**AAE 320 Problem Set #6 Due November 16, 2022 Name\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**

Abby and Isaiah are married and file a joint income tax return each year. The following table shows the purchase price for items that were purchased, depreciation claimed, and fair market value (sale price) of their farm assets.

|  |  |  |  |
| --- | --- | --- | --- |
| **Asset** | **Purchase Price** | **Depreciation Claimed** | **Fair Market Value**  **(= Sale Price)** |
| Feed | $305,000 | $0 | $345,000 |
| Feeder calves | (Raised) | $0 | $185,000 |
| Dairy heifers (under 24 months old) | (Raised) | $0 | $85,000 |
| Dairy cows | (Raised) | $0 | $680,000 |
| Machinery | $886,000 | $506,000 | $305,000 |
| Buildings | $1,210,000 | $755,000 | $380,000 |
| Land | $685,000 | $0 | $6,885,000 |
| **Total** | **$3,086,000** | **$1,261,000** | **$8,865,000** |

Abby and Isaiah are planning their transfer of the farm assets to their son, John. They have asked the following questions. Please answer them.

1. If they sold all the farm assets to John for their fair market value, how much gain would they have to report on their income tax return for each asset?

FYI, Basis = Purchase Price – Depreciation or 0 if raised asset and Gain = Sale Price – Basis.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Asset | Sale Price | Purchase Price | Depreciation | Basis | Gain or Loss |
| Feed | $345,000 | $305,000 | $0 |  |  |
| Feeder calves | $185,000 | Raised | $0 |  |  |
| Heifers | $85,000 | Raised | $0 |  |  |
| Cows | $680,000 | Raised | $0 |  |  |
| Machinery | $305,000 | $886,000 | $506,000 |  |  |
| Buildings | $380,000 | $1,210,000 | $755,000 |  |  |
| Land | $6,885,000 | $685,000 | $0 |  |  |
| Total | $8,865,000 | $3,086,000 | $1,261,000 |  |  |

1. Note the character of the gain for each asset by entering how much of the gain is subject to ordinary income tax, self-employment tax, and/or capital gains tax in each column below.

|  |  |  |  |
| --- | --- | --- | --- |
|  | Ordinary Income or Loss | Self-Employment Income or Loss | Capital Gains |
| Feed |  |  |  |
| Feeder calves |  |  |  |
| Heifers |  |  |  |
| Cows |  |  |  |
| Machinery |  |  |  |
| Buildings |  |  |  |
| Land |  |  |  |
| Sum Total |  |  |  |

1. Using the following Tax Table, calculate the income taxes Abby and Isaiah must pay on the sale of the assets that result in ordinary income. Assume that they have **$75,000** of taxable income from other sources in addition to the income from the sale of assets.

|  |  |  |
| --- | --- | --- |
| If taxable income is over: | but not over: | the ordinary income tax is: |
| $0, | $19,750 | 10% of the amount over $0 |
| $19,751, | $80,250 | $1,975 plus 12% of the amount over $19,750 |
| $80,251, | $171,050 | $9,235 plus 22% of the amount over $80,250 |
| $171,051, | $326,600 | $29,211 plus 24% of the amount over $171,050 |
| $326,601, | $414,700 | $66,543 plus 32% of the amount over $326,600 |
| $414,701, | $622,050 | $94,735 plus 35% of the amount over $414,700 |
| $622,051, | no limit | $167,307.50 plus 37% of the amount over $622,050 |

Total Ordinary Income from Question 2 + 75,000 = \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Ordinary Income Tax Due = \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

1. Assume all the self-employment income is Abby’s self-employment income. Using an effective self-employment tax rate of 15.3% on the first $132,900 of self-employment income and 2.9% on the self-employment income over $132,900, calculate Abby’s self-employment tax liability from the sale of the assets.

Total Self-Employment Income from Question 2 = \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Self-Employment Tax Due = \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

1. Using a 20% tax rate on capital gains, calculate Abby and Isaiah’s tax on capital gains and losses from the sale of the assets.

Total Capital Gains from Question 2 = \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Capital Gains Tax Due = \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

1. If Abby and Isaiah gave the assets to John rather than sold them to him, what is John’s income tax basis in each of the assets? [Hint: you cannot give someone a loss. If you have a loss, then the basis becomes the fair market value if you give someone the asset.]

|  |  |
| --- | --- |
| Asset | John’s Income Tax Basis |
| Feed |  |
| Feeder calves |  |
| Heifers |  |
| Cows |  |
| Machinery |  |
| Buildings |  |
| Land |  |

1. If John sold the assets for their fair market value immediately after Abby and Isaiah gave them to him, what is his gain or loss on each of the assets?

|  |  |
| --- | --- |
| Asset | John’s Gain |
| Feed |  |
| Feeder calves |  |
| Heifers |  |
| Cows |  |
| Machinery |  |
| Buildings |  |
| Land |  |

1. Assume Abby and Isaiah owned all the assets as survivorship marital property and Abby died. If the assets had the fair market value listed above, what is Isaiah’s income tax basis in each of the assets?

|  |  |
| --- | --- |
| Asset | Isaiah’s Income Tax Basis |
| Feed |  |
| Feeder calves |  |
| Heifers |  |
| Cows |  |
| Machinery |  |
| Buildings |  |
| Land |  |

1. If Abby died and then Isaiah sold all the assets to John immediately, what is Isaiah’s gain or loss on each of the assets? What is John’s income tax basis in each of the assets?

|  |  |  |
| --- | --- | --- |
| Asset | Isaiah’s Gain | John’s Income Tax Basis |
| Feed |  |  |
| Feeder calves |  |  |
| Heifers |  |  |
| Cows |  |  |
| Machinery |  |  |
| Buildings |  |  |
| Land |  |  |