

39. [LO 1] For the following independent cases, determine whether economic income is present and, if so, whether it must be included in gross income (i.e., is it realized and recognized for tax purposes?).
- a. Asia owns stock that is listed on the New York Exchange, and this year the stock increased in value by \$20,000.
  - b. Ben sold stock for \$10,000 and paid sales commission of \$250. Ben purchased the stock several years ago for \$4,000.
  - c. Bessie is a partner in SULU Enterprises LLC. This year SULU reported that Bessie's share of rental income was \$2,700 and her share of municipal interest was \$750.
    - a. *Economic income of \$20,000 is present, but there is no realization for tax purposes. Without realization, there can be no recognition. Hence this will not be included in the gross income.*
    - b. *Economic income of \$10,000 less the \$250 in sales commission is present and has been realized through the sale. Return of capital limits the addition to gross income to the net gain on the sale, \$5,750. The presumption in the law is that realized income is included in gross income. Thus, absent some additional facts which allow the deferral or exclusion of the income, recognition would follow realization, and the income would be taxed.*
    - c. *Both are included in economic income. Bessie's share of rental income (\$2,700) is included in gross income, and her share of municipal interest (\$750) is excluded from her gross income.*
49. [LO 2] Identify the amount, if any, that these individuals must include in gross income in the following independent cases. Assume that the individuals use the cash method of accounting and report income on a calendar-year basis.
- d. Elmer was an extremely diligent employee this year, and his employer gave him three additional days off with pay (Elmer's gross pay for the three days totaled \$1,200, but his net pay was only \$948).
  - e. Amax purchased new office furniture and allowed each employee to take home old office furniture valued at \$250.
    - a. *Elmer should include in gross income the \$1,200 gross pay he received for the three days he was not required to work but still received compensation.*
    - b. *Amax employees should include the value of the furniture (\$250) in gross income.*

55. [LO 2] For each of the following independent situations, indicate the amount the taxpayer must include in gross income and explain your answer:

- f. Phil won \$500 in the scratch-off state lottery. There is no state income tax.
  - g. Ted won a compact car worth \$17,000 in a TV game show. Ted plans to sell the car next year.
  - h. Al Bore won the Nobel Peace Prize of \$1,000,000 this year. Rather than take the prize, Al designated that the entire award should go to Weatherhead Charity, a tax-exempt organization.
  - i. Jerry was awarded \$2,500 from his employer, Acme Toons, when he was selected most handsome employee for Valentine's Day this year.
  - j. Ellen won a \$1,000 cash prize in a school essay contest. The school is a tax-exempt entity, and Ellen plans to use the funds for her college education.
  - k. Gene won \$400 in the office March Madness pool.
- a. *All \$500 is economic income realized this year and is, therefore, included in gross income.*
  - b. *The value of the car, \$17,000, is economic income realized this year and is, therefore, included in gross income.*
  - c. *The entire award is excluded and therefore tax exempt. The award is excluded because it was for scientific, literary, or charitable achievement, and the taxpayer immediately transferred the award to a qualified charity.*
  - d. *All \$2,500 is economic income realized this year and is, therefore, included in gross income.*
  - e. *All \$1,000 is economic income realized this year and is, therefore, included in gross income.*
  - f. *Gene should include \$400 in his gross income.*

65. [LO 3] Grady is a member of a large family and received the following payments this year. For each payment, determine whether the payment constitutes realized income and determine the amount of each payment Grady must include in his gross income.
- l. A gift of \$20,000 from Grady's grandfather.
  - m. One thousand shares of GM stock worth \$120 per share inherited from Grady's uncle. The uncle purchased the shares for \$25 each, and the shares are worth \$125 per share at year-end.
  - n. A gift of \$50,000 of Ford Motor Bonds. Grady received the bonds on October 31, and he received \$1,500 of semiannual interest from the bonds on December 31.
  - o. A loan of \$5,000 for school expenses from Grady's aunt.
    - a. *The gift is realized income that is entirely excluded from gross income.*
    - b. *Inheritances are realized income but are entirely excluded from gross income. The increase in the value of the shares during the year has not yet been realized.*
    - c. *The gift of the bonds is realized income that is entirely excluded from gross income. The interest accrued up to October 31<sup>st</sup> is excluded because it was accrued at the time of the gift. Hence, the accrued income was part of the gift. Grady is taxed on \$500 of interest that accrued after the date of the gift (he is taxed on it when he receives it).*
    - d. *A bona fide loan is not realized income. If the loan is actually a disguised gift, the gift would be realized income but the value is excluded from gross income.*