UNIT I

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

Assignments

Problems I & II

Code: §§ 61(a)(3); 102; 109; 165(a)-(c); 267(a)(1); 1001(a)-(c); 1011; 1012; 1019; 7701(a)(42)-(45). Skim §§ 83(a), (b), & (h) & 453B,

Regs: §§ 1.61-2(d)(2)(i); 1.1001-1(a), (c), (e); 1.1011-2(a)-(b); 1.1012-1(a);

B & L*: ¶¶ 40.1 – 40.4.2 (Taxable Events); 41.1–41.2.1 (Unadjusted Basis); 41.2.4 & 2.5 (Barter Exchanges and “Tax Cost”); 42.1 (Adjusted Basis): 43.1 (Amount Realized)

Materials:
Cottage Savings
Helvering v. Bruun
Philadelphia Park Amusement Co. v. U.S.
U.S v. Davis

Problems III & IV

Code: §§ 102; 691(a)(1)-(3); 1014(a), (b)(1), (b)(6), (b)(9), (c), (e), (f); 1015(a); 1041 (a)-(c). Skim § 2032(a) & (c).

Regs: §§ 1.1014-1(a); 1.1014-2(a)(1); 1.1014-3(a); 1.1014-4(a); 1.1015-4(a). Skim § 1223(2)

B & L: ¶¶ 41.3.1 & 3.4 (§1015); 41.4.1, 4.2, & 4.4 (§ 1014)

*Bittker & Lokken, FEDERAL TAXATION OF INCOME, ESTATES & GIFTS (2nd /3rd ed. Warren, Gorham & LaMont)
Problems

I. Purchase and Sale

In Year 1, A purchases unimproved land for $60 in cash. At the end of Year 1, the land is worth $100. At the end of Year 3, A transfers the land to B in exchange for $85 in cash and stock worth $75.

(a) Henry Simons defined income as "the algebraic sum of (1) the market value of rights exercised in consumption and (2) the change in the value of the store of property rights between the beginning and end of the period in question." As of the end of Year 1, how would A be taxed on the profits from her land investment under a tax system based on the Simons definition?

(b) Under current law, when, and in what amounts, does A recognize gain with respect to the land?

(c) Suppose A sold the land at the end of Year 3 for $40, its then fair market value. When, and in what amounts, would A recognize this loss with respect to the land?

II. Taxable Exchanges

1. 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?

2. B owns unimproved real estate in which she has a basis of $100. She leases to a ski club for $10 per year for 10 years. The club builds a warming hut on the land that has a value of $6. The hut will pass to B at the end of the lease. After the termination of the lease, B sells the land with the hut for $125 to C.

(a) Under Helvering v. Bruun, what would be the tax consequences to B?

(b) Under §§ 109 & 1019, what are the tax consequences to B?

3. T owes $100 as the principal amount of an enforceable borrowing. Having already expended all of her cash, T transfers shares of X stock worth $100 to the lender in satisfaction of the debt. T received the X stock from her employer as a bonus several years ago when the stock was worth $60. What are the tax consequences to T?
4. While travelling in New England last fall, X purchased an old painting for $100. When she returned to the city, she had the painting appraised and was told that it was worth at least $500. What is X’s basis in the painting? Would your answer change if the painting was worth only $15?

5. A owns stock of X Corp. that she purchased five years ago for $200 in cash. B owns stock of Y Corp., purchased two years ago for $300. A and B swap when the X stock is worth $250 and the Y stock is worth $260. What are the tax consequences of the exchange to A and B?

III. Gifts

1. A makes a gift to B of an undeveloped parcel of real property, Blackacre, which 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) 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.

2. Suppose, in #1, that A sold Blackacre to B for $500 when Blackacre was worth $1000. What are the tax consequences to A and B? What difference would it make if the sale were to NYU?

3. As part of a divorce settlement, H transfers stock with a value of $200 in which he has a basis of $50 to W. W subsequently sells the stock for $250.

   (a) Under *U.S. v. Davis*, what would be the tax consequences to H and W?

   (b) Under § 1041, what are the tax consequences to H and W?

   (c) In (b), what difference would it make if H’s basis in the stock had been $300?

IV. Transfers at Death

1. 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?

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?