

Professional Education Services, LP

Residential Rental Property Tax and Accounting Issues

#7300A

EXAM MATERIAL



Professional Education Services, LP

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RESIDENTIAL RENTAL PROPERTY TAX AND ACCOUNTING ISSUES (COURSE #7300A)

COURSE DESCRIPTION

This course covers the accounting issues related to residential rental property, including the rental of vacation homes, installment sales, and the passive activity and at-risk rules. No prerequisites. Course level: Basic. Course #7300A – 8 CPE hours.

LEARNING ASSIGNMENTS AND OBJECTIVES

As a result of studying each assignment, you should be able to meet the objectives listed below each individual assignment.

ASSIGNMENT 1: SUBJECT

Residential Rental Property Including Rental of Vacation Home

Study the course materials from pages 1 to 64

Complete the review questions at the end of the chapter

Answer the exam questions 1 to 20

Objectives:

- To recognize how to report rental income and expenses, including depreciation, on the return
- To recognize proper handling of casualty losses for residential rental property
- To identify the passive activity and at-risk rules related to residential rental property

ASSIGNMENT 2: SUBJECT

Installment Sales

Study the course materials from pages 67 to 116

Complete the review questions at the end of the chapter

Answer the exam questions 21 to 30

Objectives:

- To recognize the general rules that apply to all installment sales
- To identify circumstances where more complex installment rules apply

ASSIGNMENT 3: SUBJECT**Passive Activity and At-Risk Rules**

Study the course materials from pages 117 to 164

Complete the review questions at the end of the chapter

Answer the exam questions 31 to 40

Objectives:

- To recognize the two sets of rules that may limit losses you can deduct on your tax return from any trade, business, rental, or other income-producing activity

ASSIGNMENT 4:

- Complete the Answer Sheet and Course Evaluation and submit to PES

NOTICE

This course and test have been adapted from supplemental materials and information contained in the materials entitled *Residential Rental Property Tax and Accounting Issues*. Use of these materials or services provided by Professional Education Services, LP ("PES") is governed by the *Terms and Conditions* on PES' website (www.mypescpe.com). PES provides this course with the understanding that it is not providing any accounting, legal, or other professional advice and assumes no liability whatsoever in connection with its use. PES has used diligent efforts to provide quality information and material to its customers, but does not warrant or guarantee the accuracy, timeliness, completeness, or currency of the information contained herein. Ultimately, the responsibility to comply with applicable legal requirements falls solely on the individual licensee, not PES. PES encourages you to contact your state Board or licensing agency for the latest information and to confirm or clarify any questions or concerns you have regarding your duties or obligations as a licensed professional.

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RESIDENTIAL RENTAL PROPERTY TAX AND ACCOUNTING ISSUES (COURSE #7300A) EXAM OUTLINE

COURSE EXPIRATION DATE: Per AICPA and NASBA standards, this course must be completed within **ONE YEAR** from the date of purchase.

TEST FORMAT: The following final exam, consisting of 40 multiple choice questions, is based specifically on the material included in this course. The answer sheet must be completed and returned to PES for CPE certification. You will find the answer sheet at the back of this exam packet so that you may easily remove it and use it while taking your test.

LICENSE RENEWAL INFORMATION: The Residential Rental Property Tax and Accounting Issues course (#7300A) qualifies for **8 CPE hours**.

PROCESSING: Your exam will be graded promptly. You must score 70% or better to pass. If you mail or fax your exam, when you pass, your certificate of completion will be mailed. If you do not pass, we will give you a courtesy call to inform you of this, and another answer sheet will be sent to you free of charge. If you complete your exam online, your certificate will be available automatically in your account if you achieve a passing grade.

GRADING OPTIONS – Please choose only ONE of the following:

GRADING OPTIONS: Please choose only **ONE** of the following. There is no additional charge for any of these grading options. Make sure to fill out your answer sheet completely prior to submitting it.

- **ONLINE GRADING** – Visit our website at <http://www.mypescpe.com>. Login to your account (if you are a first-time user, you **must** set up a new user account). Click on “**My CPE**” in the left-hand navigation menu pane, then choose “**My CPE in Progress**,” and then click on “**CPE Exams**.” If your exam is not already located here, click on “**Add Exam Ordered by Phone, Fax, Mail, or Another Person**” and follow the instructions.
- **MAIL** – Your exam will be graded and your certificate of completion mailed to you the same day we receive it. Your certificate will be dated according to the **postmark date**; therefore, you do not need to overnight your exam. Please mail your answer sheet to:

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- **FAX** – Your exam will be graded and you will be contacted either via phone or fax with your results within 4 business hours of receipt. A copy of your graded exam and certificate of completion will be mailed to you the same day we receive it. Your certificate will be dated according to the fax date. If you choose to fax your exam, **please do not mail it**. Your fax will serve as the original. Please refer to the attached answer sheet for further instructions on fax grading. Fax number (916) 791-4099.

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WE APPRECIATE YOUR BUSINESS!!**

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RESIDENTIAL RENTAL PROPERTY TAX AND ACCOUNTING ISSUES (COURSE #7300A) – FINAL EXAM

The following questions are multiple choice. Please indicate your choice on the enclosed Answer Sheet.

1. Which of the following should not be included in gross income when received for a cash basis taxpayer:
 - A. advance rent
 - B. security deposits
 - C. expenses paid by the tenant
 - D. rental income

2. If the rental agreement gives the tenant the right to buy your rental property, what are the payments you receive under the agreement generally considered:
 - A. lease payments
 - B. mortgage payments
 - C. interest income
 - D. rental income

3. You can generally deduct all of the following expenses related to a rental property except:
 - A. depreciation when the property is ready and available for rent
 - B. mortgage interest paid on the rental property
 - C. local benefits that increase the value of the rental property, such as putting in streets
 - D. legal fees incurred to collect rental income

4. You cannot deduct the ordinary and necessary expenses of traveling away from home if which of the following was the primary purpose of the trip:
 - A. collect rental income
 - B. manage the rental property
 - C. maintain the rental property
 - D. improve the property

5. If you hold property for rental purposes that is vacant, which of the following expenses is not deductible:
 - A. loss of rental income
 - B. ordinary and necessary management expenses
 - C. depreciation
 - D. ordinary and necessary maintenance expenses

6. If the original issue discount (OID) is not *de minimis*, which of the following methods must you use to figure how much you can deduct each year:
 - A. constant-yield
 - B. proportional share
 - C. at maturity
 - D. straight line

7. Which of the following would be considered an improvement rather than a repair:
 - A. replacing broken windows
 - B. fixing floors
 - C. adding a patio
 - D. repainting the property

8. Which of the following is not one of the three basic factors for determining the depreciation deduction of rental property:
 - A. your basis in the property
 - B. the recovery period for the property
 - C. the depreciation method used
 - D. the age of the property

9. In order to depreciate your rental property, it must meet all of the following requirements except:
- A. you own the property
 - B. you purchased the property with a mortgage
 - C. you use the property in your business or income-producing activity
 - D. the property has a determinable useful life, and is expected to last more than one year
10. Each of the following can be included in your basis of property that you buy except:
- A. sales tax charged on the purchase
 - B. freight charges to obtain the property
 - C. installation and testing charges
 - D. fees for an appraisal required by a lender
11. You cannot use cost as a basis for property for which of the following:
- A. property that you received in return for services you performed
 - B. property that you received as a gift
 - C. property that you received as an inheritance
 - D. any of the above
12. How long is the recovery period under the General Depreciation System (GDS) for residential rental property:
- A. 5 years
 - B. 12.5 years
 - C. 27.5 years
 - D. 30 years
13. When does the recovery period for an addition or improvement to property begin:
- A. on the date the addition or improvement is placed in service
 - B. on the date the property to which the addition or improvement was made is placed in service
 - C. the later of A and B above
 - D. the earlier of A and B above
14. Which of the following conventions is used in calculating depreciation for all residential rental property and nonresidential real property:
- A. yearly
 - B. half-year
 - C. mid-quarter
 - D. mid-month
15. In which of the following situations can you deduct up to \$25,000 of loss from the activity from your nonpassive income:
- A. if you or your spouse participated on a *de minimis* basis in a passive real estate activity
 - B. if you or your spouse did not participate in a passive real estate activity
 - C. if you or your spouse actively participated in a passive real estate activity
 - D. if you or your spouse materially participated in a passive real estate activity
16. When you change property you held for personal use to rental use, you figure the basis for depreciation using which of the following:
- A. the fair market value
 - B. the adjusted basis
 - C. the lesser of the fair market value or the adjusted basis
 - D. the greater of the fair market value or the adjusted basis
17. If you do not rent your property to make a profit, which of the following is true:
- A. you cannot deduct any of your rental expenses
 - B. you can deduct your rental expenses only up to the amount of your rental income
 - C. you can carry forward to the next year any rental expenses that are more than your rental income
 - D. both B and C above

18. Which of the following is not considered a day of personal use:
- A. any day the property is used by anyone under an arrangement that lets you use some other dwelling unit
 - B. any day the property is used by anyone at less than a fair rental price
 - C. any day that you spend working substantially full time repairing and maintaining the property
 - D. any day the property is used by you or any other person who owns an interest in it
19. Which of the following situations is considered a day of personal use of a dwelling unit:
- A. you donate the use of the unit to a charitable organization
 - B. the organization sells the use of the unit at a fund-raising event
 - C. the "purchaser" uses the unit
 - D. all of the above occur
20. If you use a dwelling unit as a home, you do not have to include any of the rent in your income, and you do not deduct any of the rental expenses if you rent it fewer than how many days during the year:
- A. 30
 - B. 15
 - C. 10
 - D. 7
21. Which of the following is not included in income from an installment sale:
- A. interest income
 - B. gain on the sale
 - C. return of your adjusted basis in the property
 - D. all of the above
22. What is the term used to describe the total gain you report on the installment basis:
- A. adjusted basis
 - B. gross profit
 - C. contract price
 - D. depreciation recapture
23. Which of the following is true regarding electing out of the installment method:
- A. the election is always revocable
 - B. the election is performed on Form 6252
 - C. the election must be made by the due date of the return, including extensions, for the year the sale takes place
 - D. you generally report the entire gain in the following year after the sale
24. If you trade business or investment property solely for the same kind of property to be held as business or investment property, each of the following is correct except:
- A. you can postpone the gain
 - B. you must report the transaction as a contingent sale
 - C. the property you receive is treated as if it were a continuation of the property you gave up
 - D. the trade is known as a like-kind exchange
25. What is the test rate for an installment contract:
- A. the 3-month rate
 - B. the unstated interest
 - C. the original issue discount
 - D. the past due interest

- 26. The gain or loss on the disposition of an obligation is the difference between your basis in the obligation and its fair market value at the time of the disposition if you do which of the following:**
- A. exchange the obligation
 - B. cancel the buyer's debt to you
 - C. accept less than face value in satisfaction of the obligation
 - D. sell the obligation
- 27. Which of the following is correct regarding the repossession of personal property:**
- A. if you receive anything from the buyer in addition to the repossessed property, you must add its value to the property's FMV
 - B. you cannot report a loss on the repossession
 - C. calculating the gain on the repossession is the same whether or not you used the installment method to report the original sale
 - D. you cannot include repossession costs in the calculation of the basis in the obligation
- 28. Which of the following is correct regarding the rules concerning basis and gain on repossessed real property:**
- A. they are unspecified
 - B. they are optional
 - C. they are mandatory
 - D. they are vague
- 29. Repossession costs of real property include all of the following except:**
- A. court costs and legal fees
 - B. lien clearances
 - C. publishing, acquiring, filing and recording of title
 - D. the costs of reacquiring the buyer's obligations to you that are secured by the real property
- 30. When is your basis in repossessed property determined:**
- A. as of the date of the installment agreement
 - B. as of the date of repossession
 - C. as of the last day of the year of repossession
 - D. as of the last day an installment payment was received
- 31. Which of the following is correct regarding passive activity losses:**
- A. generally, the passive activity loss for the tax year is the excess of the passive activity deductions over the passive activity gross income
 - B. passive activity losses are generally allowed for the tax year the loss occurs
 - C. if all or part of a passive activity loss is disallowed for a tax year, it can be applied to any one of the activities or ratably over all of the activities with gains or losses
 - D. you must account separately for all deductions from an activity that are disallowed
- 32. Which of the following is correct regarding active participation:**
- A. it includes limited partners in a partnership's rental real estate activities
 - B. it is less stringent than material participation
 - C. it is more stringent than material participation
 - D. it is the same as material participation

33. If you have more than one of the exceptions to the phaseout rules in the same tax year, you must apply the \$25,000 phaseout against your passive activity losses and credits to which of the following first:
- A. the portion of passive activity losses attributable to the CRD
 - B. the portion of passive activity losses not attributable to the CRD
 - C. the portion of passive activity credits attributable to the rehabilitation credit and low-income housing credit for property placed in service after 1989
 - D. the portion of passive activity credits attributable to credits other than the rehabilitation and low-income housing credits
34. Passive activity income can include which of the following:
- A. gain from disposition of an interest in a passive activity
 - B. portfolio income
 - C. personal service income
 - D. income or gain from investments of working capital
35. Passive activity deductions can include which of the following:
- A. deductions for expenses (other than interest expense) that are clearly and directly allocable to portfolio income
 - B. qualified home mortgage interest properly allocable to passive activities
 - C. charitable contribution deductions
 - D. losses from dispositions of property used in a passive activity at the time of the disposition
36. To determine if activities form an appropriate economic unit, you should consider each of the following **except**:
- A. the size of the activities
 - B. the geographical location
 - C. the extent of common control
 - D. the similarities and differences in the types of trades or businesses
37. If you rent property to a trade or business activity in which you materially participated, how is net rental income from the property treated:
- A. as passive income
 - B. as nonpassive income
 - C. as portfolio income
 - D. as at-risk income
38. If you give away your interest in a passive activity, which of the following is correct regarding the unused passive activity losses allocable to the interest:
- A. they cannot be deducted in any tax year
 - B. they can be deducted in the year of the gift or the they following year
 - C. they should be deducted in the current tax year
 - D. they must be deducted from the basis of the transferred interest
39. If a passive activity interest is transferred because the owner dies, which of the following is correct regarding unused passive activity losses:
- A. they are not allowed
 - B. they are allowed with certain restrictions
 - C. they are allowed without any restrictions
 - D. they are carried back
40. You are considered at risk for which of the following:
- A. amounts protected against loss through guarantees
 - B. qualified nonrecourse financing secured by real property
 - C. amounts protected against loss through nonrecourse financing
 - D. amounts protected against loss through stop loss agreements

***Congratulations –
you've completed the exam!***

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RESIDENTIAL RENTAL PROPERTY TAX AND ACCOUNTING ISSUES #7300A (8 CPE HOURS) ANSWER SHEET (3/16)



IMPORTANT NOTE: For certification, this answer sheet must be completed and submitted to PES for grading within **ONE YEAR** from the date of purchase. Please use **BLACK INK** and **PRINT** for quicker processing – thank you.

Full Name (as it appears on your license) _____

Address (Home Work) _____

City _____ State _____ Zip _____

Daytime Phone () _____ E-mail _____

License Number _____ State _____ Exp Date: ____/____ Are you a: CPA CFP EA (check all that apply)

PTIN Number (if applicable) _____

If course was ordered by another party, please indicate their name here: _____

GRADING OPTIONS – Please choose only **ONE** of the following:

ONLINE GRADING – Visit our website at www.mypescpe.com. Login to your account (if you are a first-time user, you **must** set up a new user account). Click **“MY CPE,”** and then choose **“My CPE in Progress”** and click on **“CPE Exams.”** (If your exam is not already located here, click **“Add Exam Ordered by Phone, Fax, Mail, or Another Person”** and follow the instructions)

Mail – Mail your exam to: PES, 4208 Douglas Blvd., Ste 50, Granite Bay, CA 95746

Fax – Fax your exam to (916) 791-4099 and choose **one** of the following options:

mail my results only or fax (_____) _____ phone my results to: (_____) _____

PLEASE INDICATE YOUR ANSWER BY FILLING IN THE APPROPRIATE CIRCLE

- | | A | B | C | D | | A | B | C | D |
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| 1. | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | 21. | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
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Please complete the attached course evaluation - your opinion is extremely valuable!

**RESIDENTIAL RENTAL PROPERTY TAX AND ACCOUNTING ISSUES #7300A -
COURSE EVALUATION**

Rate on a scale of 1-10 with 1 being poor and 10 being excellent.

1. The course met the course objectives described in the promotional material. _____
2. The course was up to date, held my interest, was timely, and effective. _____
3. The course materials were understandable, valuable, and suitable for a correspondence course. _____
4. The amount of advance knowledge and stated prerequisites were appropriate. _____
5. The completion time was appropriate for the number of credits allowed. _____
6. The course met my professional education needs. _____

Please answer the following questions – mark/rate any and all that may apply

1. How would you rate PES's
 order desk _____
 customer service _____

2. What can PES do to keep you as a valued customer? _____

3. Any other comments regarding this course or our company would be appreciated. _____

4. What other courses/subjects would you like to see PES offer in the future? _____

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