**AC 402 Income Taxation I**

**Spring 2020**

**Study Notes**

**Final Exam**

**THIS IS NOT ALL INCLUSIVE**

* Property basis calculation – what is capitalized and what is not
* Remember the impact of liabilities on amount realized from an asset sale and amount paid in an asset acquisition. Just think of a liability assumed by the taxpayer as additional cash GIVEN and a liability relieved for a taxpayer as additional cash RECEIVED.
* Why basis is important
* Multiple assets – how basis is calculated
* Expenses – capitalized and depreciated vs expensing
* Additions capitalized to existing assets – start a new asset for depreciation
* 4 elements needed to calculate depreciation – basis, life, convention, method
* How to use MACRS table to calculate depreciation
* Types of tangible assets for depreciation – personal property, real property
* Intangible assets – amortization – full month over 180 months generally
* How to adjust MACRS table in the year of a sale BEFORE the depreciation of its recovery period has run out – depends on convention used on what % to take – remember – table has in built in for year placed in service – this is not built into the table for year sold if sold prior to end of recovery period. Remember the problem we did in class – you have to take the table and PRORATE it for the year of sale based on convention used – e.g. – if personal property and half year convention – 50% of table amount in year of disposal.
* General rule on conventions for personal property is midyear, unless the 40% rule applies – then mid-quarter applies.
* How to calculate MACRS on real property – remember all mid-month.
* Land – not depreciable
* Section 179 – personal property only from unrelated person – new and used property qualifies. Annual maximum $ amount by year (indexed) is first limitation (any amount disallowed from this is permanently lost. The second limitation is based on high taxable income – any excess over this limitation is not lost forever – but is a carry-foward to future years
* Section 179 – can pick asset by asset to apply to – as it is an annual election.
* Remember the 5-step process for section 179 decision on which assets to apply to – tax planning. Always apply to the assets with the lowest amount of depreciation, as you will be losing this depreciation if you elect section 179 as opposed to depreciation.
* Remember the way to apply conventions in the planning method. Final conventions to apply are determined AFTER the section 179 property is applied.
* Bonus depreciation – only general in nature.
* Organizational and start-up cost intangibles – know definition of each
* Know how to amortize start-up and organizational costs and the de-minimis amount of $5,000 available to expense in current year – amortize balance over 180 months. Know the $50,000 amount - $ for $ reduction above this – so the $5,000 de-minimis amount is fully phased-out at $55,000 of cost in both start-up and organizational costs.
* Asset Dispositions – items to adjust amount realized – selling costs
* Adjusted basis – how to calculate – impact of depreciation and acquisition costs.
* Definition of ordinary income assets (assets for resale - inventory, accounts receivable, short term business assets), capital assets, capital gain assets (investment assets), personal assets, Section 1231 assets (assets used in a trade or business).
* Section 1231 property definition property used in a trade or business (over 1 year) and impact of – general rule – best of both worlds – ordinary loss, long term capital gain
* Exceptions to rule – depreciation recapture and the look back rule on unrecaptured section 1231 losses.
* Depreciation recapture (section 1245 is figured before section 1231 – 1231 is then netted
* Asset by asset on recapture
* 1245 recapture – personal property – gain only – ordinary income to extent of gain – corporations and individuals.
* 1250 recapture – different rules for corporation and individuals – section 291 on corporations – of lessor of A/D or gain, individuals – the special 25% capital gain rate on the lessor of the gain or accumulated depreciation (similar to the section 1245 calculation). The difference is the section 1245 recapture (for personal property) is ordinary income and the section 1250 recapture (for real property) is taxed at a special maximum capital gain rate of 25%
* Theory and reason for the recapture rules under sections 1245 and 1250.
* Theory and reason for the section 1231 look back recapture rule.
* Remember on depreciation to treat all personal and real property separate.
* Remember the items needed to figure depreciation via the tables: Basis to depreciate, date placed in service, useful life (per IRS based on what type of assets) and convention used (either mid-year or mid-quarter for personal property and mid-month for real property). Personal property is generally depreciated using 200% double declining balance (unless you elect otherwise), real property is straight-line.