UNIT I

INTRODUCTION:
BASIS, REALIZATION, AND RECOGNITION
(Approximately Three Hours)

Assignment

Parts I & II:

Code: §§ 61(a)(3); 83(a) & (b); 109; 165(a)-(c); 267(a)(1); 1001(a)-(c); 1011; 1012; 7701(o). Skim § 1019.

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

Simmons:* pp. 70(middle "m") -81(m); 185-205(top); 208(m)–220.

Parts III & IV:

Code: §§ 102; 691(a); 1014(a), (b)(1), (b)(6), (b)(9), (c), (e), (f); 1015(a), (d); 1041(a)-(c); 7701(a)(42)-(45). Skim §§ 453B, 2032(a) & (c)

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

Simmons:* pp. 229-36 (middle); 239(bottom)-40 (top); 117-18 (middle).


Problems

I. Purchase and Sale

In year 1, A purchases unimproved land for $100 in cash. At the end of year 1, the land is worth $105. In year 10, A transfers the land to B in exchange for $80 in cash and stock worth $35.

(a) When and in what amounts does A recognize gain with respect to the land?
(b) Look at the definition of income given by Henry Simons, which is described on pages 7 and 78 of the Simmons casebook. 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?

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. 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?

3. 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. 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) What difference would it make in (2) 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? (Need any additional facts?)