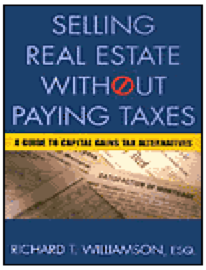
ApexCPE.com

FINAL EXAM

Course # 661001
Selling Real Estate Without Paying Taxes

based on the book:

Selling Real Estate Without Paying Taxes: A Guide to Capital Gains Tax Alternatives
by: Richard T. Williamson, Esq. (2003)



Taxation

This exam sheet is made available for your convenience in answering questions while offline. Please note that you will still need to enter your answers on the online exam sheet for grading. Instructions are provided at the end of this document.

Chapter 1 - Introduction

1. The tax system in the United States is based on taxing increases in wealth as opposed to taxing income.

    ☐ TRUE

    ☐ FALSE

2. Forgiveness of debt is not taxable.

    ☐ TRUE

    ☐ FALSE

3. The following creates taxable gains on the disposition of property:

    ☐ appreciation increases in the fair market value of the property

    ☐ depreciation taken on the property over the years

    ☐ neither create taxable gains

    ☐ both create taxable gains

4. In the author's opinion, taxable gains are good because the alternative is sure to be less desirable.

    ☐ TRUE

    ☐ FALSE

Chapter 2 - What Are Your Objectives?

5. The four goals of investment or reinvestment are:

- [ ] asset appreciation, security, income and retirement
- [ ] building wealth, managing growth, maximizing income and estate planning
- [ ] building wealth, protecting assets, creating a stream of income and estate planning
- [ ] none of the above

Chapter 3 - How to Estimate Your Capital Gains Taxes

6. Ho do capital improvements affect the adjusted basis of a property?

- [ ] they increase it
- [ ] they decrease it
- [ ] they have no effect
- [ ] they increase it only when depreciation is also taken

7. A component of capital gain on a property is:

- [ ] maintenance expenses
- [ ] recapture of depreciation
- [ ] points
- [ ] none of the above

8. The 1997 tax change which reduced the capital gains rate from 28% to 20% only reduced the rate of recapture of depreciation to 25%.

- [ ] TRUE
- [ ] FALSE

Chapter 4 - Benefiting from a Stepped-Up Basis

9. When one joint tenant dies in a joint tenancy, his ownership interest:

- [ ] passes to the heirs chosen in his 'last will and testament'
- [ ] vests to his spouse if he does not live in a community property state
- [ ] automatically and instantly vests to the surviving joint tenant or tenants
- [ ] none of the above

10. Community property vesting allows the surviving spouse to receive a full stepped-up basis on both the deceased spouse's share and on the surviving spouse's own share.

- [ ] TRUE
- [ ] FALSE

11. Obtaining the highest possible value for stepped-up basis is always to your advantage.

- [ ] TRUE
- [ ] FALSE

Chapter 5 - Using the primary Residence Exclusion

12. To qualify for the primary residence exclusion, you must pass:

- [ ] the ownership test
- [ ] the use test
- [ ] the CPA exam
- [ ] both the ownership test and the use test

13. The general rule to pass the primary residence exclusion 'use test' is that the owner must have lived in the home for at least two contiguous years.

- [ ] TRUE

☐ FALSE

14. Depreciation taken as a home office deduction will have to be recaptured and taxed when the home is sold.

☐ TRUE

☐ FALSE

Chapter 6 - Starker 1031 Tax-Deferred Exchanges

15. 1031 Exchanges allow taxpayers to change the type or character of real estate investments.

☐ TRUE

☐ FALSE

16. The party which facilitates and documents 1031 exchanges and holds funds between the sale of a relinquished property and the purchase of a replacement property is known as a(n):

☐ acquisition specialist

☐ 1031 moderator

☐ exchange arbiter

☐ accommodator

17. Trading up means:

☐ buying a bigger property

☐ increasing the overall amount of your real estate investment

☐ buying a higher quality property

☐ all of the above

18. The adjusted basis of relinquished property in a 1031 exchange will

transfer to the replacement property.

- [ ] TRUE
- [ ] FALSE

19. The basic requirements for a fully tax-deferred 1031 exchange include:

- [ ] properties exchanged must be for business use or held for investment
- [ ] the taxpayer must not get actual or constructive receipt of the proceeds
- [ ] the use of qualified intermediaries or accommodators
- [ ] all of the above

20. In a 1031 exchange where the mortgage on the replacement property is less than the mortgage on the relinquished property, the difference in the mortgage amount is called:

- [ ] exchange relief
- [ ] mortgage boot
- [ ] mortgage alleviation
- [ ] mortgage mercy

21. The proper time to arrange with an accommodator for a 1031 exchange is:

- [ ] before the sale closes on the relinquished property
- [ ] before the sale closes on the replacement property
- [ ] 45 days after the sale closes on the replacement property
- [ ] 45 days after the sales closes on the relinquished property

22. A qualified intermediary creates a 'safe harbor' - that is a legal presumption that there was no actual or constructive receipt of funds.

- [ ] TRUE

☐ FALSE

23. Government licensing requirements for accommodators are:

☐ intense

☐ nonexistent

☐ flexible

☐ regulated by the FCC

24. Replacement property identified 46 days after the closing and transfer of relinquished property may qualify for a deferred 1031 exchange.

☐ TRUE

☐ FALSE

25. Notifying your title company by telephone that you've identified a replacement property satisfies the 45 day identification rule.

☐ TRUE

☐ FALSE

26. A common arrangement for reverse exchanges where a friendly party purchases and holds replacement property until such time as the relinquished property is sold is known as:

☐ elbow rooming

☐ parking

☐ tactical maneuvering

☐ none of the above

27. A QEAA is a:

☐ Questionable Exchange Arbiter Agreement

☐ Quick Exchange Allowance Arrangement

☐ Qualified External Accommodation Agreement

☐ Qualified Exchange Accommodation Arrangement

Chapter 7 - Installment Sales

28. In balancing the risks and benefits of installment sales, you should:

☐ decide on an acceptable LTV ratio

☐ determine how long you are willing to carry the note

☐ structure the terms and conditions of the note to address foreseeable risks

☐ do all of the above

29. Too high of an interest rate on an installment sale may cause the buyer to refinance sooner which may trigger immediate capital gains tax.

☐ TRUE

☐ FALSE

Chapter 8 - Combining a 1031 Exchange with an Installment Sale

30. One of the main reasons for using the combination 1031 exchange with an installment sale is to reduce the level of real estate investments as a whole.

☐ TRUE

☐ FALSE

Chapter 9 - Private Annuity Trusts

31. Unlike an installment sale, when appreciated realty is exchanged for a private annuity contract, capital gains are triggered.

☐ TRUE

☐ FALSE

32. The trustee of a private annuity trust is responsible for:

☐ managing the investments of the trust

☐ making the annuity payments to the annuitant at the predetermined times

☐ none of the above

☐ both of the above

33. The requirement that a private annuity trust be unsecured may be discomforting to a property owner as they lose control of the asset.

☐ TRUE

☐ FALSE

Chapter 10 - Charitable Remainder Trusts

34. With a charitable remainder trust, you are able to take a charitable gift income tax deduction to offset your immediate income tax liability subject to certain limitations.

☐ TRUE

☐ FALSE

35. A charitable remainder trust is fairly simple to change or cancel once it's been set up.

☐ TRUE

☐ FALSE

36. The trustee of a charitable remainder trust may not be:

☐ the donor

☐ the donor's spouse

☐ the donor's CPA

☐ none of the above

37. A wealth replacement trust is a trust designed to purchase and continue paying premiums on a life insurance policy that will pay a set amount on the death of the donor.

☐ TRUE

☐ FALSE

Chapter 11 - Tax-Free Real Estate Investing in an IRA

38. Self directed IRAs are illegal.

☐ TRUE

☐ FALSE

39. Prohibited transactions of a self directed IRA include:

☐ the sale or exchange, or leasing, of any property between the IRA and a disqualified person

☐ lending money or other extension of credit between the IRA and a disqualified person

☐ furnishing goods, services, or facilities between the IRA and a disqualified person

☐ all of the above

40. Income from debt-financed property is considered Unrelated Business Income (UBI).

☐ TRUE

☐ FALSE

Instructions for Submitting Answers Online:

- *Sign In at www.ApexCPE.com*
- *Click the "My CPE" tab at the top of the page.*
- *Click "My CPE Courses".*
- *Find the current CPE year and click "Go to My Courses".*
- *Find this course and click the "Go to Course" link.*
- *Step 2 on the Course Syllabus page is "Take the Final Exam". Click the "Begin Final Exam" link.*
- *Enter your answers on the online exam sheet.*
- *Click the "Grade Exam" button at the bottom of the page. Your exam will be graded automatically. If your score exceeds 70%, a "Create Certificate" button will display. Otherwise, you may continue to retake the exam until you pass.*
- *A short evaluation page will display. Please provide your feedback for the course.*
- *Once the evaluation is complete, click the "Submit Evaluation & Create Certificate" button at the top of the page.*
- *You may print your Certificate of Completion by selecting File Print from your browser. Certificates remain online for at least five years from the certificate date.*

If you have any questions, please call us at 1-877-317-9047
or send an email to support@apexcpe.com