Student name:__________

TRUE/FALSE - Write 'T' if the statement is true and 'F' if the statement is false.

1) Like financial accounting, most acquired business property must be capitalized for tax purposes.

- ⊚ true
- ⊚ false

2) Tax cost recovery methods include depreciation, amortization, and depletion.

- ⊚ true
- ⊚ false

3) If a business mistakenly claims too little depreciation, the business must only reduce the asset's basis by the depreciation actually taken rather thanby the amount of the allowable depreciation.

- ⊚ true
- ⊚ false

4) An asset's capitalized cost basis includes only the actual purchase price, whereas expenses to purchase, prepare the asset for use, and begin using the asset are immediately expensed.

- ⊚ true
- ⊚ false

5) The basis for a personal-use asset converted to business use is the lesser of the asset's cost basis or fair market value on the date of the transfer or conversion.

- ⊚ true
- ⊚ false

6) Depreciation is currently computed under the Modified Accelerated Cost Recovery System (MACRS).

◎ true
◎ false

7) The 200 percent or double declining balance method is allowable for five- and seven-year property.

◎ true
◎ false

8) Taxpayers may use historical data to determine the recovery period for tax depreciation.

◎ true
◎ false

9) Taxpayers use the half-year convention for all assets.

◎ true
◎ false

10) If a taxpayer places only one asset (a building) in service during the fourth quarter of the year, the mid-quarter convention must be used.

◎ true
◎ false

11) The MACRS depreciation tables automatically switch to the straight-line method when the straight-line method yields a higher annual depreciation amount than the declining balance method.

◎ true
◎ false

12) If tangible personal property is depreciated using the half-year convention and is disposed of during the first quarter of a subsequent year, the taxpayer must use the mid-quarter convention for the year of disposition.

◎ true
◎ false

13) If a machine (seven-year property) being depreciated using the half-year convention is disposed of during the seventh year, a taxpayer must multiply the appropriate depreciationpercentage from the MACRS table by 50 percent to calculate the depreciation expense properly.

◎ true
◎ false

14) Real property is depreciated using the straight-line method.

◎ true
◎ false

15) The mid-month convention applies to real property in the year of acquisition and disposition.

◎ true
◎ false

16) All taxpayers may use the §179 immediate expensing election on certain property.

◎ true
◎ false

17) The §179 immediate expensing election phases out based upon a taxpayer's taxable income.

◎ true
◎ false

18) The §179 immediate expensing election phases out based upon the amount of tangible personal property a taxpayer places in service during the year.

⊙ true
⊙ false

19) Property expensed under the §179 immediate expensing election is not included in the 40 percent test to determine whether the mid-quarter convention must be used.

⊙ true
⊙ false

20) In general, a taxpayer should select longer-lived property for the §179 immediate expensing election.

⊙ true
⊙ false

21) Bonus depreciation is used as a stimulus tool by tax policy makers.

⊙ true
⊙ false

22) Used property is eligible for bonus depreciation.

⊙ true
⊙ false

23) Business assets that tend to be used for both business and personal purposes are referred to as listed property.

⊙ true
⊙ false

24) If the business-use percentage for listed property falls below 50 percent, the only adjustment isthat all future depreciation must be calculated under the straight-line method.

⊙ true
⊙ false

25) Limits are placed on the depreciation of luxury automobiles.

- ⊙ true
- ⊙ false

26) To increase their depreciation deduction on automobiles, taxpayers should elect §179 expense.

- ⊙ true
- ⊙ false

27) The alternative depreciation system requires both a slower method of recovery and longer recovery periods.

- ⊙ true
- ⊙ false

28) The method for tax amortization is always the straight-line method.

- ⊙ true
- ⊙ false

29) All assets subject to amortization have the same recovery period.

- ⊙ true
- ⊙ false

30) Goodwill and customer lists are examples of §197 amortizable assets.

- ⊙ true
- ⊙ false

31) Taxpayers may always expense a portion of start-up costs and organizational expenditures.

⊙ true
⊙ false

32) Businesses may immediately expense research and experimentation expenditures, or they may elect to capitalize these costs and amortize them using the straight-line method over a period of not less than 60 months.

⊙ true
⊙ false

33) A business amortizes a patent or copyright the same way whether the business directly purchases the patent or copyright or whether it self-creates the intangible.

⊙ true
⊙ false

34) Depletion is the method taxpayers use to recover their capital investment in natural resources.

⊙ true
⊙ false

35) In general, major integrated oil and gas producers may take the greater of cost or percentage depletion.

⊙ true
⊙ false

36) Cost depletion is available to all natural resource producers.

⊙ true
⊙ false

37) Businesses deduct percentage depletion when they sell the natural resource and they deduct cost depletion in the year they produce or extract the natural resource.

⊙ true
⊙ false

MULTIPLE CHOICE - Choose the one alternative that best completes the statement or answers the question.

38) Tax cost recovery methods do not include:

A) amortization.
B) capitalization.
C) depletion.
D) depreciation.
E) all of the choices are tax cost recovery methods.

39) Which of the following business assets is not depreciated?

A) Automobile
B) Building
C) Patent
D) Machinery
E) All of the assets are depreciated.

40) An office desk is an example of:

A) personal property.
B) personal-use property.
C) real property.
D) business property.
E) personal property and business property.

41) An example of an asset that is both personal-use and personal property is:

A) A computer used solely to email company employees regarding company activities.
B) A storage building used by the CEO to store personal records.
C) A computer used solely to monitor the CEOs investments and to complete her Form 1040.
D) A company airplane used by the CEO for business travel.
E) All of the assets are personal-use and personal property.

42) Which of the following is not usually included in an asset's tax basis?

A) Purchase price
B) Sales tax
C) Shipping
D) Installation costs
E) All of the choices are included in an asset's tax basis.

43) Which of the following would be considered an improvement rather than routine maintenance?

A) Oil change
B) Engine overhaul
C) Wiper blade replacement
D) Air filter change

44) Tax depreciation is currently calculated under what system?

A) Sum-of-the-years'-digits
B) Accelerated cost recovery system
C) Modified Accelerated Cost Recovery System
D) Straight-line system
E) None of the choices are correct.

45) Which is not an allowable method under MACRS?

A) 150 percent declining balance
B) 200 percent declining balance
C) Straight-line
D) Sum-of-the-years'-digits
E) All of the choices are allowable methods under MACRS.

46) Which of the allowable methods allows the most accelerated depreciation?

A) 150 percent declining balance
B) 200 percent declining balance
C) Straight-line
D) Sum-of-the-years'-digits
E) None of the methods would allow accelerated depreciation.

47) How is the recovery period of an asset determined?

A) Estimated useful life
B) Treasury regulation
C) Revenue Procedure 87-56
D) Revenue Ruling 97-56
E) None of the choices are correct.

48) Which of the following depreciation conventions is not used under MACRS?

A) Full-month
B) Half-year
C) Mid-month
D) Mid-quarter
E) All of the choices are used under MACRS.

49) Which depreciation convention is the general rule for tangible personal property?

A) Full-month
B) Half-year
C) Mid-month
D) Mid-quarter
E) None of the choices are conventions for tangible personal property.

50) The MACRS recovery period for automobiles and computers is:

A) three years.
B) five years.
C) seven years.
D) 10 years.
E) none of the choices are correct.

51) Lax LLC purchased only one asset during the current year (a full 12-month tax year).On August 26 Lax placed in service computer equipment (five-year property) with a basis of $20,000. Calculate the maximum depreciation expense for the current year (ignoring §179 and bonus depreciation). (Use MACRS Table 1.)

A) $2,000
B) $2,858
C) $3,000
D) $4,000
E) None of the choices are correct.

52) Lax LLC purchased only one asset during the current year (a full 12-month tax year). On August 26 Lax placed in service computer equipment (five-year property) with a basis of $40,000. Calculate the maximum depreciation expense for the current year (ignoring §179 and bonus depreciation). (Use MACRS Table 1.)

A) $6,000
B) $6,858
C) $7,000
D) $8,000
E) None of the choices are correct.

53) Sairra LLC purchased only one asset during the current year (a full 12-month tax year). On April 16 Sairra placed in service furniture (seven-year property) with a basis of $25,000. Calculate the maximum depreciation expense for the current year (ignoring §179 and bonus depreciation). (Use MACRS Table 1.) **(Round final answer to the nearest whole number.)**

A) $1,786
B) $3,573
C) $4,463
D) $5,000
E) None of the choices are correct.

54) Sairra LLC purchased only one asset during the current year (a full 12-month tax year). On April 16 Sairra placed in service furniture (seven-year property) with a basis of $29,000. Calculate the maximum depreciation expense for the current year (ignoring §179 and bonus depreciation). (Use MACRS Table 1.) **(Round final answer to the nearest whole number.)**

A) $2,072
B) $4,144
C) $5,034
D) $5,800
E) None of the choices are correct.

55) Beth's business purchased only one asset during the current year (a full 12-month tax year). On December 1 Beth placed in service machinery (seven-year property) with a basis of $50,000. Calculate the maximum depreciation expense (ignoring §179 and bonus depreciation). (Use MACRS Table 2.)

A) $1,785
B) $2,500
C) $7,145
D) $10,000
E) None of the choices are correct.

56) Beth's business purchased only one asset during the current year (a full 12-month tax year). On December 1 Beth placed in service machinery (seven-year property) with a basis of $53,000. Calculate the maximum depreciation expense (ignoring §179 and bonus depreciation). (Use MACRS Table 2.) **(Round final answer to the nearest whole number.)**

A) $1,892
B) $2,650
C) $7,573
D) $10,600
E) None of the choices are correct.

57) Deirdre's business purchased two assets during the current year (a full 12-month tax year).On January 20 Deirdre placed in service computer equipment (five-year property) with a basis of $15,000 andon September 1 placed in service machinery (seven-year property) with a basis of $15,000. Calculate the maximum depreciation expense (ignoring §179 and bonus depreciation). (Use MACRS Half-Year ConventionTable.) **(Round final answer to the nearest whole number.)**

A) $1,286
B) $5,144
C) $5,786
D) $6,000
E) None of the choices are correct.

58) Suvi, Incorporated purchased two assets during the current year (a full 12-month tax year).On August 10 Suvi placed in service computer equipment (five-year property) with a basis of $20,000 and on November 18 placed in service machinery (seven-year property) with a basis of $10,000. Calculate the maximum depreciation expense (ignoring §179 and bonus depreciation). (Use MACRS Table 1.) **(Round final answer to the nearest whole number.)**

A) $857
B) $3,357
C) $5,429
D) $6,000
E) None of the choices are correct.

59) Wheeler LLC purchased two assets during the current year (a full 12-month tax year).On November 16 Wheeler placed in service computer equipment (five-year property) with a basis of $15,000 and on April 20 placed in service furniture (seven-year property) with a basis of $11,000. Calculate the maximum depreciation expense (ignoring §179 and bonus depreciation). (Use MACRS Table 2.) **(Round final answer to the nearest whole number.)**

A) $1,285
B) $2,714
C) $4,572
D) $5,200
E) None of the choices are correct.

60) Wheeler LLC purchased two assets during the current year (a full 12-month tax year). On November 16 Wheeler placed in service computer equipment (five-year property) with a basis of $26,500 and on April 20 placed in service furniture (seven-year property) with a basis of $17,900. Calculate the maximum depreciation expense (ignoring §179 and bonus depreciation). (Use MACRS Table 2.) **(Round final answer to the nearest whole number.)**

A) $3,091
B) $4,520
C) $6,378
D) $7,006
E) None of the choices are correct.

61) Tasha LLC purchased furniture (seven-year property) on April 20 for $20,000 and used the half-year convention to depreciate it. Tasha did not take §179 or bonus depreciation in the year it acquired the furniture. During the current year, which is the fourth year Tasha LLC owned the property, the property was disposed of on December 15. Calculate the maximum depreciation expense. (Use MACRS Table 1) **(Round final answer to the nearest whole number.)**

A) $898
B) $2,095
C) $1,249
D) $2,498
E) None of the choices are correct.

62) Anne LLC purchased computer equipment (five-year property) on August 29 for $30,000 and used the half-year convention to depreciate it. Anne LLC did not take §179 or bonus depreciation in the year it acquired the computer equipment. During the current year, which is the fourth year Anne LLC owned the property, the property was disposed of on January 15. Calculate the maximum depreciation expense. (Use MACRS Table 1.)

A) $432
B) $1,728
C) $1,874
D) $3,456
E) None of the choices are correct.

63) Anne LLC purchased computer equipment (five-year property) on August 29 for $45,000 and used the half-year convention to depreciate it. Anne LLC did not take §179 or bonus depreciation in the year it acquired the computer equipment. During the current year, which is the fourth year Anne LLC owned the property, the property was disposed of on January 15. Calculate the maximum depreciation expense. (Use MACRS Table 1.) **(Round final answer to the nearest whole number.)**

A) $648
B) $2,592
C) $2,810
D) $5,184
E) None of the choices are correct.

64) Poplock LLC purchased a warehouse and land during the current year for $350,000. The purchase price was allocated as follows: $275,000 to the building and $75,000 to the land. The property was placed in service on August 12. Calculate Poplock's maximum depreciation for this first year. (Use MACRS Table 5.) **(Round final answer to the nearest whole number.)**

A) $2,648
B) $3,371
C) $3,751
D) $4,774
E) None of the choices are correct.

65) Tom Tom LLC purchased a rental house and land during the current year for $150,000. The purchase price was allocated as follows: $100,000 to the building and $50,000 to the land. The property was placed in service on May 22. Calculate Tom Tom's maximum depreciation for this first year. (Use MACRS Table 3.)

A) $1,605
B) $2,273
C) $2,408
D) $3,410
E) None of the choices are correct.

66) Tom Tom LLC purchased a rental house and land during the current year for $154,000. The purchase price was allocated as follows: $102,000 to the building and $52,000 to the land. The property was placed in service on May 22. Calculate Tom Tom's maximum depreciation for this first year. (Use MACRS Table 3.) **(Round final answer to the nearest whole number.)**

A) $1,637
B) $2,318
C) $2,472
D) $3,500
E) None of the choices are correct.

67) Simmons LLC purchased an office building and land several years ago for $250,000. The purchase price was allocated as follows: $200,000 to the building and $50,000 to the land. The property was placed in service on October 2. If the property is disposed of on February 27 during the 10^{th} year, calculate Simmons's maximum depreciation in the 10^{th} year. (Use MACRS Table 5.)

A) $641
B) $909
C) $5,128
D) $7,346
E) None of the choices are correct.

68) Which of the following assets is eligible for §179 expensing?

A) Used office machinery
B) Qualified improvement property
C) A new delivery truck
D) Used office furniture
E) All of the choices are correct.

69) Lenter LLC placed in service on April 29, 2021, machinery and equipment (seven-year property) with a basis of $1,600,000. Assume that Lenter has sufficient income to avoid any limitations. Calculate the maximum depreciation deduction including §179 expensing (but ignoring bonus expensing). (Use MACRS Table 1.)

A) $228,640
B) $1,050,000
C) $1,160,000
D) $1,128,595
E) None of the choices are correct.

70) Littman LLC placed in service on July 29, 2021, machinery and equipment (seven-year property) with a basis of $600,000. Littman's income for the current year before any depreciation deduction was $100,000. Which of the following statements is true to maximize Littman's total depreciation deduction for 2021? (Use MACRS Table 1.)

A) Littman should take §179 expense equal to the maximum $1,050,000.
B) Littman should take no §179 expense.
C) Littman's §179 expense will be greater than $100,000.
D) Littman's §179 expense will be less than $100,000.
E) None of the choices are correct.

71) Crouch LLC placed in service on May 19, 2021, machinery and equipment (seven-year property) with a basis of $3,200,000. Assume that Crouch has sufficient income to avoid any limitations. Calculate the maximum depreciation deduction including §179 expensing (but ignoring bonus depreciation). (Use MACRS Table 1.)

A) $457,280
B) $470,000
C) $860,117
D) $1,050,000
E) None of the choices are correct.

72) Clay LLC placed in service machinery and equipment (seven-year property) with a basis of $3,450,000 on June 6, 2021. Assume that Clay has sufficient income to avoid any limitations. Calculate the maximum depreciation expense including §179 expensing (ignoring any possible bonus depreciation). (Use MACRS Table 1.) **(Round final answer to the nearest whole number.)**

A) $1,050,000
B) $493,005
C) $461,567
D) $681,567
E) None of the choices are correct.

73) Clay LLC placed in service machinery and equipment (seven-year property) with a basis of $3,466,000 on June 6, 2021. Assume that Clay has sufficient income to avoid any limitations. Calculate the maximum depreciation expense including §179 expensing (ignoring any possible bonus depreciation). (Use MACRS Table 1.) **(Round final answer to the nearest whole number.)**

A) $1,050,000
B) $497,578
C) $466,140
D) $670,140
E) None of the choices are correct.

74) Bonnie Jo purchased a used camera (five-year property) for use in her sole proprietorship. The basis of the camera was $2,400. Bonnie Jo used the camera in her business 60 percent of the time and used it for personal purposes the rest of the time during the first year. Calculate Bonnie Jo's depreciation deduction during the first year, assuming the sole proprietorship had a loss during the year. (Bonnie did not place the property in service in the last quarter.) (Use MACRS Table 1.)

A) $240
B) $288
C) $480
D) $2,400
E) None of the choices are correct.

75) Bonnie Jo purchased a used camera (five-year property) for use in her sole proprietorship. The basis of the camera was $4,400. Bonnie Jo used the camera in her business 70 percent of the time and used it for personal purposes the rest of the time during the first year. Calculate Bonnie Jo's depreciation deduction during the first year, assuming the sole proprietorship had a loss during the year. (Bonnie did not place the property in service in the last quarter.) (Use MACRS Table 1.)

A) $440
B) $616
C) $880
D) $4,400
E) None of the choices are correct.

76) Billie Bob purchased a used camera (five-year property) for use in his sole proprietorship in the prior year. The basis of the camera was $2,400. Billie Bob used the camera in his business 60 percent of the time during the first year. During the second year, Billie Bob used the camera 40 percent for business use. Calculate Billie Bob's depreciation deduction during the second year, assuming the sole proprietorship had a loss during the year. (Billie Bob did not place the asset in service in the last quarter.) (Use MACRS Table 1.)

A) $0
B) $48
C) $192
D) $336
E) None of the choices are correct.

77) Which of the following assets are eligible for bonus depreciation?

A) Used office machinery
B) Qualified improvement property
C) A new delivery truck
D) Used office furniture
E) All of the choices are correct.

78) Potomac LLC purchased an automobile for $30,000 on August 5, 2021. What is Potomac's depreciation deduction for 2021? (Ignore any possible bonus depreciation.) (Use MACRS Table 1 and Exhibit 10-10.)

A) $10,100
B) $4,287
C) $6,000
D) $30,000
E) None of the choices are correct.

79) Potomac LLC purchased an automobile for $30,900 on August 5, 2021. What is Potomac's depreciation deduction for 2021? (Ignore any possible bonus depreciation.) (Use MACRS Table 1 and Exhibit 10-10.)

A) $10,100
B) $4,416
C) $6,180
D) $30,900
E) None of the choices are correct.

80) Arlington LLC purchased an automobile for $55,000 on July 5, 2021. What is Arlington's depreciation deduction for 2021 if its business-use percentage is 75 percent? (Ignore any possible bonus depreciation.) (Use Exhibit 10-10.)

A) $4,250
B) $5,500
C) $7,575
D) $8,250
E) None of the choices are correct.

81) Arlington LLC purchased an automobile for $76,000 on July 5, 2021. What is Arlington's depreciation deduction for 2021 if its business-use percentage is 76 percent? (Ignore any possible bonus depreciation.) (Use Exhibit 10-10.)

A) $5,825
B) $7,600
C) $7,676
D) $11,400
E) None of the choices are correct.

82) Taylor LLC purchased an automobile for $55,000 on July 5, 2021. What is Taylor's maximum depreciation deduction for 2021 (including bonus depreciation) if its business use percentage is 100 percent?

A) $10,100
B) $11,000
C) $18,100
D) $55,000
E) None of the choices are correct.

83) Assume that Bethany acquires a competitor's assets on March 31st. The purchase price was $150,000. Of that amount, $125,000 is allocated to tangible assets and $25,000 is allocated to goodwill (a §197 intangible asset). What is Bethany's amortization deduction for the current year? **(Round final answer to the nearest whole number.)**

A) $0
B) $1,250
C) $1,319
D) $1,389
E) None of the choices are correct.

84) Assume that Brittany acquires a competitor's assets on September 30th of Year 1 for $350,000. Of that amount, $300,000 is allocated to tangible assets and $50,000 is allocated equally to two §197 intangible assets (goodwill and a one-year noncompete agreement). Given that the noncompete agreement expires on September 30th of Year 2, what is Brittany's amortization deduction for the second year? **(Round final answer to the nearest whole number.)**

A) $0
B) $1,667
C) $2,917
D) $3,333
E) None of the choices are correct.

85) Jasmine started a new business in the current year. She incurred $10,000 of start-up costs. How much of the start-up costs can be immediately deducted (excluding amounts amortized over 180 months) for the year?

A) $0
B) $2,500
C) $5,000
D) $10,000
E) None of the choices are correct.

86) Jasmine started a new business in the current year. She incurred $19,000 of start-up costs. How much of the start-up costs can be immediately deducted (excluding amounts amortized over 180 months) for the year?

A) $0
B) $2,500
C) $5,000
D) $19,000
E) None of the choices are correct.

87) Racine started a new business in the current year. She incurred $52,000 of start-up costs. If her business started on November 23rd of the current year, what is the total amount she may deduct with respect to the start-up costs for her initial year, rounded to the nearest whole number?

A) $2,555
B) $3,544
C) $5,522
D) $52,000
E) None of the choices are correct.

88) Daschle LLC completed some research and development during June of the current year. The related costs were $60,000. If Daschle wants to capitalize and amortize the costs as quickly as possible, what is the total amortization amount Daschle may deduct during the current year?

A) $0
B) $6,500
C) $7,000
D) $12,000
E) None of the choices are correct.

89) Daschle LLC completed some research and development during June of the current year. The related costs were $70,800. If Daschle wants to capitalize and amortize the costs as quickly as possible, what is the total amortization amount Daschle may deduct during the current year?

A) $0
B) $7,670
C) $8,260
D) $14,160
E) None of the choices are correct.

90) Jorge purchased a copyright for use in his business in the current year. The purchase occurred on July 15^{th} and the purchase price was $75,000. If the copyright has a remaining life of 75 months, what is the total amortization amount Jorge may deduct during the current year? (Assume this is not an asset acquisition to which §197 applies.)

A) $0
B) $5,500
C) $6,000
D) $12,000
E) None of the choices are correct.

91) Jorge purchased a copyright for use in his business in the current year. The purchase occurred on July 15th and the purchase price was $97,500. If the copyright has a remaining life of 75 months, what is the total amortization amount Jorge may deduct during the current year? (Assume this is not an asset acquisition to which §197 applies.)

A) $0
B) $7,150
C) $7,800
D) $15,600
E) None of the choices are correct.

92) Gessner LLC patented a process it developed in the current year. The patent is expected to create benefits for Gessner over a 10-year period. The patent was issued on April 15th and the legal costs associated with the patent were $43,000. In addition, Gessner had unamortized research expenditures of $15,000 related to the process. What is the total amortization amount Gessner may deduct during the current year?

A) $2,417
B) $2,174
C) $4,108
D) $4,350
E) None of the choices are correct.

93) Santa Fe purchased the rights to extract turquoise on a tract of land over a five-year period. Santa Fe paid $300,000 for extraction rights. A geologist estimates that Santa Fe will recover 5,000 pounds of turquoise. During the current year, Santa Fe extracted 1,500 pounds of turquoise, which it sold for $200,000. What is Santa Fe's cost depletion deduction for the current year?

A) $60,000
B) $90,000
C) $110,000
D) $300,000
E) None of the choices are correct.

94) Santa Fe purchased the rights to extract turquoise on a tract of land over a five-year period. Santa Fe paid $429,000 for extraction rights. A geologist estimates that Santa Fe will recover 6,500 pounds of turquoise. During the current year, Santa Fe extracted 1,950 pounds of turquoise, which it sold for $277,000. What is Santa Fe's cost depletion deduction for the current year?

A) $85,800
B) $128,700
C) $156,440
D) $429,000
E) None of the choices are correct.

95) Santa Fe purchased the rights to extract turquoise on a tract of land over a five-year period. Santa Fe paid $300,000 for extraction rights. A geologist estimated that Santa Fe will recover 5,000 pounds of turquoise. During the past several years, 4,000 pounds were extracted. During the current year, Santa Fe extracted 1,500 pounds of turquoise, which it sold for $250,000. What is Santa Fe's cost depletion deduction for the current year?

A) $60,000
B) $90,000
C) $190,000
D) $160,000
E) None of the choices are correct.

96) Lucky Strike Mine (LLC) purchased a silver deposit for $1,500,000. It estimated it would extract 500,000 ounces of silver from the deposit. Lucky Strike mined the silver and sold it, reporting gross receipts of $1.8 million, $2.5 million, and $2 million for Years 1 through 3, respectively. During Years 1 through 3, Lucky Strike reported net income (loss) from the silver deposit activity in the amount of ($100,000), $400,000, and $100,000, respectively. In Years 1 through 3, Lucky Strike extracted 300,000 ounces of silver as follows:

Ounces extracted per year		
Year 1	**Year 2**	**Year 3**
50,000	150,000	100,000

What is Lucky Strike's depletion deduction for Year 2 if the applicable percentage depletion for silver is 15 percent?

A) $200,000
B) $375,000
C) $400,000
D) $450,000
E) None of the choices are correct.

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

97) The following are a series of tables that may be referred to in several questions throughout your test. Please refer to these tables as needed or as directed.

Table 1MACRS Half-Year Convention

Depreciation Rate for Recovery Period						
	3-Year	**5-Year**	**7-Year**	**10-Year**	**15-Year**	**20-Year**
Year 1	33.33%	20.00%	14.29%	10.00%	5.00%	3.750%
Year 2	44.45	32.00	24.49	18.00	9.50	7.219
Year 3	14.81	19.20	17.49	14.40	8.55	6.677
Year 4	7.41	11.52	12.49	11.52	7.70	6.177
Year 5		11.52	8.93	9.22	6.93	5.713
Year 6		5.76	8.92	7.37	6.23	5.285
Year 7			8.93	6.55	5.90	4.888

Year 8			4.46	6.55	5.90	4.522
Year 9				6.56	5.91	4.462
Year 10				6.55	5.90	4.461
Year 11				3.28	5.91	4.462
Year 12					5.90	4.461
Year 13					5.91	4.462
Year 14					5.90	4.461
Year 15					5.91	4.462
Year 16					2.95	4.461
Year 17						4.462
Year 18						4.461
Year 19						4.462
Year 20						4.461
Year 21						2.231

TABLE 2a MACRS Mid-Quarter Convention: *For property placed in service during the first quarter*

Depreciation Rate for Recovery Period		
	5-Year	**7-Year**
Year 1	35.00%	25.00%
Year 2	26.00	21.43
Year 3	15.60	15.31
Year 4	11.01	10.93
Year 5	11.01	8.75
Year 6	1.38	8.74

Year 7		8.75
Year 8		1.09

TABLE 2b MACRS Mid-Quarter Convention: *For property placed in service during the second quarter*

Depreciation Rate for Recovery Period		
	5-Year	**7-Year**
Year 1	25.00%	17.85%
Year 2	30.00	23.47
Year 3	18.00	16.76
Year 4	11.37	11.97
Year 5	11.37	8.87
Year 6	4.26	8.87
Year 7		8.87
Year 8		3.34

TABLE 2c MACRS Mid-Quarter Convention: *For property placed in service during the third quarter*

Depreciation Rate for Recovery Period		
	5-Year	**7-Year**
Year 1	15.00%	10.71%
Year 2	34.00	25.51
Year 3	20.40	18.22
Year 4	12.24	13.02
Year 5	11.30	9.30
Year 6	7.06	8.85
Year 7		8.86
Year 8		5.53

TABLE 2d MACRS-Mid Quarter Convention: *For property placed in service during the fourth quarter*

Depreciation Rate for Recovery Period		
	5-Year	**7-Year**
Year 1	5.00%	3.57%
Year 2	38.00	27.55
Year 3	22.80	19.68
Year 4	13.68	14.06
Year 5	10.94	10.04
Year 6	9.58	8.73
Year 7		8.73
Year 8		7.64

TABLE 5 Nonresidential Real Property Mid-Month Convention Straight Line—39 Years (for assets placed in service on or after May 13, 1993)

Month Property Placed in Service												
	Month 1	**Month 2**	**Month 3**	**Month 4**	**Month 5**	**Month 6**	**Month 7**	**Month 8**	**Month 9**	**Month 10**	**Month 11**	**Month 12**
Year 1	2.461%	2.247%	2.033%	1.819%	1.605%	1.391%	1.177%	0.963%	0.749%	0.535%	0.321%	0.107%
Year 2–39	2.564	2.564	2.564	2.564	2.564	2.564	2.564	2.564	2.564	2.564	2.564	2.564
Year 40	0.107	0.321	0.535	0.749	0.963	1.177	1.391	1.605	1.819	2.033	2.247	2.461

TABLE 3 Residential Rental Property Mid-Month Convention Straight Line—27.5 Years

Month Property Placed in Service												
	Month 1	**Month 2**	**Month 3**	**Month 4**	**Month 5**	**Month 6**	**Month 7**	**Month 8**	**Month 9**	**Month 10**	**Month 11**	**Month 12**
Year 1	3.485%	3.182%	2.879%	2.576%	2.273%	1.970%	1.667%	1.364%	1.061%	0.758%	0.455%	0.152%
Year	3.636	3.636	3.636	3.636	3.636	3.636	3.636	3.636	3.636	3.636	3.636	3.636

2-9												
Year 10	3.637	3.637	3.637	3.637	3.637	3.637	3.636	3.636	3.636	3.636	3.636	3.636
Year 11	3.636	3.636	3.636	3.636	3.636	3.636	3.637	3.637	3.637	3.637	3.637	3.637
Year 12	3.637	3.637	3.637	3.637	3.637	3.637	3.636	3.636	3.636	3.636	3.636	3.636
Year 13	3.636	3.636	3.636	3.636	3.636	3.636	3.637	3.637	3.637	3.637	3.637	3.637
Year 14	3.637	3.637	3.637	3.637	3.637	3.637	3.636	3.636	3.636	3.636	3.636	3.636
Year 15	3.636	3.636	3.636	3.636	3.636	3.636	3.637	3.637	3.637	3.637	3.637	3.637
Year 16	3.637	3.637	3.637	3.637	3.637	3.637	3.636	3.636	3.636	3.636	3.636	3.636
Year 17	3.636	3.636	3.636	3.636	3.636	3.636	3.637	3.637	3.637	3.637	3.637	3.637
Year 18	3.637	3.637	3.637	3.637	3.637	3.637	3.636	3.636	3.636	3.636	3.636	3.636
Year 19	3.636	3.636	3.636	3.636	3.636	3.636	3.637	3.637	3.637	3.637	3.637	3.637
Year 20	3.637	3.637	3.637	3.637	3.637	3.637	3.636	3.636	3.636	3.636	3.636	3.636
Year 21	3.636	3.636	3.636	3.636	3.636	3.636	3.637	3.637	3.637	3.637	3.637	3.637
Year	3.637	3.637	3.637	3.637	3.637	3.637	3.636	3.636	3.636	3.636	3.636	3.636

22												
Year 23	3.636	3.636	3.636	3.636	3.636	3.636	3.637	3.637	3.637	3.637	3.637	3.637
Year 24	3.637	3.637	3.637	3.637	3.637	3.637	3.636	3.636	3.636	3.636	3.636	3.636
Year 25	3.636	3.636	3.636	3.636	3.636	3.636	3.637	3.637	3.637	3.637	3.637	3.637
Year 26	3.637	3.637	3.637	3.637	3.637	3.637	3.636	3.636	3.636	3.636	3.636	3.636
Year 27	3.636	3.636	3.636	3.636	3.636	3.636	3.637	3.637	3.637	3.637	3.637	3.637
Year 28	1.97	2.273	2.576	2.879	3.182	3.485	3.636	3.636	3.636	3.636	3.636	3.636
Year 29							0.152	0.455	0.758	1.061	1.364	1.667

EXHIBIT 10-10 Automobile Depreciation Limits

Recovery Year	Year Placed in Service			
	2021*	2020	2019	2018
1	10,100**	10,100**	10,100**	10,000**
2	16,100	16,100	16,100	16,000
3	9,700	9,700	9,700	9,600
4 and after	5,760	5,760	5,760	5,760

**As of press date, the IRS had not released the 2020 limitations for automobiles, so throughout the chapter we use the same limitations as in 2019 for 2020.*

***$8,000 additional depreciation is allowed when bonus depreciation is claimed [§168(k)(2)(F)].*

EXHIBIT 10-6Mid-Quarter Convention Percentage of Full-Year's Depreciation in Year of Disposition

Quarter of Disposition	Percentage	Calculation*
1st	12.5%	1.5/12

2nd	37.5	4.5/12
3rd	62.5	7.5/12
4th	87.5	10.5/12

**The calculation is the number of months the taxpayer held or is deemed to have held the asset in the year of disposition divided by 12 months in the year.*

98) Janey purchased machinery on April 8th of the current year. The relevant costs for the year are as follows: machinery for $10,000, $800 shipping, $50 for delivery insurance, $500 for installation, $750 for sales tax, $150 for the annual tune-up, and $200 of property taxes (an annual tax on business property). What is Janey's tax basis for the machinery?

99) Jaussi purchased a computer several years ago for $2,200 and used it for personal purposes. On November 10th of the current year, when the fair market value of the computer was $800, Jaussi converted it to business use. What is Jaussi's tax basis for the computer?

100) Flax LLC purchased only one asset this year.On January 16 Flax placed in service a computer (five-year property) with a basis of $14,000. Calculate the maximum depreciation deduction (ignoring §179 and bonus depreciation). (Use MACRS Table 1.)

101) Roth LLC purchased only one asset during the current year. On August 1st Roth placed in service office equipment (seven-year property) with a basis of $42,500. Calculate the maximum depreciation expense (ignoring §179 and bonus depreciation). (Use MACRS Half-Year Convention Table.) **(Round final answer to the nearest whole number.)**

102) Roth LLC purchased only one asset during the current year. On August 1st Roth placed in service office equipment (seven-year property) with a basis of $45,500. Calculate the maximum depreciation expense (ignoring §179 and bonus depreciation). (Use MACRS Half-Year Convention Table.) **(Round final answer to the nearest whole number.)**

103) Eddie purchased only one asset during the current year. On May 1st Eddie placed in service furniture (seven-year property) with a basis of $26,500. Calculate the maximum depreciation deduction, rounded to the nearest whole number (ignoring §179 and bonus depreciation). (Use MACRS Table 1.)

104) Amit purchased two assets during the current year.On April 16th Amit placed in service computer equipment (five-year property) with a basis of $5,000 and on September 9th placed in service furniture (seven-year property) with a basis of $20,000. Calculate the maximum depreciation deduction (ignoring §179 and bonus depreciation). (Use MACRS Table 1.)

105) Yasmin purchased two assets during the current year. On May 26th Yasmin placed in service computer equipment (five-year property) with a basis of $10,000 andon December 9th placed in service machinery (seven-year property) with a basis of $10,000. Calculate the maximum depreciation deduction (ignoring §179 and bonus depreciation). (Use MACRS Table 2.)

106) Yasmin purchased two assets during the current year. On May 26 th Yasmin placed in service computer equipment (five-year property) with a basis of $19,000 and on December 9 th placed in service machinery (seven-year property) with a basis of $19,000. Calculate the maximum depreciation deduction (ignoring §179 and bonus depreciation). (Use MACRS Table 2.) **(Round final answer to the nearest whole number.)**

107) Bonnie Jo used two assets during the current year. The first was computer equipment with an original basis of $15,000, currently in the second year of depreciation anddepreciated under the half-year convention. This asset was disposed of on October 1st of the current year. The second was furniture with an original basis of $24,000, placed in service during the first quarter, currently in the fourth year of depreciation, anddepreciated under the mid-quarter convention. What is Bonnie Jo's depreciation deduction for the current year? **(Round final answer to the nearest whole number.)** (Use MACRS Table 1 and Table 2.)

108) Kristine sold two assets on March 20th of the current year. The first was machinery with an original basis of $51,000, currently in the fourth year of depreciation, anddepreciated under the half-year convention. The second was furniture with an original basis of $16,000, placed in service during the fourth quarter, currently in the third year of depreciation, anddepreciated under the mid-quarter convention. What is Kristine's depreciation deduction for the current year if the depreciation recovery period is seven years? (Use MACRS Table 1 and Table 2 and Exhibit 10-6.) **(Round final answer to the nearest whole number.)**

109) Kristine sold two assets on March 20th of the current year. The first was machinery with an original basis of $71,000, currently in the fourth year of depreciation, and depreciated under the half-year convention. The second was furniture with an original basis of $36,000, placed in service during the fourth quarter, currently in the third year of depreciation, and depreciated under the mid-quarter convention. What is Kristine's depreciation deduction for the current year if the depreciation recovery period is seven years? (Use MACRS Table 1 and Table 2 and Exhibit 10-6.) **(Round final answer to the nearest whole number.)**

110) Timothy purchased a new computer for his consulting practice on October 15th of the current year. The basis of the computer was $4,000. During the Thanksgiving holiday, he decided the computer did not meet his business needs and gave it to his college-aged son in another state. The computer was never used for business purposes again. Timothy had $50,000 of taxable income before depreciation. What is Timothy's total cost recovery deduction with respect to the computer during the current year?

111) During August of the prior year, Julio purchased an apartment building that he used as a rental property. The basis was $1,400,000. Calculate the maximum depreciation deduction during the current year. (UseMACRS Table 3.)

112) During April of the current year, Ronen purchased a warehouse that he used for business purposes. The basis was $1,600,000. Calculate the maximum depreciation deduction during the current year. (Use MACRS Table 5.)

113) During April of the current year, Ronen purchased a warehouse that he used for business purposes. The basis was $1,603,000. Calculate the maximum depreciation deduction during the current year. (Use MACRS Table 5.) **(Round final answer to the nearest whole number.)**

114) An office building was purchased several years agoon December 9th for $2,500,000. The purchase price was allocated as follows: building $1,900,000, landscaping $100,000, and land $500,000. During the current year, the 10th year, the building was sold on March 10th. Calculate the maximum depreciation deduction for the real property during the current year, rounded to the nearest whole number. (Use MACRS Table 5.)

115) Olney LLC only purchased one asset this year. Olney LLC placed in service on July 19, 2021, machinery and equipment (seven-year property) with a basis of $1,330,000. Assume that Olney has sufficient income to avoid any limitations. Calculate the maximum depreciation deduction, including §179 expensing (but ignoring bonus depreciation). (Use MACRS Table 1.)

116) Columbia LLC only purchased one asset this year. Columbia LLC placed in service on July 9, 2021, machinery and equipment (seven-year property) with a basis of $2,750,000. Assume that Columbia has sufficient income to avoid any limitations. Calculate the maximum depreciation deduction, including §179 expensing (but ignoring bonus depreciation) for the year. (Use MACRS Table 1.)

117) Northern LLC only purchased one asset this year. In 2021, Northern LLC placed in service on September 6th machinery and equipment (seven-year property) with a basis of $3,150,000. Assume that Northern has sufficient income to avoid any limitations. Calculate the maximum depreciation expense including §179 expensing (ignore any potential bonus expensing). (Use MACRS Table 1.)

118) Northern LLC only purchased one asset this year. In 2021, Northern LLC placed in service on September 6th machinery and equipment (seven-year property) with a basis of $3,270,000. Assume that Northern has sufficient income to avoid any limitations. Calculate the maximum depreciation expense including §179 expensing (ignore any potential bonus expensing). (Use MACRS Table 1.)

119) Reid acquired two assets in 2021: on August 6th, he acquired computer equipment (five-year property) with a basis of $1,050,000 andon November 9th he acquired machinery (seven-year property) with a basis of $1,050,000. Assume that Reid has sufficient income to avoid any limitations. Calculate the maximum depreciation deduction, including §179 expensing (but not bonus depreciation). (Use MACRS Table 1, Table 2.)

120) Phyllis purchased $8,000 of specialized audio equipment that she uses in her business regularly. Occasionally, she uses the equipment for personal use. During the first year, Phyllis used the equipment for business use 70 percent of the time; however, during the current (second) year, the business use fell to 40 percent. Assume that the equipment is seven-year MACRS property and is under the half-year convention. Assume the ADS recovery period is 10 years. What is the depreciation allowance for the current year? (Use MACRS Table 1.) **(Round final answer to the nearest whole number.)**

121) Alexandra purchased a $55,000 automobile during 2021. The business use was 70 percent. What is the allowable depreciation for the current year? (Ignore any possible bonus depreciation.) (Use Exhibit 10-10.)

122) Alexandra purchased a $55,100 automobile during 2021. The business use was 70 percent. What is the allowable depreciation for the current year? (Ignore any possible bonus depreciation.) (Use Exhibit 10-10.)

123) BoxerLLC has acquired various types of assets recently used 100 percent in its trade or business. Below is a list of assets acquired during 2020 and 2021:

Asset	Cost Basis	Convention	Date Placed in Service
Machinery	$ 25,000	Half-year	January 24, 2020
Warehouse	800,000	Mid-month	August 1, 2020

Furniture	100,000	October 5, 2021
Computer equipment	65,000	October 10, 2021
Office equipment	34,000	September 28, 2021
Automobile	65,000	July 15, 2021
Office building	800,000	September 24, 2021

Boxer did not elect §179 expense and elected out of bonus depreciation in 2020 but would like to take advantage of the §179 expense and bonus depreciation for 2021 (assume that taxable income is sufficient). Calculate Boxer's maximum depreciation deduction for 2021. (Use MACRS Table 1, MACRS Table 5, and Exhibit 10-10.) **(Round final answer to the nearest whole number.)**

124) Assume that Yuri acquires a competitor's assets on May 1st. The purchase price was $500,000. Of that amount, $325,000 is allocated to tangible assets and $175,000 is allocated to goodwill (a §197 intangible asset). What is Yuri's amortization deduction for the current year? **(Round final answer to the nearest whole number.)**

125) Assume that Yuri acquires a competitor's assets on May 1st. The purchase price was $536,000. Of that amount, $343,000 is allocated to tangible assets and $193,000 is allocated to goodwill (a §197 intangible asset). What is Yuri's amortization deduction for the current year?**(Round final answer to the nearest whole number.)**

126) Assume that Cannon LLC acquires a competitor's assets on June 15th of year 1. The purchase price was $450,000. Of the amount, $196,200 is allocated to tangible assets and $253,800 is allocated to three §197 intangible assets: $153,000 to goodwill, $50,400 to a customer list with an expected life of eight years, and $50,400 to a three-year noncompete agreement. On May 30th of year 2, the customer list is sold for $10,000. **(Round your amortization and final answer to the nearest whole number. Round your allocation percentage to the nearest whole percentage, e.g., 0.1234 as 12 percent .)**

1) What is Cannon's amortization deduction for year 2?
2) What is the basis of the intangibles at the end of year 2?

127) Oksana started an LLC on November 2 of the current year. She incurred $30,000 of start-up costs. How much of the start-up costs can be immediately expensed for the year? How much amortization may Oksana deduct in the first year?

128) Oksana started an LLC on November 2 of the current year. She incurred $31,000 of start-up costs. How much of the start-up costs can be immediately expensed for the year? How much amortization may Oksana deduct in the first year?

129) Patin Corporation began business on September 23 rd of the current year. It incurred $40,000 of start-up costs and $60,000 of organizational expenditures. How much total amortization may be deducted in the first year? **(Round final answer to the nearest whole number.)**

130) Paulman incurred $55,000 of research and experimental expenses and began amortizing them over 60 months during June of Year 1. During May of Year 3, Paulman received a patent based upon the research being amortized. $36,000 of legal expenses for the patent were incurred. The patent is expected to have a remaining useful life of 17 years.

1) What is the basis of the patent? **(Round amortization for each year to the nearest whole number.)**
2) What is the amortization deduction with respect to the patent during the year it was issued? **(Round final answer to the nearest whole number.)**

131) Paulman incurred $65,000 of research and experimental expenses and began amortizing them over 60 months during June of Year 1. During May of Year 3, Paulman received a patent based upon the research being amortized. $46,000 of legal expenses for the patent were incurred. The patent is expected to have a remaining useful life of 17 years.

1) What is the basis of the patent? **(Round amortization for each year to the nearest whole number.)**

2) What is the amortization deduction with respect to the patent during the year it was issued? **(Round final answer to the nearest whole number.)**

132) Sequoia purchased the rights to cut timber on several tracts of land over a 15-year period. It paid $500,000 for cutting rights. A timber engineer estimates that 500,000 board feet of timber will be cut. During the current year, Sequoia cut 45,000 board feet of timber, which it sold for $900,000. What is Sequoia's cost depletion deduction for the current year?

133) Sequoia purchased the rights to cut timber on several tracts of land over a 15-year period. It paid $501,000 for cutting rights. A timber engineer estimates that 501,000 board feet of timber will be cut. During the current year, Sequoia cut 46,000 board feet of timber, which it sold for $901,000. What is Sequoia's cost depletion deduction for the current year?

134) PC Mine purchased a platinum deposit for $3,500,000. It estimated it would extract 17,000 ounces of platinum from the deposit. PC mined the platinum and sold it, reporting gross receipts of $500,000 and $8 million for Years 1 and 2, respectively. During Years 1 and 2, PC reported net income (loss) from the platinum deposit activity in the amount of ($100,000) and $3,800,000, respectively. In Years 1 and 2, PC extracted 2,000 and 8,000 ounces of platinum. What is PC's depletion deduction for Years 1 and 2 if the applicable percentage depletion for platinum is 22 percent? **(Round final answer to the nearest whole number.)**

Answer Key

Test name: BU 2

1) TRUE
2) TRUE
3) FALSE
4) FALSE
5) TRUE
6) TRUE
7) TRUE
8) FALSE
9) FALSE
10) FALSE
All real property is depreciated using the mid-month convention. The mid-quarter convention for personal property is not applicable to real property.

11) TRUE
12) FALSE
13) TRUE
14) TRUE
15) TRUE
16) FALSE
17) FALSE
The §179 phase-out is based upon the amount of property placed in service during the year.

18) TRUE
19) TRUE
20) TRUE

21) TRUE
22) TRUE
23) TRUE
24) FALSE
The property is subject to depreciation recapture for any excess depreciation over the straight-line method using the ADS recovery period over the entire time.

25) TRUE
26) FALSE
27) FALSE
28) TRUE
29) FALSE
30) TRUE
31) FALSE
32) TRUE
After 2021, companies will no longer be able to immediately expense research and experimentation expenditures.

33) FALSE
34) TRUE
35) FALSE
36) TRUE
37) TRUE
38) B
Amortization, depletion, and depreciation are cost recovery methods as a result of asset capitalization.

39) C
Patents are amortized rather than depreciated.

40) E

An office desk is both business property and personal property. It is not personal-use or real property.

41) C
A computer is personal property, and when used by the CEO for nonbusiness activities, is also personal-use property.

42) E
The purchase price, sales tax, shipping, and installation costs are all included in an asset's tax basis.

43) B
The engine overhaul is an improvement because it restores a major component of an asset, while the other items are routine maintenance.

44) C
The Modified Accelerated Cost Recovery System (MACRS) is the current tax depreciation system.

45) D
The sum-of-the-years'-digitsmethod is not an allowable method under MACRS.

46) B
The 200 percent declining balance method allows the most depreciation expense in earlier periods.

47) C
Revenue Procedure 87-56 helps taxpayers to determine the recovery period for assets.

48) A
The full-month convention is used for tax amortization, which does not fall under MACRS depreciation.

49) B
The half-year convention is the general rule for tangible personal property, while the mid-quarter convention is the exception.

50) B
These assets' recovery period is five years.

51) D
The asset's recovery period is five years and the half-year convention applies. The calculation is $20,000 × 0.20 = $4,000.

52) D
The asset's recovery period is five years and the half-year convention applies. The calculation is $40,000 × 0.20 = $8,000.

53) B
The asset's recovery period is seven years and the half-year convention applies. The calculation is $25,000 × 0.1429 = $3,573.

54) B
The asset's recovery period is seven years and the half-year convention applies. The calculation is $29,000 × 0.1429 = $4,144.

55) A
The asset's recovery period is seven years, and the mid-quarter convention applies because the property was placed in service during the fourth quarter. The calculation is $50,000 × 0.0357 = $1,785.

56) A
The asset's recovery period is seven years, and the mid-quarter convention applies because the property was placed in service during the fourth quarter. The calculation is $53,000 × 0.0357 = $1,892.

57) B

The half-year convention applies. The calculations are $15,000 × 0.20 = $3,000 and $15,000 × 0.1429 = $2,144. The total is $5,144 ($3,000 + $2,144).

58) C
The half-year convention applies. The calculations are $20,000 × 0.20 = $4,000 and $10,000 × 0.1429 = $1,429. The total is $5,429 ($4,000 + $1,429).

59) B
The mid-quarter convention applies because more than 40 percent of the years' assets were placed in service in the fourth quarter of the tax year. The computer is fourth-quarter property and the furniture is second-quarter property. The calculations are $15,000 × 0.05 = $750 and $11,000 × 0.1785 = $1,964. The total is $2,714 ($750 + $1,964).

60) B
The mid-quarter convention applies because more than 40 percent of the years' assets were placed in service in the fourth quarter of the tax year. The computer is fourth-quarter property and the furniture is second-quarter property. The calculations are $26,500 × 0.05 = $1,325 and $17,900 × 0.1785 = $3,195. The total is $4,520 ($1,325 + $3,195).
61) C
The half-year convention applies. The calculations are $20,000 × 0.1249 = $2,498 × 1/2 = $1,249.

62) B
The calculations are $30,000 × 0.1152 = $3,456 × 0.5 = $1,728, since the property is considered to be owned for half the year in the year of disposition.

63) B

The calculations are $45,000 × 0.1152 = $5,184 × 0.5 = $2,592, since the property is considered to be owned for half the year in the year of disposition.

64) A

The mid-month convention applies. Nonresidential property has a 39-year recovery period. The depreciation is $2,648 ($275,000 × 0.963%).

65) B

The mid-month convention applies. Residential property has a 27.5-year recovery period. The depreciation is $2,273 ($100,000 × 2.273%).

66) B

The mid-month convention applies. Residential property has a 27.5-year recovery period. The depreciation is $2,318 ($102,000 × 2.273%).

67) A

The mid-month convention applies. Nonresidential property has a 39-year recovery period. The depreciation is $641 ($200,000 × 2.564% × 1.5/12).

68) E

All of the assets are eligible. Tangible personal property is eligible for §179 expensing whether it is new or used. Qualified improvementproperty is also eligible for §179 expensing.

69) D

The $1,050,000 §179 expense is not limited. The half-year convention applies. The expense is $1,128,595, which is depreciation of $550,000 × 0.1429 = $78,595 plus $1,050,000 of §179 expense.

70) D

The $1,050,000 maximum §179 expense is limitedby the amount of property placed in service and to income after regular MACRS depreciation but before §179 expense. The $100,000 income amount is before any cost recovery. Thus, to maximize its cost recovery, Littman should first elect $16,637 of §179 expense. Littman's regular MACRS amount will be $83,363 for a total of $100,000 of cost recovery.

71) C
The $1,050,000 §179 expense is reduced to $470,000 because of the property placed in service limitation ($3,200,000 − $2,620,000 threshold). The half-year convention applies. The expense is $860,117, which is depreciation of $2,730,000 × 0.1429 = $390,117 plus $470,000 of §179 expense.
72) D
The $1,050,000 §179 expense is reduced to $220,000 because of the property placed in service limitation ($3,450,000 − $2,620,000 threshold). The half-year convention applies. The expense is $681,567, which is depreciation of $3,230,000 × 0.1429 = $461,567 plus $220,000 of §179 expense.
73) D
The $1,050,000 §179 expense is reduced to $204,000 because of the property placed in service limitation ($3,466,000 − $2,620,000 threshold). The half-year convention applies. The expense is $670,140, which is depreciation of $3,262,000 × 0.1429 = $466,140 plus $204,000 of §179 expense.
74) B
The asset's recovery period is five years and the half-year convention applies. The calculation is $2,400 × 0.20 × 60% = $288.

75) B

The asset's recovery period is five years and the half-year convention applies. The calculation is $4,400 × 0.2 × 70% = $616.
76) B
Because the listed property's business use drops below 50 percent, the straight-line method must be used and all prior years' excess depreciation must be recaptured. The asset's recovery period is five years and the half-year convention applies. The calculation for the current year's depreciation before adjusting for the prior year is $2,400 × 0.20 × 40% = $192. But he must recapture prior depreciation of $144 ($2,400 × 0.20 × 60% = $288 taken less $144 (straight-line, ½ year)) that would have been taken. Therefore, the current-year depreciation deduction is $192 − $144 = $48.

77) E
New and used personal property is eligible for bonus depreciation as long as the property has not been used by the taxpayer within the past five years. Qualified improvement property is eligible now provided the improvements must be made by the taxpayer after the building was first placed in service by the taxpayer.

78) C
A luxury auto's maximum depreciation in the first year is the lesser of $10,100 or its MACRS amount of $6,000 ($30,000 × 20 percent) for 2021.

79) C
A luxury auto's maximum depreciation in the first year is the lesser of $10,100 or its MACRS amount of $6,180 ($30,900 × 20 percent) for 2021.
80) C

A luxury auto's maximum depreciation in the first year is the lesser of $10,100 or its MACRS amount of $11,000 ($55,000 × 20%). That amount is then multiplied by the business-use percentage to obtain $7,575 ($10,100 × 75%).

81) C
A luxury auto's maximum depreciation in the first year is the lesser of $10,100 or its MACRS amount of $15,200 ($76,000 × 20%). That amount is then multiplied by the business-use percentage to obtain $7,676 ($10,100 × 76%).
82) C
A luxury auto's maximum depreciation in the first year is the lesser of $10,100 or its MACRS amount of $11,000 ($55,000 × 20%). However, the limitation is increased by $8,000 when bonus depreciation is taken. Taylor's maximum depreciation on the automobile is $18,100 ($10,100 limitation + $8,000 bonus).

83) D
The full-month convention applies. §197 assets have a recovery period of 180 months. The amortization is $1,389 ($25,000/180) × 10.

84) D
The full-month convention applies. If a §197 asset is disposed of before it is fully recovered, the remaining basis is added to the remaining §197 assets acquired at the same time. §197 assets have a recovery period of 180 months. The amortization is $3,333 ($50,000/180) × 12. The result is as if the asset never expired.

85) C
$5,000 of start-up expenses can be immediately deducted. The $5,000 maximum phases out dollar for dollar if more than $50,000 of start-up costs are incurred.

86) C
$5,000 of start-up expenses can be immediately deducted. The $5,000 maximum phases out dollar for dollar if more than $50,000 of start-up costs are incurred.

87) B
The maximum immediate deduction of $5,000 phases out dollar for dollar if more than $50,000 of start-up costs are incurred. Thus, the immediate deduction is $3,000 ($5,000 − ($52,000 − $50,000)). The remaining amount is amortized over 180 months and results in an additional deduction of $544 [($49,000/180) × 2 months] for the year.

88) C
The amortization when capitalization is elected is $7,000 [($60,000/60) × 7 months]. The amortization period on capitalized research and development is not less than 60 months—and 60 months is the most often elected.

89) C
The amortization when capitalization is elected is $8,260 [($70,800 / 60) × 7 months]. The amortization period on capitalized research and development is not less than 60 months—and 60 months is the most often elected.

90) C
The amortization is $6,000 ($75,000/75) × 6. The amortization period on a purchased copyright is the asset's remaining useful life.

91) C
The amortization is $7,800 ($97,500 / 75) × 6. The amortization period on a purchased copyright is the asset's remaining useful life.

92) D

The amortization is $4,350 ($58,000/120) × 9 months. The amortization period is the shorter of the patent's legal (20 years for utility patents) or useful life (10 years).

93) B
The depletion deduction is $90,000 ($300,000/5,000) × 1,500.

94) B
The depletion deduction is $128,700 ($429,000 / 6,500) × 1,950.
95) A
The depletion deduction is $60,000 [($300,000/5,000) × 1,000]. Cost depletion is limited to the taxpayer's basis. As a result, even though 1,500 pounds were extracted, only 1,000 pounds can be expensed under cost depletion.

96) D
The depletion deduction is $450,000, the greater of cost or percentage depletion. Cost depletion is $450,000 [($1,500,000 ÷ 500,000) × 150,000]. Percentage depletion is $200,000; the lesser of the statutory percentage $375,000 ($2,500,000 × 0.15) or $200,000 [($400,000 × 50%) = 50 percent of net income].

98) $12,100.

An asset's basis consists of all the costs to purchase and installthe asset and place it in service. The annual tune-up is routine maintenance and the annual property tax is a general business expense ($10,000 + $800 + $50 + $500 + $750).
99) $800.

When personal property is converted to business use, the basis is the lesser of the cost basis of the property or the fair market value on the date of the conversion.

100) $2,800.

The asset's recovery period is five years and the half-year convention applies since less than 40 percent of the property was placed in service during the fourth quarter. The calculation is $14,000 × 0.20 = $2,800.

101) $6,073.

The asset's recovery period is seven years and the half-year convention applies. The calculation is $42,500 × 0.1429 = $6,073.

102) $6,502.

The asset's recovery period is seven years and the half-year convention applies. The calculation is $45,500 × 0.1429 = $6,502.

103) $3,787.

The asset's recovery period is seven years and the half-year convention applies since less than 40 percent of the property was placed in service during the fourth quarter. The calculation is $26,500 × 0.1429 = $3,787.

104) $3,858.

The half-year convention applies since less than 40 percent of the property was placed in service during the fourth quarter. The calculations are $5,000 × 0.20 = $1,000 and $20,000 × 0.1429 = $2,858. The total is $3,858 ($1,000 + $2,858).

105) $2,857.

The mid-quarter convention applies since more than 40 percent of the property was placed in service during the fourth quarter. The calculations are $10,000 × 0.25 = $2,500 and $10,000 × 0.0357 = $357. The total is $2,857 ($2,500 + $357).

106) $5,428.

The mid-quarter convention applies since more than 40 percent of the property was placed in service during the fourth quarter. The calculations are $19,000 × 0.25 = $4,750 and $19,000 × 0.0357 = $678. The total is $5,428 ($4,750 + $678).

107) $5,023.

The depreciation deduction for the current year is $5,023. The calculations are $15,000 × 0.32 × ½ year = $2,400 and $24,000 × 0.1093 = $2,623. The total is $5,023 ($2,400 + $2,623).

108) $3,579.

The depreciation on those assets are $51,000 × 0.1249 × ½ year = $3,185 and $16,000 × 0.1968 × 1.5/12 = $394. The total is $3,579 ($3,185 + $394).

109) $5,320.

The depreciation on those assets are $71,000 × 0.1249 × ½ year = $4,434 and $36,000 × 0.1968 × 1.5 / 12 = $886. The total is $5,320 ($4,434 + $886).

110) $0.

No depreciation deduction or §179 expense may be taken on an asset that is acquired and disposed of during the same taxable year.

111) $50,904.

The asset's recovery period is 27.5 years and the mid-month convention applies for real property. The calculation is $1,400,000 × 0.03636 = $50,904.

112) \$29,104.

The asset's recovery period is 39 years and the mid-month convention applies for real property. The calculation is \$1,600,000 × 0.01819 = \$29,104.

113) \$29,159.

The asset's recovery period is 39 years and the mid-month convention applies for real property. The calculation is \$1,603,000 × 0.01819 = \$29,159.

114) \$10,149.

The asset's recovery period is 39 years and the mid-month convention applies for real property. The calculation is \$1,900,000 × 0.02564 × (2.5 ÷ 12) = \$10,149. Depreciation is allowed for 2.5 months in the year of disposal. The land improvements are not considered to be real property. The land is not depreciable.

115) \$1,090,012.

The \$1,050,000 §179 expense is not limited. The half-year convention applies. The expense is \$1,090,012, which is depreciation of \$280,000 × 0.1429 = \$40,012 plus \$1,050,000 of §179 expense.

116) \$1,181,507.

The \$1,050,000 §179 expense is limited to \$920,000 because of the property placed in service limitation (\$1,050,000 − (\$2,750,000 − \$2,620,000)). The half-year convention applies. The expense is \$1,181,507, which is depreciation of \$1,830,000 × 0.1429 = \$261,507 plus \$920,000 of §179 expense.

117) $895,827.

The $1,050,000 §179 expense is reduced to $520,000 because of the property placed in service limitation ($1,050,000 − ($3,150,000 − $2,620,000)). The half-year convention applies. The expense is $895,827, which is depreciation of $2,630,000 × 0.1429 = $375,827 plus $520,000 of §179 expense.

118) $810,123.

The $1,050,000 §179 expense is reduced to $400,000 because of the property placed in service limitation ($1,050,000 − ($3,270,000 − $2,620,000)). The half-year convention applies. The expense is $810,123, which is depreciation of $2,870,000 × 0.1429 = $410,123 plus $400,000 of §179 expense.

119) $1,260,000.

The $1,050,000 §179 expense should be used for the asset with the lowest first-year depreciation percentage; therefore, Reid expenses the machinery using §179 of $1,050,000. The mid-quarter convention will no longer apply once the machinery is expensed because the determination of the convention occurs after the basis reduction from the §179 expensing. Reid then uses the half-year convention to depreciate the computer equipment. The cost recovery for the equipment is $210,000 ($1,050,000 × 0.20), resulting in a total depreciation deduction of $1,260,000 ($1,050,000 machinery + $210,000 computer equipment). Choosing to use the §179 immediate expensing option on the seven-year property results in accelerated depreciation compared to choosing the five-year property.

120) Phyllis must recapture $200 into income this year.

Because the business use fell below 50 percent for the listed property, the depreciation for all years must be recalculated under the straight-line method over the ADS recovery period. During the first year, depreciation was $800 ($8,000 × 0.1429 × 70%). Using the straight-line method over the ADS recovery period the depreciation for Year 1 would be $280 ($8,000/10 years × 70% × ½ year). Depreciation for Year 2 would be $320 ($8,000/10 years × 40%). Because the depreciation taken in Year 1 exceeds the sum of the depreciation for Years 1 and 2 under the ADS method, Phyllis must recapture $200 into income during the current year.

121) $7,070.

The maximum depreciation for a luxury automobile during 2021 is the lesser of the automobile limitation of $10,100 or MACRS depreciation of $11,000 ($55,000 × 0.20). The lower amount of $10,100 is then reduced for the business percentage use of 70 percent. Depreciation is $7,070 ($10,100 × 70%).

122) $7,070.

The maximum depreciation for a luxury automobile during 2021 is the lesser of the automobile limitation of $10,100 or MACRS depreciation of $11,020 ($55,100 × 0.20). The lower amount of $10,100 is then reduced for the business percentage use of 70 percent. Depreciation is $7,070 ($10,100 × 70%).

123) $249,727.

§179 allows expensing of all the 2021 tangible personal property ($199,000 = $100,000 + $65,000 + $34,000), except for the automobile. The maximum depreciation for 2021 on luxury automobiles is $10,100 plus $8,000 of bonus depreciation. The depreciation of the remaining assets is as follows: 2020 machinery ($25,000 × 0.2449 = $6,123), 2020 warehouse ($800,000 × 0.02564 = $20,512), and the 2021 office building ($800,000 × 0.00749 = $5,992).

Asset	**2021 Depreciation**
Machinery	$ 6,123
Warehouse	20,512
Furniture	100,000
Computer equipment	65,000
Office equipment	34,000
Automobile	18,100
Office building	5,992
Total	$ 249,727

124) $7,778.

The full-month convention applies. §197 assets have a recovery period of 180 months. The amortization is $7,778 = ($175,000 ÷ 180) × 8.

125) $8,578.

The full-month convention applies. §197 assets have a recovery period of 180 months. The amortization is $8,578 = ($193,000 ÷ 180) × 8.

126) 1) Cannon's amortization deduction for the second year is $16,500, calculated as follows:

	Goodwill	**Covenant**	**Customer List**	**Total**
Initial basis	$ 153,000	$ 50,400	$ 50,400	
Recovery period, months	180	180	180	

Per month	$ 850	$ 280	$ 280	
Year 1, seven months	$ 5,950	$ 1,960	$ 1,960	
Year 2, five months	$ 4,250	$ 1,400	$ 1,400	$ 7,050
Basis, May 30, Year 2	$ 142,800	$ 47,040	$ 47,040	
Selling price			$ (10,000)	
Remaining basis	$ 142,800	$ 47,040	$ 37,040	
Reallocation pro rata on $189,840 (goodwill and covenant) 75 percent, 25 percent	$ 27,780	$ 9,260	$ (37,040)	
Reallocated basis	$ 170,580	$ 56,300	$ 0	
Remaining months	168	168		
Per month, rounded	$ 1,015	$ 335		
June to December (seven months)	$ 7,105	$ 2,345		$ 9,450
1) Total amortization, Year 2	$ 11,355	$ 3,745	$ 1,400	$ 16,500

2) The basis of the remaining assets is as follows:

	Goodwill	**Covenant**
Initial basis	$ 153,000	$ 50,400
Amortization Year 1, seven months	(5,950)	(1,960)
Amortization Year 2, five months	(4,250)	(1,400)
Reallocated basis, May 30, Year 2	27,780	9,260
Amortization Year 2, seven months	(7,105)	(2,345)
Basis, end of Year 2	$ 163,475	$ 53,955

127) $5,278.

$5,000 of start-up costs can be immediately deducted and $278 [($25,000 ÷ 180) × 2 months] of amortization may be deducted.

128) $5,289.

$5,000 of start-up costs can be immediately deducted and $289 [($26,000 ÷ 180) × 2 months] of amortization may be deducted.

129) $7,111.

Total amortization is $7,111. $5,000 of start-up costs can be immediately expensed. Patin may not immediately deduct the organizational costs because the immediate deduction is phased out dollar for dollar for organization expenditures exceeding $50,000. As a result, when the expenses exceed $55,000, no immediate deduction can be taken. In addition, $2,111 ($35,000 ÷ 180) × 4 months = $778 of the start-up costs may be amortized and ($60,000 ÷ 180) × 4 months = $1,333 of the organizational expenditures may be amortized.

130) 1) $69,000.

The basis of the patent is $69,000 ($36,000 of legal costs and $33,000 of unamortized research expenses). The research expense is $55,000/60 months = $916.67. Year 1 is $6,417 for seven months; Year 2 is a full year of $11,000, and five months in Year 3 is $4,583. Total research expensed is $22,000 and remaining unamortized expense to add to patent capitalization is $33,000.

2) $2,368.

The amortization is $2,368 = ($69,000 ÷ 204 months) × 7 months in Year 3.

131) 1) $85,000.

The basis of the patent is $85,000 ($46,000 of legal costs and $39,000 of unamortized research expenses). The research expense is $65,000 / 60 months = $1,083.33. Year 1 is $7,583 for seven months; Year 2 is a full year of $13,000, and five months in Year 3 is $5,417. Total research expensed is $26,000 and remaining unamortized expense to add to patent capitalization is $39,000.

2) $2,917.

The amortization is $2,917 = ($85,000 ÷ 204 months) × 7 months in year 3.
132) $45,000.

The depletion expense is $45,000 ($500,000 ÷ 500,000) × 45,000.

133) $46,000.

The depletion expense is $46,000 ($501,000 ÷ 501,000) × 46,000.
134) Year 1: $411,765.
Year 2: $1,760,000.
PC has a cost depletion deduction of $411,765 [($3,500,000 ÷ 17,000) × 2,000] in Year 1. Because PC has a loss in Year 1, there is no percentage depletion. PC has percentage depletion of $1,760,000 in Year 2: the lesser of $1,760,000 ($8 million × 22 percent) or $1,900,000 ($3.8 million × 50 percent). Cost depletion was $1,647,059 [($3,500,000 ÷ 17,000) × 8,000] and is less than percentage depletion.