Homework Problem Set 1:

- (T or F) The holding period describes the length of time that an asset is held. If the holding period is less than 12 months, a taxpayer cannot get a preferential capital gain tax rate.
- (T or F) A limited partnership can be taxed as a corporation if elected under the check the box rules.
- (T or F) A corporation is subject to double tax, so *every* type of investor must pay two levels of tax (both corporate tax and tax on dividends) when a corporation is used for real estate investment transactions.
- (T or F) A REIT is taxable as a corporation that gets the benefit of a deduction for dividends paid.
- (T or F) A net passive loss that is limited on an individual's income tax return in one year can be carried forward and deducted in future tax years.
- (T or F) A real estate professional who incurs losses on rental real estate activities where (s)he materially participates may deduct those losses against wages and other sources of active income.
- (T or F) The same real estate asset may produce ordinary income in the hands of one taxpayer but produce capital gains in the hands of a different taxpayer with a different intent.
- (T or F) The portfolio interest exception is a rule that allows non-U.S. persons to invest in certain U.S.-issued debt obligations without causing the interest income on such debt obligations to be subject to FDAP or any other U.S. tax.
- (T or F) Assuming that it is not pension-held, a tax exempt investor will never have UBTI on dividend income from a REIT.
- (T or F) An entity would not lose its REIT status because a single pension fund owns 99% and the remaining 1% is owned by 125 preferred shareholders

- For each of the following income types, indicate the tax rate (if any) that would apply to a US individual:
    - "C" = Capital gain tax rate
    - "O" = Ordinary tax rate
    - "N" = No tax

    - ____. Gain on sale of land held for over a year where the taxpayer is considered a dealer in land.
    - ____. Gain on sale of a single condominium unit to a customers that was held for investment and rented for multiple years before the sale.
      ____. Unrealized appreciation in the value of real estate held.
    - ____. Gain on the sale of stock held for less than one year.
    - ____. Income earned from a management company.

- Identify the following as "ECI" (effectively connected income) or "Not ECI" (not effectively connected income) if earned by a foreign person:

    - Interest income from loans to U.S. corporate borrowers.
    - Dividends from a US corporation.
    - A gain on the sale of a shopping center located in Russia.
    - Rental income from an actively managed storage center in Florida.

- Indicate the highest tax rate for each of the following:

    - Interest income to a non-U.S. (foreign) corporation
    - Ordinary income to a U.S. corporation
    - Capital gain income to a U.S. corporation
    - Capital gain income to a U.S. individual
    - Ordinary income to a U.S. corporation
    - Interest income to a non-U.S. (foreign)

- John is an individual and is not a real estate professional and he does not materially participates in Partnerships A o r B. John is a limited partner in both of these two real estate partnerships. Partnership A produces a passive loss of $5,000 (allocated to John). Partnership B produces passive income of $3,000 (allocated to John). How does John treat the income/(loss) on his tax return?

- Deduct $2,000 net loss.
- Recognize income of $3,000 and don't deduct losses of $5,000.
- Recognize no income or loss.
- Deduct $5,000 loss but don't recognize $3,000 income.
- None of the above.

- A particular parcel of real estate (land) is sold for $20,000,000 and was originally purchased for $10,000,000. On a taxable sale, explain a circumstance (type of investor, intent, entity, etc.) that would pay the following U.S. federal income tax results on the $10,000,000 gain (exclude the 3.8% net investment income tax and any state taxes in the calculation):

- No tax liability on the sale ______________________________________
    - ____
- $2,000,000 of tax
    - ____
    - ____
- $2,960,000 of tax
    - ____
    - ____
- $2,100,000 of tax
    - ____
    - ____

- Describe two examples of the type of income that could be earned from a real estate investment that would be taxed to a non-US investor as FDAP:

- ____
- ____
- ____
- ____
- ____

- Describe two examples of the type of income that could be earned from a real estate investment that would be taxed to a non-US investor as ECI:

- ____
- ____

- ____

- Jenny is a US individual who qualifies as a real estate professional. She purchases a commercial rental real estate property in 2016 and leases it out. The taxable net loss from the property was ($4,000) in 2016. Jenny's only other source of income or loss was $12,000 of interest income from a loan. She sells the real estate in 2017 at a $10,000 gain. How much taxable income and loss should Jenny report in each of the following tax years:

    - 2016 ____________________ 2017 ____________________

    - Explain what happened (why was this the outcome)

    - ________________________________

- Jenny is a US individual who does not qualifies as a real estate professional. She purchases a commercial rental real estate property in 2016 and leases it out. The taxable net loss from the property was ($9,000) in 2016. Jenny's only other source of income or loss was $12,000 of interest income from a loan. She sells the real estate in 2017 at a $10,000 gain. How much taxable income and loss should Jenny report in each of the following tax years:

    - 2016 ____________________ 2017 ____________________

    - Explain what happened (why was this the outcome)

    - ________________________________

- The "fractions rule" is relevant to what type of taxpayer?

    - ______________

- Matching: Place the number below next to the corresponding business entity being described:

    - ECI ___
      FDAP __
      FIRPTA
      ____
    - Portfolio Interest___
      Branch Profits Tax
      ____

- Exception from FDAP withholding on interest income from certain portfolio debt investments.
- 30% withholding tax on passive-type income (interest, dividends, etc..).
- 30% tax imposed on a foreign corporation based on a deemed distribution of US branch operations.
- Imposed on 1980 by the Foreign Investment in Real Property Tax Act.
- A withholding tax on income that is effectively connected with a United States trade or business.