FMV. What is his realized gain, recognized gain, and the basis for the apartment building?

I:12-36 *Like-Kind Exchange: Related Parties.* Bob owns a duplex used as rental property. The duplex has a basis of $86,000 and $300,000 FMV. He transfers the duplex to Cindy, his sister, in exchange for a triplex that she owns. The triplex has a basis of $279,000 and a

I:12-43 *Sale of a Principal Residence.* Marc, age 45, sells his personal residence on May 15, 2013, for $180,000. He pays $8,000 in selling expenses and $900 in repair expenses to help sell the residence. He has lived in the residence since 1980, when he purchased it for $55,000. In 1996, he paid $6,000 to install central air conditioning. If Marc purchases a new principal residence in December of the current year for $162,000, what is the realized gain, recognized gain, and the basis for the new residence?

I:12-44 *Sale of a Principal Residence.* Mr. and Mrs. Rusbarsky purchased a residence on June 12, 2010, for $200,000. On March 12, 2013, they sell the residence for $300,000, and selling expenses amount to $11,000. They purchase another house in a new subdivision for $275,000. Determine the gain realized and recognized.

I:12-45 *Sale of a Principal Residence.* On January 10, 2013, Kirsten married Joe. Joe sold his personal residence on October 25, 2012, and excluded the entire gain of $175,000. Although they had originally planned to live in the house that Kirsten had received as a gift from her parents in 2004, they decided to purchase a larger house, and Kirsten sold her house 60 days after their wedding and realized a $370,000 gain.

a. If they file a joint return, how much of the $370,000 gain may be excluded?
b. If Kirsten files as married filing separately, how much of the $370,000 gain may be excluded?

I:12-46 *Involuntary Conversion of Principal Residence.* Mr. and Mrs. Snell own and live in a house, with an adjusted basis of $300,000, that was purchased in 1994. The house is destroyed by a tornado on March 10 of the current year, and the Snells receive insurance proceeds of $410,000. They purchase another residence for $480,000 four months later.

a. May they exclude the $110,000 gain, and if so, what is the basis of the residence purchased in July?
b. May they defer the $110,000 gain, and if so, what is the basis of the residence purchased in July?

I:12-47 *Sale of a Principal Residence.* Mr. and Mrs. Kitchens purchased their first home in Ohio for $135,000 on October 1, 2012. Because Mr. Kitchens' employer transferred him to Utah, they sold the house for $160,000 on January 10, 2013. How much of the gain is recognized?

I:12-48 *Sale or Other Disposition of a Principal Residence.* In 1970, Mr. and Mrs. Self purchased their first principal residence for $80,000. In 1995, they sold the house for $300,000 and purchased a new residence for $1.5 million. At that time, the Selfs were allowed to defer the $220,000 gain because they purchased a more expensive residence, but the basis of the residence was reduced by the gain deferred. The Taxpayer Relief Act of 1997 eliminated this deferral provision and made it easier for taxpayers who sell a principal residence to exclude the gain resulting from the sale even if they do not purchase a replacement residence.

In 2001, the Selfs spent $200,000 to add a porch to their house that overlooks the small pond behind their house. In 2004, they hired painters to paint the entire house at a cost of $18,000. They estimate that $20,000 has been spent on routine repairs since 1995, but insurance of $11,000 was collected for the repairs resulting from a small tornado in 2008. No casualty loss deduction was allowed. They hold the residence as joint tenants.

1. What is the current adjusted basis of the house?
2. Mrs. Self is an employee of Bulldog Consulting and has a nice office on the business premises; however, she finds it helpful to use one of the bedrooms as an office to do work in the evenings and on weekends. May the Selfs claim a deduction for depreciation?
3. Determine their recognized gain and character if they sell the house today for $2.8 million.
4. If the property is owned by Mrs. Self instead of owned jointly, determine their recognized gain and character if they sell the house today for $2.8 million.
5. If the property is owned by Mrs. Self instead of owned jointly and Mr. Self dies, will the basis of the house be increased?
6. Determine their recognized gain if they exchange the house today for an apartment complex valued at $2.8 million. The Selfs will purchase another house and hire someone to manage the apartment complex.
7. If the house is destroyed by a fire when its FMV is $2.8 million and the Selfs receive $2.6 million, determine their casualty loss deduction and gain recognized, if any. The Selfs do not plan to purchase another residence.
8. If the Selfs want to purchase another principal residence after collecting the insurance in question #7 above, what is the minimum amount they would have to pay for the new residence to avoid recognizing any gain?

Adjusted basis	$170,000
Land	65,000

The FMV of the warehouse and the land are $500,000 and $200,000, respectively. Ed owns 75% of the stock of the Crane Corporation. If he sells the two assets to Crane at a price equal to the FMV of the assets, determine the recognized gain and its character due to the sale of the:
a. Building
b. Land

COMPREHENSIVE PROBLEM

I:13-64 Betty, whose tax rate is 33%, is in the business of breeding and racing horses. Except for the transactions below, she has no other sales or exchanges and she has no unrecaptured net Sec. 1231 losses. Consider the following transactions that occur during the year:

- A building with an adjusted basis of $300,000 is destroyed by fire. Insurance proceeds of $500,000 are received, but Betty does not plan to replace the building. The building was built 12 years ago at a cost of $430,000 and used to provide lodging for her employees. Straight-line depreciation has been used.
- Four acres of the farm are condemned by the state to widen the highway and Betty receives $50,000. The land was inherited from her mother 15 years ago when its FMV was $15,000. Her mother purchased the land for $10,300. Betty does not plan to purchase additional land.
- A racehorse purchased four years ago for $200,000 was sold for $550,000. Total depreciation allowed using the straight-line method amounts to $160,000.
- Equipment purchased three years ago for $200,000 is exchanged for $100,000 of IBM common stock. The adjusted basis of the equipment is $120,000. If straight-line depreciation had been used, the adjusted basis would be $152,000.
- An uninsured pony, with an adjusted basis of $20,000 and FMV of $35,000, that her daughter uses only for personal use is injured while attempting a jump. Because of the injury, the uninsured pony has to be destroyed by a veterinarian.

a. What amount of Sec. 1245 ordinary income must be recognized?
b. What amount of Sec. 1250 ordinary income must be recognized?
c. Will the loss resulting from the destruction of her daughter's pony be used to determine net Sec. 1231 gains or losses?
d. What is the amount of the net Sec. 1231 gain or loss?
e. After all of the netting of gains or losses is completed, will the gain resulting from the involuntary conversion of the building be treated as LTCG?
f. What is the amount of her unrecaptured Sec. 1250 gain?

TAX STRATEGY PROBLEMS

I:13-65 Russ with taxable income less than $400,000 has never recognized any Sec. 1231 gains or losses. In December 2013, Russ is considering the sale of two Sec. 1231 assets. The sale of one asset will result in a $20,000 Sec. 1231 gain while the sale of the other asset will result in a $20,000 Sec. 1231 loss. Russ has no other capital or Sec. 1231 gains and losses in 2013 and does not expect to have any other capital or Sec. 1231 gains and losses in 2013. He is aware that it might be advantageous to recognize the Sec. 1231 gain and the Sec. 1231 loss in different tax years. However, he does not know whether he should recognize the Sec. 1231 gain in 2013 and the Sec. 1231 loss in 2014 or vice versa. His marginal tax rate for each year is expected to be 33%. Advise the taxpayer with respect to these two alternatives:
a. Recognize the $20,000 Sec. 1231 loss in 2013 and the $20,000 Sec. 1231 gain in 2014.
b. Recognize the $20,000 Sec. 1231 gain in 2013 and the $20,000 Sec. 1231 loss in 2014.

I:13-66 Holly has recognized a $9,000 STCL. She has no other recognized capital gains and losses in 2013. She is considering the sale of a Sec. 1231 asset held for four years at a $5,000 gain in 2013. She had not recognized any Sec. 1231 losses during the previous five years and does not expect to have any other Sec. 1231 transactions in 2013. Her marginal tax rate for 2013 is 31%. What is the amount of increase in her 2013 taxes if Holly recognizes the $5,000 Sec. 1231 gain in 2013?