

## Chapter 8 Summary of End-of-Chapter Problem Revisions

2014 Edition Problem Number	2013 Edition Problem Number	2014 Edition Modifications
1	1	
2	2	
3	3	
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7	7	Problem updated
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26	26	Problem updated
27	27	Problem updated
28	28	Problem updated
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35	35	Problem updated
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45	45	Problem updated
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61	61	Solution revised
62	62	Solution revised
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64	64	Form updated
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## Solutions to Chapter 8 Problem Assignments

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### Check Your Understanding

#### 1. *Gain/Loss Deferral*

**Solution:** Gain or loss on an asset that is disposed of is usually deferred by adjusting the basis of the asset acquired in the transaction, such as a like-kind exchange. If gain is deferred, basis is reduced for the deferred gain; if loss is deferred, basis is increased for the deferred loss.

The holding period of an asset whose basis is adjusted for deferred gain or loss normally includes the holding period of the asset that was disposed of that gave rise to the gain or loss.

#### 2. *Like-Kind Exchanges*

**Solution:** Business or investment realty, whether improved or unimproved, qualifies for like-kind exchange treatment, but personalty must be of the same kind or general business asset classification.

#### 3. *Boot*

**Solution:** Boot is cash or any other property received in a deferral transaction (e.g. a like-kind exchange) that is not qualifying property eligible for gain or loss deferral (e.g. nonlike-kind property). Any boot received in addition to qualifying deferral property causes realized gain to be recognized to the extent of the lesser of the fair market value of the boot received or the realized gain. If, however, there is realized loss, boot received does not affect loss recognition. Boot given along with deferral property does not affect gain or loss recognition on the deferral property.

#### 4. *Nonsimultaneous Exchange*

**Solution:** A nonsimultaneous exchange is one in which one part of the exchange takes place at one time, but the completion of the exchange takes place at a later date. This usually involves a third party who arranges a sale of property for the person desiring the exchange. The third party holds the sale proceeds and uses them to purchase a property that the exchanging party wants.

The key to success is the insulating of the sale proceeds from the seller and strict adherence to the 45 day time limit to identify the property or properties to be acquired and the completion of the transaction within 180 days. If the seller has access to any part of the money or property received on the sale of the first property or the time limits are exceeded, tax deferral is lost.

#### 5. *Casualty Loss*

**Solution:** The loss on complete or partial destruction of personal-use property is the lesser of the property's adjusted basis as of the date of destruction or the difference between its fair market value before and after the complete or partial destruction. In the case of complete destruction, the fair market value after destruction is generally zero, so fair market value before the loss can simply be compared to its adjusted basis.

If the reduction in fair market value is not available, then the costs to restore the

property may be substituted for the amount of loss if the repairs do not improve the property beyond its pre-loss condition.

6. *Casualty Loss*

**Solution:** The loss on the complete destruction of business or investment property is always the property's adjusted basis as of the date of the loss.

The loss on the partial destruction of business or investment property is the lesser of the property's adjusted basis as of the date of the destruction or the difference between its fair market value before and after the loss.

7. *Casualty Losses*

**Solution:** Casualty and theft losses of personal-use property are subject to two limits: (1) the deductible loss on each occurrence must exceed a base amount of \$100; (2) the total loss for all occurrences (after the \$100 reduction per loss) must exceed 10% of adjusted gross income to be deductible. The remaining loss after these limitations are applied is deductible as an itemized deduction.

8. *Casualty Losses*

**Solution:** Theft losses are deducted in the year discovered; casualty losses are deducted in the year the casualty occurs.

A taxpayer has the choice of deducting the casualty loss that occurs in a presidentially declared disaster area in the year the casualty occurs or on the tax return for the year immediately preceding the casualty year. (In 2009 only, taxpayers who did not itemize could add the deductible loss in presidentially declared disaster areas to their standard deduction.)

9. *Involuntary Conversions*

**Solution:** The functional-use test requires the taxpayer to replace property subject to an involuntary conversion with property that provides the same function as the property converted. This is a very restrictive provision that applies to property that is owned and used by the taxpayer.

The taxpayer-use test is less restrictive and allows the owner of converted property that is leased or rented to others to replace the converted property with property that can also be leased or rented.

10. *Involuntary Conversion*

**Solution:** An individual whose home is subject to an involuntary conversion may use Section 121, which allows nonrecognition of gain on the sale of a residence, and/or Section 1033 for deferral of the gain from involuntary conversion. The involuntary conversion is treated as a sale of the residence and the owner can use Section 121 first to avoid recognition of \$250,000 of gain (\$500,000 married filing jointly) if ownership and occupancy requirements are met; any qualifying gain remaining can be deferred under Section 1033.

11. *Corporate Formation*

**Solution:** To be tax free to all transferors, the transferors must own at least 80 percent or more of the stock of the corporation to which qualifying properties are transferred. Receipt of boot may cause taxation to a transferor but will not cause loss of tax

deferral to the other qualifying transferors. A transfer of services in exchange for stock, however, will not be tax free.

#### 12. *Corporate Formation*

**Solution:** Liabilities assumed by the corporation on a transfer of property to it in a qualifying Section 351 exchange do not affect the deferral of gain or loss under most conditions. If the liabilities assumed by the corporation exceed the basis of the property transferred, then gain will be recognized to the extent of any excess gain to avoid a negative stock basis. If the assumption of a liability by the corporation has the purpose of tax avoidance, then all liabilities assumed by the corporation for that taxpayer are converted to boot and gain would be recognized to the extent of the lesser of the gain realized or the boot received.

#### 13. *Partnership Formation*

**Solution:** In general, partners do not recognize gain or loss on the transfer of property to a partnership in exchange for a partnership interest. If the partner's net liabilities exceed the partner's basis in the property transferred, gain must be recognized to the extent of the excess net liability to avoid a negative basis in the partnership interest.

#### 14. *Partnership Formation*

**Solution:** A person who provides services to a partnership in exchange for a partnership interest must recognize income to the extent of the fair market value of the partnership interest received at the time the partner has unconditional control of the partnership interest.

#### 15. *Corporate Reorganization*

**Solution:** A corporate reorganization is the transfer of all or part of one corporation's assets or stock to a second corporation over which it has control in a transaction that qualifies as reorganization under Section 368. Reorganizations may be acquisitive, divisive, recapitalizations, or changes in name or form. There are seven types of reorganizations designated types A through G, each with its own requirements to qualify for tax deferral.

### Crunch the Numbers

#### 16. *Like-Kind Exchange*

**Solution:** \$400,000 received - \$230,000 basis = \$170,000 gain realized but deferred.  
 $\$400,000 - \$170,000 \text{ deferred gain} = \$230,000 \text{ basis in land received.}$

#### 17. *Like-Kind Exchange*

**Solution:** a.  $\$320,000 \text{ received} - \$350,000 \text{ basis} = \$30,000 \text{ loss realized but deferred.}$   
 $\$320,000 + \$30,000 \text{ deferred loss} = \$350,000 \text{ basis of apartment building.}$   
 b. Because Shawn must defer the loss, he would have been better off if he had sold the factory building and then purchased the apartment building with the proceeds. In that way, he could recognize the \$30,000 loss and reduce his taxes.

18. *Like-Kind Exchange*

- Solution:** a. No. This transaction qualifies as a like-kind exchange and Wilma recognizes neither gain nor loss.
- b. Wilma has a realized but deferred gain of \$500 (\$500 trade-in value – zero basis in computer).
- c. Wilma's basis in the new computer is \$2,500 (\$2,500 cash + \$500 trade-in - \$500 deferred gain).

19. *Like-Kind Exchange*

- Solution:** a.  $\$108,000 - \$16,000 \text{ cash} - \$69,000 \text{ basis} = \$23,000$  realized gain. None of the \$23,000 gain is recognized.
- b. \$23,000 gain is deferred. Taylor gave boot; only the receipt of boot triggers gain.
- c. The basis of the large machine is \$85,000 ( $\$108,000 - \$23,000$  deferred gain). (Alternative basis calculation:  $\$69,000$  basis of machines surrendered +  $\$16,000$  boot given + 0 gain recognized – 0 boot received = \$85,000.)

20. *Like-Kind Exchange*

- Solution:** a. Whipple:  $(\$2,500 + \$400 \text{ boot}) \text{ amount received} - \$1,250 \text{ basis} = \$1,650$  realized gain; \$400 gain recognized. (The tickets are boot.) Go-Along has a \$500 loss [ $\$2,900 \text{ amount received} - (\$3,000 \text{ basis of file cabinets} + \$400 \text{ tickets})$ ] realized but none is recognized.
- b. Whipple defers \$1,250 gain ( $\$1,650 - \$400$ ); Go-along defers \$500 loss.
- c. Whipple's file cabinets:  $\$2,500 - \$1,250 \text{ gain deferred} = \$1,250$  basis; tickets = \$400 basis. (Alternative basis calculation:  $\$1,250$  basis of office furniture + \$400 gain recognized - \$400 boot received = \$1,250.) Go-Along's office furniture:  $\$2,900 + \$500 \text{ deferred loss} = \$3,400$  basis. (Alternative basis calculation:  $\$3,000$  basis of file cabinets + \$400 basis of tickets + 0 gain recognized – 0 boot received = \$3,400.)
- d. The only way Whipple could avoid recognizing the \$400 gain would be to get additional like-kind property for the office furniture instead of the tickets. Go-Along, however, has a realized and unrecognized loss; it would have been better off to sell its file cabinets rather than exchange them. Go-Along purchasing the office furniture from Whipple would cause recognition of the entire gain; thus, it appears that this exchange is a compromise where both parties "gave" a little.

21. *Like-Kind Exchange*

- Solution:** a.  $(\$3,750,000 + \$250,000) \text{ amount received} - \$2,250,000 = \$1,750,000$  realized gain; \$250,000 gain recognized for the boot (cash) received.
- b. Delta defers \$1,500,000 of the gain ( $\$1,750,000 - \$250,000$ ).
- c.  $\$3,750,000 - \$1,500,000 \text{ deferred gain} = \$2,250,000$  basis. (Alternative basis calculation:  $\$2,250,000$  basis of plane surrendered + \$250,000 gain recognized - \$250,000 boot received = \$2,250,000.)
- d.  $(\$3,750,000 + \$250,000) - \$3,900,000 = \$100,000$  realized gain; \$100,000 gain

recognized (the lesser of the gain realized or the boot received); there would be no deferred gain and the basis of the plane would be \$3,750,000 (fair market value – 0 deferred gain). (Alternative basis calculation: \$3,900,000 basis of plane surrendered + \$100,000 gain recognized - \$250,000 boot received.)

e.  $(\$3,750,000 + \$250,000) - \$4,150,000 = \$150,000$  realized loss; no loss recognized; there would be \$150,000 of deferred loss; the basis of the plane would be \$3,900,000 (\$3,750,000 FMV + \$150,000 deferred loss). (Alternative basis calculation: \$4,150,000 basis the plane surrendered + 0 gain recognized - \$250,000 boot received.)

## 22. Like-Kind Exchange

**Solution:** a. Realized and recognized gain/loss calculations

<u>Lab Kennels</u>		<u>Wolman Developers</u>
\$900,000	FMV of property received	\$750,000
-350,000	Mtge assumed by Lab Kennel	+350,000
<u>+200,000</u>	<u>Mtge assumed by Wolman</u>	<u>-200,000</u>
\$750,000	Amount received	\$900,000
<u>-300,000</u>	Basis of property surrendered	<u>-400,000</u>
\$450,000	Gain realized	\$500,000
-0-	Gain recognized	\$150,000 Excess mortgage assumed by Lab Kennels

b. Deferred gain: Lab Kennels = \$450,000 (no gain recognized; all deferred).

Wolman = \$500,000 gain realized - \$150,000 gain recognized = \$350,000 deferred.

c. Basis in land: Lab Kennels = \$900,000 FMV of land acquired - \$450,000 deferred gain = \$450,000. Wolman = \$750,000 FMV of land acquired - \$350,000 deferred gain = \$400,000.

Alternate calculation:

<u>Lab Kennels</u>		<u>Wolman Developers</u>
\$300,000	Basis of property surrendered	\$400,000
+350,000	+ Boot given	+200,000
+0	+ Gain recognized	+150,000
<u>-200,000</u>	<u>- Boot received</u>	<u>-350,000</u>
\$450,000	= Basis	\$400,000

## 23. Like-Kind Exchange

**Solution:** a. Realized and recognized gain/loss calculation:

<u>DDD Corporation</u>		<u>Jason Briggs</u>
\$450,000	FMV of property received	\$600,000
- 50,000	Cash received by Briggs	+ 50,000
<u>+200,000</u>	<u>Mtge assumed by Briggs</u>	<u>-200,000</u>
\$600,000	Amount received	\$450,000
<u>-200,000</u>	Basis of property surrendered	<u>-125,000</u>
\$400,000	Gain realized	\$325,000

\$150,000 Excess of mortgage assumed by Briggs over cash given*	Gain recognized	\$50,000 Cash (boot) received
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\*Cash given may offset an excess mortgage assumed; cash received cannot offset a mortgage assumed and must be recognized as boot.

b. Deferred gain: DDD Corporation = \$400,000 gain realized - \$150,000 gain recognized = \$250,000 deferred gain. Jason Briggs = \$325,000 realized gain - \$50,000 gain recognized = \$275,000 deferred gain.

c. DDD basis in land = \$450,000 FMV of building received - \$250,000 deferred gain = \$200,000 basis. Jason Briggs = \$600,000 FMV of land received - \$275,000 deferred gain = \$325,000. Jason Briggs also has a \$50,000 basis in the cash received.

Alternate calculation:

<u>DDD Corporation</u>		<u>Jason Briggs</u>
\$200,000	Basis of property surrendered	\$125,000
+50,000	+ Boot given	+200,000
+150,000	+ Gain recognized	+50,000
<u>-200,000</u>	<u>- Boot received</u>	<u>-50,000</u>
\$200,000	= Basis	\$325,000

#### 24. *Direct or Indirect Exchange*

**Solution:** Clover should try to arrange a like-kind exchange. It can do this directly by finding a person willing to take the land in exchange for an office building Clover finds suitable. Alternatively, it can use a third party to sell the land and hold the proceeds purchasing a suitable office building within the time limits required for a nonsimultaneous exchange. In this way Clover can avoid recognizing its \$400,000 (\$1,200,000 - \$800,000) realized gain.

#### 25. *Involuntary Conversion*

**Solution:** a. Heywood's loss is \$300,000, the lesser of the reduction in fair market value of the building (\$500,000 - \$200,000 = \$300,000) and the building's basis (\$320,000).

b. \$20,000 (\$320,000 - \$300,000 loss).

c. \$50,000 loss (\$300,000 loss - \$250,000 insurance); basis after insurance recovery remains \$20,000 (\$320,000 - \$250,000 insurance recovery - \$50,000 loss).

d. \$170,000 (\$20,000 basis before repairs + \$150,000 repairs).

#### 26. *Involuntary Conversion*

**Solution:** a. \$135,000 loss (\$160,000 - \$25,000 land)

b. \$135,000 - \$100 - (\$40,000 x 10%) = \$130,900.

c. \$190,000 - \$135,000 = \$55,000 realized gain.

d. Zero, if she uses Section 121. This is the same as a sale and she does not have to recognize any remaining gain, assuming that she meets the ownership and occupancy requirements. If she elects not (or does not qualify) to use Section 121,



she will have to recognize all \$55,000 of her gain (the lesser of the \$55,000 realized gain and the \$60,000 of the \$190,000 proceeds that were not reinvested).

### 27. *Casualty Loss*

**Solution:** \$400 deductible loss.

Television: \$1,500 loss ( $\$4,600 - \$1,100 = \$3,500$  loss - \$2,000 insurance recovery).

Furniture: \$200 gain ( $\$3,200$  insurance - \$3,000 cost).

Net \$1,500 loss against \$200 gain = \$1,300 loss before floor

$\$1,300$  loss - \$100 floor for this occurrence = \$1,200 loss

Golf Cart: \$2,900 loss ( $\$6,500 - \$2,000 = \$4,500$  loss - \$1,500 insurance recovery = \$3,000 loss before floor);  $\$3,000 - \$100$  floor = \$2,900 loss.

$(\$1,200 + \$2,900) - (.10 \times \$37,000) = \$4,100 - \$3,700 = \$400$  deductible loss.

### 28. *Theft*

**Solution:** \$32,300 deducted in 2013. Her loss before any limitations is \$40,000, the lesser of the reduction in fair market value ( $\$40,000 - 0$ ) or basis (\$54,000). Her deduction is  $\$40,000 - \$100 - (\$72,000 \times 10\%) = \$32,700$ . She must deduct the theft loss in 2013 when it was discovered.

### 29. *Condemnation*

**Solution:** a. Clayton has a \$165,000 ( $\$400,000 - \$235,000$ ) realized and recognized gain.

b. Recognized gain = \$50,000 ( $\$400,000 - \$350,000$ ); deferred gain = \$115,000 ( $\$165,000 - \$50,000$ ).

c. \$235,000 ( $\$350,000 - \$115,000$  deferred gain).

d. If \$500,000 is spent on replacement property, Clayton has no recognized gain; all \$165,000 is deferred.

e. \$335,000 ( $\$500,000 - \$165,000$ ).

f. June 30, year 5 (3 years from June 30, year 2).

### 30. *Casualty*

**Solution:** a. \$50,000 ( $\$325,000 - \$275,000$ ) realized and recognized gain.

b. \$25,000 ( $\$325,000 - \$300,000$ ) recognized gain; \$25,000 deferred gain ( $\$50,000 - \$25,000$  recognized).

c. \$275,000 ( $\$300,000 - \$25,000$  deferred gain).

d. If \$350,000 is spent on replacement property, there is no recognized gain; \$50,000 gain is deferred.

e. \$300,000 ( $\$350,000 - \$50,000$  deferred gain).

f. April 30, year 3 (2 years from April 30, year 1).

### 31. *Like-Kind Exchange*

**Solution:** It should sell its used auto and purchase the new one. If Xenon sells the used auto, it will recognize a \$3,500 gain ( $\$4,000 - \$500$ ) and will pay a tax of \$875 ( $\$3,500 \times 25\%$ ). Its net cash outflow will be \$16,875 [ $\$20,000 - (\$4,000 - \$875)$ ]. Its basis

in the new auto will be \$20,000. If it trades in the used auto, it will have cash outflow of \$17,000; it will not recognize any gain but the auto will have a basis of \$17,500 (\$17,000 + \$500). Depreciation deductions over the 3 years will be the same due to the depreciation limitations; Xenon's cash outflow is lower by selling the car outright and paying \$20,000 for the car.

### 32. *Sale or Exchange*

**Solution:** It should make the exchange.

**Sale Option**—If Bently sells the warehouse for \$800,000, it will have a \$500,000 gain (\$800,000 - \$300,000) on which it will pay taxes of \$200,000 (\$500,000 x 40%). It would have an \$800,000 basis in the new property that would be depreciated at \$20,000 (\$800,000/40) per year for 40 years. The depreciation deductions would reduce its annual taxes (assuming no change in tax rate) by \$8,000 (\$20,000 x 40%). This is equivalent to an annuity of \$8,000 for 40 years at 8 percent interest and would have a present value of \$95,400 ( $11.925 \times \$8,000$ ).

**Exchange Option**—If Bently exchanges the buildings, it will have a \$300,000 carryover basis in the building acquired. It would have annual depreciation deductions of only \$7,500 (\$300,000/40); this would reduce its annual taxes by \$3,000 (\$7,500 x 40%). The present value of this annuity is \$35,775 ( $11.925 \times \$3,000$ ). The sale option provides an increased annuity value of \$59,625 (\$95,400 - \$35,775) for the tax reduction; but, \$200,000 must be paid in taxes initially, leaving a negative net present value of \$140,375. Thus, the building should be exchanged to avoid the current tax effects.

The savings in taxes are sufficient to outweigh the fact that the other party to the exchange is asking more than the appraised value for the building. Unless Bently plans to dispose of the newly acquired building within a very short period, the difference in appraised value would not change the outcome.

### 33. *Wash Sale*

**Solution:** \$15,000 realized loss; \$5,000 recognized loss; and \$60,000 basis. The sale of the stock by the broker yields a \$15,000 (\$85,000 - \$100,000) realized loss, but only \$5,000 is recognized. Moore cannot recognize two-thirds of the loss due to his purchase of 2,000 shares in January within 30 days after the loss on the sale of 3,000 shares in December due to the wash sale rules. The disallowed loss of \$10,000  $[(2,000 \text{ shares purchased} / 3,000 \text{ shares sold}) \times \$15,000 \text{ total loss}]$  is added to the basis of the 2,000 shares purchased in January for a total basis for those shares of \$60,000 (\$50,000 + \$10,000).

### 34. *Wash Sale*

**Solution:** \$2,000 loss recognized and basis of 1,000 shares increased to \$10,000. One half (\$2,000) of the \$4,000 loss on the July 3 sale cannot be recognized due to the wash sale rules because he purchased the 1,000 shares within 30 days of the sale of identical shares sold at a loss.  $(1,000 \text{ shares purchased} / 2,000 \text{ shares sold}) \times \$4,000 \text{ realized loss} = \$2,000 \text{ loss deferred}$ . The \$2,000 deferred loss increases the basis of the 1,000 shares purchased from \$8,000 ( $\$8 \times 1,000 \text{ shares}$ ) to \$10,000.

35. *Stock Transactions/Wash Sales*

**Solution:** 11/01 sale of XYZ:  $\$800 (\$15 - \$18) = \$2,400$  long-term capital loss realized; none recognized due to the purchase on 11/18 of identical shares of stock. The basis of the shares purchased on 11/18 is increased to  $\$26,400 [(2000 \times \$12) + \$2,400]$  for the deferred loss.

11/04 sale of DEF:  $500 (\$22 - \$20) = \$1,000$  short-term capital gain realized and recognized.

11/20 sale of ABC:  $500 (\$22 - \$25) = \$1,500$  short-term capital loss realized; none recognized due to the purchase of the ABC shares on 12/02.

The basis of the ABC shares purchased on 12/02 is increased for the deferred loss to  $\$22,500 [(1,000 \times \$21) + \$1,500]$ . The basis of the remaining 500 shares of ABC purchased on 10/15 is  $\$12,500 (500 \times \$25)$ .

Kelly also has 1,000 GHI shares purchased on 11/07 with a basis of  $\$16,000 (1,000 \times \$16)$  and 500 DEF shares purchased on 11/22 with a basis of  $\$9,000 (500 \times \$18)$ .

36. *Corporate Formation*

**Solution:** Jim has a  $\$10,000 (\$50,000 - \$40,000)$  realized gain and Cindy a  $\$5,000 (\$45,000 - \$50,000)$  realized loss on the transfer of their properties to the corporation, neither of which is recognized. Cindy, however, must recognize  $\$5,000$  of income for the services provided. Jim's basis in his shares is  $\$40,000 (\$50,000 - \$10,000 \text{ deferred gain})$ . (Alternative calculation:  $\$40,000$  basis of property transferred + 0 gain recognized - 0 boot received.) Cindy's basis in her shares is  $\$55,000 (\$45,000 + \$5,000 \text{ deferred loss} + \$5,000 \text{ of income recognized})$ . (Alternative calculation:  $\$50,000$  basis of property transferred +  $\$5,000$  service income =  $\$55,000$  basis.)

37. *Corporate Formation*

**Solution:** a. Wilbur has a  $\$30,000 (\$100,000 - \$70,000)$  realized gain on the transfer of property to the corporation; none of this gain is recognized.

b. His basis in the stock received is  $\$70,000 (\$100,000 - \$30,000 \text{ deferred gain})$ . (Alternative calculation:  $\$70,000$  basis of property transferred + 0 gain recognized - 0 boot received.)

c. The corporation's basis in the property is  $\$70,000$ ; Wilbur's basis carries over to the corporation.

38. *Transfer to Corporation*

Arleta transfers property valued at  $\$210,000$  (basis =  $\$190,000$ ) to BCD Corporation in

**Solution:** a. Arleta:  $\$210,000 - \$190,000 = \$20,000$  realized gain. Georgia:  $\$85,000 - \$75,000 = \$10,000$  realized gain. Georgia also realizes  $\$5,000$  income for her accounting services.

b. Neither Arleta nor Georgia recognizes their realized gains, but Georgia must recognize  $\$5,000$  of ordinary income for the services provided.

c. Arleta's basis =  $\$190,000 (\$210,000 - \$20,000 \text{ deferred gain})$ . (Alternative calculation:  $\$190,000$  basis of property transferred + 0 gain recognized - 0 boot received.) Georgia's basis is  $\$80,000 (\$85,000 - \$10,000 \text{ deferred gain} + \$5,000$

service income). (Alternative calculation: \$75,000 basis of property transferred + \$5,000 service income = \$80,000.)

d. BCD's basis in the property transferred by Arleta is \$190,000; its basis in the property transferred by Georgia is \$75,000; it will either capitalize (if organizational costs) or expense the \$5,000 paid for Georgia's services.

### 39. *Transfer to Corporation*

**Solution:** a. \$1,050,000 stock value (\$1,250,000 value of building - \$200,000 mortgage assumed).

b. \$100,000 realized loss (\$1,050,000 value of stock + \$200,000 mortgage assumed = \$1,250,000 amount realized - \$1,350,000 basis in building)  
No loss recognized.

c. Carol's basis in her stock will be \$1,350,000 unless she elects to reduce her stock basis for the \$100,000 excess of the building's basis (\$1,350,000) over its fair market value (\$1,250,000). If she chooses to make this election, her stock's basis will be reduced to \$1,250,000. If Carol does not make the election, the corporation's basis in the building cannot exceed its fair market value of \$1,250,000. With the election by Carol, the corporation would be able to take the carryover basis of \$1,350,000 in the building.

### 40. *Transfers to Corporation*

**Solution:** a. Cornelia has a \$50 gain realized on the transfer and Ferdinand has a \$190 gain realized on the transfer of his property.

b. Cornelia's gain is not recognized, but Ferdinand must recognize \$50 of his gain because he received other property (boot) in addition to stock on the transfer.

c. Cornelia has a \$350 (\$350 basis of property transferred + 0 gain recognized - 0 boot received) basis in the stock. Ferdinand has a \$260 (\$260 basis of property transferred + 50 gain recognized - \$50 FMV of boot received) basis in the stock and a \$50 basis in the property (boot).

d. Wayside has a \$350 basis in the property transferred by Cornelia and a \$260 basis in the property transferred by Ferdinand.

e. Wayside must recognize \$30 (\$50 - \$20) gain on the transfer of the boot to Ferdinand.

### 41. *Incorporating a Proprietorship*

**Solution:** a. \$50,000 realized loss on the building (\$750,000 - \$800,000) and a \$25,000 realized gain on the equipment (\$400,000 - \$375,000); he has neither realized gain nor loss on the inventory.

b. Neither the gain nor the loss is recognized on the transfer; they are both deferred.

c. Tinker's basis in his stock will be \$1,225,000 (\$800,000 + \$375,000 + \$50,000) unless he makes an election to reduce his basis by the \$25,000 excess of total transferred basis (\$1,225,000) over the fair market values (\$1,200,000) of the properties transferred. If Tinker does not make this election, the corporation's basis in the assets acquired cannot exceed \$1,200,000 (\$750,000 + \$400,000 +

\$50,000), the total fair market values of all the properties transferred. The carryover basis of the building would be reduced to \$775,000, by the excess of the transferred basis (\$1,225,000) over the fair market values of all properties (\$1,200,000). The business will have a \$375,000 basis in the equipment and a \$50,000 basis in the inventory. If Tinker does make the election to reduce stock basis by the \$25,000 excess basis, his stock will have a basis of \$1,200,000 (\$1,225,000 - \$25,000) and the corporation will take the full \$800,000 basis in the building.

42. *Partnership Formation*

**Solution:** Zoe has a realized gain of \$25,000 (\$75,000 - \$50,000) but neither Zoe nor the partnership recognizes any gain or loss on the transfer of the property. The partnership has a \$50,000 basis in the property transferred by Zoe and has cash transferred from Jim and Angie with a \$150,000 basis. Jim and Angie each have a \$75,000 basis in their partnership interest. Zoe has a \$50,000 basis in her partnership interest.

43. *Partnership Formation*

**Solution:** Moe and Curly each have a basis of \$90,000 [ $\$50,000 + (1/3 \times \$120,000)$ ] in their partnership interests. Larry's basis in his partnership interest is \$45,000 [ $\$125,000 - \$120,000 + (1/3 \times \$120,000)$ ].

44. *Partnership Formation*

**Solution:** X's partnership interest basis =  $\$40,000 + (\$25,000 \times 20\%) = \$45,000$ .  
 Y's partnership interest basis =  $\$50,000 + (\$25,000 \times 40\%) = \$60,000$ .  
 Z's partnership interest basis =  $\$70,000 - \$25,000 + (\$25,000 \times 40\%) + \$5,000$  services = \$60,000.

The partnership has a basis of \$40,000 in the cash, \$50,000 in the property contributed by Y, and \$70,000 basis in the property contributed by Z. It will either expense or capitalize the \$5,000 for the services performed.

45. *Comprehensive Problem for Chapters 5, 6, 7, and 8*

**Solution:** a. Tax depreciation years 2010 – 2013:

<u>Asset/Year</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Office Furniture	\$ 1,143	\$1,959	\$1,399	\$ 500
Computer	\$ 800	\$1,280	\$ 768	\$ 230
Machine A	\$ 2,144	\$3,674	\$2,624	\$ 937
Machine B	\$21,000			
Machine C	\$ 4,430	\$7,592	\$5,422	\$ 3,872
Building	\$ 5,083	\$6,410	\$6,410	\$ 5,075
Machine D				\$11,250
New Furniture				\$ 536
New Computer				\$ 1,500
Machine E				\$ 1,000
New Building				<u>\$ 1,402</u>
Totals	\$34,600	\$20,915	\$16,623	\$25,302

Basis of Machine E: The adjusted basis of Machine B = \$0. Machine E basis = \$28,000

The mid-quarter convention must be used for 2013 because more than 40% ( $\$43,000/\$94,000 = 45.7\%$ ) of personalty is placed in service in the last quarter of the year. Depreciation for machine D is \$11,250 ( $\$45,000 \times 25\%$ ), for the new furniture is \$535.50 ( $\$15,000 \times 3.57\%$ ), for the new computer is \$1,500 ( $\$6,000 \times 25\%$ ) and for machine E is \$999.60 ( $\$28,000 \times 3.57\%$ ).

Basis of New Building: The adjusted basis of the building at the time of sale is \$227,022 ( $\$250,000 - \$22,978$ ). Columbo has a \$47,978 ( $\$275,000 - \$227,022$ ) gain on the condemnation. It recognizes no gain because it invests more than the proceeds in a new building. The basis of the new building is \$262,022 ( $\$310,000 - \$47,978$  deferred gain). Depreciation for the new building is \$1,401.82 ( $\$262,022 \times 0.535\%$ ).

b. Machine A's basis = \$5,621;  $\$7,000 - \$5,621 = \$1,379$  Section 1245 recapture. Basis is \$2,999 for the furniture at the time of sale, but the loss is disallowed when sold to a related party (the sole shareholder). The shareholder will have dividend income in the amount of \$1,900 ( $\$2,000$  fair market value - \$100 paid). This is a bargain purchase.

There is a \$47,978 Section 1231 gain realized on the building as determined above. None of the gain is recognized, however, due to the investment in a new building.

There is a \$922 (equal to adjusted basis) Section 1231 loss on the computer that is both realized and recognized.

c. The net effect of the property transactions is \$1,379 of Section 1245 gain included in ordinary income and a deduction for the Section 1231 loss of \$922 for a net increase in income of \$457.

d. (1) Financial Accounting Depreciation

<u>Asset/Year</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Office Furniture	\$800**	\$800	\$800	-0-*
Computer	\$800**	\$800	\$800	-0-*
Machine A	\$1,500**	\$1,500	\$1,500	-0-*
Machine B	\$2,100**	\$2,100	\$2,100	-0-*
Machine C	\$3,100**	\$3,100	\$3,100	\$3,100
Building (40 yr.)	\$6,250**	\$6,250	\$6,250	
Machine D				\$4,500**
New Furniture				\$1,500**
New Computer				\$1,200**
Machine E				\$4,270**
Building				<u>\$7,750**</u>
Totals	<u>\$14,550</u>	<u>\$14,550</u>	<u>\$14,500</u>	\$22,320

\*No depreciation in disposal year.

\*\*Full year's depreciation in acquisition year.

The adjusted basis of Machine B is \$14,700 ( $\$21,000 - \$6,300$ ) when it is traded in on Machine E. The basis of Machine E is \$42,700 ( $\$28,000 + \$14,700$ ). There is no gain or loss on the exchange of Machine B for Machine E.

(2) There is a \$3,500 (\$7,000 - \$10,500 adjusted basis) loss on Machine A. There is a \$3,600 (\$1,900 - \$5,600 adjusted basis + \$100) loss on the sale of the furniture to the sole shareholder. There is a \$1,600 (0 - \$1,600 adjusted basis) loss on the computer that is destroyed. There is a gain of \$43,750 [\$275,000 - (\$250,000 - \$18,750)] on the condemned building.

(3) Comparison of Tax and Financial Accounting Results

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Tax Dep.	\$34,600	\$20,915	\$16,623	\$25,302
Tax Gain (Loss)				\$ 457
Fin. Dep.	\$14,550	\$14,550	\$14,550	\$22,320
Fin. Gain (Loss)				\$35,050
Difference	Deferred tax liability	Deferred tax liability	Deferred tax liability	Deferred tax liability

### Think Outside the Text

These questions require answers that are beyond the material that is covered in this chapter.

46. *Like-Kind Properties*

**Suggested Solution:** It is far more difficult to find land and buildings that are similar as is required for personalty. To impose such strict regulations for exchanges of these assets would essentially render the provision useless. In addition, there is far less turnover in land and buildings than there is for personalty used in a business. Too much revenue would be lost if they relaxed the strict rules for personalty exchanges; by requiring personalty to be of the same depreciation class (already in the regulations) to qualify for exchange benefits, a fairly precise standard is available to guide taxpayers.

47. *Personal Losses*

**Suggested Solution:** The tax law allows a limited expensing of personal items through the standard deduction or itemized deductions. The nondeductibility of loss in value as we use personal property is simply the price we have to pay to enjoy their use. If these losses were deductible, the government would effectively be subsidizing our usage of them through tax reduction. This would be of the greatest benefit to persons who could afford to invest in the greatest amount of personal assets. This is basically against the general policy of giving tax breaks to those with higher incomes. If the loss on an involuntary conversion is excessive, however, relative to the individual's income, some relief is offered through a limited deduction.

48. *Replacement Time Limits*

**Suggested Solution:** Possibly because the condemnation is an action of a governmental unit, the additional year is allowed by the federal government for the loss of the right to own the property that was condemned.

49. *Condemnation*

**Suggested Solution:** If there is a threat of condemnation, and a person has the opportunity to sell the property, he is avoiding the risk of whether the condemnation will actually

occur and on the price that would be obtained in the condemnation. The person may have found a suitable new location that may not be available when condemnation proceedings are complete and money is received. (This can take a significant amount of time.) If the possible condemnation is truly the reason for selling when a buyer is available, the whole uncertainty surrounding these events would argue that deferral is a logical benefit.

50. *Section 351 Transaction*

**Solution:** When property transfers to a corporation without gain recognition, the corporation takes a carryover basis in the property. If the corporation sells the property, it recognizes the gain at that time. Thus, between the transferor-shareholder and the corporation, which both owned the property, the gain is recognized only once. If, however, the transferor recognizes all or part of the gain because of boot received or liabilities in excess of basis, failure to increase the basis of the assets transferred for this gain recognition would subject the same gain to taxation if the corporation should then sell the asset. Thus, increasing the basis of transferred property in the hands of the corporation by gain recognized by the transferor-shareholder preserves the taxation of the gain only once.

51. *Section 351 Multiple Assets*

**Solution:** The gain and loss must be determined separately on each machine and the boot (\$50,000 cash) must be apportioned over the two assets based on their relative fair market values. The shareholder realizes a \$30,000 gain (\$330,000 - \$300,000) on Machine A and a \$30,000 loss (\$220,000 - \$250,000) on Machine B. Boot of \$30,000 is apportioned to A ( $\$330,000/\$550,000 \times \$50,000$ ), and \$20,000 to B ( $\$220,000/\$550,000 \times \$50,000$ ). Thus, the shareholder will have to recognize the \$30,000 gain on Machine A because that is the amount of gain realized as well as the boot received. The \$20,000 boot allocated to Machine B does not cause any recognition because there is a realized *loss* on that machine.

If only the total fair market value (\$550,000) and the total bases (\$550,000) were considered, it would appear that no gain should be recognized. This can be a trap for taxpayers transferring property in a Section 351 exchange if they do not realize that boot is apportioned across all assets and gain and loss must be determined separately—not on an aggregate basis.

## Identify the Issues

Identify the issues or problems suggested by the following situations. State each issue as a question.

52. *Casualties*

**Solution:** Will this current flood qualify as a sudden and unusual event to allow for a casualty loss deduction given the repeated flooding during the past 12 years?

53. *Casualties*

**Solution:** Is Karen entitled to a casualty loss deduction for the loss on the car?



54. *Condemnations*

**Solution:** How will Timmins treat the severance damages and how much must it reinvest in new property to avoid recognition of gain on the condemnation?

55. *Indirect Exchange*

**Solution:** Will acquiring only a partial interest in a piece of property qualify the purchaser for the like-kind exchange provision?

56. *Condemnation*

**Solution:** How does Barry's move into the replacement rental unit for the five months affect the condemnation tax treatment of the rental unit? Does it affect the tax treatment of the home that was condemned and its replacement property?

57. *Replacement Period*

**Solution:** Will Carlson Manufacturing be allowed to use the gain deferral provisions for condemnations when the delay in occupancy is the result of events beyond its or the construction company's control?

**Develop Research Skills**

Solutions to research problems are included in a separate file.

**Search the Internet**

For the following problems, consult the IRS Web site ([www.irs.gov](http://www.irs.gov)).

61. *Wash Sale*

**Solution:** Report all wash sales transactions in Part 1 and/or Part 2 for Form 8949 with the appropriate box(es) checked. Complete all the columns and enter W in column (f). Enter as a positive number in column (g) the amount of the loss not allowed. Then this publication directs you to see the instructions for Form 8949 to continue. These instructions direct you to include totals from Part 1 on line 1 of Schedule D and the totals from Part 2 on line 8 of Schedule D (Form 1040). Then complete Schedule D

62. *Like-Kind Sales*

**Solution:** The sale will first be reported on Form 8824; if there is any recognized gain because of money or unlike property received it is first reported on Form 8984 and then on Schedule D (Form 1040) or Form 4797 (if there is depreciation recapture).

63. *Casualties*

**Solution:** A casualty loss of a personal-use asset is reported on Form 4684 and on Schedule A: *Itemized Deductions* (Form 1040).  
A casualty gain on personal-use property is reported on Form 4684 and on Schedule D: *Capital Gains and Losses* (Form 1040).

64. *Form 4684 for Casualty Losses*

**Solution:** A filled-in Form 4684 is included at the end of this file.

## Develop Planning Skills

### 65. Sales Alternatives

**Solution:** Glades needs to find a third party (an exchange accommodation party) who is interested in its property. The third party would then purchase the new property desired by Glades, allowing the owner to have cash for the property. The third party would then trade the purchased property for Glades property in a like-kind exchange. The third party could be a party that actually wants the Glade property, or, for a fee, acts as a broker and will then sell that property. The costs of using the third party must be weighed against the tax savings.

### 66. Sale Alternatives

**Solution:** Timberlake could find a third party to whom the proceeds of the sale could be paid and held until Timberlake can identify and have the third party purchase the desired property within the time period required for like-kind exchanges. The third party can then exchange this new property for Timberlake's property.

Alternatively, Carroll Corporation could purchase property that Timberlake will exchange for its property. Either of these exchanges are qualifying like-kind exchanges and will allow Timberlake to defer gain recognition and postpone paying \$875,000 ( $\$2.5 \text{ million} \times 35\%$ ) in tax.

### 67. Exchange

**Solution:** Timberlake would exchange its property valued at \$4,500,000 plus \$300,000 cash for the property that Carroll purchases for \$4,800,000. Timberlake has a gain of \$2,500,000 ( $\$4,800,000 - \$2,000,000 - \$300,000$ ) that it can defer in its entirety. As Timberlake is giving boot, it does not recognize any of the gain. Timberlake's basis in the new property will be \$2,300,000 ( $\$4,800,000 - \$2,500,000$ ). Carroll recognizes no gain or loss and the basis for its property will be \$4,500,000.

### 68. Corporate Formation

**Solution:** Wilma should sell her property rather than contributing it to the corporation. Wilma would receive the \$50,000 cash for the property and recognize her \$20,000 loss ( $\$70,000 - \$50,000$ ) and then contribute the \$50,000 to the corporation along with William and Wally's assets. If the corporation wants Wilma's property, Wally and William could form the corporation and purchase Wilma's property. Wilma could then become a shareholder of the corporation at a later date.

Alternatively, Wilma could borrow against the land or obtain \$50,000 from another source to form the corporation with William and Wally. As Wilma will only be a 20 percent shareholder, she could then sell the property to the corporation and recognize the loss.

Alternatively, William could buy the land from Wilma and contribute the land and \$50,000 cash to the corporation. Wilma could contribute her sale proceeds to the corporation in exchange for stock. All of these alternatives allow Wally nonrecognition of his gain.

## Appendix—Check Your Understanding

### 1. *Reorganization Type*

**Solution:** Type F

### 2. *Reorganization Type*

**Solution:** Type D divisive reorganization allows a corporation to divide into two or more corporations in a spin off, split off, or split up.

### 3. *Reorganization Type*

**Solution:** Types A, C, and D acquisitive all involve the acquisition of assets.

### 4. *Reorganization Type*

**Solution:** Types A, B, and C.

### 5. *Tax Consequences*

**Solution:** The acquiring corporation would recognize gain if it used appreciated assets as part of the acquisition price.

### 6. *Tax Consequences*

**Solution:** The shareholder recognizes gain if gain is realized on the reorganization and the shareholder receives boot.

### 7. *Divisive Reorganizations*

**Solution:** Spin off: The acquiring corporation transfers part of its assets to a new corporation in exchange for its stock. The stock is distributed to the shareholders of the acquiring corporation.

Split off: The acquiring corporation transfers part of its assets to a new corporation in exchange for its stock. The stock is distributed to some of the acquiring corporation's shareholders in exchange for their stock in the acquiring corporation.

Split up: The original corporation transfers all of its assets to two or more new corporations in exchange for their stock. The stock of these corporations is then distributed to the shareholders of the original corporation in exchange for their stock in that corporation. The stock of the new corporations may be distributed to all the shareholders in their proportionate ownership in the original, or only certain shareholders may receive stock in one or more new corporations and not in others so that the ownership groups are split.

### 8. *Continuity of Interest*

**Solution:** Continuity of interest in the context of a reorganization means that owners of a target corporation continue an equity interest in the reorganized corporation.

Form **4684**Department of the Treasury  
Internal Revenue Service**Casualties and Thefts**► Information about Form 4684 and its separate instructions is at [www.irs.gov/form4684](http://www.irs.gov/form4684).

► Attach to your tax return.

► Use a separate Form 4684 for each casualty or theft.

OMB No. 1545-0177

**2012**  
Attachment  
Sequence No. **26**

Name(s) shown on tax return

Identifying number

[Howser Corporation](#)**SECTION A—Personal Use Property** (Use this section to report casualties and thefts of property **not** used in a trade or business or for income-producing purposes.)

- 1 Description of properties (show type, location, and date acquired for each property). Use a separate line for each property lost or damaged from the same casualty or theft.

Property **A** \_\_\_\_\_Property **B** \_\_\_\_\_Property **C** \_\_\_\_\_Property **D** \_\_\_\_\_**Properties**

		A	B	C	D
2 Cost or other basis of each property . . . . .	<b>2</b>				
3 Insurance or other reimbursement (whether or not you filed a claim) (see instructions) . . . . .	<b>3</b>				
<b>Note:</b> If line 2 is <b>more</b> than line 3, skip line 4.					
4 Gain from casualty or theft. If line 3 is <b>more</b> than line 2, enter the difference here and skip lines 5 through 9 for that column. See instructions if line 3 includes insurance or other reimbursement you did not claim, or you received payment for your loss in a later tax year . . . . .	<b>4</b>				
5 Fair market value <b>before</b> casualty or theft . . . . .	<b>5</b>				
6 Fair market value <b>after</b> casualty or theft . . . . .	<b>6</b>				
7 Subtract line 6 from line 5 . . . . .	<b>7</b>				
8 Enter the <b>smaller</b> of line 2 or line 7 . . . . .	<b>8</b>				
9 Subtract line 3 from line 8. If zero or less, enter -0- . . . . .	<b>9</b>				
10 Casualty or theft loss. Add the amounts on line 9 in columns A through D . . . . .	<b>10</b>				
11 Enter the <b>smaller</b> of line 10 or \$100 . . . . .	<b>11</b>				
12 Subtract line 11 from line 10 . . . . .	<b>12</b>				
<b>Caution:</b> Use only one Form 4684 for lines 13 through 18.					
13 Add the amounts on line 12 of all Forms 4684 . . . . .	<b>13</b>				
14 Add the amounts on line 4 of all Forms 4684. . . . .	<b>14</b>				
15 • If line 14 is <b>more</b> than line 13, enter the difference here and on Schedule D. <b>Do not</b> complete the rest of this section (see instructions). • If line 14 is <b>less</b> than line 13, enter -0- here and go to line 16. • If line 14 is <b>equal</b> to line 13, enter -0- here. <b>Do not</b> complete the rest of this section.	<b>15</b>				
16 If line 14 is <b>less</b> than line 13, enter the difference . . . . .	<b>16</b>				
17 Enter 10% of your adjusted gross income from Form 1040, line 38, or Form 1040NR, line 37. Estates and trusts, see instructions . . . . .	<b>17</b>				
18 Subtract line 17 from line 16. If zero or less, enter -0-. Also enter the result on Schedule A (Form 1040), line 20, or Form 1040NR, Schedule A, line 6. Estates and trusts, enter the result on the "Other deductions" line of your tax return . . . . .	<b>18</b>				

For Paperwork Reduction Act Notice, see instructions.

Cat. No. 129970

Form **4684** (2012)

Name(s) shown on tax return. Do not enter name and identifying number if shown on other side.

Identifying number

**SECTION B—Business and Income-Producing Property****Part I Casualty or Theft Gain or Loss** (Use a separate Part I for each casualty or theft.)

- 19 Description of properties (show type, location, and date acquired for each property). Use a separate line for each property lost or damaged from the same casualty or theft.

Property A Warehouse Building

Property B

Property C

Property D

**Properties**

		A	B	C	D
20	Cost or adjusted basis of each property . . . . .	20	235,000		
21	Insurance or other reimbursement (whether or not you filed a claim). See the instructions for line 3 . . . . .	21	200,000		
<b>Note:</b> If line 20 is <b>more</b> than line 21, skip line 22.					
22	Gain from casualty or theft. If line 21 is <b>more</b> than line 20, enter the difference here and on line 29 or line 34, column (c), except as provided in the instructions for line 33. Also, skip lines 23 through 27 for that column. See the instructions for line 4 if line 21 includes insurance or other reimbursement you did not claim, or you received payment for your loss in a later tax year . . . . .	22			
23	Fair market value <b>before</b> casualty or theft . . . . .	23	425,000		
24	Fair market value <b>after</b> casualty or theft . . . . .	24	150,000		
25	Subtract line 24 from line 23 . . . . .	25	275,000		
26	Enter the <b>smaller</b> of line 20 or line 25 . . . . .	26	235,000		
<b>Note:</b> If the property was totally destroyed by casualty or lost from theft, enter on line 26 the amount from line 20.					
27	Subtract line 21 from line 26. If zero or less, enter -0- . . . . .	27	35,000		
28	Casualty or theft loss. Add the amounts on line 27. Enter the total here and on line 29 or line 34 (see instructions) . . . . .	28	35,000		

**Part II Summary of Gains and Losses** (from separate Parts I)

(a) Identify casualty or theft

(b) Losses from casualties or thefts

(i) Trade, business, rental or royalty property

(ii) Income-producing and employee property

(c) Gains from casualties or thefts includible in income

**Casualty or Theft of Property Held One Year or Less**

29	Embezzlement of Cash . . . . .	( 45,000 )	( )	( )	
30	Totals. Add the amounts on line 29 . . . . .	30	( 45,000 )	( )	
31	Combine line 30, columns (b)(i) and (c). Enter the net gain or (loss) here and on Form 4797, line 14. If Form 4797 is not otherwise required, see instructions . . . . .	31	(45,000)		
32	Enter the amount from line 30, column (b)(ii) here. Individuals, enter the amount from income-producing property on Schedule A (Form 1040), line 28, or Form 1040NR, Schedule A, line 14, and enter the amount from property used as an employee on Schedule A (Form 1040), line 23, or Form 1040NR, Schedule A, line 9. Estates and trusts, partnerships, and S corporations, see instructions . . . . .	32			

**Casualty or Theft of Property Held More Than One Year**

33	Casualty or theft gains from Form 4797, line 32 . . . . .	33			
34		( 35,000 )	( )	( )	
35	Total losses. Add amounts on line 34, columns (b)(i) and (b)(ii) . . . . .	35	( 35,000 )	( )	
36	Total gains. Add lines 33 and 34, column (c) . . . . .	36			
37	Add amounts on line 35, columns (b)(i) and (b)(ii) . . . . .	37	(35,000)		
38	If the loss on line 37 is <b>more</b> than the gain on line 36:				
a	Combine line 35, column (b)(i) and line 36, and enter the net gain or (loss) here. Partnerships (except electing large partnerships) and S corporations, see the note below. All others, enter this amount on Form 4797, line 14. If Form 4797 is not otherwise required, see instructions . . . . .	38a	(35,000)		
b	Enter the amount from line 35, column (b)(ii) here. Individuals, enter the amount from income-producing property on Schedule A (Form 1040), line 28, or Form 1040NR, Schedule A, line 14, and enter the amount from property used as an employee on Schedule A (Form 1040), line 23, or Form 1040NR, Schedule A, line 9. Estates and trusts, enter on the "Other deductions" line of your tax return. Partnerships (except electing large partnerships) and S corporations, see the note below. Electing large partnerships, enter on Form 1065-B, Part II, line 11 . . . . .	38b			
39	If the loss on line 37 is <b>less</b> than or <b>equal</b> to the gain on line 36, combine lines 36 and 37 and enter here. Partnerships (except electing large partnerships), see the note below. All others, enter this amount on Form 4797, line 3 . . . . .	39			
<b>Note:</b> Partnerships, enter the amount from line 38a, 38b, or line 39 on Form 1065, Schedule K, line 11. S corporations, enter the amount from line 38a or 38b on Form 1120S, Schedule K, line 10.					