

PASSIVE ACTIVITY - QUIZ

1. T F Passive activities rules apply to all trusts.
2. T F Passive activity rules apply to owners of pass through entity interest on their distributive shares of income or loss from those interests.
3. T F An interest in a limited partnership is always a passive activity.
4. T F Passive activity loss rules must be applied separately to items of each PTP.
5. T F A loss from one PTP can be offset against income from another PTP
6. T F Publically traded partnerships losses are NOT reported on form 8582
7. T F Unused losses from a PTP are carried forward 5 years only.
8. T F Passive activity loss rules generally do not apply to C corporations
9. T F S corporations are not directly affected by PAL rules
10. Which of the following is NOT a personal service under PAL rules:
 - a) Mom and Pop grocery store
 - b) Medical doctor
 - c) Attorney
 - d) Actor
 - e) Tax Consultant
11. T F Passive activity rules apply to estates
12. T F Testing period for personal service corporations is generally the current tax year
13. T F In general, a personal service corporation is a corporation other than an S corporation.
14. T F A closely held corporation is an S corporation
15. T F A personal service corporation can be a closely held corporation
16. T F To be a closely held corporation the value of outstanding stock must be held 100% by five or fewer individuals for the entire year.

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17. T F PAL rules may be applicable to tax exempt organizations
18. Level of participation is determined:
- a. At partnership taxable year
 - b. At corporate taxable year
 - c. At trust taxable year
 - d. At individual's taxable year
 - e. a, b, and c are all correct.
19. T F Prior to May 11, 1992 - in general - each undertaking owned is a separate activity.
20. T F Erica is the sole owner of a department store and a restaurant. She conducts both businesses in the same building. Both businesses are income - producing operations. Under pre 5-11-92 rules, Erica would show (for passive activity loss rules) the stores both as a single undertaking.
21. T F To qualify as "same location", the operations must be under the same roof.
22. T F If both rental and nonrental operations are combined they must be separated into separate activities under pre 5-11-92 rules in all cases.
23. T F For years beginning after 5-10-92, you may treat one or more trade or business activities as a single activity if those activities form an appropriate economic unit.
24. T F You may use any REASONABLE method of applying the relevant facts and circumstances in grouping activities after May 10, 1992.
25. T F Once you have grouped activities into economic units under the new rules, you may NOT change the groupings
26. T F In general, you may not group a rental activity with a trade or business activity.
27. T F Ted and Mary own a building jointly that they rent to their jointly owned C corporation. The rental income can be grouped together with the trade or business income in this case.

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28. T F Personal property in connection with real property may be treated as a single activity.
29. T F A limited entrepreneur in farming may group the farming activity with another trade or business of farming.
30. T F A limited partner may not group producing motion pictures activity with other activities.
31. T F A limited partner or limited entrepreneur in a farming activity may group that activity with another activity that is the same type of business if the limited partner or limited entrepreneur is in BOTH activities.
32. T F A partner in a partnership may NOT treat activities that are grouped together by the entity as separate activities individually.
33. T F Prior to 1994 ALL rental activities were ALWAYS passive activities even if there was material participation.
34. T F Rental activities for PAL rules include personal property rentals
35. T F “Rental activity” is not the same as “rental real estate activity”
36. T F Generally, equipment leasing is a passive activity.
37. T F For “equipment rental”, unless the rental falls into one of the six exceptions, it is a passive activity and neither material participation or active participation rules apply
38. T F A California couple materially participated in the rental of their Florida Condo. A reservation service provided collection of rents, front desk service, maid service and repairs. The taxpayers rented the condo themselves, advertised on the Internet and corresponded with prospective tenants. They spent 10 days working on the condo and 4 days relaxing at the condo. They were involved on a regular and continuous basis.
39. T F Good Sally and Good Sam operate an R.V. park. The average stay for the Rvrs is 5 days. Sally and Sam do all of the office work, maintenance and repairs. They are not subject to passive loss rules.

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40. Taxpayer is engaged in an activity of leasing photocopying equipment. The average period of customer use for the equipment exceeds 30 days. Pursuant to the lease agreements, skilled technicians employed by the taxpayer maintain the equipment and service malfunctioning equipment for no additional charge. Service calls occur frequently (three times per week average) and require substantial labor. The value of the maintenance and repair service (measured by the cost to the taxpayer of employees performing these services) exceeds 50% of the amount charged for the use of the equipment.
- a) extraordinary personal services ARE provided in the connection with making the photocopying equipment available for use by customers and this is NOT a rental activity.
 - b) Extraordinary personal services are NOT provided and the activity IS a rental activity
 - c) The activity qualifies for the \$25,000 offset for rental real estate
41. Kate is a single taxpayer, has \$70,000 in wages, \$15,000 income from a limited partnership, and a \$26,000 loss from rental real estate activities in which she actively participated, and less than \$100,000 of modified adjusted gross income.
- a) She can not reduce her rental real estate loss by her \$15,000 passive income before applying the \$25,000 offset against other income
 - b) She CAN reduce the rental real estate loss by her \$15,000 passive income but can NOT take the balance of the rental loss
 - c) She CAN reduce the rental real estate loss by her \$15,000 passive income and CAN take the balance of the rental loss against her wages.
42. T F Individuals who can qualify as real estate professionals can treat their rental activities as non passive and any losses and credits can be used to offset taxpayer's non passive income. Passive loss restrictions are not applicable to such real estate professionals.

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43. T F To qualify as a “real estate professionals”, each interest in rental real estate activity is treated as a separate activity.
44. T F To meet the material participation test ONLY, taxpayer may elect to aggregate all of rental activities as one activity. (For qualifying for real estate professional status.)
45. T F In determining (for real estate professional status) if there is material participation in the real property trade or business, “trade or business” includes development and redevelopment of property.
46. Jacob has prior year suspended real estate rental losses. During the current year, he finds he can qualify as a real estate professional. He may:
1. Deduct the suspended carryforward losses from current year gains that are being treated as non passive under R.E. professional rules.
 2. He will not get any offset or deduction for the prior suspended losses until he disposes of the entire property involved
 3. He may use the suspended losses against the \$25,000 offset in the current year if all normal qualifications are met.
47. T F For the offset on rental real estate you must file joint if married to be allowed any offset.
48. T F Active participation is the same as material participation.
49. T F Only individuals can actively participate in rental real estate activity.
50. T F A decedent's estate is treated as active participant for tax years ending less than 3 years after death if decedent would have satisfied active requirements
51. T F Active participation is required in order to take low income housing and rehabilitation investment credits from rental real estate activities.
52. T F Vacation homes that have an average period of customer use which is 7 days or less do not meet the definition of a “rental” and the \$25,000 offset does NOT apply.

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53. T F Taxpayer and spouse's SEPARATE interests must be at least 10% EACH of all interests in the activity for at least six months of the year.
54. T F Taxable social security is NOT included in computing Modified AGI for PAL rules.
55. T F Deductible contributions for IRA must be added back to AGI for computing modified AGI for PAL
56. T F The deduction for half of self employment tax is allowable in computing modified AGI for PAL rules
57. T F Phaseout of the offset begins when modified AGI exceeds \$200,000 for all taxpayers.
58. T F There is NO special real estate offset allowed for taxpayers who lived with spouse at any time and file separate returns.
59. Mike is a bachelor. He had the following income and losses during the tax year:

Salary	\$42,300.
Dividends	\$ 300.
Interest	\$ 1,400.
Rental loss	\$ 4,000.

The rental loss came from a house Mike owned. He advertised and rented the house to the current tenant himself. He also collected the rents, and either did the repairs or hired someone to do them. He:

- a) May use the entire \$4,000 loss against other income.
 - b) This is a passive activity and he must have passive income in order to deduct the loss
 - c) He may only deduct \$1,700 since the dividends and interest income offset a passive activity loss.
60. T F If taxpayer rents real property or equipment to a trade or business in which he or she materially participates, net rental income from the property is treated as non passive income after February 19, 1998 (For individuals)

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61. T F Spouse's participation is included with taxpayer's participation in the activity if married even if spouse has no ownership.
62. T F Spouse's participation is included with taxpayer's participation in the activity if married even if not filing joint return.
63. T F You may use any reasonable method to prove participation.
64. T F You are not treated as a limited partner in a limited partnership if you were a general partner for at least 6 months of the year.
65. T F A retired farmer or disabled farmer is treated as materially participating in farming activity if he materially participated in 3 out of 5 year prior to retirement or disability.
66. T F Surviving spouse of a farmer will be treated as materially participating in the farm activity if the deceased would have qualified if he had retired instead of died.
67. T F A closely held corporation is treated as materially participating in an activity only if one or more shareholders hold more than 10% of the value of the outstanding stock AND materially participate
68. T F If taxpayer lends money to his own partnership or corporation and the entity conducts a passive activity, the interest income to the taxpayer is considered portfolio income and not subject to PAL rules
69. T F In general, gain from disposition of an interest or of property used in a passive activity is passive income
70. T F Passive income includes income from covenant not to compete
71. T F Passive income does not include royalties derived in ordinary course of business.
72. T F Passive activity deductions include losses from dispositions of property used in a passive activity at the time of disposition of less than the entire interest in the passive activity.
73. T F Recharacterization issues apply to income and losses of passive activities.

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74. T F If net passive income (including prior year unallowed losses) from renting property in a rental activity, and less than 30% of the unadjusted basis of the property is subject to depreciation, the net passive income is treated as non passive income.
75. T F Mobile Home Park has net income from renting the spaces in the park during the current year. The park owners have no ownership in the mobile homes and the only depreciable property is the maintenance shack, office, and equipment which constitute only 15% of the total basis in land and depreciable property. The net income is NON passive income even though it is real estate rental income.
76. T F If rental of property is incidental to a development activity and certain conditions are met, the rental income is NON passive.
77. T F Significant participation in a passive activity is a rental real estate activity in which taxpayer participates for more than 100 hours during the year but does not materially participate.
78. T F Disallowed losses and credits are generally allowed in full in year of disposition of entire interest in the activity in a transaction in which all realized gain or loss is recognized and to an unrelated party.
79. T F Capital losses on disposition of passive activities are not limited by capital loss limits.
80. Jerry has unused passive activity losses on his rental property. During the current year Jerry gifts the rental property to his son. He may:
- 1.. Take the unused PAL on his current year return
 2. Adjust the basis of the gift property by increasing it by the amount of the disallowed losses
 3. Never take advantage of the unused passive activity losses.
81. T F If a passive activity is disposed of on installment sale of entire interest, the accumulated disallowed losses are only allowable each year in the same ratio of gain recognized to gain remaining to be recognized.
82. T F Complete abandonment of a passive activity is considered a taxable disposition and triggers deductibility of suspended losses.

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83. T F If taxpayer becomes a material participant or converts rental property to a personal residence, suspended losses are triggered and deductible in the year of the change.
84. T F Net income from disposition of substantially appreciated property is treated as NON passive unless used in a passive activity for 20% of the taxpayer's holding period AND the entire 2 year period ending on date of disposition.
85. T F Substantial appreciation occurs if FMV exceeds 100% of adjusted basis.
86. T F If an asset is disposed of that has been used in more than one activity during the 12 months before disposition, gain or loss must be allocated between the activities.
87. T F At Risk Rules must be applied BEFORE passive activity rules.
88. T F Temporary rental of a taxpayer's personal residence is NOT a passive activity.
89. T F Investment interest expense generated by a passive activity is generally NOT deductible until taxpayer has income from passive activities.
90. T F When taxpayer has a regular NOL and a suspended loss, the passive activity loss carryforward is applied before the NOL
91. T F If Alternative Minimum Tax applies, TWO forms must be filed - a separate form for the PAL -AMT.
92. T F Casualty losses suffered by a passive activity are not treated as a passive deduction and are allowed in full in year sustained.
93. T F Form 8582CR is used to make the election to increase basis of credit property when taxpayer disposes of his or her interest in the activity.

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94. John Ash has a total gain of \$10,000 from the sale of an entire interest in a passive activity. Under the installment method he reports \$2,000 of gain each year. Prior unallowed losses are:
- a) fully deductible before computing the installment sale ratio - adding losses to basis
 - b) deductible against other passive income, if any
 - c) deductible ratably (percentage per year)
95. Mary gifted her interest in a passive activity to her daughter. She has unallowed carryover of losses in the amount of \$10,000. Her basis in the interest is \$15,000.
- a) Mary may deduct the \$10,000 as a loss in year of gift
 - b) Mary may never deduct the losses and neither can her daughter.
 - c) Mary may increase basis by the \$10,000 for future gain or loss computations.
96. T F If Mary had SOLD the interest to her daughter for \$15,000, she could have deducted the \$10,000 losses.
97. Jack and Joe Robinson are brothers who have formed a computer software development company. Jack lives in New York and Joe lives in Portland, Oregon. Both have other full time occupations. Jack is a designer of software. Joe is a Tax Consultant and sales manager for a software company located in Portland. In 1990, The first year of operation, Jack spent approximately 500 hours developing products and Joe spent about 600 hours calling on potential customers and arranging advertising.
- a) Only Jack qualifies for material participation
 - b) Only Joe qualifies for material participation.
 - c) Both qualify for material participation.

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98. Paul is a teacher who lives in a rural part of Oregon near Salem. He owns a truck with a snowplow and contracts with his neighbors to plow roads and driveways. He maintains and drives the truck. In the winter of 2010 there is virtually NO snow and he only operated the plow for 10 hours.
- a) He does not qualify for material participation in his snow plowing business.
 - b) He does qualify because he is the sole participant
 - c) He must spend at least 500 hours to qualify for material participation.
99. T F Jerry Smith is a full time accountant. He owns interests in a tavern and a retail department store. In the current year, he spends 400 hours working at the tavern and 150 hours at the store. There are other participants who spend more time in each of the activities than Jerry does. Jerry is NOT treated as a material participant in either store.
100. T F David is a partner in an automobile dealership. He retired in 1987 after 40 years in the business. Since his retirement, his daughter has been the general manager, but he retains 60% general partnership interest. For current year, he is treated as material participant.
101. T F Jackie is a retired dentist, but retains a partnership interest in his former practice. He practiced dentistry for 35 years. He will be treated as material participant for the rest of his life.

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102. Philip is single. He owns a small home repair business and also 20 rental properties. He elects, in current year to treat all rental real estate as a single activity and shows an \$80,000 loss from this "activity" in current year. He spends over 1000 hours repairing and maintaining his rental properties in current year. He spends 2000 hours in his repair business in current year. He:
- a) may deduct the entire \$80,000 loss from his rentals against any other kind of income
 - b) may not deduct the entire \$80,000 because he does not qualify under the new "material participation" rules for rental real estate.
 - c) Must allocate the loss based on 1/3 of total hours.
103. Jim is married filing joint and owns the Jim Giget Company. He spends all but 50 hours of his personal services each year in the operation of that company. His wife owns and manages 20 rental properties. She elects to treat all rental real estate as a single activity and shows an \$80,000 loss from this activity in current year. She spends 90% of her personal service time in the rental operations and works 1500 hours during the year on the real property rentals. They may:
- a) not deduct the loss since total combined time is not over half of personal service time
 - b) deduct her loss since she qualifies on her own for material participation under new rules
 - c) deduct the loss only if they have other passive income.

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104. Percy is single, is a real estate broker who also owns 20 rental properties. He spends all but 100 hours a year operating his brokerage business. (over 1,000 hours a year). 100 hours of his personal service time each year are spent on the rental properties. He elects in current year to treat all rental real estate as a single activity and shows an \$80,000 loss in this activity for current year. His loss is:
- a) deductible because he spends more than half of his personal service in trade or business of real property in which he materially participates.
 - b) not deductible because he does not spend more than half of his time on the rentals
 - c) subject to the old passive activity rules and not eligible for new treatment.

TRANSFER YOUR ANSWERS TO ANSWER SHEET

BE SURE TO SUBMIT ANSWER SHEET ONLY

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