Real Estate Principles
Chapter 15 Quiz

1. Which of the following personal residence expenses may be claimed as deductions on a federal income tax return?
   A. Mortgage payments and property taxes
   B. Mortgage payments, fire insurance, and broker's commission
   C. Prepayment penalty and broker's commission
   D. Mortgage interest payments, prepayment penalty, and property taxes

2. Which of the following terms refers to gain taxed in the year it is realized?
   A. Realized gain
   B. Recognized gain
   C. Actual gain
   D. Deferred gain

3. Which of the following properties could be depreciated for income tax purposes?
   A. An owner-occupied farmhouse
   B. An commercial apple orchard
   C. Vacant land
   D. Any of the above

4. Depreciation on real property means that:
   A. the property becomes virtually worthless
   B. the property's value increases
   C. the basis decreases
   D. the basis increases

5. Erin purchases an investment property for $250,000. She eventually sells it for the same amount. During her eight-year period of ownership, she depreciates the property's improvements $50,000. For income tax purposes:
   A. she has no actual gain
   B. her gain may be deferred
   C. she must pay capital gains
   D. she suffered a capital loss

6. Tom buys a new home and trades his former personal residence to Jerry for a rental property. Tom continues to rent out the property. Jerry uses Tom's old home for rental income as well. Which of the following is true?
   A. This is a tax-free exchange for Tom
   B. This is a tax-free exchange for Jerry
   C. This is a tax-free exchange for both parties
   D. This is a tax-free exchange for neither party

7. An apartment complex valued at $125,000 has an outstanding mortgage of $37,000. A duplex worth $149,000 has a first mortgage balance of $18,500 as well as a junior mortgage balance of $12,300. If the two properties are exchanged, how much in cash or other boot will be paid?

A. $125,000 – $37,000 = $88,000
B. $149,000 – $125,000 = $24,000
C. $118,200 – $88,000 = $30,200
D. $149,000 – $118,200 = $30,800

8. A condominium owner living in his condominium is permitted to deduct which of the following expenses on his federal income tax return?

A. Repair and upkeep of his individual unit
B. Interest paid on a loan secured by the common areas
C. Monthly payment toward upkeep of the common areas
D. None of the above

9. Which of the following items is something for which a homeowner could adjust his cost basis?

A. A new deck
B. Mortgage interest
C. Homeowner's insurance
D. Depreciation

10. If the owner of a rental property decides to add a swimming pool and patio, the costs of these additions are:

A. depreciated with the land
B. depreciated with the land
C. not tax-deductible unless they can be shown to prolong the life of the rental property
D. added to the property's cost basis

11. An owner of an apartment complex reports income on a cash basis. Which of the following is not tax-deductible?

A. Mortgage interest
B. Lost income from vacancies
C. Cleaning and maintenance costs
D. Improvement and redecorating costs

12. Regarding tax-free exchanges, which of the following is true?

A. An office building cannot be exchanged for an apartment complex
B. A personal residence may be exchanged for a house of similar worth
C. Property exchanged must be used in a trade or business or held for income or investment
D. Both properties must carry mortgages

13. An advantage of selling property through an installment sale is that:

A. the seller can choose what year to declare the gain from the sale
B. the gain is prorated and taxed over the term of the installment contract
C. the gain is not taxed until it is fully realized
D. no taxes are due the year of the sale

14. In a tax-free exchange, "boot" could refer to:
   A. net relief of a mortgage
   B. an increase in cost basis
   C. a decrease in cost basis
   D. an increase in depreciation

15. Which of the following statements about a tax-free exchange is TRUE?
   A. The properties exchanged must be held for income or investment
   B. The exchange must be completed upon closing
   C. Every exchange must include boot to balance the transaction
   D. The real properties exchanged must have the same value