INTRODUCTION:
BASIS, REALIZATION, AND RECOGNITION
(Two Classes)

Assignment

Code: §§ 61(a)(3); 1001(a)-(c); 1011; 1012; 165(a)-(c);
267(a)(1), 102; 691(a); 1014(a), (b)(1), (b)(6),
(b)(9), (c), (e), (f); 1015(a), (d); 1022; 1221(a);
1222; 1223(1), (2), (11); 2032(a), (c); 7701(a)(42)-(45).
Skim §§ 83(a); 305(a), (b).

Regs: §§ 1.1001-1(a), ©(1), (e); 1.1012-1(a), ©; 1.1014-1(a);
1.1014-2(a)(1), (b)(1), (b)(2); 1.1014-3(a), ©; 1.1014-
4(a); 1.1015-4(a).

154, Cottage Savings, pp. 163-164 (A), 141

Problems

Purchase and Sale

1. In year 1, A purchases unimproved land for $10,000 in cash. At
the end of year 1, the land is worth $11,000. At the end of
year 2, A transfers the land to B in exchange for $10,000 in cash
and stock worth $2100. In year 1 A also purchases a 10-year
$10,000 bond. After collecting year 1 and year 2 interest, A
sells the bond to C for $10,000.

   (a) When and in what amounts does A recognize income with
   respect to the land and the bond?

   (b) Assume that, due to inflation, the consumer price index
doubles, and a basket of goods that cost $100 when A bought the land costs $200 when she sells the land. Should this fact affect the taxation of A's profits from her land investment? Does it?

Taxable Exchange

2. T, a bank, holds a portfolio of mortgage loans whose value is substantially below T’s cost. T exchanges the portfolio of loans for a loan portfolio held by another bank. The portfolios given and received in the exchange have been carefully selected to be as nearly identical as possible in principal amounts, interest rates, maturity dates, nature of the property securing the loans, and other factors affecting value and performance. Banking regulators have ruled that gain or loss need not be recognized on such an exchange for financial accounting purposes. Can T nevertheless properly claim a tax deduction for loss realized on the exchange? See Cottage Savings and § 1031(a)(2).

3. a. A owns 100 shares of Kayak Co. stock, which she purchased for $1,000. After several profitable years, Kayak declares a dividend of one share of Kayak stock for each 10 shares owned. What does A report?

b. B also owns 110 shares of Kayak stock. At a time when Kayak is selling for $8 a share, A transfers the 110 shares of Kayak stock to B in exchange for B’s shares of Kayak. What does A report?

c. In the alternative A purchased 100 shares of Kayak stock in 2001 for $1,000 and 100 shares of Kayak stock in 2004 for $500. In 2006 A swaps 100 shares of Kayak stock for B’s 50 shares of Canoe Co. stock at a time when Kayak stock is selling for $8 a share. What does A report?

d. In the alternative owns only 100 shares of Kayak stock, which A purchased for $1,000. B owns 100 shares of Canoe Co. stock, which B purchased two years ago for $3,000. A and B swap when the Kayak stock is worth $2,500 and the Canoe stock is worth $2,600? What are the tax consequences of the exchange to A and B?
4. T owes $10,000 as the principal amount of an enforceable borrowing. Having already expended all of her money, T transfers shares of stock in X, a closely held company in satisfaction of the debt. T received the X stock from her employer as a bonus several years ago when the stock was worth $6,000. What are the tax consequences to T? See § 83(a) and Reg. § 1.61-2(d)(2)(i) (last sentence).

Gift

5. A makes a gift to B of an undeveloped parcel of real property, Blackacre, that A had purchased several years ago for $500. Determine the tax consequences to A and B in the following alternative situations:

   (a) Blackacre is worth $1000 at the time of the gift. No gift tax is paid. Three months later, B sells Blackacre for $1600.

   (b) How would your answer to (a) change if A pays $400 in gift tax on the transfer of Blackacre to B?

   (c) Blackacre is worth $300 at the time of the gift. No gift tax is paid. Three months later, B sells Blackacre for, in the alternative, $200, $800 or $400.

   (d) Blackacre is worth $1,000 at the time of the transfer and B pays $750. B subsequently sells the property for $1,500.

   (e) How would your answer change in (d) if A's basis in Blackacre was $2,000? See Reg. 1.1015-4.

   (f) How would your answer change if B were a charity? See § 170(e); Reg. § 1.1011-2.

Transfer at Death

6. D bought X stock for $100 and held the stock until he died this year. The stock, worth $120 when D died, was bequeathed to B by D's will. Ten months after D's death, the stock is
distributed to B and B immediately sells the stock for $140. To whom is the $40 profit on the stock taxed?

(a) How might the answer change if D had died in 2010 rather than this year? See §§ 1014(f); 1022.

2. L, a lawyer, billed a client $50 for services rendered, but died this year before collecting. The client pays the lawyer's estate. Who, if anyone, is taxed on the $50? See IRC § 691(a)(1). (Need any additional facts?)