




Review Questions and Final Exam

Course name:	Residential Rental Property-Tax Year 2009
Course number:	100409
Number of questions:	Review 30 Final Exam 33
Prerequisite:	None
Advance preparation:	None
Course level:	Basic
Recommended CPE credit:	3 CPE hours
Recommended study time:	3 hours
Course format:	Interactive self study CPE credit calculated as 100% of total study time (i.e. 50 minute hour)
Reference text:	IRS 2009 Publication 527 Residential Rental Property (free download)
	31 pages
Subject classification:	Taxation
Course updated:	February 3, 2010
Learning objective:	Review rental income and expenses, including depreciation, and explain how to report them on your return. Also review casualty losses on rental property and the passive activity and at-risk rules.
Instructions:	This copy of the exam can be used to answer questions while offline . Please note that you will still need to enter your answers online by logging into the course system with your User ID and Password.

1) Your tenant, Betty Jones, was in Paris for December and didn't pay her December rent until the following January. Since you are an accrual basis taxpayer, you should record the rent due in December, in December's tax year.

True
False

2) Ms. Robbins rents a penthouse apartment from you. Last year, in November, she decided to go to South America for the rest of the year, and gave you a check for her apartment rent for the next six months.

You are a cash basis taxpayer, so you should record the rent as income for last year, because that is when you received the check.

True
False

3) You require a \$100 security deposit of all tenants and you never intend to return the security deposit when they move out because you always use the money to pay a cleaning service to thoroughly clean the apartment. You are a cash basis taxpayer.

You should include the security deposit amount in income in the year the your receive the deposit.

True
False

4) Your tenants sign a rental agreement with a purchase option at the end of the lease. Depending on the terms of the agreement, you may not need to record any rental income for payments received prior to the sale, if they do in fact end up purchasing the home.

True
False

5) Your cute little log cabin in Aspen you bought for rental purposes will be vacant for several weeks in March. You have to pay the electricity and gas while it is vacant. These expenses paid while the property is not rented are not deductible expenses.

True
False

6) You bought an old bungalow in California as a rental property. You spend six months doing a major remodeling of the property. You made repairs to the plumbing as part of the remodeling.

You must consider all repairs as part of the total remodeling job and cannot deduct the expense of the repairs in the current year.

True

False

7) You replaced the roof at your rental property last year. Because this was a replacement of an existing item, this is classified as a repair and can be deducted in the current year.

True

False

8) Your rental property is located in a subdivision that charges an annual homeowners' association fee of \$250 which is used to maintain the esplanades and parks in the neighborhood. This payment is a deductible expense.

True

False

9) When you purchased your rental property, you paid a mortgage origination fee of 1%, abstract fees and recording fees. These fees are not deductible expenses in the year incurred, and should be capitalized.

True

False

10) You have a rental property in New York City, and since you don't own a car, you take a cab every month to collect the rent on the property. While the tenant could mail you the rent, you prefer to collect it in person. Your cab fares are deductible.

True

False

11) You rent your condominium to your friend Janet for \$2,000/month. You pay the monthly condo fee which is used to pay for cable TV to all residents and also for an onsite manager. You cannot deduct the part of the condo fee that is for cable TV.

True

False

12) You purchased a small farm that you hope to retire to in a few years. Meanwhile, you just hope to receive a little income from the property. If you are not renting your property to make a profit, you do not need to report the rental income or rental expense.

True
False

13) You rent part of your home and receive rental income of \$1,500 per month. Your total mortgage payment, including property taxes and insurance, is \$2,000 per month, thus your rental income is 75% of your mortgage expense. You can use the 75% ratio to calculate the deductibility of your other home expenses, such as utilities, maintenance, etc.

True
False

14) You and your spouse bought the cutest little bed and breakfast in Key West. The bed and breakfast is a house and you rent the rooms out. You have separate living quarters about a block away.

Your bed and breakfast is classified as a "dwelling unit" because it is in a house.

True
False

15) You rented your garage apartment to a college student for 9 months of the year, then let your cousin's daughter stay in it rent free during the summer.

For tax purposes, your garage apartment is classified as a "dwelling unit used as a home" for the tax year.

True
False

16) You donate your log cabin in Aspen to be used for a bona fide charity ski tournament. The charity uses the log cabin for 30 days total during the year.

The 30 days of charity use does NOT count as a "days of personal use of a dwelling unit" in figuring total days of personal use.

True
False

17) You own a houseboat that you rent out all year. Once per quarter, you spend two days living on the houseboat because you have to perform extensive engine maintenance. Sometimes your 12-year old son comes with you and does some fishing while you are working.

These eight days per year do NOT count as days of personal use.

True
False

18) You have a townhouse in San Francisco that you both rent out and use personally. You lived in your townhouse most of the year, but put it up for rent during the summer because you spend summers in Europe. The townhouse was advertised and available for rent June 1st to August 31st but no one rented it.

For purposes of allocating expenses, the days of rental use would be calculated as 92 days, because it was available for that time period.

True
False

19) You rented out your home in Houston when you were gone during the summer. Unfortunately, you agreed to pay the utilities, and ended up losing money on the rental. You can use the net loss to offset income from other sources.

True
False

20) The first year you filed a return for your newly purchased rental property, you made a mathematical error and underreported your depreciation. You can correct this error by adding the underreported amount to the current year amount.

True
False

21) You purchase a single family rental home located on a 2-acre lot for \$100,000. Your depreciable basis will be a minimum of \$100,000.

True
False

22) You must use the Advanced Real Property (ARP) depreciation system for property placed in service after 1986.

True
False

23) You purchased a rental house for \$75,000. At closing you paid the following settlement fees:

--Legal fees, recording fees, survey fee and \$25 for installing electric service to the house.

All these fees should be added to the basis of the house.

True
False

24) You bought a rental property for \$25,000 cash and assumed a mortgage of \$100,000. There are no closing or other costs. Your basis in the property is \$125,000.

True
False

25) You bought a new home and decided to rent out your old home. You paid \$225,000 for your old home ten years ago, and it is worth \$300,000 today. You did not make any improvements to your home while you lived there. To calculate the current basis as a rental home, you need to reduce the original basis for ten years of depreciation.

True
False

26) You purchased your rental property on February 15th of last year. The property had an existing tenant at the time of your purchase, so you didn't have to spend any time or money finding a new tenant. Your depreciation calculation for the first year of ownership will need to use the half-year convention, so you will take 6 months of depreciation.

True
False

27) If you are a real estate professional, the passive activity limits may NOT apply to you.

True
False

28) You are a busy professional and hired a management company to manage your rental house. You don't want to be bothered with approving new tenants or deciding on rental terms, so you have the management company handle that. You are NOT actively participating in the rental real estate activity.

True
False

29) You run a charming Victorian bed and breakfast inn in Galveston, Texas. Your income and expense from this real estate venture should be reported on Schedule C.

True
False

30) You have 16 single family home rental properties, which keeps you very busy. You do NOT need to list each property's income and expense separately on Schedule Es and you can summarize these 16 rental properties into a single rental group operation on Schedule E, as part of the government's paperwork reduction initiatives.

True
False

Exam Name: Residential Rental Property-Tax Year 2009
--Final Exam

1) Your tenant Lindsey Lewis hands you a check for rent payment on December 24, 2008, but due to heavy year end tax work, you don't deposit the check until January 5, 2009. You are a cash basis taxpayer. You should count this receipt as income for which year?

- a) 2008
- b) 2009
- c) Need to know what month the rent was for (12/08 vs 01/09) in order to determine which year is correct.
- d) You can record it in either year--IRS regulations do not specify which year is appropriate.

2) Your tenant Meredith Moore is a political consultant and she expects to be traveling back and forth to Alaska during the next year, so she decides on October 1, 2009 to pay you in advance for the next two years of rent (for the period 10/1/09 to 9/30/11). Rent is \$1,000 per month so you receive a check for \$24,000. You are an accrual basis taxpayer. This rent, including the advance rent, would be recorded:

- a) \$3,000 in 2009, \$12,000 in 2010, \$9,000 in 2011
- b) \$24,000 in 2009
- c) \$3,000 in 2009, \$21,000 in 2010
- d) \$24,000 in 2010

3) You rent "slumlord" apartments and require a minimal \$25 security deposit at the time a lease is signed. You plan to return the meager security deposit at the end of the lease, and in fact usually do because the apartment really can't get any worse than it already is.

You should include the deposit amount as income at the time you receive it.

True
False

4) The Olympics are being held in your hometown and you are able to rent out an extra bedroom for \$10,000 for one week! That is the only time during the year that you rent out part of your home. Unfortunately, the renters steal a \$25,000 uninsured Ming vase while they are staying with you. Which of the following is true?

- a) Do include the \$10,000 as income; and do deduct the \$25,000 loss on Schedule A of Form 1040

- b) Do include the \$10,000 as income; and do not deduct the \$25,000 loss on Schedule A of Form 1040
- c) Do not include the \$10,000 as income; and do deduct the \$25,000 loss on Schedule A of Form 1040
- d) Do not include the \$10,000 as income; and do not deduct the \$25,000 loss on Schedule A of Form 1040

5) Much to your surprise, your rental beach house in Malibu is vacant for three weeks in July, normally the peak rental season. This beach house ordinarily rents for \$25,000 per week. You can deduct the \$75,000 loss in rental income for the period the property was vacant.

- True
- False

6) You recently purchased a beautiful Victorian mansion to be used as a rental property. You undertake extensive restoration of the property (the place is a wreck) and in the course of that project you replace two of the broken windows at a cost of \$25.

This \$25 cost can be separated from the restoration project costs and deducted as a repair expense in the current tax year.

- True
- False

7) You decide to make some improvements to your rental beach house to make it more attractive. Which of the following would the IRS consider an improvement?

- a) Landscaping the front yard
- b) Repainting the exterior
- c) Steam cleaning the carpets
- d) Providing free cable TV service (assume no additional equipment is installed)

8) If you pay an insurance premium for more than one year in advance, each year you can only deduct the part of the premium applicable to that year.

- True
- False

9) If you paid what amount or more of mortgage interest on your rental property to any one person, you should receive a Form 1098.

- a) \$250
- b) \$500
- c) \$600
- d) \$800

10) You spend two weeks in Malibu, CA during your summer vacation. Although it wasn't the primary purpose of your trip, you drive by your rental beach house every day you are there, to check on it. Your transportation expenses traveling from and back to your home (in Oklahoma) are fully deductible travel expenses.

- True
- False

11) Due to an extreme oversight on your part, you underpaid your taxes due related to your rental activities. As a result, you had to consult with an accountant who specializes in tax underpayments. The fees paid to the accountant for this consultation are fully deductible as a rental expense.

True

False

12) If you rent your condominium rental unit to others, you can deduct special assessments you pay to a condo management corporation for improvements in the year they are paid.

True

False

13) If your rental income is more than your rental expenses for at least 2 out of 3 years, you are presumed to be renting your property to make a profit.

True

False

14) Which of the following are considered reasonable ways to base your division of expenses if you rent only part of your property?

- a) Square footage
- b) Number of people
- c) Number of rooms
- d) All of the above

15) You rent out a room in your home that is always available for short-term occupancy by paying customers. You do not use the room yourself and you allow only paying customers to use the room. This room would be classified as if it were a:

- a) Dwelling unit
- b) Vacation home
- c) Apartment unit
- d) Hotel, motel, inn or similar establishment

16) Which of the following are considered valid questions when determining a fair rental price in comparison to other properties?

- a) Is it approximately the same size?
- b) Is it in a similar location?
- c) Is it in approximately the same condition?
- d) All of the above

17) "Personal use days" of a dwelling unit includes any days the unit is rented to anyone at less than a fair rental price.

True

False

18) You own a fabulous beach house in Tulsa, Oklahoma. You donate one week of use to a charity auction for Mensa, the week is auctioned off by the charity, and the purchaser uses the house for one week. This week of use is not considered personal use of a dwelling unit.

True

False

19) You take your family skiing for three days at your cabin in Vail, Colorado. While the family is skiing, you spend every day working full time repairing the sauna. These three days count as personal use.

True

False

20) You use a dwelling unit for both rental and personal purposes.

When determining how to divide expenses between personal and rental purposes, any day the unit is available for rent but not actually rented is considered a day of rental use (as opposed to personal use).

True

False

21) If you use a dwelling as a home and you rent it for fewer than 15 days during the year, you do not report the income or the expenses on your tax return.

True

False

22) You bought a rental property three years ago and have been properly reporting your income and expenses on your tax return each year, except you forgot to depreciate the property. To correct this error, you can deduct "catch up" (sometimes called "ketchup") depreciation in the fourth year and essentially take four years of depreciation in the fourth year.

True

False

23) You have a rental house built in Phoenix, where you plan to retire in 15 years. The title insurance, survey and legal fees paid at the closing are part of your basis in the property, and as such are considered depreciable costs.

True

False

24) Your primary occupation is mail room clerk, however you purchased some rental houses to provide rental income. You cannot claim the Section 179 deduction for your rental houses.

True

False

25) Using the General Depreciation System (GDS) residential rental property (buildings or structures) can be depreciated over what period?

- a) 15 years
- b) 25 years
- c) 27.5 years
- d) 50 years

26) You buy a dishwasher for \$400, pay \$33 in sales tax and pay an exorbitant \$150 to get it installed. Your depreciable basis in the dishwasher is:

- a) \$400
- b) \$433
- c) \$550
- d) \$583

27) Which of the following amounts paid at closing would NOT be added to the depreciable basis of the property?

- a) Fire insurance premiums for the coming year
- b) Title insurance
- c) Legal fees
- d) Charges for installing utility service

28) When you change property you held for personal use to rental use, you figure the basis for depreciation using the greater of fair market value or adjusted basis.

- True
- False

29) Depreciation for residential rental property must be calculated using what method/convention when using MACRS under GDS:

- a) Straight line method and mid-month convention
- b) 150% declining balance method and mid-month convention
- c) 200% declining balance method and mid-year convention
- d) EZ depreciation method with small balance convention

30) Juliana actively manages her three rental houses and is married filing jointly. Her net loss of \$23,450 on rental activity for the year can be used to offset their other income.

- True
- False

31) The at-risk rules place a limit on the amount you can deduct as losses from activities related to holding real property. Thankfully, the at-risk rules do not apply to property placed in service after 1995.

- True
- False

32) Active participation in a rental real estate activity requires that you (and your spouse) own at least ___ % of the rental property, and that you make significant management decisions.

- a) 5%
- b) 10%
- c) 25%
- d) 50%

33) If you provide significant services that are primarily for your tenant's convenience, such as regular cleaning, changing linen or maid service, you report your rental income and expenses on Schedule C.

- True
- False