

Calculating Basis and Adjusted Basis and Defining Amount Realized

a. Basis and AB

- i. $\text{Basis} = \text{Cost} = \text{fmv of property rec'd}$
- ii. $\text{AB} = \text{Cost} (-) \text{Depreciation} (+) \text{Capital expenditures}$

b. Amount Realized

Cash +

Net value of property (fmv (-) debt) +

Services +

Debt relief

- 1. Doesn't make any difference whether debt is recourse or nonrecourse debt
 - a. Recourse: Debt for which TP is personally liable
 - b. Nonrecourse: Debt for which TP is n/ personally liable. Debt is treated as part of the sale price of the property

c. Basis Rules

i. Inheritance

- 1. NOTE: Look at facts and circumstances to determine intent
- 2. Basis heir takes in inherited property = FMV as of date of decedent's death

ii. Gifts

- 1. Rule: Donor's basis = Donee's basis

2. Basis Rules:

- a. If there is a gain, the exception will n/ apply. Report gain. If loss, determine if exception applies
- b. At time of gift, was basis $>$ FMV? If yes, exception applies; continue to 3. If not, exception does not apply; report loss
- c. Use FMV to determine gain or loss
 - i. If loss—report loss
 - ii. If gain—report neither gain nor loss

d. Gain Realized v. Loss Realized

- i. Gain realized: Must be *recognized* unless TP can point to a statutory provision in the code that provides otherwise.
- ii. Loss realized: Can only be *recognized* if a code section allows.