PacificCPE

Financial Planning Tax Considerations: Business and Investment Part 2

Course #30902B

Taxes

2 Credit Hours

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FINANCIAL PLANNING TAX CONSIDERATIONS: BUSINESS AND INVESTMENT PART 2

This course reviews what makes up the basis of an investment and explains the tax rules that apply when selling a primary residence. It also outlines key tax considerations for second homes, whether used personally or as rentals.

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 Investment Property
Sale of a Home
Rental Income and Expenses

Study the course materials

Complete the review questions at the end of each chapter

Answer the exam questions 1 to 10

Objectives:

- Recall what constitutes the basis of an investment.
- Recognize the tax rules that apply when an individual sells his or her home.
- Identify some of the tax implications of owning a second home, whether or not for rental purposes.

NOTICE

Program publication date **9/15/25**

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 INVESTMENT PROPERTY

Chapter Objective

After completing this chapter, you should be able to:

- Recall what constitutes the basis of an investment.

I. BASIS OF INVESTMENT PROPERTY

Basis is a way of measuring an individual's investment in property for tax purposes. Individuals must know the tax basis of their property to determine whether they have a gain or loss on its sale or other disposition. Investment property normally has an original basis equal to its cost. If an individual gets property in some way other than buying it, such as by gift or inheritance, its fair market value may be important in figuring the basis.

A. COST BASIS

The basis of property an investor buys is usually its cost. The cost is the amount paid in cash, debt obligations, or other property or services.

1. Unstated Interest

If an individual buys property on a time-payment plan that charges little or no interest, the basis of the property is the stated purchase price, minus the amount considered to be unstated interest. An individual generally has unstated interest if his or her interest rate is less than the applicable federal rate.

B. BASIS OTHER THAN COST

There are times when an individual must use a basis other than cost. In these cases, he or she may need to know the property's fair market value or the adjusted basis of the previous owner.

Fair market value is the price at which the property would change hands between a buyer and a seller, neither being forced to buy or sell and both having reasonable knowledge of all the relevant facts. Sales of similar property, around the same date, may be helpful in figuring the property's fair market value.

1. Property Received for Services

If an individual receives investment property for services, he or she must include the property's fair market value in income. The amount included in income then becomes the basis in the property. If the services were performed for a price that was agreed to beforehand, this price will be accepted as the fair market value of the property if there is no evidence to the contrary.

a. Restricted Property

If an individual receives, as payment for services, property that is subject to certain restrictions, his or her basis in the property generally is its fair market value when it becomes substantially vested. Property becomes substantially vested when it is transferable or is no longer subject to substantial risk of forfeiture, whichever happens first.

b. Bargain Purchases

If an individual buys investment property at less than fair market value, as payment for services, he or she must include the difference in income. The person's basis in the property is the price he or she pays plus the amount he or she includes in income.

2. Property Received in Taxable Trades

If investment property is received in trade for other property, the basis of the new property is its fair market value at the time of the trade unless the individual received the property in a nontaxable trade.

Example

Rich trades A Company stock for B Company stock having a fair market value of $1,200. If the adjusted basis of the A Company stock is less than $1,200, Rich has a taxable gain on the trade. If the adjusted basis of the A company stock is more than $1,200, Rich has a deductible loss on the trade. The basis of his B Company stock is $1,200. If he later sells the B Company stock for $1,300, Rich will have a gain of $100.

3. Property Received in Nontaxable Trades

If an investor has a nontaxable trade, he or she does not recognize gain or loss until he or she disposes of the property he or she received in the trade. The basis of property received in a nontaxable or partly nontaxable trade is generally the same as the adjusted basis of the property given up. This amount is increased by any cash paid, additional costs, and gain recognized. This amount is reduced by any cash or unlike property received, any loss recognized, and any liability that was assumed or treated as assumed.

4. Property Received From Spouse

If property is transferred to an individual from his or her spouse (or former spouse, if the transfer is incident to divorce), the person's basis is the same as his or her spouse's or former spouse's adjusted basis just before the transfer.

Note

The transferor must give the transferee the records necessary to determine the adjusted basis and holding period of the property as of the date of the transfer.

5. Property Received as a Gift

To figure the basis in property received as a gift, the owner must know its adjusted basis to the donor just before it was given to him or her, its fair market value at the time it was given to him or her, the amount of any gift tax paid on it, and the date it was given to him or her.

If the fair market value of the property at the time of the gift was less than the donor's adjusted basis just before the gift, the owner's basis for gain on its sale or other disposition is the same as the donor's adjusted basis plus or minus any required adjustments to basis during the period they hold the property. The owner's basis for loss is its fair market value at the time of the gift plus or minus any required adjustments to basis during the period he or she holds the property.

If the individual uses the basis for figuring a gain and the result is a loss, and then uses the basis for figuring a loss and the result is a gain, he or she will have neither a gain nor a loss.

Example

Rex receives a gift of investment property having an adjusted basis of $10,000 at the time of the gift. The fair market value at the time of the gift is $9,000. Rex later sells the property for $9,500. Rex's basis for figuring gain is $10,000, and $10,000 minus $9,500 results in a $500 loss. His basis for figuring loss is $9,000, and $9,500 minus $9,000 results in a $500 gain. He has neither a gain nor loss.

If the fair market value of the property at the time of the gift was equal to or more than the donor's adjusted basis just before the gift, the owner's basis for gain or loss on its sale or other disposition is the donor's adjusted basis plus or minus any required adjustments to basis during the period they hold the property. Also, the owner may be allowed to add to the donor's adjusted basis all or part of any gift tax paid, depending on the date of the gift.

If an individual received property as a gift after 1976, his or her basis is the donor's adjusted basis increased by the part of the gift tax paid that was for the net increase in value of the gift. The owner can figure this part by multiplying the gift tax paid on the gift by a fraction. The numerator (top part) is the net increase in value of the gift and the denominator (bottom part) is the amount of the gift.