

Question 1

Which of the following is a **capital asset**?

- a. Inventory held for sale
- b. Accounts receivable from customers
- c. Personal automobile used by an individual
- d. Machinery used in business

✅ **Answer:** c. Personal automobile used by an individual

📘 **Explanation:** Personal-use property is a **capital asset**. Business-use property and inventory are **not**.

Question 2

A taxpayer purchased stock for \$3,000 and sold it for \$4,500. What is the gain or loss?

- a. \$1,500 capital gain
- b. \$1,500 ordinary income
- c. \$1,500 capital loss
- d. \$4,500 capital gain

✅ **Answer:** a. \$1,500 capital gain

📘 **Explanation:** Selling price – cost = \$4,500 – \$3,000 = **\$1,500 capital gain**.

Question 3

Which of the following is **not** a Section 1231 asset?

- a. Land used in business
- b. Building used in business
- c. Accounts receivable
- d. Machinery used in business

✅ **Answer:** c. Accounts receivable

📘 **Explanation:** Section 1231 assets are **depreciable property or real property** used in business and held >1 year.

Question 4

Depreciation recapture under **Section 1245** applies to:

- a. Personal property only
- b. Real property only
- c. Inventory
- d. Intangible assets

✓ **Answer:** a. Personal property only

📘 **Explanation:** §1245 applies to **depreciable personal property** (like equipment, machinery).

Question 5

If a business sells equipment for more than its original cost, the **amount exceeding original cost** is:

- a. Ordinary income
- b. Capital gain
- c. Section 1245 recapture
- d. Nontaxable

✓ **Answer:** b. Capital gain

📘 **Explanation:** Any amount **above original cost** after depreciation recapture is **capital gain**.

Question 6

Losses on the sale of **personal-use property** (like a personal car) are:

- a. Fully deductible
- b. Deductible up to \$3,000
- c. Not deductible
- d. Treated as long-term capital loss

✓ **Answer:** c. Not deductible

📘 **Explanation:** **Personal losses** are **not deductible** under U.S. tax law.

Question 7

A taxpayer exchanges business equipment (FMV \$10,000, basis \$6,000) for similar new equipment (FMV \$12,000) and pays \$2,000 cash. What is the **recognized gain** under like-kind exchange rules (pre-2018)?

- a. \$0
- b. \$2,000
- c. \$4,000
- d. \$6,000

✓ **Answer:** a. \$0

📘 **Explanation:** Like-kind exchanges of business property (before 2018) are **nontaxable** if no boot is received.

Question 8

A building (basis \$300,000) is destroyed by fire. Insurance proceeds are \$350,000. The taxpayer reinvests \$340,000 in a new building. What gain is recognized?

- a. \$0
- b. \$10,000
- c. \$40,000
- d. \$50,000

✅ **Answer:** b. \$10,000

📘 **Explanation:** Realized gain = \$50,000. Reinvested less than proceeds by \$10,000 → **\$10,000 recognized** under involuntary conversion rules (§1033).

Question 9

Which of the following statements about **capital losses** is correct?

- a. Individuals can deduct unlimited capital losses.
- b. Corporations can deduct up to \$3,000 of capital losses.
- c. Individuals can deduct up to \$3,000 (\$1,500 if MFS).
- d. Capital losses are fully deductible against salary income.

✅ **Answer:** c. Individuals can deduct up to \$3,000 (\$1,500 if MFS).

📘 **Explanation:** Net capital losses can offset ordinary income up to these limits.

Question 10

Section 1250 depreciation recapture applies to:

- a. Depreciable personal property
- b. Real property (buildings)
- c. Land
- d. Intangibles

✅ **Answer:** b. Real property (buildings)

📘 **Explanation:** §1250 applies to **depreciable real property** such as buildings used in a trade or business.