

Federal Income Tax

**Introduction to Capital Gains**

... in relation to the course


... in relation to "property transactions"

"So you sold some property this year ..."

What must we know about the asset?

I. Type of asset

A. Personal -- \_\_\_\_\_

- 1. gains and losses
- 2. gains and losses

B. Business

- 1.
- 2.
- 3.

II. Other information needed

A. Sales Price (and date)

B. \_\_\_\_\_

C.

III. Holding Period

A.

B.



History of Special Treatment\* of LT Gains

	<u>1954 - 1969</u>	<u>1969 - 1986</u>	<u>1986 - 1997</u>
<b>ST</b>	100%		100%
<b>&lt;ST&gt;</b>	100% (\$1,000 annual max.)	100% (\$ annual max.)	(\$3,000 annual max.)
<b>LT</b>			*
<b>&lt;LT&gt;</b>	(\$1,000 annual max.)	(\$ annual max.)	

\* alternative tax rate

Acquiring Property -- name as many as you can!

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_
4. \_\_\_\_\_ (later)

For property acquired by gift:



\_\_\_\_\_

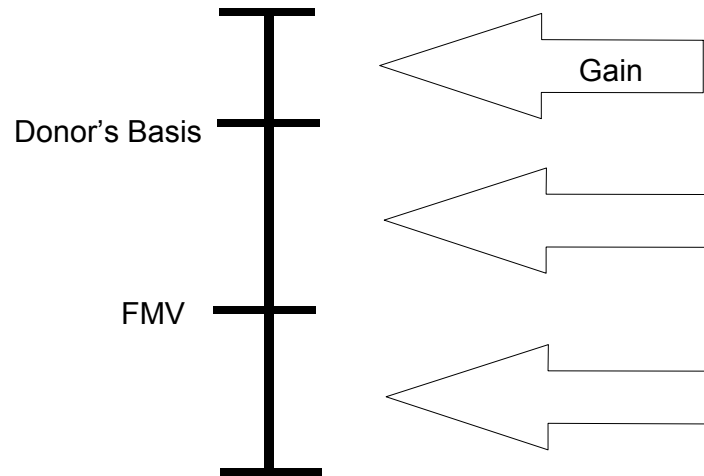
For inherited property:

\_\_\_\_\_



Property Received by Gift

When donor's basis > FMV at the time of the gift, it is possible to have TWO basis -- one for determining GAIN and one for determining LOSS.



1. Determining basis and gain or loss on property received as a gift. In the cases that follow, a donee has received property as a gift and subsequently disposed of it through sale.

- a. For each case, compute the donee's gain or loss on the subsequent sale if the gifts were made in 1976.

	<u>Donor's Adjusted Basis</u>	<u>FMV at Date of Gift</u>	<u>Gift Tax Paid</u>	<u>Amount Realized</u>	<u>Basis</u>	<u>G or L</u>
1)	\$10,000	\$20,000	\$1,000	\$21,000	_____	_____
2)	10,000	15,000	1,000	15,000	_____	_____
3)	10,000	15,000	1,000	9,000	_____	_____
4)	10,000	8,000	500	11,000	_____	_____
5)	10,000	8,000	500	7,500	_____	_____
6)	10,000	8,000	500	9,000	_____	_____

- b. For each case, compute the donee's gain or loss on the subsequent sale if the gifts were made in 1977 or a later year. For introductory purposes, assume donor made other gifts in excess of \$10,000 to the donee during the current year.

	<u>Donor's Adjusted Basis</u>	<u>FMV at Date of Gift</u>	<u>Gift Tax Paid</u>	<u>Amount Realized</u>	<u>Basis</u>	<u>G or L</u>
1)	\$10,000	\$20,000	\$1,000	\$21,000	_____	_____
2)	10,000	15,000	1,000	15,000	_____	_____
3)	10,000	15,000	1,000	9,000	_____	_____
4)	10,000	8,000	500	11,000	_____	_____
5)	10,000	8,000	500	7,500	_____	_____
6)	10,000	8,000	500	9,000	_____	_____

2. Determining basis and gain or loss on property received as a gift. Assume that on February 14 of the current year, a donee sold, under the alternative conditions detailed below, an investment property she had received as a gift on January 8. Assume further that the donor had purchased the property on October 26, 1974. State the amount and class (short-term/long-term) of capital gain or loss realized.

	<u>Donor's Adjusted Basis</u>	<u>Gift Tax Paid By Donor</u>	<u>Value on Date of Gift</u>	<u>Amount Realized on Sale</u>	<u>Basis</u>	<u>G or L</u>
1)	\$11,000	\$ 600	\$12,000	\$13,000	_____	_____
2)	11,000	1,200	12,000	13,000	_____	_____
3)	11,000	500	10,000	9,000	_____	_____
4)	11,000	500	10,000	12,000	_____	_____
5)	11,000	1,500	10,000	10,500	_____	_____