

1. If a taxpayer sells improved real estate that has been held for more than one year and was used by the taxpayer in connection with the taxpayer's trade or business:

- a. Some portion of the gain from the sale may be treated as ordinary under section 1245.
- b. Some portion of the gain from the sale may be treated as ordinary under section 1250.
- c. All gain from the sale will be treated as ordinary by reason of the joint application of sections 1245 and 1250.
- d. All of the gain from the sale will be treated as section 1231 gain because neither section 1245 nor section 1250 can apply.

2. T receives property in connection with the performance of services, and continued ownership of the property is subject to a substantial risk of forfeiture. When the property is transferred to T, it has a fair market value of \$1,000; when the risk of forfeiture expires, the property is worth \$5,000. When the property is sold by T, T receives its then-current fair market value of \$7,500. Assume T paid nothing for the property beyond the performance of services and did not file an election with respect to these transactions. How much income does T have from these transactions?

- a. \$7,500 of capital gain.
- b. \$1,000 of ordinary income and \$6,500 of capital gain.
- c. \$5,000 of ordinary income and \$2,500 of capital gain.
- d. \$7,500 of ordinary income.