**1)**

Several years ago, Courtney borrowed $100,000 from the Friendly Local Bank and used it to buy an apartment building.  Courtney has not been able to rent any of the apartments in the building and has not made any principal payments on the loan, but she has paid all of the interest due. Courtney has fallen on hard times and her only asset is the apartment building, which is now worth $75,000 and which now has an adjusted basis of $50,000. If the bank cancels the debt in exchange for the apartment building, what are the income tax consequences to Courtney?

a) List primary authorities relied on:

**2)**

Individual A sells an apartment building, its office equipment, furniture and fixtures, and its land to Individual B.  Individual A realizes gain on the sale of the building, equipment, furniture and fixtures and land.  What is the character of the gain realized? Cite to authority as you discuss it.

**3) Address parts a), b) and c), below:**

a) Please list all primary authority relied upon in completing b) and c):

b)  Timon decides to sell 5 acres of land for $100,000.  The cost basis for the land is $37,500.  Timon agrees to sell the property for four equal payments of $25,000 - one now and the other three on January 1 of the next 3 years.  The note bears adequate interest. What amount of gain is realized on the sale?  What amount of gain is recognized in Year 1?  What is Timon's basis in the note receivable at the end of Year 2?

c)  Caleb sells machinery for $90,000 for two equal payments of $45,000 (plus interest).  Caleb's original basis was $80,000 and he has claimed $30,000 of depreciation deductions up to the time of sale.  Caleb will receive 1 payment now and one next year.  What amount of gain is realized on the sale?  What amount of gain is recognized in Year 1?

**4 ) Address parts a, b and c, below:**

Barb owns Williams Tower, an apartment building.  Barb’s adjusted basis in Williams is $400,000 and it is subject to a mortgage of $260,000.

Dan owns Portland Arms, a commercial office building.  It is worth $800,000 and is subject to a mortgage of $350,000.  Dan’s adjusted basis in Portland is $400,000.

Both Barb and Dan acquired their properties 5 years ago and depreciation was straight-line.

Barb and Dan exchange properties and, in addition, Barb transfers antique jewelry, worth $10,000 in which she had a basis of $2,000 to Dan.  Barb inherited the jewelry from her mother many years ago.  Each assumes the other's mortgage (with the consent of the lenders).

a)  List the authorities relied upon in answering b and c:

b)  What are the tax consequences of this exchange to Barb?

c)  What are the tax consequences of this exchange to Dan?