Exam No._____

UNIVERSITY OF FLORIDA
COLLEGE OF LAW
FINAL EXAMINATION
INCOME TAX
SPRING SEMESTER 2001
PROFESSOR WILLIS

DATE:   MAY 1, 2001
TIME:    9:00 a.m.
TIME LIMIT:   4-1/2 HOURS

INSTRUCTIONS

1. Any written materials you believe are helpful are allowed.

2. Write your exam number on the top of this page.

3. You should attempt to answer the questions in the space provided. You may use additional space; however, you should not need to.

4. Your answers may be written in ink or pencil or typed.

5. Unless otherwise indicated, all parties are on the cash method of accounting and use the calendar year. All parties are unrelated unless otherwise indicated.

6. If you feel you need further facts, indicate what sort of facts you would want to know and what difference they would make in your answer.

7. Count the pages of this booklet. There should be 7 remaining pages.

8. Assume that the Internal revenue code, as in existence on January 1, 2001 was in existence at all relevant times (i.e. without considering any amendments which were enacted after that date even if there are retroactive).

9. Plan your answer before you write in the space provided. Part of the test considers whether you can present an organized, logical, coherent answer. You need not use complete sentences; however, you should write clearly.

10. Write legibly!

11. Relax.
QUESTION ONE

Taxpayer purchased a computer, which he used in the design and construction of a building to be used for his own business use in an existing unincorporated trade or business. The computer cost $350,000 and was purchased on March 1, 2000. He expects to complete the construction of the building on December 31, 2002, at which point he will likely want to sell the computer to a design corporation owned by his nephew, although he will use it, in his business, for a year or more prior to the sale.

For this problem, you should assume that the computer has a class-life of seven years and a salvage value of $10,000, and is used exclusively for business purposes.

a. Assuming Taxpayer deducted the maximum permissible correct amount of depreciation attributable to the computer in 2001, how much would he have actually deducted on his tax return for that year for depreciation on the computer?

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On what code section(s) or case authority did you base your answer?

__________________________________________________________________

Explain, if you care to:
b. Assuming Taxpayer used the maximum permissible depreciation method for the computer for the years 2000 through 2002, what would be his basis in the computer (assuming he made no additions to it and it suffered no casualties) on December 31, 2003?

$ ________________________________

Explain, if you care to:
c. Taxpayer wants to know the character of any gain or loss attributable to his anticipated sale of the crane on January 1, 2004. Naturally, your answer must be function of the possible sale price and expected adjusted basis of the crane (as you determined above). Explain (using numbers and words) how different possible sales prices will result in differing characters of gain or loss.
d. If taxpayer were to die on July 1, 2001, and his son were to inherit the unincorporated sole proprietorship described above at a time when the computer was worth $175,000, what would be son’s gain or loss if he were to immediately sell the computer for $175,000?

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Explain, if you care to:

e. If son were instead to continue operation of the unincorporated business, what would be son’s depreciable basis in the computer on July 1, 2001?

$________________________

Explain, if you care to:

QUESTION TWO

Taxpayer’s uncle inherited Whiteacre (a residential lot) in 1950 from his father, who had
purchased it in 1930 for $2500. On the date of death (and six months thereafter) it had a fair market value of $15,000. The uncle (who is married) gave the lot to Taxpayer on July 1, 1990. On that date the lot had a fair market value of $20,000. On August 15, 1993, Taxpayer borrowed $75,000 from Bank Two, giving a mortgage on the property as security. He used $65,000 to add a rental house and $10,000 to pay off some personal credit card debts. Construction on the house was completed January 1, 1994. Taxpayer immediately rented the property to his brother for $500 rent per month, which was a fair rental amount. On December 12, 1998, taxpayer was married. Today, he was awarded a dissolution from his wife. In exchange for her release of all alimony rights, she received Whiteacre, subject to the remaining debt of $50,000 (which she became obligated to pay), plus the rights to the $4,000 rent which Taxpayer’s brother had neglected to pay since September, 2000. Brother paid $2000 of the past due rent today plus the current rent of $500. Wife forgave the rest of the past due rent.

What are the 2001 tax consequences from these facts on Taxpayer?
QUESTION THREE

During the year 2000, taxpayer had long-term capital gains of $42,000, short-term capital gains of $17,000, long-term capital losses of $64,000, and short-term capital losses of $19,000. He also had a short-term loss carryover of $15,000 from 1999.

What is his capital loss carryover, and its nature, to 2001, if any?

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QUESTION FOUR

Taxpayer owes $14,000 in personal credit card debt, but is unable to pay it. As his counsel, you negotiated with the credit card company to reduce the debt to $10,000, which includes a discharge of $1000 principal and $3000 capitalized interest (unpaid interest which was added to the debt).

Explain to your client the consequences of this discharge. (You may want to review section 163(h) for this question).
QUESTION FIVE

Does section 1231 apply to personal casualty losses (for example, a loss from the theft of an automobile used exclusively for personal purposes)?

YES NO

(CIRCLE ONE)

Explain if you care to: