

# Table of Contents

ACQUISITION .....	1
BASIS .....	1
Purchase Expenses and Closing Costs.....	1
ALLOCATION OF BASIS .....	5
EXCHANGE BASIS.....	7
CONSTRUCTION AND DEVELOPMENT COSTS .....	9
Carrying Charges.....	10
BASIS OF GIFTED PROPERTY .....	13
INHERITED PROPERTY .....	17
Before the Year 2010 .....	17
After the Year 2009 .....	19
Inherited Community Property .....	19
ENVIRONMENTAL CLEANUP COSTS.....	20
DEMOLITION EXPENSES .....	21
IRA REAL ESTATE INVESTMENTS .....	23
HOMEBUYER’S DOWN PAYMENT ASSISTANCE.....	30
OWNERSHIP.....	31
MORTGAGE INTEREST AND LOAN CHARGES.....	31
Loan Expenses .....	31
Qualified Residence.....	33
Acquisition Indebtedness .....	36
The 30-Day Rule .....	38
90-Day Rules for Residential Expenditures .....	38
Mortgage Insurance Premiums Deductible as Interest.....	39
Home Equity Indebtedness .....	40
Secured Debt.....	41
Mortgage Interest Not Qualified Residence Interest .....	43
Electing Out of Home Mortgage Interest Treatment .....	43
Points and Prepaid Interest .....	45
REFINANCING .....	46
Investment and Business-Related Mortgages.....	46
Home Mortgages .....	46
Reverse Mortgage Loans.....	49
REPAYMENT ORDERING RULES FOR MULTIPLE-USE DEBT .....	50
INVESTMENT INTEREST.....	51
Net Investment Income.....	53
Including Capital Gain & Dividends in Investment Income .....	54
Passive Activities and Investment Interest .....	55
Disallowed Investment Interest Expense.....	56
ALTERNATIVE MINIMUM TAX .....	56
Residential Interest Expense .....	56

Investment Interest Expense .....	58
DEPRECIATION .....	60
Depreciable Property.....	60
Placed in Service .....	61
MACRS.....	61
General Depreciation System (GDS).....	62
Code Section 179 Expensing Election.....	65
Short-Year Depreciation .....	66
Fiscal Year .....	67
Computing AMT Depreciation .....	67
Depreciation and Like-Kind Exchanges.....	68
Missed Depreciation .....	72
Improvements .....	75
Leasehold Improvements.....	76
RENTAL PROPERTY.....	78
Rental Income.....	78
Rental Expenses .....	80
Not Rented for Profit .....	86
Property Changed to Rental Use .....	87
Renting Part of Property .....	88
Personal Use and Vacation Home Rules.....	89
Timeshare .....	90
Incidental Rentals and Other Recharacterization Rules .....	92
Lease Acquisition Costs .....	93
Tenant Inducements .....	95
RENTAL LOSS LIMITATIONS .....	97
At-Risk Loss Limitations.....	97
Passive Activity Loss Limitations .....	101
Self-Rental .....	113
CASUALTY LOSSES.....	117
Who Reports the Loss .....	117
Proof of Loss.....	121
Computing the Loss .....	121
Decrease in FMV.....	122
Insurance and Other Reimbursements .....	125
Reimbursement Received After Deducting Loss .....	126
Deduction Limits.....	126
Gains on Casualties.....	130
Postponement of Casualty Gain .....	131
Reporting From a Pass Through Entity .....	138
Disaster Area Losses .....	139
TAX CREDITS.....	144
Rehabilitation Credit .....	145
Low Income Housing Credit.....	147

Disabled Access Credit .....	151
Reforestation Costs .....	152
Home Mortgage Interest Credit (§25) .....	154
FARMING AND RANCHING .....	159
What Is A Farm? .....	159
Not-for-Profit Farming .....	159
Presumption of Profit .....	160
Limit on Deductions and Losses .....	162
Acquisition and Ownership .....	163
Rents (Including Crop Shares) .....	163
Conservation Reserve Program (CRP) .....	165
Cost-Sharing Exclusion (Improvements) .....	165
Soil and Water Conservation Expenses .....	169
Assessments by Conservation District .....	172
Sales of Farmland .....	176
Cost-Sharing Payments .....	176
Converted Wetland and Highly-Erodible Cropland .....	177
Unused Soil and Water Conservation Expenses .....	178
INCOME TAX AND THE REAL ESTATE PROFESSIONAL .....	179
SELF EMPLOYMENT TAX .....	179
DEDUCTIBLE EXPENSES .....	179
Automobiles .....	179
Out-of-Town Travel .....	180
Professional Fees and Dues .....	181
Telephone .....	181
Continuing Education .....	182
Business Supplies .....	182
Other Business Expenses .....	183
Interest .....	183
Meals and Entertainment .....	184
Equipment Purchases .....	184
Home Office Deductions .....	187
Business Percentage .....	189
Furniture and Equipment .....	190
Reporting Home Office Expenses .....	192
CHOICE OF ENTITY .....	193
Hiring Family Members .....	197
DISPOSITION .....	199
GAIN OR LOSS REALIZED .....	199
Character of Gain .....	199
Mineral Rights .....	200
Sale of Personal Residence with Business Use .....	201
Dealer Versus Investor Status .....	205
Subdivision and Development .....	207

Converting Rentals into Condominiums .....	211
Rehabilitation, Renovation and Resale .....	212
Depreciation Recapture .....	213
Dispositions of Passive Activities .....	217
PARTNERS AND S CORPORATIONS .....	221
NONRECOGNITION OF GAIN OR LOSS .....	222
§121 Exclusion .....	222
Principal Residence .....	223
Vacant Land.....	225
Disregarded Entities.....	226
Partial Use for Nonresidential Purposes .....	226
Joint Owners.....	227
Surviving Spouses .....	227
Sales of Partial Interests.....	228
Partial Exclusions and Unforeseen Circumstances .....	229
§1031 Exchanges .....	233
§1245 and §1250 Recapture .....	265
Deferring Gains With Private Annuity Trusts .....	267
Involuntary Conversions .....	269
Divorce .....	276
Settlement of Marital Support Rights .....	280
Marital Deduction .....	280
Transfer Under Divorce Decree .....	281
Transfer Under Written Agreement.....	281
Sale to a Related Party .....	281
INSTALLMENT SALES .....	285
Sales Eligible for Installment Method .....	285
Dealer Sales of Timeshares and Residential Lots .....	285
S Corporation Installment Obligations.....	287
Installment Method Unavailable .....	287
Reporting Requirements .....	288
Like-kind Exchange .....	292
Electing Out of the Installment Method .....	293
Related Party Installment Sales .....	294
Depreciation Recapture Income .....	298
Single Sale of Several Assets.....	299
Sale of a Business .....	300
Contingent Sales .....	300
Wraparound Mortgages .....	303
Imputed Interest .....	304
Interest on Deferred Tax .....	305
Alternative Minimum Tax (AMT) Implications .....	306
Disposition of Installment Obligation .....	309
OPTIONS, DOWN PAYMENTS AND EARNEST MONEY .....	310

LEASE WITH OPTION TO PURCHASE.....	312
REPOSSESSIONS .....	313
Qualified Principal Residence Debt.....	315
GIFTS .....	318
General Considerations.....	318
Noncitizen Nonresident Donor .....	320
Gifts Involving a Joint Interest.....	321
Part Sale – Part Gift .....	321
Transfers of Property With a Retained Life Estate .....	323
Basis Issues of a Gift.....	325
TRANSFERS AT DEATH .....	328
Dower and Curtesy Interests.....	330
Community Property .....	330
Marital Bequests.....	331
Basis of Inherited Property.....	332
FOREIGN INVESTORS .....	334
Definition of Foreign Persons .....	335
Foreign Investment in Real Property Tax Act (FIRPTA) .....	336
Transferor’s Tax Return Responsibility Upon Sale .....	340
U.S. Income Taxation of Foreign Persons .....	340
Tax Return Responsibility During Ownership and Rental .....	341
BROKER REPORTING REQUIREMENTS .....	344
Form 1099-S .....	344
Form 1099–MISC.....	345
Form 8300.....	345
RECENT LEGISLATION .....	346
THE FIRST-TIME HOMEBUYER CREDIT .....	346
§121 AND NONQUALIFIED USE .....	349
PROPERTY TAXES AND THE STANDARD DEDUCTION.....	351
INDEX.....	353