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- I. What is included in Gross Income?
- a. Income from all sources derived unless there is a special exclusion
 - b. GI
 - i. Accession to wealth,
 - ii. Clearly realized,
 - iii. Over which T has dominion and control
 - c. What is included?
 - i. Treasure trove when:
 - 1. the item is found, and
 - 2. there is no q that the finder is entitled to keep it
 - ii. Payment of any debt, liability, or other obligation by a TP
 - iii. Barter services
 - 1. property rec'd in exchange for services
 - iv. Compensation for services rendered regardless of the form the compensation takes
 - 1. doesn't have to be cash, it can be a trip to Las Vegas that the employee won from his employer for being the "top sales rep"
 - v. Income from all illegal sources
 - vi. Advance payments (prepayments)
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- 1. paying rent in advance
- vii. Gains derived from disposition of property
- viii. Assets held under claim of right (doctrine)
 - 1. GI includes funds/property that have come w/in T's control that he is free to do w/ as he wants and that he claims are his (even if he may have to repay at a later date)
- ix. Interest
- x. Cancellation of debt

- 1. Step 1

- a. Forgiveness of debt requires proving two elements. We have gi when there is:

- i. Existence of a debt AND

- 1. n/ a debt:

- a. anything contested or

- b. unliquidated

- ii. Forgiveness/cancellation of debt

- 1. n/ forgiveness of debt:

- a. Reduction in purchase price

- 2. Step 2

- a. Can all or a portion of the income from cancellation of indebtedness be excluded?

- i. Was T in bankruptcy?

1. if yes, exclude all coi income

ii. Was T insolvent?

1. If yes, exclude portion of coi income to extent T was insolvent

a. Rule: If your liabilities exceed your assets, someone forgives part of your debt, but your liabilities still exceed your assets, you do n/ have an accession to wealth

b. Rationale: There is a reduction or extinguishment of liabilities w/o any increase of assets. No income arises from discharge of indebtedness if the debtor is insolvent (insolvent means excess of liabilities over fmV of assets) both before and after the transaction

c. Illustration of Insolvency:

i. Assets of \$200, debts of \$250.
Net worth= -\$50. If creditor forgives T's debts by \$25, T's liabilities still exceed his assets by \$25

d. Rule: The debtor realizes income to the extent that the transaction leaves the debtor w/ assets whose value exceeds remaining liabilities

e. Rationale: T realizes gain when a debt is discharged b/c after the discharge T has fewer liabilities to offset her assets. T's existing assets which otherwise

would have gone toward repaying the debt are freed

f. Illustration of solvency:

- i. Assets= \$200. Debts= \$250. Creditors forgive \$75 of debt ($\$250 - \$75 = \175). We have an accession to wealth of \$25 b/c the rule states that the amt. excluded shall n/ exceed the amt. by which T is insolvent. T was solvent by \$25 b/c his assets (\$200) were \$25 greater than his debts (\$175). Since T is n/ in bankruptcy we subtract his debts (after adjusting for forgiveness of debt) from his assets and report the difference as gi

2. A gain from disposition of property is n/ excluded from gi even if T remains insolvent after such disposition of property

- a. Simply b/c Ts did n/ actually receive any cash proceeds from the land transfers does n/ mean there was no amt. realized. Via the land transfers, they were given credit toward an outstanding recourse loan to the extent of the land's fmV. This loan had to be paid back. The transfers of land employed to satisfy that end must be treated the same as receiving money from a sale. Land transfers were properly considered gains derived from dealings in property to the extent

the fmv in the land exceeded T's basis
in said land

3. Personal Services Income: If debt cancellation is only the medium of paying personal services income, the amt. owed by T that is forgiven in exchange for the services T rendered is n/ income from discharge of indebtedness

xi. Prizes and awards: fmv of award is included in gi

1. Exceptions (n/ included in gi)

- a. Transfer to charities or

- i. Prize/award is transferred by payor to a charity, religious org., or educational institution, and
 - ii. Recipient was selected w/o any action on his part to enter contest, and
 - iii. Recipient is n/ req'd to render substantial future services as a condition to receiving the prize

- b. employee achievement awards