PacificCPE

COURSE

30501A

Recognizing Gain or Loss on Asset Dispositions

Understanding how to calculate and recognize gain or loss is foundational to advising clients on asset transactions. This chapter covers the core rules for sales and exchanges, including partial dispositions of MACRS property, abandonments, foreclosures, repossessions, and involuntary conversions. Whether you're dealing with routine asset sales or more complex scenarios like casualty losses or debt-related dispositions, this course gives you a solid grounding in the rules that apply across a wide range of client situations.

CREDIT HOURS 2 | FIELD OF STUDY TAXES | EXAM QUESTIONS 10

Start Course ↓

Final Exam Copy ↓

LEARNING ASSIGNMENTS AND OBJECTIVES

Assignment

- Study the full course materials included here.
- Complete the review questions after each chapter.
- Answer 10 final exam questions.
- Final exam is scored immediately, 70% or better passes.
- Certificate of completion is available in your account.
- Failed exams can be retaken free of charge.

Course Objectives

- Identify how to figure a gain or loss on various kinds of transactions.

Copyright Notice

© 2026 Pacific CPE, LP. All rights reserved.

The materials in this course — including the text, illustrations, exhibits, examples, exam questions, and review questions — are the copyrighted property of Pacific CPE, LP. No portion of this course may be reproduced, stored in a retrieval system, distributed, or transmitted in any form or by any means (electronic, mechanical, photocopying, recording, or otherwise) without the prior written permission of Pacific CPE, LP, except for the personal, non-commercial use of the registered learner.

Pacific CPE, LP grants the registered learner a single-seat, non-transferable license to access this course for the purpose of completing the associated continuing professional education credit. Account credentials may not be shared. Group access requires a separate enterprise license.

This course is provided "as is" for educational purposes. While Pacific CPE, LP makes a reasonable effort to ensure the content is current and accurate, the materials should not be relied upon as a substitute for professional advice. Pacific CPE, LP disclaims all liability for any error, omission, or loss arising from the use of, or reliance on, the course content.

Questions about reproduction, licensing, or use of these materials should be directed to support@pacificcpe.com.

Publication Date: April 2026

TABLE OF CONTENTS

CHAPTER 01

Gain Or Loss 4

1.01 I. Introduction 4

1.02 II. Sales And Exchanges 4

1.03 III. Partial Dispositions Of Macrs Property 12

1.04 IV. Abandonments 13

1.05 V. Foreclosures And Repossessions 15

1.06 VI. Involuntary Conversions 18

Test Your Knowledge 36

Final Exam Copy 67

Index .....

Chapter 1: GAIN OR LOSS

Chapter Objective

After completing this chapter, you should be able to:

- Identify how to figure a gain or loss on various kinds of transactions.

I. INTRODUCTION

This chapter discusses:

- Sales and exchanges
- Abandonments
- Foreclosures and repossessions
- Involuntary conversions

II. SALES AND EXCHANGES

The following discussions describe the kinds of transactions that are treated as sales or exchanges and explain how to figure gain or loss. A sale is a transfer of property for money or a mortgage, note, or other promise to pay money. An exchange is a transfer of property for other property or services.

Sale or lease. Some agreements that seem to be leases may really be conditional sales contracts. The intention of the parties to the agreement can help you distinguish between a sale and a lease.

There is no test or group of tests to prove what the parties intended when they made the agreement. You should consider each agreement based on its own facts and circumstances.

Cancellation of a lease. Payments received by a tenant for the cancellation of a lease are treated as an amount realized from the sale of property. Payments received by a landlord (lessor) for the cancellation of a lease are essentially a substitute for rental payments and are taxed as ordinary income in the year in which they are received.

Copyright. Payments you receive for granting the exclusive use of (or right to exploit) a copyright throughout its life in a particular medium are treated as received from the sale of property. It does not matter if the payments are a fixed amount or a percentage of receipts from the sale, performance, exhibition, or publication of the copyrighted

work or an amount based on the number of copies sold, performances given, or exhibitions made. Also, it does not matter if the payments are made over the same period as that covering the grantee's use of the copyrighted work.

If the copyright was used in your trade or business and you held it longer than a year, the gain or loss may be a section 1231 gain or loss. For more information, see Section 1231 Gains and Losses in Chapter 1 of course 30503N.

Easement. The amount received for granting an easement is subtracted from the basis of the property. If only a specific part of the entire tract of property is affected by the easement, only the basis of that part is reduced by the amount received. If it is impossible or impractical to separate the basis of the part of the property on which the easement is granted, the basis of the whole property is reduced by the amount received.

Any amount received that is more than the basis to be reduced is a taxable gain. The transaction is reported as a sale of property.

If you transfer a perpetual easement for consideration and do not keep any beneficial interest in the part of the property affected by the easement, the transaction will be treated as a sale of property. However, if you make a qualified conservation contribution of a restriction or easement granted in perpetuity, it is treated as a charitable contribution and not a sale or exchange, even though you keep a beneficial interest in the property affected by the easement.

If you grant an easement on your property (for example, a right-of-way over it) under condemnation or threat of condemnation, you are considered to have made a forced sale, even though you keep the legal title. Although you figure gain or loss on the easement in the same way as a sale of property, the gain or loss is treated as a gain or loss from a condemnation.

Property transferred to satisfy debt. A transfer of property to satisfy a debt is an exchange.

Note's maturity date extended. The extension of a note's maturity date is not treated as an exchange of an outstanding note for a new and different note. If so, that exchange may result in a gain or loss to the holder of the note. Generally, an extension will be treated as a taxable exchange of the outstanding note for a new and materially different note if the changes in the terms of the note are significant. Each case must be determined on its own facts.

Transfer on death. The transfer of property of a decedent to an executor or administrator of the estate or to the heirs or beneficiaries is not a sale or exchange or other disposition. No taxable gain or deductible loss results from the transfer.

Bankruptcy. Generally, a transfer (other than by sale or exchange) of property from a debtor to a bankruptcy estate is not treated as a disposition. Consequently, the transfer generally does not result in gain or loss.

GAIN OR LOSS FROM SALES AND EXCHANGES

Gain or loss is usually realized when property is sold or exchanged. A gain is the amount you realize from a sale or exchange of property that is more than its adjusted basis. Aloss occurs when the adjusted basis of the property is more than the amount you realize on the sale or exchange.

TABLE 1-1. HOW TO FIGURE WHETHER YOU HAVE A GAIN OR LOSS BASIS

IF your...	THEN you have a...
Adjusted basis is more than the amount realized	Loss.
Amount realized is more than the adjusted basis	**Gain.**

Basis. You must know the basis of your property to determine whether you have a gain or loss from its sale or other disposition. The basis of property you buy is usually its cost. However, if you acquired the property by gift or inheritance or in some way other than buying it, you must use a basis other than its cost.

Inherited property. If you inherited property and received a Schedule A (Form 8971) that indicates that the property increased the estate tax liability of the decedent, use a basis consistent with the final estate tax value of the property to determine your initial basis in the property. Calculate a basis consistent with the final estate tax value by starting with the reported value and then making any allowed adjustments.

Adjusted basis. The adjusted basis of property is your original cost or other basis increased by certain additions and decreased by certain deductions. Increases to basis include costs of any improvements having a useful life of more than 1 year. Decreases to basis include depreciation and casualty losses. In the sale or exchange of a portion of a MACRS asset (discussed later), the adjusted basis of the disposed portion of the asset is used to figure gain or loss.

Amount realized. The amount you realize from a sale or exchange is the total of all the money you receive plus the fair market value (defined below) of all property or services you receive. If a debt instrument is issued by the buyer to you in the sale or exchange, the amount you realize from the sale or exchange generally includes the issue price of the debt instrument. The amount you realize also includes any of your liabilities that were assumed by the buyer and any liabilities to which the property you transferred is subject, such as real estate taxes or a mortgage.

Fair market value. Fair market value (FMV) is the price at which the property would change hands between a buyer and a seller when both have reasonable knowledge of all the necessary facts and neither is being forced to buy or sell. If parties with adverse interests place a value on property in an arm’s-length transaction, that is strong evidence of FMV. If there is a stated price for services, this price is treated as the FMV unless there is evidence to the contrary.

Example

You used a building in your business that cost you $70,000. You made certain permanent improvements at a cost of $20,000 and deducted depreciation totaling $10,000. You sold the building for $100,000 plus property having an FMV of $20,000. The buyer assumed your real estate taxes of $3,000 and a mortgage of $17,000 on the building. The selling expenses were $4,000. Your gain on the sale is figured as follows.

Amount realized:		
Cash	$100,000	
FMV of property received	20,000	
Real estate taxes assumed by buyer	3,000	
Mortgage assumed by buyer	17,000	
Total	140,000	
Minus: Selling expenses	(4,000)	$136,000
Adjusted basis:		
Cost of building	$70,000	
Improvements	20,000	
Total	$90,000	
Minus: Depreciation	(10,000)	
Adjusted basis		$80,000
Gain on sale		**$56,000**

Amount recognized. Your gain or loss realized from a sale or exchange of property is usually a recognized gain or loss for tax purposes. This includes a gain or loss realized from a sale or exchange of a portion of a MACRS asset. Recognized gains must be included in gross income. Recognized losses are deductible from gross income. However, your gain or loss realized from certain exchanges of property is not

recognized for tax purposes. Also, a loss from the disposition of property held for personal use is not deductible, except in the case of a casualty or theft loss.

Interest in property. The amount you realize from the disposition of a life interest in property, an interest in property for a set number of years, or an income interest in a trust is a recognized gain under certain circumstances. If you received the interest as a gift or an inheritance or in a transfer from a spouse or former spouse incident to a divorce, the amount realized is a recognized gain. Your basis in the property is disregarded. This rule does not apply if all interests in the property are disposed of at the same time.

Example 1

Your parent dies and leaves the farm to you for life with a remainder interest to your younger sibling. You decide to sell your life interest in the farm. The entire amount you receive is a recognized gain. Your basis in the farm is disregarded.

Example 2

The facts are the same as in Example 1, except that your sibling joins you in selling the farm. The entire interest in the property is sold, so your basis in the farm is not disregarded. Your gain or loss is the difference between your share of the sales price and your adjusted basis in the farm.

Canceling a sale of real property. If you sell real property under a sales contract that allows the buyer to return the property for a full refund and the buyer does so, you may not have to recognize gain or loss on the sale. If the buyer returns the property in the year of sale, no gain or loss is recognized. This cancellation of the sale in the same year it occurred places both you and the buyer in the same positions you were in before the sale. If the buyer returns the property in a later tax year, you must recognize gain (or loss, if allowed) in the year of the sale. When the property is returned in a later year, you acquire a new basis in the property. That basis is equal to the amount you pay to the buyer.

Bargain Sale

If you sell or exchange property for less than fair market value with the intent of making a gift, the transaction is partly a sale or exchange and partly a gift. You have a gain if the amount realized is more than your adjusted basis in the property. However,

you do not have a loss if the amount realized is less than the adjusted basis of the property.

Bargain sales to charity. A bargain sale of property to a charitable organization is partly a sale or exchange and partly a charitable contribution. If a charitable deduction for the contribution is allowable, you must allocate your adjusted basis in the property between the part sold and the part contributed based on the fair market value of each. The adjusted basis of the part sold is figured as follows.

$$\text{Adjusted basis of entire property} \times \frac{\text{Amount realized (fair market value of part sold)}}{\text{Fair market value of entire property}}$$

Based on this allocation rule, you will have a gain even if the amount realized is not more than your adjusted basis in the property. This allocation rule does not apply if a charitable contribution deduction is not allowable.

Example

You sold property with a fair market value of $10,000 to a charitable organization for $2,000 and are allowed a deduction for your contribution. Your adjusted basis in the property is $4,000. Your gain on the sale is $1,200, figured as follows.

Sales price	$2,000
Minus: Adjusted basis of part sold ($4,000 × ($2,000 ÷ $10,000))	(800)
Gain on the sale	**$1,200**

Property Used Partly for Business or Rental

Generally, if you sell or exchange property you used partly for business or rental purposes and partly for personal purposes, you must figure the gain or loss on the sale or exchange separately for the business or rental part and the personal-use part. You must subtract depreciation you took or could have taken from the basis of the business or rental part. However, see the special rule below for a home used partly for business or rental. You must allocate the selling price, selling expenses, and the basis of the property between the business or rental part and the personal part.

Gain or loss on the business or rental part of the property may be a capital gain or loss or an ordinary gain or loss, as discussed in Chapter 1 of course 30503N under Section 1231 Gains and Losses. You cannot deduct a loss on the personal part. Any gain or loss