2010 INSTALLMENT SALES QUIZ

1. T F To qualify as an installment sale, the payments must be required to be paid in 2 or more years.

2. T F If your sale results in a loss, you may report it under the installment method and take a percentage of the loss each year.

3. T F You can not report on the installment method if you are a cash basis taxpayer.

4. T F The installment sale method is mandatory, if it applies, unless you elect out of it.

5. T F An election out of the installment sale method is irrevocable without IRS consent.

6. T F To elect out of the installment sale, you must file form 6252 and mark it that you are electing out.

7. T F When you elect out of the installment method you must always report the entire realized gain in the year of the sale.

8. T F If you are a cash method taxpayer, the face value and FMV of an installment note are the same.

9. T F If your sale is from sale of 1245 depreciable property and there is depreciation recapture, you must report all of the ordinary gain from the recapture as collections are made before you report any capital gain

10. T F Section 1245 recapture includes section 179

11. T F Recapture must be reported in year of sale even if no payments are received in year of sale.

12. T F Final regulations on recapture of 1250 property depreciation apply to all sales after enactment date of August 23, 1999.

13. T F If you are reporting sale of 1245 or 1250 property for year of sale, you do not have to complete form 4797 but must complete form 6252 instead.

14. T F If your sale is from sale of 1250 (real) depreciable property and there is depreciation recapture subject to the new 25% capital gains rules, you must report the portion subject to 25% all in the year of sale in the same manner as in 1245. recapture. 2009

INSTALLMENT SALES QUIZ

15. For the current year, the installment method may NOT be used for:

a. Sales of personal property by a dealer
b. Sales of inventory
c. Sales of real property (except farm property and certain sales of residential lots or timeshares) held by a dealer for sale in the ordinary course of business.
d. All of the above.

16. T F Once you have computed the gross profit percentage, it USUALLY remains the same for future tax years

17. T F Gross profit percentage is computed by dividing gross profit by sales price.

18. T F Gross profit is the sales price reduced by sale expenses only.

19. During the current year, Jake sold property that had an adjusted basis to him of $19,000. The buyer assumed Jake's existing mortgage of $15,000 and agreed to pay an additional $10,000 consisting of a cash down payment of $5,000 and payment OF $1,000 plus interest per year for the next 5 years. Jake paid selling expenses totaling $1,000. What is Jake's gross profit percentage?

a. 20%
b. 40%
c. 50%
d. 80%

20. T F Selling price includes assumed mortgages or mortgages taken subject to.

21. Mr. Jones purchased property from Mr. Smith by assuming an existing mortgage of $12,000 and agreeing to pay an additional $6,000 plus interest, over the next 3 years. Mr. Smith had an adjusted basis of $8,800 in the building and paid selling expenses totaling $1,200. What was the sales price in this transaction?

a. $6,000
b. $18,000
c. $16,800
d. $12,000

22. T F Basis for computing installment sales is always cost

23. T F Adjusted basis is cost, plus improvements, less basis adjustments such as casualty loss deductions, depreciation and ITC basis adjustments.

INSTALLMENT SALES QUIZ

24. T F Installments sale basis is adjusted basis plus selling expenses only.

25. T F Contract price is always the amount seller will receive without reduction for expenses of sale.

26. T F To determine if mortgage is in excess of basis, you are allowed to add selling expenses to basis.

27. T F A mortgage PAID OFF by the buyer is included in contract price.

28. In question #21 above, the CONTRACT price is:

a. $12,000
b. $10,000
c. $8,000
d. $6,000

29. T F In a partial like kind exchange, the installment sale does NOT include the value of the like kind property

30. T F Like kind property received on a partial tax free exchange is not a payment on the installment note.

31. Payments received on an installment contract

a. Include down payment
b. Include third party notes
c. Include depreciation recapture income
d. (a) and (c) only
e. All of the above.

32. T F Payments received are NOT reduced by expense of sale.

33. T F If buyer assumes and pays expenses seller has in connection with selling the property (in addition to sales price) the total amount of the expense is included as payment in year of sale.

34. T F The portion of a mortgage in excess of basis is a payment in year of sale IN ADDITION to other payments buyer will make.

INSTALLMENT SALES QUIZ

35. Mr. Allen sold property to Mr. Jeffery on the following terms and with the following basis information: Adjusted basis for Mr. Allen was $20,000; Sale expenses paid by Mr. Allen were $2,000. Mr. Jeffery assumed an existing mortgage of $16,000 and agreed to pay $11,000 additional. Of the $11,000, cash down payment of $3,000 and balance over 4 years (plus interest) **Selling price is**

a. $16,000
b. $27,000
c. $25,000

36. In the above question, **contract price** would be

a. $27,000
b. $16,000
c. $11,000

37. In #35 above, the **Gross profit** would be

a. $5,000
b. $7,000
c. $15,000

38. In #35 above, the **Gross profit PERCENTAGE** is:

a. 50.0000%
b. 45.0000%
c. 45.4545%

39. The selling price for your property is $9,000. The buyer will pay you $1,000 annually (plus interest) over the next 3 years and assume an existing mortgage of $6,000. Your adjusted basis in the property is $4,400. You have selling expenses of $600 for a total installment sale basis of $5,000. **Contract price** is

a. $3,000
b. $4,000
c. $9,000

40. The **installment sale basis** in #39 above is:

a. $4,400
b. $5,000
c. $9,000

INSTALLMENT SALES QUIZ

41. The **gross profit** on sale in #39 above is:

a. $3,000
b. $4,000
c. $5,000

42. During year 1, Jim sold a piece of land that had an adjusted basis to him of $110,000 to Steve for $200,000. Steve paid $50,000 down and agreed to pay $30,000 per year plus interest for the next 5 years beginning in January of year 2. Jim incurred selling expenses of $10,000. What is the amount of gain to be included in Jim's gross income for year #1?

a. $18,000
b. $20,000
c. $22,500
d. $32,000

43. T F A wrap around mortgage is NOT considered an assumed mortgage

44. Jane bought her property on a land sales contract for $100,000. She does not assume the underlying mortgage of the seller for $50,000 but the sale is set up in escrow and Jane makes the payments to the escrow company who, in turn, makes the payments on the underlying mortgage and forwards any excess to the seller. During year #2 of the contract, Jane pays $5,000 on the principal and the escrow company pays $4,000 of this to the first mortgage and $1,000 to the seller. The seller will report **as payments received on the installment contract**

a. $1,000
b. $4,000
c. $5,000

45. In the above #44, the interest paid by Jane was $6,000 and the interest paid on the underlying debt (first mortgage) was $4,000. The seller will

a. Report $6,000 as interest received and $4,000 as itemized investment interest
b. Report a net of $2,000 interest income on Sch. B
c. Report $6,000 as interest received and $4,000 as mortgage interest itemized.

INSTALLMENT SALES QUIZ

46. T F Taxpayer purchased a personal residence for a total cost of $50,000. He paid $2,000 down and signed an installment note for the $48,000 balance (plus adequate interest). After two years of payments, he lost his job and could not complete payment of the contract. The original seller forgave the loan balance of $46,000 and took the property back. The original PURCHASER (who forfeited the property) does not have to report this as a disposition since it is a personal use property and he suffered a loss.

47. Seller sold property to buyer for $50,000 in exchange for $10,000 cash down and an installment note for the balance of $40,000. When buyer could no longer make the payments, the seller agreed to take the property back, cancel the note which had a balance of $35,000 and give the buyer a cash settlement of $5,000. The original buyer must report a sales price of:

a. $5,000
b. $40,000
c. No sale reporting required.

48. Taxpayer purchased a personal residence for $50,000 two years ago and paid $15,000 down payment. The balance of the purchase price was financed through the Dept of veterans Affairs. This year, he can no longer make the payments and voluntarily gives the property back to the DVA. The balance on the mortgage at the time of the voluntary repossession is $52,000 due to the add back of real estate taxes. Taxpayer must:

a. Report the sale but no gain or loss since this is a personal residence and he lost his $15,000 down payment
b. Report the sale and declare a $2,000 gain which is nontaxable since this is a personal residence (assuming he qualified under new two year and other requirements)
c. Report the sale and declare a $2,000 gain fully taxable since it is related to the taxes.

49. T F If buyer of real estate agrees to pay off balance due on sellers boat as part of the purchase price, the amount paid on the boat is considered payment in year of sale for the seller.

50. T F If buyer assumes sellers debts ON THE PROPERTY being sold, the entire amount is always included in payments in year of sale.

51. T F If buyer trades in an automobile on real estate purchase, seller must include FMV of the auto as a payment in the year of the sale.

INSTALLMENT SALES QUIZ

52. Taxpayer sold real estate in an installment sale. As part of the down payment, buyer assigned a $10,000 - 12% note of a third party. FMV of the note at the time of the sale was only $5,000. Seller must:

a. Report $10,000 as payment in year of sale only
b. Report $5,000 in year of sale and 50% of every subsequent payment on the note as part of payments on the installment sale.
c. Report $5,000 in year of sale and 50% of every subsequent payment as ordinary income but NOT a part of the installment sale.

53. Taxpayer sold depreciable personal property for $10,000. Cost of the property was originally $20,000 and taxpayer has taken depreciation in the amount of $17,000. He must report:

a. $3,000 ordinary income in year of sale and $4,000 on installment sale
b. $7,000 ordinary income in year of sale and NO installment sale
c. $7,000 on installment sale but all as ordinary income.

54. T F A related person **for use with sales of depreciable property** is a spouse or a 50% owned entity.

55. T F Sales of depreciable property to a related party may not use the installment method if the property is depreciable property in the hands of the seller.

56. T F Related persons for use in installment sales on NON depreciable property includes spouse, children, grandchildren, parents, grandparents, brothers sisters and any 10% owned corporation, partnership, trust, estate.

57. T F If a sale to a related party results in a second sale within two years and before all payments have been made, the full amount of the second sales price in excess of the first sales price is taxed to the **first** seller.

58. T F In a related party sale, if the buyer disposes of the property within two years for any reason, the second disposition rules will apply and part of the gain will be taxed to the first seller.

59. T F If gain is recognized because of a second disposition, any later payments received are tax free until they total more than the amount realized from the second disposition which caused recognized gain.

60. T F Second disposition rules do not apply if taxpayer can show that neither disposition was for avoidance of Federal income tax.

INSTALLMENT SALES QUIZ

61. T F Electing OUT of installment sale method can cause AMT tax which may be a major tax consequence

62. T F Unstated interest rules apply to sales of a main home buy owner.

63. T F Unstated interest rules apply to sales of a farm for $1,000,000 or LESS by an estate.

64. T F Unstated interest rules do not apply to sales of $3,000 or less.

65. T F Unstated interest rules do not apply to sales of personal USE property.

66. T F If you elect out of the installment sale and payments would include unstated interest, you must reduce the selling price by total amount of unstated interest before computing gain or loss.

67. Test rate period for unstated interest rules is determined by using:

a. Prior year rates
b. Six month period rates
c. Three month period rates

68. T F If you elect out of the installment sale method you do not have to compute unstated interest

69. T F Both selling price and contract price must be adjusted for the unstated interest.

70. T F Reduction of selling price without forgiveness of debt is still a disposition of an installment obligation

71. Sarah needed to borrow for a new investment. She assigned 20 of the payments she was scheduled to receive on an installment contract in exchange for the loan. The payments will go directly to the lending institution as they are received and be applied to her loan balance. Sarah will:

a. Report the entire 20 payments (principal and interest) in the year she receives the loan funds
b. Report only 20 principal payments in year of loan and report the interest income as the payments are made
c. Report the principal and interest as they are received and deduct investment interest expense on the interest paid on the loan funds as paid.

INSTALLMENT SALES QUIZ

72. T F Reducing the sale price (discounting) but not forgiving the rest of the debt is NOT considered a disposition of the installment contract.

73. T F If the installment contract is assumed at the original installment obligation balance it is considered a disposition.

74. T F If installment obligation is canceled or transferred to the buyer as a result of death it is considered a disposition and if related parties, FMV is considered to be FACE value.

75. Don sold a lot for $4,000 which cost him $2,000. In the year of sale he received $500 down payment and the purchasers note for the balance of $3,500. A year later, before the buyer makes any payments on the note, Don sells the note for $3,000. His **basis in the installment obligation** is:

a. $3,500
b. $3,000
c. $2,000
d. $1,750

76. T F Mary Jones loaned you $4,500 in 2004 in exchange for a note mortgaging a tract of land you owned. On April 4, 2006, she bought the land from you for $7,000. At that time, $3,000 of her loan to you was outstanding. She agreed to forgive this $3,000 debt and to pay you the $2,000 difference, plus interest on August 1, 2009. She is considered to have assumed an existing mortgage.

77. On July 1, 2009 Lazy Boy sold his mother's home that he inherited for $150,000 and reported the sale under the installment method. The sale agreement provides for annual interest payments of 8% each December in addition to sales price. Lazy's installment sale basis is $117,000 (adjusted basis $108,000 plus selling expenses of $9,000). His gain on the sale is

a. $33,000
b. $42,000
c. $150,000

78. T F Jerry's closing statement on sale of his home shows a DEBIT for taxes in the amount of $450.00. This means Jerry can deduct the $450 as taxes paid on his itemized deductions Sch. A

79. T F **Debits** on the **seller's** statement have no effect on sales price.

INSTALLMENT SALES QUIZ

80. T F **Credits** on the closing statement for the **buyer** have no effect on cost basis.

81. T F **Debits** on **buyer's** side of the closing statement are generally additional basis addition or current year expenses.

82. T F Gain on a repossession is limited to gain on the sale originally plus repossession costs.

83. T F If taxpayer uses an installment obligation to secure any debt, the net proceeds from the debt **may** be treated as payment on the installment obligation under the pledge rules.

84. T F The pledge rules apply to all installment obligations used to secure debt.

85. T F Pledge rules do not apply to sales or property used in farming.

86. T F Under pledge rules, the gain reportable, regardless of the debt secured by the installment agreement, can not be more than the original reportable gain less amounts already reported.

87. T F Under pledge rules, interest received on the payments on which were accelerated reporting is required is still taxable as received.

TRANSFER YOUR ANSWERS TO THE ANSWER SHEET

SUBMIT ONLY THE ANSWER SHEET
by: FAX 866-755-2853(toll free),, mail or email tax-ed@tax-educators.com

DO NOT SEND THE QUIZ!!!

2010