

2010 DEPRECIATION QUIZ

For purposes of clarity, the special 30% bonus depreciation and the 50% special depreciation are not being taken on any of the problems in this quiz.

1. T F Depreciation is loss in value of property over the time the property is used.
2. T F Real property includes anything growing on or attached to the land
3. T F Personal tangible property includes things like your personal household furniture
4. T F Intangible property includes computer software
5. T F You made a down payment on rental property and assumed the previous owner's mortgage. You are considered to own the property and may depreciate it.
6. T F This year you bought a new van that you will use totally in your courier business. You will be making payments on the van over the next 5 years. You do not "own" the van and may not take depreciation deductions on it.
7. In order to depreciate property the property must be
 - a. Used in trade or business or held to produce income
 - b. Tangible personal property only
 - c. Something that increases in value as years go by.
8. T F Nonbusiness use includes commuting to and from work
9. You constructed a new building for use in your business and paid for grading, clearing, seeding and planting bushes and trees. Some of the bushes and trees were planted right next to the building and would have to be destroyed if the building were replaced, while others were planted around the outer border of the lot. You may:
 - a. Add the entire land preparation costs to the basis of the building and depreciate the costs along with the building
 - b. Add the entire land preparation costs to basis of land and take no depreciation on the costs
 - c. Add the cost of the bushes and trees planted next to the building to cost of the building and depreciate the costs.
 - d. Depreciate the costs of the bushes and trees planted next to the building as land preparation costs.
10. T F If you completely replace the roof of a rental house, the replacement roof increases the value and lengthens the life of the property and you must capitalize it and depreciate it. (No matter what the client says about it- they will always want to deduct cost in full)
11. T F Durable containers used to ship product are depreciable if the life is longer than one year, used in trade or business and belong to the buyer after shipment.
12. T F Professional libraries are depreciable property.

DEPRECIATION QUIZ

13. T F If you stop using a piece of machinery because there is a temporary lack of market for a product made with the machinery, you must continue to deduct depreciation on the machinery (idle asset)
14. T F There a special rules for depreciating video cassettes used in the business of renting videocassettes.
15. Annie bought stock in a cooperative housing corporation when it was first offered to the public and she has a basis in the stock of \$50,000. She uses one half of her apartment solely for business purposes. The cooperative housing corporation's depreciation amount for this year is \$30,000. Annie's depreciation deduction
- a. She can not take a deduction since she is not the owner of the apartment
 - b. Must be limited to \$30,000
 - c. Must be limited to \$25,000
16. If the corporation (in the above problem) had a room that could be rented for tenant parties and entertainment use only, and this room constituted 10% of the total housing project, Annie
- a. Must reduce the cooperative housing corporation depreciation deduction by \$3,000 before computing her depreciation deduction
 - b. Does not really care what the corporation can deduct
 - c. May still use the \$30,000 as the corporation's depreciation deduction
17. If Annie purchased 50 shares of stock in the corporation (above) and the total shares outstanding by the corporation was 500 shares, Annie's depreciation on her apartment would be:
- a. \$3,000
 - b. \$2,700
 - c. \$1,350
 - d. \$1,500
18. T F Patents and copyrights must be depreciated by straight line method over the useful life but if they become valueless in any year before useful life expires, you may deduct the balance in full in that year.
19. T F A non compete agreement entered into after 1993 must be amortized over 15 years even if the agreement is only for five years.
20. T F Costs to manually convert existing software, develop new software, purchase or lease new software to replace existing software to assist in recognizing dates beginning in the year 2000 are fully deductible in year the costs are incurred and are not subject to the normal software depreciation rules.

DEPRECIATION QUIZ

21. T F Jack bought a spread sheet program for his business computer use. He bought it at Costco and it does not require special licensing. He may depreciate the cost of the software over 36 months.
22. T F After Jack bought his software and installed it in his business computer, he sold the business to Jill and included the computer and software in the sale. Jill may separate the cost of the software and depreciate it over 36 months.
23. In April, Frank bought a patent. It was not acquired in connection with the acquisition of any part of a trade or business. He paid \$5,100 for it. He depreciates the patent under the straight line method. The useful life of the patent is 17 years and has no salvage value. He may deduct, as depreciation in the first year
- a. \$300
 - b. \$225
 - c. No depreciation - must amortize over 15 years
24. T F Goodwill can never be depreciated
25. T F You bought a home and used it as your personal home several years before you converted it to rental property. You are considered to have “placed in service” the home when you began using it as your home.
26. T F Ben bought a planter for his farm business late in the year after harvest was over. He may take a depreciation deduction for the planter for that year.
27. T F If you did not deduct the correct amount of depreciation for property in any year, you may be able to make a correction for that year by filing an amended return.
28. T F Form 4562 must be filed with tax return if depreciable property was placed in service in the current year.
29. T F Form 4562 must be filed with return if claiming a deduction on any vehicle or listed property, regardless of when it was placed in service.
30. City Bakery traded two ovens having a total adjusted basis of \$680 for a new oven costing \$1,320. The bakery also traded a used van with an adjusted basis of \$4,500 for a new van costing \$9000. City Bakery placed the new items in service this year. They were given an \$800 trade-in allowance for the old ovens and paid \$520 cash for the new oven. They were given a \$4800 trade-in on the used van and paid \$4,200 cash for the new van. The City Bakery (if all other qualifications are met) has an adjusted basis on combined properties of
- a. \$9900
 - b. \$5520
 - c. \$10320

DEPRECIATION QUIZ

31. City Bakery has a qualified basis for section 179 deduction for the oven of
- a. \$1,320
 - b. \$520
 - c. \$680
32. T F Cost of a single purpose horticultural structure is eligible for section 179 expense deduction.
33. T F Land improvements such as a swimming pool or fence are eligible property for section 179 expense deduction.
34. T F A grocery store counter is tangible personal property and is eligible for section 179 expense deduction
35. T F Gasoline storage tanks and pumps at the local service station are eligible property for section 179 expense deductions.
36. T F Mink and other fur bearing animals are not eligible for section 179 expense deduction.
37. T F Using part of a greenhouse to sell the plants will disqualify the greenhouse for section 179 expense (horticultural structure)
38. T F Property held only for the production of income does not qualify for section 179 expense deduction.
39. T F Air conditioning or heating units do not qualify for section 179 expense deduction
40. Which of the following is not eligible for section 179 expense deduction?
- a. Property used predominantly outside the U.S.
 - b. Property used by tax-exempt organizations
 - c. Property used by governmental units
 - d. Property used by foreign persons or entities
 - e. All of the above.
41. T F Related party rules for determining property not qualified for section 179 deduction are generally based on a 10% interest.
42. T F Property used by a hotel or motel in connection with a trade or business of furnishing lodging where the predominant portion of the accommodations are used by transients is eligible for section 179 deduction.
43. T F Equipment that uses solar energy to generate electricity (that is not a public utility property) is eligible for section 179 expense deduction.

DEPRECIATION QUIZ

44. T F Section 179 must be elected on an original tax return filed for the year the property was placed in service whether or not the return is timely filed.
45. T F Section 179 election can be made on an amended return after due date, including extensions for the year placed in service.
46. T F Section 179 election can only be revoked with IRS consent and only in extraordinary circumstances.
47. T F Requests for revoking a section 179 election are subject to a user fee of a minimum of \$500 and can be as high as \$3,500.
48. T F You may transfer the section 179 expense election to a different property acquired in the same year at a later date if you change your mind.
49. T F Maximum Section 179 dollar limit is \$125,000 for 2010 for most qualified property
50. T F Maximum Section 179 total cost for Qualified Property for 2010 is \$500,000. without adjustments to other limitations.(MFJoint).
51. T F The maximum dollar limit must be reduced if investment limits are exceeded.
52. T F Taxpayer and spouse are treated as one taxpayer in determining any reduction to maximum dollar limits, regardless of which party acquired the property or placed it in service.
53. Alice purchased \$203,000 of Code Section 179 property in 2010. Profit from her business (which was her only source of income) this year was \$150,000 before depreciation. She may:
- a. Deduction \$150,000 for section 179 property this year and take depreciation deductions on the balance of \$53,000.
 - b. Deduction \$125,000 section 179 and take depreciation on the balance of \$78,000.
 - c. Deduct \$125,000 section 179 expense and carryover \$78,000 as section 179 carryover to 2009.

DEPRECIATION QUIZ

54. Jeff owns and operates an auto repair shop for which he purchased \$20,000 of section 179 property. His taxable income from the auto repair shop was \$21,000. He also owns a part of a pottery business in which he does not materially participate under the passive loss rules but does actively participate for purposes of section 179. He realized a loss of \$10,000 from the pottery business but is not allowed to deduct it in the current year because of the passive loss limits. He
- a. Must reduce his taxable income from the auto repair shop by the loss from the pottery business and must limit his section 179 expense to \$11,000
 - b. Is not required to reduce the auto repair shop profit by the passive loss that is not allowed as a deduction and make take \$21,000 section 179 for 2009
 - c. May deduct the entire \$20,000 as section 179 expense from the auto repair business
55. T F Section 1231 gains and losses must be included in computing taxable income limits for section 179 deduction
56. T F Any cost that is not deductible in one tax year under section 179 because of the taxable income limit may be carried to the next tax year.
57. T F Taxpayer may select the properties for which costs will be carried over (for section 179 carryover)
58. Jim had no code section 179 carryover from prior years at the beginning of 2006. His purchases of 179 property, amount of section 179 election, taxable income from trade/business and carryover of unused 179 deduction during 2008, 2009 and 2010 are shown below.

Year	Qualified Property Purchased	Taxable Income from Business	179 Election	Carryover Of Unused Sec 179
2008	\$15,000	\$ 4,000	\$15,000	\$11,000
2009	\$ 7,000	\$20,000	\$ 7,000	\$ -0-
2010	\$12,000	\$11,000	\$11,000	\$ 1,000

If his income from his business for 2007 had been \$8,000, he will have a carryover to 2009 of:

- a) \$7,000
- b) \$10,000
- c) \$11,000

DEPRECIATION QUIZ

- 59.** Glenda paid \$15,000 for a lathe in May of 2010 and \$5,000 for a saw in June. She elected to expense \$20,000 but taxable income limited her deduction to \$5,000. She
- a. Must allocate the \$5,000 taken to the lathe because it was purchased first
 - b. May allocate the \$5,000 to either property but must specify
 - c. Must split the \$5,000 between the two properties 3/4 to lathe and 1/4 to saw based on ratio of cost.
- 60.** T F A partnership makes the election for 179 deductions but passes the deduction to the partners who then must limit the deduction to their own taxable income limits and dollar limits.
- 61.** T F Phil is a tailor. He bought two industrial sewing machines from his father. He placed both machines in service in the same year he bought them. He may claim section 179 deduction for the cost of these machines.
- 62.** T F Last year, taxpayer bought a new car and placed it in service for personal purposes. In the current year he began to use it 55% for business. He may take the section 179 deduction on 55% of the FMV of the vehicle at time of conversion to business use (subject to maximum limitations)
- 63.** Jerry is married. He and his wife file separate returns. He bought and placed in service \$500,000 of qualified farm machinery in 2010. His wife had her own business and she bought and placed in service \$10,000 of qualified business equipment. If they make no election otherwise, they
- a. Can deduct \$115,000 section 179 expense allocated however they wish
 - b. Each can elect \$62,500 section 179 and he will have a carryover
 - c. Each can only deduct their share of maximum \$125,000 allocated according to qualified property purchases (Her's \$10,000 and his \$120,000)
- 64.** T F If business use drops 50% or below after taking a section 179 deduction on the property in any year of the property's class life, you may be subject to recapture of the entire expensed amount.

DEPRECIATION QUIZ

- 65.** Mary purchased a computer for use in her business last year. She expensed (section 179) the total cost of the computer (\$2,000) in the year of acquisition. She sold the computer during the current year for \$1,000. The section 179 expensed amount
- a. Must be recaptured and added back to her self employment income
 - b. Must be shown as “depreciation” taken in reporting the sale of the computer on form 4797 part III but is not subject to self employment tax
 - c. Must be reported as ordinary income on form 4797 part II.
- 66.** Beech partnership placed in service section 179 property with a total business cost of \$412,000. The partnership’s taxable income for the year was \$100,000. The partnership allocates the allowable maximum section 179 expense equally to its two partners, Ann and Dean, who are not married. In addition to being a partner in Beech Partnership, Dean also operates a business as a sole proprietorship. This year he placed \$15,500 of qualifying section 179 property in service in his sole proprietorship business. This business had taxable income of \$20,000. He is also a partner in Cedar Partnership, which allocated him a section 179 amount of \$43,000. He:
- a. Can elect a section 179 deduction for his sole proprietorship business for a total of \$15,500 and carry over the excess
 - b. Can only elect \$15,000 for the property from his sole proprietorship because the partnerships have passed through \$93,000 of his maximum allowable amount.
 - c. Can elect \$9,000 for the property from his sole proprietorship because the partnerships have passed through \$93,000 of his maximum allowable amount.
- 67.** T F ADS method generally requires shorter recovery periods and uses only the straight line method.
- 68.** T F You may elect to use the Alternative Depreciation System for property that qualifies for using General Depreciation System
- 69.** T F You may elect to use the 200% declining balance method for qualified property over an ADS recovery period.
- 70.** T F The mid quarter convention is required for property (other than nonresidential real and residential rental property) if basis of property placed in service during the last half of the year is more than 50% of the total bases of all property placed in service for the entire year.
- 71.** T F Motion picture films, video tapes and sound recordings can not be depreciated under MACRS.

DEPRECIATION QUIZ

72. T F Property that can properly be depreciated under a method of depreciation not based on a term of years (standard mileage) is considered to be excluded from MACRS.
73. T F Michelle bought and took delivery of an item of personal property in November 2010. The property was not installed and operational until February 2010. For purposes of depreciation deductions, she is considered to have NOT owned the property until 2010.
74. T F Sally leased her computer for a year and then decided to purchase it. She cannot use MACRS depreciation.
75. T F Billy purchased an office building at fair market value from his sister this year. He may not use MACRS to depreciate the building.
76. T F For determination of whether MACRS method may be used - the “relationship” test for partnerships and S corporations is tested at 10%.
77. T F When using “cost” basis for depreciation calculations, you must include basis of any trade in.
78. T F Construction cost basis includes employee wages if employee contributed to the construction.
79. Steve bought a travel trailer last year for \$10,000 and used it for personal use only. Later in the year, he set fire to it accidentally and had an uninsured casualty loss deduction for the personal casualty of \$2,000. He spent \$4,000 to repair the damages and to add a new refrigerator to the trailer. Then, the next year, he added an awning and window coverings that cost another \$2,000 and immediately put the trailer on a construction site to use for an office. FMV of the trailer at the time it was converted to business use was \$20,000. His depreciable basis for the trailer is:
- a. \$16,000
 - b. \$14,000
 - c. \$20,000
80. T F Generally, basis of inherited property is Fair Market Value at date of death.

DEPRECIATION QUIZ

- 81.** John and Mary live in a community property state. John died this year. They have owned community property with a FMV of \$250,000. Their adjusted basis in the property was \$150,000. 75% of the community interest was included in John's estate. Mary's basis for the property after John's death is
- a. \$250,000
 - b. \$150,000
 - c. \$225,000
- 82.** T F Client purchased a lot which had an old building on it. The lot was purchased for construction of his business warehouse. He had the old building torn down and hauled away at a cost of \$15,000. A salvage company paid him \$5,000 for the lumber from the old building. He may include \$10,000 in basis of the new warehouse.
- 83.** T F All property (except real property) used in a farming business is depreciated under GDS at 150% declining balance method.
- 84.** T F For property placed in service after 1998, if you choose to depreciate using the 150% DB rate, you may use the same recovery periods as 200% DB method.
- 85.** T F If you choose (elect) 150% declining balance rate for 3,5,7, and 10 year property, you must use ADS recovery periods.
- 86.** T F If you elect to use 150% DB method for one item in a property class, you must use the same method for all property in that class placed in service in that tax year.
- 87.** T F For fruit or nut trees and vines- the GDS method is straight line over 10 years.
- 88.** T F Nonresidential real property must be depreciated over GDS recovery period using 150% declining balance method.
- 89.** T F Tractor units for over the road use are GDS 3 year property.
- 90.** T F Any property that does not have a class life and has not been designated by law as being in any other class is 12 year property.
- 91.** T F Farm buildings, other than single purpose structures, are 10 year property.
- 92.** T F Mobile homes qualify as residential rental property if all other qualifications are met and have a recovery period of 27.5 years.

DEPRECIATION QUIZ

93. T F Office in home is depreciated as non-residential property over 39 years.
94. T F Qualified rent-to-own property has a class life of 3 years
95. T F Barry owns a gas station convenience store. He does not sell food products in the store because the building is only 1000 square feet and he uses it for storage of motor vehicle oil and other small parts. He may depreciate the building over 15 year recovery period.
96. T F If Barry sells grocery items from the store that generate 55% of the gross revenues with the balance coming from gasoline and oil sales, he may not use 15 year recovery method.
97. T F The class and recovery period of the addition or improvement to a property is the same as the one that would apply to the underlying property if it had been placed in service at the same time as the improvement.
98. T F A shorter recovery period for property used on an Indian Reservation is applied to Indian Casino slot machines.
99. T F Roads leading to (but not inside) and Indian reservation may qualify for shorter recovery period depreciation if the road leads to an Indian Souvenir store. Assume all other necessary requirements are met for the road to be depreciable.
100. T F Non residential property on an Indian reservation, if otherwise qualified, may be depreciated over 25 years.
101. T F Alternative Depreciation system (ADS) must be used for certain property but can be elected for property that qualifies for GDS
102. T F For all section 1245 property not listed in ADS tables, the recovery period is 40 years.
103. T F ADS recovery period for single purpose agricultural and horticultural structures is 15 years.
104. T F Personal property with no CLASS life has an ADS recovery period of 12 years
105. T F The half year convention is generally used for all property other than real property.

DEPRECIATION QUIZ

- 106.** T F There is no half year deduction under MACRS for personal property used in a trade or business for the year of disposition.
- 107.** T F Under MACRS Mid-month convention, nonresidential and residential rental property are treated as placed in service at the midpoint of the month but there is no deduction for the month that the property is disposed of.
- 108.** T F You own a rental home which you have been renting out since 1981. If you put an addition on the home and place the addition in service this year, you must use the same depreciation method you are using for the building.
- 109.** T F In current year, you bought a machine that is 7 year property for \$4,000, office furniture that is 7 year property for \$1,000 and a computer that is 5 year property for \$5,000. All of the properties are used only for business. You placed the machine in service in January, the furniture in September and the computer in October. Since the computer is 5 year property and the others are 7 year property, you do not have to use mid quarter convention
- 110.** T F You bought a building and land for \$120,000. The sales contract states that the building cost is \$100,000 and the land \$20,000. You placed the property in service in your business on March 8. It is nonresidential real property. You use the calendar year as your tax year and do not elect to use ADS. You must compute depreciation based on half year convention.
- 111.** On October 26,2010, Miss Jones bought and placed in service in her business an item of 7 year property. She used the calendar year as her tax year. This is the only item of property she placed in service in 2010. It cost \$29,000 and she elected a section 179 deduction of \$20,000. Her unadjusted basis after the section 179 deduction is \$9,000. Using the tables below, her 2010 depreciation deduction is:
- a) \$1429.10
 - b) \$2500.00
 - c) \$321.30

		Depreciation Tables 7 Year Property			
		Mid Quarter Convention			
		Quarter in Which Acquired			
Year	Half Year	1	2	3	4
1	14.29%	25%	17.85%	10.71%	3.57%

DEPRECIATION QUIZ

- 112.** In July 2010, her property was vandalized and Miss Jones had a deductible casualty loss of \$3,000. She must adjust her property's basis for the casualty loss. Her adjusted basis recomputed is subject to:
- a. 7 year MACRS table - half year convention
 - b. 7 year MACRS table - mid quarter convention
 - c. She can not use the tables.
- 113.** T F To determine if mid quarter convention applies, you must include basis of all assets acquired for use in the business in that year.
- 114.** T F You can not use percentage tables for a short year.
- 115.** T F If you take a deduction for a clean fuel vehicle or electric vehicle and later must recapture part or all of the deduction or credit, you must increase the basis of the property by the amount of the recapture. You may then recover the additional basis over the rest of the recovery period beginning with the year of the recapture.
- 116.** T F You may group separate properties into one or more general asset accounts and depreciate them as a single item of property.
- 117.** T F Property subject to mid quarter convention can only be grouped into general asset account with property that is placed in service in the same quarter of the taxable year
- 118.** Make and Sell, a calendar - year corporation, maintains one general asset account for ten machines. The machines cost a total of \$10,000 and were placed in service in June 2007. One of the ten machines cost \$8,200 and the rest cost a total of \$1,800. This general asset account is depreciated under the 200% declining balance method with a 5 year recovery period and a half year convention. Make and Sell does not claim the section 179 deduction on the machines. As of January 1, 2010, the depreciation reserve account is \$2,000 ($\$10,000 \times 40\% / 2$) On February 8, 2010, Make and Sell sells the machine that cost \$8,200 to an unrelated person for \$9,000. Make and Sell must report a recognized gain as ordinary income of:
- a. \$8,200
 - b. \$9,000
 - c. \$1,600
- 119.** T F Make and Sell must adjust the basis and depreciation reserve of the account because of the sale of the machine.

DEPRECIATION QUIZ

120. T F If you dispose of the last item of property in a general asset account, you may recover the adjusted depreciable basis of the general asset account
121. T F An election to use a general asset account must be in writing on form 4562.
122. T F A computer used in an accounting and tax business by the owner of the business is not listed property.
123. T F Cellular phones are listed property
124. T F Video-recording equipment is not listed property.
125. T F An unmarked vehicle is not listed property if used by law enforcement officers if the use is officially authorized.
126. T F Passenger buses with capacity of at least 15 passengers that are used as passenger buses are not listed property.
127. T F Tractors and other special purpose farm vehicles are listed property
128. T F If a moving van is used for travel to and from a move site twice each week, it will not qualify for the exclusion from listed property.
129. T F Qualified specialized utility repair trucks includes certain vans and pickups.
130. T F Typewriters, calculators, adding and accounting machines are not considered related peripheral equipment for listed property.
131. T F Improvements to listed property must be capitalized and treated as a new item of depreciable property.
132. T F If listed property is not used predominantly (more than 50%) in a qualified business use, you must depreciate the property using ADS straight line method over ADS recovery period.
133. T F You can use percentage of investment use of listed property as part of the percentage of qualified business use to meet predominant use test.
134. T F You must apply the “predominant use” test EACH year of the ADS recovery period.

DEPRECIATION QUIZ

135. T F Use of a vehicle for commuting is not business use, regardless of whether work is performed during the trip
136. T F You can not take any depreciation or section 179 deduction for the use of listed property regardless of date placed in service, unless you can prove business/investment use with adequate record or sufficient evidence.
137. T F You can not claim depreciation deductions based on listed property in years after the recovery period, except automobiles
138. T F A passenger auto is any four wheeled vehicle made primarily for use on public streets, roads and highways and rated at 6,000 pounds or less of loaded gross vehicle weight.
139. T F James Company Inc owns several automobiles which its employees use for business purposes. The employees are also allowed to take the automobiles home at night. This is commuting. However, the fair market value of the use of an automobile for any personal purpose, such as commuting to and from work, is reported as income to the employees and James Company withholds tax on it. This use of company automobiles by employees, even if for personal purposes, is a qualified business use for the company.
140. T F For most passenger autos placed in service in 7-2010 depreciation, including section 179 deduction can not be more than \$11,060 for 2010.
141. T F For electric passenger vehicles the maximum deduction for 2010 is \$2,960 if placed in service in 2009.(If no special allowance which would be \$10,960.)
142. T F You must continue to keep records on a fully depreciated auto.
143. T F You are not required to organize your records. You can always take a box of receipts (the shoe box case) to the IRS audit.
144. T F You may maintain adequate records for a portion of a tax year and use that record to support business and investment use for the entire year if it can be shown by other evidence that the periods for which maintained adequate records are representative of use throughout the year.
145. T F You must keep records for listed property as long as any excess depreciation can be recaptured and recapture can occur in any tax year of the class life.

DEPRECIATION QUIZ

146. T F Denise maintains adequate records during the first week of every month showing that 75% of her use of auto is for business. Her business invoices show that her business continued at the same rate during the later weeks of each month. She may use 75% business use of the auto.
147. T F Your client is a log truck driver. Over the years he has purchased by trade in, several different trucks. Current depreciation schedules indicate that the basis of the current truck is \$20,000 and it is fully depreciated. This is a result of several applications of basis plus boot when the trucks are written off under section 179 and double declining balance. He decides to quit the business and finds that the truck will sell for \$115,000. He will have recapture depreciation of \$115,000 if he sells it.
148. T F In order to avoid recapture, you may gift your equipment to your children.
149. T F If you contribute section 1245 property to a charity, you must reduce the contribution deduction by the ordinary income portion that would have been taxable if sold for FMV
150. T F Death is the only way to escape the look back rules for recapture

TRANSFER YOUR ANSWERS TO THE ANSWER SHEET

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2010