

ID:
Name:
Exam Name: FedIncTax_Stanley_UL09
Instructor: Stanley

Grade: _____

NOTE: 1 Mid-Exam Restart(s)
• Unknown minute(s) expired before restart 1

MC $\frac{16}{25}$ $\frac{80}{125}$

Essay $\frac{66}{75}$

$\frac{146}{200}$

1)

PART A

A. AB in the computer on January 1, 2009?

\$10,000

P bought a \$10K computer on January 1, 2009. Under § 1012, the basis of property shall be the cost of such property. The cost of property includes the amount paid in cash or other property under §1.1012-1. P paid \$1000 cash and had a nonrecourse loan on the computer for \$9000. In computing cost, both the cash paid and the loan are included as part of the cost paid for the computer. *Crum.* The basis in the computer on the day he purchases it is not subject to the depreciation deduction he will take at the end of the taxable year.

5/5

B. AB in the computer on January 2, 2010?

\$9,000

Under § 1011, to figure out the adjusted basis one must take into account any depreciation taken on property under § 167 which allows a depreciation deduction that is a "reasonable allowance for the exhaustion, wear and tear (including obsolescence)"

for either (1) property used in the trade or business, or (2) of property held for the production of income. The property also must have an identifiable "useful life" or "recovery period", be placed in service by the taxpayer (TP), and the TP must have some basis in the property. P would want to claim that he validly took the depreciation deduction because the computer was for use in his home office and therefore part of his trade or business. To come to the \$9000 AB, P would take his cost of \$10K and subtract from it the depreciation deduction of \$1000. P has not yet taken the second depreciation deduction on the computer and therefore the depreciation deduction taken at the end of 2010 is not yet factored into the computer's basis. The FMV of the computer during the taxable year does not get factored in when computing the basis of the asset.

S/S

C. Effect of second nonrecourse mortgage?

During the 2010 taxable year, P takes out a second nonrecourse mortgage with the computer being the asset upon which the mortgage was taken out. This mortgage does not add to the basis of the property even though the original basis was computed to include the first nonrecourse loan. The basis of property is the cost, under § 1012. P already owns the property and is not paying for it again. The loan obtained by P in 2010 is also not going to be considered income to P because of the offsetting obligation to repay the loan.

S/S

D. Consequence of repayment of loan?

Repayment of the first nonrecourse loan with another nonrecourse loan does not have any tax consequences to P because it is as if he is refinancing the loan. It does not change the basis he has in the property because regardless of whether he paid off the \$9000 loan or not, his basis will still stay \$10000 because that is what he paid on the loan.

$\frac{9}{5}$

E. Abandonment of computer?

diff betw AR and

When P abandoned the computer in 2012, he would be realizing a loss. The amount of his loss would be equal to his adjusted basis at the time of the abandonment. P had at the time taken \$3000 worth of depreciation deductions which would come off his original basis of \$10K making his AB at the time of the disposition of the property \$7000. At this point, P still has a \$9000 loan to pay off, but that loan is a nonrecourse loan. For a nonrecourse loan, the lender is only able to go after the piece of property which secured the loan. Here, P no longer owns the piece of property so the bank has no way to get back the property that they would be entitled to if he had kept the loan. Since the bank cannot take back the property, he now has a \$9000 discharge of indebtedness income which is included in his GI for the taxable year (§ 108). He can offset that amount of income with the \$7000 loss he sustained from abandoning the property because any loss sustained from a TOB can be taken against any source of income under § 165(c)(2). He would still have \$2000 which he would need to include in income for 2012.

$\frac{7}{10}$

debt relief included in AR

*AR = 9K
AB = 7K
gain = 2K*

A: 27/30

2)

PART B

Travel Away from Home

P was originally a professor at State University and was then offered a temporary job at City College in another state. § 162(a)(2) allows a deduction for travel expenses, including the amounts expended for meals and lodging while away from home in pursuit of trade or business unless the amounts are lavish and extravagant under the circumstances. The expenses incurred by P would have to be part of his trade or business (TOB). Under Groetzinger, a number of factors must be considered in deciding if it is a TOB include 1) the activity must be the TP's full-time activity, 2) the TP must be involved on a continual and regular basis and 3) the activity must be intended as the source of the TP's livelihood. P has 2 part time jobs so neither of them would necessarily meet the full-time activity factor, but both jobs would probably be counted as trade or business because it is assumed they both contribute close to equal amounts of his living and both of them are done on a very continual basis. Having to travel away to teach at another university would be considered in pursuit of TOB.

He's an employee = T/B

In order to deduct the expenses while away for 4 months, they would have to meet the Flowers test to see if they are deductible requiring them to be reasonable and necessary travel expenses and also that they be incurred while away from home and in the pursuit of TOB. The last requirement has already been met as mentioned above. It is reasonable for P to have to incur expenses to eat and stay somewhere while teaching

explaining this is why Stanley is away " what's the test

at the otehr job and he is also incurring these expenses while away from home. P and his son had to move to another state. There is little doubt that would also meet the away from home requirement. P meets all three factors enumerated in Flowers and would be allowed to deduct his travel to City College, the lodging while there and 50% of his meals.

why?
conclusionary

Commuting expenses between a residence and a work location are generally not deductible (RR 99-7) but P is not commuting between his residence and work. P is away on travel status and any transportation expenses he incurs while away are going to be deductible.

Son's exps? dup. expenses?

After the 4 months of being at city college, P finds out that he has been offered a permament and tenured teaching position there which would arguably change his place of residence from at State University to city college. When he goes back to State University to teach for 4 months for the spring semester, he is arguably away on travel again because this is just a temporary assignment again because his expectation is to stay there for only 4 months. In order for employment to be temporary it has to be expected to last for less than one year and actually last for less than one year. Originally, while away at city college, P was working for temporary employment but as soon as he found out he was going to be staying there, it was no longer temporary and any travel costs incurred while at city college are no longer deductible because of the expectation change. When going back to State U, his expectation is to teach there for less than one year and he will be so he is now on temporary employment and can deduct his travel expenses including travel, lodging and 50% of meals.

17/20

Uniform Deductions

§ 162 allows for deductions for expenses incurred in TOB. One of the deductions employees can take is that for uniforms that has not already been reimbursed by the employer. Employees are allowed to deduct the cost of obtaining and maintaining the uniforms if they are specifically required as a condition of the employment and they are not of the type adaptable to general or continued usage. P is required to wear protective clothing because of his exposure to hazardous chemicals which I am assuming would not be worn out in the public and are required for P's safety. The \$6000 spent on the uniforms are deductible.

Home Office

P is allowed to take depreciation deductions on his home in a proportional amount of the use of the home that is used for the home office since P uses the office **exclusively** for work. He will also be able to deduct the utilities used on the proportion of the house used for the home office.

No deduction - not for convenience of ER. $\frac{4}{5}$

Alimony

P pays his ex wife Wanda (W) \$50K a year for alimony for the duration of her life. In order for this to be deductible to P and includable as income to W, this payment must meet the test which requires that the payment be in cash, received by or on behalf of the spouse under the legal decree, the decree cannot designate the payment as non-alimony, the payment cannot be child support, and the parties are not members of the same household at the time the payment is made and that there be no liability to make any payment in cash or property after the death of the recipient spouse. It does not say but I am assuming that P paid W in Cash, the money actually went to W, it is assumed

that the decree didnt designate it as non-alimony, P has custody of their son so it probably is not for child support, the parties presumably do not live in the same household , the decree also says that the payment would stop upon death of W. The fact that the payments continue after the death of P does not affect the treatment of that payment as alimony because the payments are not allowed to continue after the death of the recipient, which the decree does not allow. This \$50K payment is considered alimony and therefor deductible to P and includible in income to W.

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P also makes a payment of W's property taxes as states in their decree. Alimony must be received by or on behalf of the spouse and still meet all the other requirements. Here P is paying the taxes on behalf of W and it still therefor meets the alimony requirement and is also deductible to P.

continue post death?

8
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10

B: 39
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45

END OF EXAM