# Individual Income Tax: Gains and Losses

**Course #3113D**

**Taxes**

**2 Credit Hours**

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# INDIVIDUAL INCOME TAX: GAINS AND LOSSES

This course covers investment gains and losses, including how to figure your basis in property. It will help you determine if a gain from selling or trading stocks, bonds, or other investment property is taxable and if a loss is or is not deductible. It also discuss gains from selling property you personally use.

## LEARNING ASSIGNMENTS AND OBJECTIVES

*As a result of studying each assignment, you should be able to meet the objectives listed below each individual assignment.*

### SUBJECTS

**Basis of Property**
**Sale of Property**
**Selling Your Home**
**Reporting Gains And Losses**

Study the course materials from pages 1 to 49

Complete the review questions at the end of each chapter

Answer the exam questions 1 to 10

**Objectives:**

- Identify the factors to consider in calculating the basis of property
- Recognize the taxability of the sale of personal use property.
- Identify the special tax rules related to selling your home.
- Recall the capital gain rates for the current year.

**NOTICE**

All references to IRS forms and line numbers throughout this course are based on prior year or draft forms available from the IRS in late 2022. There is a possibility some of these references will change.



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## EXAM OUTLINE

- **TEST FORMAT:** The final exam for this course consists of 10 multiple-choice questions and is based specifically on the information covered in the course materials.

- **ACCESS FINAL EXAM:** Log in to your account and click Take Exam. A copy of the final exam is provided at the end of these course materials for your convenience, however you must submit your answers online to receive credit for the course.

- **LICENSE RENEWAL INFORMATION:** This course qualifies for **2** CPE hours.

- **PROCESSING:** You will receive the score for your final exam immediately after it is submitted. A score of 70% or better is required to pass.

- **CERTIFICATE OF COMPLETION:** Will be available in your account to view online or print. If you do not pass an exam, it can be retaken free of charge.

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# CHAPTER 1: BASIS OF PROPERTY

## Chapter Objective

**After completing this chapter, you should be able to:**

- Identify the factors to consider in calculating the basis of property.

## I. REMINDERS

**Special rules for capital gains invested in Qualified Opportunity Funds.** Effective December 22, 2017, Code section 1400Z-2 provides a temporary deferral of inclusion in gross income for certain capital gains invested in Qualified Opportunity Funds (QOFs), and a potential permanent exclusion of gains from the sale or exchange of an investment in a QOF if the investment is held for at least 10 years. For more information, see the Instructions for Form 8949.

## II. INTRODUCTION

This chapter discusses how to figure your basis in property. It is divided into the following sections.

- Cost basis.
- Adjusted basis.
- Basis other than cost.

Basis is the amount of your investment in property for tax purposes. Use the basis of property to figure gain or loss on the sale, exchange, or other disposition of property. Also use it to figure deductions for depreciation, amortization, depletion, and casualty losses.

If you use property for both business and personal purposes, you must allocate the basis based on the use. Only the basis allocated to the business use of the property can be depreciated.

Your original basis in property is adjusted (increased or decreased) by certain events. If you make improvements to the property, increase your basis. If you take deductions for depreciation or casualty losses, or claim certain credits, reduce your basis.

## III. COST BASIS

The basis of property you buy is usually its cost. The cost is the amount you pay in cash, debt obligations, other property, or services. Your cost also includes amounts you pay for the following items.

- Sales tax.

- Freight.
- Installation and testing.
- Excise taxes.
- Legal and accounting fees (when they must be capitalized).
- Revenue stamps.
- Recording fees.
- Real estate taxes (if assumed for the seller).

In addition, you may also have to capitalize (add to basis) certain other costs related to buying or producing property.

**Loans with low or no interest.** If you buy property on a time-payment plan that charges little or no interest, the basis of your property is your stated purchase price minus any amount considered to be unstated interest. You generally have unstated interest if your interest rate is less than the applicable federal rate.

## REAL PROPERTY

Real property, also called real estate, is land and generally anything built on, growing on, or attached to land.

If you buy real property, certain fees and other expenses you pay are part of your cost basis in the property.

**Lump sum purchase.** If you buy buildings and the land on which they stand for a lump sum, allocate the basis among the land and the buildings so you can figure the allowable depreciation on the buildings. Land is not depreciable. Allocate the cost according to the fair market values of the land and buildings at the time of purchase. Figure the basis of each asset by multiplying the lump sum by a fraction. The numerator is the FMV of that asset and the denominator is the FMV of the whole property at the time of purchase.

***Fair market value (FMV)*** is the price at which the property would change hands between a willing buyer and a willing seller, neither having to buy or sell, and both have reasonable knowledge of all the necessary facts. Sales of similar property on or about the same date may be helpful in figuring the FMV of the property.

**Assumption of mortgage.** If you buy property and assume (or buy the property subject to) an existing mortgage on the property, your basis includes the amount you pay for the property plus the amount to be paid on the mortgage.

**Settlement costs.** You can include in the basis of property you buy the settlement fees and closing costs for buying the property. (A fee for buying property is a cost that must be paid even if you buy the property for cash.) You cannot include fees and costs for getting a loan on the property in your basis.

The following are some of the settlement fees or closing costs you can include in the basis of your property.

- Abstract fees (abstract of title fees).
- Charges for installing utility services.
- Legal fees (including title search and preparation of the sales contract and deed).
- Recording fees.
- Survey fees.
- Transfer taxes.
- Owner's title insurance.
- Any amounts the seller owes that you agree to pay, such as back taxes or interest, recording or mortgage fees, charges for improvements or repairs, and sales commissions.

Settlement costs do not include amounts placed in escrow for the future payment of items such as taxes and insurance.

The following are some of the settlement fees and closing costs you cannot include in the basis of property.

1. Casualty insurance premiums.
2. Rent for occupancy of the property before closing.
3. Charges for utilities or other services related to occupancy of the property before closing.
4. Charges connected with getting a loan. The following are examples of these charges.
    a) Points (discount points, loan origination fees).
    b) Mortgage insurance premiums.
    c) Loan assumption fees.
    d) Cost of a credit report.
    e) Fees for an appraisal required by a lender.
5. Fees for refinancing a mortgage.

**Real estate taxes.** If you pay real estate taxes the seller owed on real property you bought, and the seller did not reimburse you, treat those taxes as part of your basis. You cannot deduct them as an expense.

If you reimburse the seller for taxes the seller paid for you, you can usually deduct that amount as an expense in the year of purchase. Do not include that amount in the basis of your property. If you did not reimburse the seller, you must reduce your basis by the amount of those taxes.