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Course Information

Course Title: *Passive Losses*

#492824

Recommended CPE credit hours for this course

In accordance with the standards of the National Registry of CPE Sponsors and the IRS, CPE credits have been granted based on a 50-minute hour.

CPA 10.5 (All states)

National Registry of CPE Sponsors ID Number: 107615.

Sponsor numbers for states requiring sponsor registration:

Florida Division of Certified Public Accountancy: 0004761 (Ethics #0011467)

Hawaii Board of Public Accountancy: 14003

New York State Board of Accountancy (for ethics): 002146

Ohio State Board of Accountancy: CPE.51 PSR

Pennsylvania Board of Accountancy: PX 178025

Texas State Board of Accountancy: 009349

EA/OTRP 10 (All States) IRS: Qualified Sponsor number: *FWKKO*.

Course Description

This course addresses the practical aspects of §469 and the needed skills to handle pragmatic issues. Fundamentals are reviewed, planning opportunities identified, and creative strategies discussed and evaluated along with remaining traditional approaches. The goal of this instructive program is to understand and solve problems under §469, with an emphasis on tax savings ideas. Readers will overview the proper administration of this complex and often cumbersome provision.

Course Content

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Author: Danny Santucci, J.D.

Final exam (online): Eighty questions (multiple-choice).

Program Delivery Method: Self-Study (NASBA QAS Self-Study/interactive)

Subject Codes/Field of Study

NASBA (CPA): Taxes.

IRS (EA, OTRP): Federal Tax Law.

Course Level, Prerequisites, and Advance Preparation Requirements

Program Level: NASBA/CPA, IRS: Overview.

This program is appropriate for professionals at all organizational levels.

Prerequisites: Basic familiarity with federal taxation

Advance Preparation: None

Instructions for Taking This Course

- Log in to your secure account at www.bhfe.com. Go to "My Account."
- You must complete this course within one year of purchase (If the course is "Expired," contact us and we will add the latest edition of the course to your account (no charge).
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- Complete the course by following the learning objectives listed for the course, studying the text, and, if included, studying the review questions at the end of each major section (or at the end of the course).
- Once you have completed studying the course and you are confident that the learning objectives have been met, answer the final exam questions (online).

Instructions for Taking the Online Exam

- Log in to your secure account at www.bhfe.com. Go to "My Account."
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- For a printed copy of the exam questions, open the exam and press "Print Exam."
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- CFP Board and IRS credit hours, if applicable, are reported on Tuesdays and at the end of the month.

Have a question? Call us at 800-588-7039 or email us at contact@bhfe.com.

Learning Assignments & Objectives

(Table of Contents follows the Learning Objectives.)

As a result of studying each assignment, you should be able to meet the objectives listed below each assignment.

ASSIGNMENT	SUBJECT
Chapter 1	Overview

At the start of Chapter 1, participants should identify the following topics for study:

- * Reasons for change from prior law
- * Categories of income & loss
- * Fully taxable disposition
- * Entire interest
- * Other transfers
- * Ordering of losses
- * Regular & personal service corporations
- * Real estate professionals
- * Definition of pre-enactment interest
- * Increase or decrease in pre-enactment interests

Learning Objectives

After reading Chapter 1, participants will be able to:

1. Recognize the tax impact of the §469 limitation provision, determine categories of income and loss income and loss into categories, and list Congressional reasons for its passage.
2. Specify the aggregate mechanics of the passive loss rules, identify what type of losses remain unaffected, and recognize passive and non-passive (including portfolio) income sources.
3. Identify ways to ultimately "free up" passive losses, specify the treatment of passive credits on disposition, and determine limitations on related party transactions.
4. Determine the allowance of suspended losses upon nonrecognition transactions, specify the order of recognized tax attributes upon position, and recognize the allocation of losses from multiple passive activities.
5. Identify which taxpayers are or are not subject to the passive loss rules, specify the full-time real estate professional exception, and recall the original §469 phase-in provisions.

After studying the materials in Chapter 1, answer exam questions 1 to 18.

ASSIGNMENT**SUBJECT****Chapter 2****Material Participation**

At the start of Chapter 2, participants should identify the following topics for study:

- * General rule
- * Definition of “trade or business”
- * TRA '86 committee report guidelines
- * General rule for individuals
- * Record keeping regulations
- * Meaning of participation
- * Limited partnership interests presumption
- * Special rules for trusts & estates
- * Special rules for retired & disabled farmers
- * Special rules for corporations

Learning Objectives

After reading Chapter 2, participants will be able to:

1. Identify how to avoid the application of the passive loss rules through material participation, specify tests provided by the initial regulations on material participation and how these tests provide useful §469 categories, determine how to keep appropriate records of participation, identify exceptions to what counts toward material participation, and determine annual material participation.
2. Recognize special applications of the material participation rule by recalling its application to trusts, estates, and affiliated group members.

After studying the materials in Chapter 2, answer exam questions 19 to 28.

ASSIGNMENT**SUBJECT****Chapter 3****Activity Definition**

At the start of Chapter 3, participants should identify the following topics for study:

- * Tax Reform Act of 1986
- * Undertakings of old temporary activity regulations
- * Aggregation of trade or business undertakings
- * Integrated businesses
- * Aggregation of professional service undertakings
- * Control by the same interests
- * Rental real property undertakings
- * Participation unaffected
- * Final simplified activity regulations
- * Passive activity audit guide

Learning Objectives

After reading Chapter 3, participants will be able to:

1. Recognize the history and rationale of the definition of “activity” by specifying the use of analogies under §183 and §465, specify the original activity undertaking rules, and recognize the passage of final simplified activity regulations.
2. Determine whether two or more trade or business undertakings could be a single integrated business. recognize the importance of the passive activity audit guide as a tool to avoid audits by specifying potential audit issues that the passive activity audit guide addresses.

After studying the materials in Chapter 3, answer the exam questions 29 to 39.

ASSIGNMENT	SUBJECT
Chapter 4	Passive and Non-Passive Activities

At the start of Chapter 4, participants should identify the following topics for study:

- * Trade or business
- * Rental activity exemptions
- * Rental of a dwelling unit
- * Trading personal property
- * Working interests in oil & gas exemption
- * Entities that limit liability
- * Disqualified deductions
- * Activities within activities

Learning Objectives

After reading Chapter 4, participants will be able to:

1. Determine a “rental activity” identifying conditions for a rental activity to exist and the resulting passive presumption.
2. Recognize exceptions to passive activity status and their tax effect and specify the tax treatment of when activities are “nested” in each other.

After studying the materials in Chapter 4, answer exam questions 40 to 44.

ASSIGNMENT	SUBJECT
Chapter 5	Passive Activity Loss

At the start of Chapter 5, participants should identify the following topics for study:

- * Working interest exception for husband & wife
- * Separate accounting of disallowed items for husband & wife
- * Net active income of closely held corporations
- * Affiliated groups filing consolidated returns
- * Treatment of carryover losses

- * Allocation process
- * Significant participation activities
- * Separate identification of deductions

Learning Objectives

After reading Chapter 5, participants will be able to:

1. Determine what constitutes a “passive activity loss,” identify the appropriate passive loss tax treatment of spouses, and recognize an affiliated group’s passive activity loss using group member items.
2. Specify reasons why disallowed passive activity losses must be allocated among all the taxpayer’s activities and determine how to allocate and carry over disallowed passive activity losses.

After studying the materials in Chapter 5, answer the exam questions 45 to 49.

ASSIGNMENT

SUBJECT

Chapter 6

Passive Activity Gross Income

At the start of Chapter 6, participants should identify the following topics for study:

- * Income from dispositions of property used in passive activities
- * Disposition of appreciated property formerly used in a nonpassive activity
- * Rental activities
- * Income from §481 adjustment
- * Self-charged interest
- * Exclusion of portfolio income
- * Exclusion of personal service income
- * Exclusion of oil & gas income
- * Active business recharacterization
- * Portfolio income recharacterization rules

Learning Objectives

After reading Chapter 6, participants will be able to:

1. Identify passive activity gross income under §469 and specify income from the disposition of property in mixed use, recognize the \$25,000 allowance passive loss exception and the potential of a net operating loss, and identify the presumed tax treatment of net leases under §469.
2. Recognize the dangers of self-charged interest and what measures can be taken to avoid this item’s passive nature and determine a “publicly traded partnership” for taxation purposes and how net income from such entities is portfolio income.

3. Determine tax attributes and subsequent events that can cause a recalculation of gross passive income and recognize the recharacterization rules identifying whether certain transactions will be recharacterized based on the 12-month and 30% tests.

After studying the materials in Chapter 6, answer the exam questions 50 to 61.

ASSIGNMENT	SUBJECT
Chapter 7	Passive Activity Deduction

At the start of Chapter 7, participants should identify the following topics for study:

- * Definition of passive activity deduction
- * Qualified residence interest deduction exclusion
- * Coordination with other deduction limitations
- * Effect of coordination
- * Losses on disposition
- * Negative §481 adjustment
- * Exceptions

Learning Objectives

After reading Chapter 7, participants will be able to:

1. Determine the source of passive losses and the exclusion of qualified residence interest under §469(j)(7) and specify the coordination of passive activity deductions with other deduction limitations.
2. Recognize how to account for losses on disposition according to Reg. §1.469-2T(d)(5), cite instances that require such a loss to be allocated, and determine a negative §481 adjustment.

After studying the materials in Chapter 7, answer exam questions 62 to 67.

ASSIGNMENT	SUBJECT
Chapter 8	Passive Activity Credits

At the start of Chapter 8, participants should identify the following topics for study:

- * Regular tax liability allocable to passive activities
- * Exception for real estate rental activity credits
- * Net active income
- * Credits subject to passive activity limits
- * Allocation of disallowed credits
- * Separate identification of credits
- * Ordering of credit limitations
- * Special rule for partners & S corporation shareholders
- * Coordination with other limitations
- * Treatment of carryover credits

Learning Objectives

After reading Chapter 8, participants will be able to:

1. Determine “passive activity credits” and their usage under § 469 and identify a closely held corporation’s passive activity credit net active income for the tax year.
2. Specify circumstances where separate identification of credits is required and the order of credit limitations.

After studying the materials in Chapter 8, answer the exam questions 68 to 71.

ASSIGNMENT

SUBJECT

Chapter 9

Items Received from Pass-Through Entities

At the start of Chapter 9, participants should identify the following topics for study:

- * Characterization of items received from pass-through entities
- * Payments to partners as outsiders
- * Payments to partners as partners
- * Special rules for partnership liquidations
- * Applicable valuation date for sale or exchange of interest
- * Gain and loss dispositions
- * Basis adjustments
- * Aggregation of portfolio assets & default rule
- * Tiered pass-through entities
- * Restriction on conversion of nonpassive income

Learning Objectives

After reading Chapter 9, participants will be able to:

1. Identify the tax character of items received from pass-through entities as passive or nonpassive and determine a taxpayer’s entity participation.
2. Recognize items and events that uniquely adjust or allocate passive losses for pass-through entities and their owners by determining gain or loss from a sale or exchange of an interest.

After studying the materials in Chapter 9, answer the exam questions 72 to 76.

ASSIGNMENT

SUBJECT

Chapter 10

Interaction with Other Code Sections

At the start of Chapter 10, participants should identify the following topics for study:

- * Application of passive loss rules
- * At-risk rules
- * Investment interest
- * Characterization of passive activity income or deduction

- * Coordination with §1211
- * Husband & wife rules
- * Corporations

Learning Objectives

After reading Chapter 10, participants will be able to:

1. Recognize the application and ordering interaction of §469 with other Code sections by determining how passive activity income or deduction relate to §465 and §1211.

After studying the materials in Chapter 10, answer the exam questions 77 to 80.

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PASSIVE LOSSES

By
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