

Chapter 6 Summary of End-of Chapter Problem Revisions

2014 Edition Problem Number	2013 Edition Problem Number	2014 Edition Modification
1	1	
2	2	
3	3	Solution updated
4	4	
5	5	Problem modified
6	6	Solution updated
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18	18	Problem updated
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21	21	Problem updated
22	22	Problem modified
23	23	Problem modified
24	24	Problem modified
25	25	Problem modified
26	26	Problem updated
27	27	
28	28	Problem updated
29	29	Problem modified
30	30	Problem updated
31	31	Problem modified
32	32	Problem updated
33	33	Problem updated
34	34	Problem updated
35	35	Problem modified
36	36	Solution updated
37	37	
38	38	Problem updated
39	39	
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42	42	Problem updated
43	43	Problem updated
44	44	Problem updated
45	45	
46	46	
47	47	
48	48	
49	49	
50	50	Year updated
51	51	Years updated
52	52	
53	53	Year updated
54	54	
55	55	
56	56	
57	57	
58	58	
59	59	Solution updated
60	60	Problem modified
61	61	Problem modified
62	62	Year updated
63	63	Solution updated

Solutions to Chapter 6 Problem Assignments

Check Your Understanding

1. *Basis*

Solution: Linda's basis is \$30,000, the fair market value at the date of death.

2. *Depreciation*

Solution: No, depreciation must be taken in the year to which it is allocated; if not taken, basis is still reduced for the allowable depreciation.

3. *Section 179 Expensing and Bonus Depreciation*

Solution: Only tangible business personalty is eligible for Section 179 expensing and there is an annual limit on expensing. For 2013 the limit is \$500,000. This limit must be reduced dollar-for-dollar for qualifying investments that exceed \$2,000,000. The amount expensed is also limited to taxable income for the year. Section 179 expensing can be claimed on both new and used personalty and remains in effect for property acquired after 2013 with adjustments to the annual limit. Bonus depreciation can only be claimed for new (not used) personalty acquired in 2013 equal to 50% of the eligible properties' cost. Unlike Section 179 expensing, bonus depreciation is not phased out based on the dollar amount of qualifying investments; however, bonus depreciation is eliminated for assets acquired after 2013. The taxpayer must elect to claim any Section 179 expensing but bonus depreciation is assumed to be claimed unless the taxpayer elects not to claim it.

4. *Averaging Conventions*

Solution: There are two averaging conventions, the half-year and the mid-quarter, which are used for personalty (5-year and 7-year property). A mid-month convention is used for all realty (27½-year and 39-year property).

The half-year convention is used for personalty unless more than 40 percent of the investment in qualifying property is made in the last quarter of the year; then the mid-quarter convention must be used for all personalty placed in service that year based on the quarter the items are placed into service. When calculating if the 40 percent test is met, any personalty expensed under Section 179 and all realty are excluded from the computation.

5. *Section 179 Expensing*

Solution: The corporation should expense \$500,000 of the furniture's cost because it is used property ineligible for bonus depreciation and is also 7-year property; the remaining \$100,000 is subject regular MACRS depreciation. The amount of depreciation expensed under Section 179 for automobiles is subject to the ceiling limitations. The warehouse is not eligible for Section 179 expensing because it is not personalty.

6. *Limitations on Automobile Depreciation*

Solution: Carl's depreciation deductions on the automobile are subject to ceiling limits that restrict maximum annual depreciation deductions to an amount set by the government. He cannot use the normal 5-year recovery period percentages to

determine depreciation. His first year depreciation is limited to \$11,160 with bonus depreciation (\$3,160 without bonus depreciation), the second to \$5,100, the third to \$3,050, and the fourth and all succeeding years to \$1,875 using the tables for 2013. He cannot completely circumvent these limits by leasing the auto because the deductions for lease expenses are partially offset by a lease inclusion amount (from IRS tables) that is based on the fair market value of the auto at lease inception; this is designed to prevent taxpayers from taking advantage of leasing to avoid the depreciation limits. Taxpayers can compare the after-tax cost of leasing versus buying using present value concepts.

7. Mixed Use of Auto

Solution: As long as the employer includes the value of the personal use of the auto in the employee's income, the employer may treat the auto as used 100 percent for business and is not required to allocate depreciation to the business-use portion. The answer will not change if business use decreases to 35 percent as long as the value of personal use is included in the employee's income. An exception applies, however, to personal use of a company car by a more-than-5 percent owner of a business or someone related to the owner; this personal use is never qualified business use for MACRS depreciation.

8. ADS Depreciation

Solution: There are several reasons to elect ADS depreciation. If the taxpayer has a net operating loss in the current year, no benefit will be derived from the increased deduction for regular tax depreciation. If the taxpayer is in a low tax bracket this year but expects to be in a higher bracket in future years, postponing part of the depreciation deduction may be beneficial. Finally, if the taxpayer is nearing the point at which the alternative minimum tax would apply, the depreciation adjustment for AMT is avoided by using ADS depreciation.

9. Depreciation/Amortization

Solution: a. No. Land is not eligible for cost recovery as it is not a wasting asset.
b. No. Using the standard mileage rate prevents the taxpayer from taking depreciation deductions.
c. Yes. These are intangible assets subject to amortization.

10. Section 179 Expensing

Solution: The allowable expensing amount (\$500,000) must be reduced on a dollar-for-dollar basis when total eligible investments exceed \$2,000,000 in 2013. A business is not eligible to expense any of its assets when it has acquired more than \$2,500,000 (\$2,000,000 + \$500,000) of eligible assets for the year. It is far more likely that a large business will exceed this investment limit than a small business.

11. Employee-owned Property

Solution: Employee-owned property must meet two additional tests: (1) the use of the employee's property must be for the convenience of the employer; (2) the use of the property must be required as a condition of employment.

12. *Amortization*

Solution: If RCL acquires only the patent, it will be able to amortize its costs over the nine years of its remaining life. If it acquires the patent as part of the purchase of all of the assets of Royal Corporation, it will be required to amortize the patent over 15 years.

13. *Depletion*

Solution: Cost depletion is determined in a manner similar to the units of production method of depreciation; that is, the depletion deduction is based on the cost of the property, an estimate of the total product that will be recovered, and the amount of product sold each year. Percentage depletion is based on fixed percentages times the gross income from the property. It is unrelated to cost and allows the taxpayer to recover more than the cost of the property.

14. *Intangible Drilling and Development Costs*

Solution: IDCs are the costs associated with the development of oil and gas properties such as the cost of labor to clear the property, erect derricks, and drill the well. At the taxpayer's option, the IDCs can be deducted fully as an expense in the year incurred, or capitalized and deducted through depletion.

15. *Research and Experimentation Expenses*

Solution: Research and experimentation expenditures are those costs incident to obtaining a patent, development of an experimental or pilot model, formula, invention, or similar property, but exclude costs for ordinary testing or inspections of products for quality control. These costs may be expensed in full in the year paid or incurred, amortized over a period of not less than 60 months, or capitalized and deducted only when the project becomes worthless or is abandoned.

Crunch the Numbers16. *Basis for Depreciation*

Solution: \$600. Warren uses the lower of his basis or fair market value at the date the asset is converted from personal to business use.

17. *Basis for Depreciation*

Solution: \$125,000. Anne uses the lower of her basis or fair market value at the date the condo is converted from personal to rental property.

18. *Basis for Depreciation*

Solution: \$300,000. Sharon must use the lower of basis or fair market value less the value of land, which cannot be depreciated. Thus, her basis for depreciation is \$300,000 (\$400,000 - \$100,000).

19. *Gift Basis*

Solution: \$18,500. David uses Ted's basis increased by a portion of the gift tax related to the appreciation on the gift determined as follows:

\$2,000 gift tax $\times [(\$24,000 - \$18,000)/\$24,000] = \500 gift tax related to appreciation.

\$18,000 carryover basis from donor + \$500 gift tax = \$18,500.

20. *Gift Basis*

Solution: a. \$60,000. The donor's basis is always used to determine a gain.

b. \$50,000. Fair market value (when it is lower than the donor's basis) is used to determine loss.

c. \$55,000. When the selling price is between the donor's basis and the lower fair market value, there is no gain or loss. Effectively, basis equals the selling price.

21. *Bonus Depreciation*

Solution: \$5,714,500. Blanco Corporation can use bonus depreciation to write-off \$5,000,000 of new equipment in 2013 and MACRS depreciation ($\$5,000,000 \times .1429 = \$714,500$) for the remaining \$5,000,000.

If it elects to forego bonus depreciation or if the equipment had been used instead of new, it could take a \$1,429,000 ($14.29\% \times \$10,000,000$ depreciation deduction on the equipment using regular MACRS depreciation rates. It would not be eligible to claim any Section 179 expensing because it placed more than \$2,500,000 property in service this year.

22. *MACRS Depreciation/Averaging Conventions*

Solution: a. Azona's first-year depreciation is \$371,540 ($\$2,600,000 \times 14.29\%$) regular MACRS depreciation. (Note that Azona is not eligible to claim Section 179 expensing because it placed more than \$2,500,000 property in service this year and it cannot claim bonus depreciation for used property.)

b. Azona's first-year depreciation is \$92,820 ($\$2,600,000 \times 3.57\%$ mid-quarter rate for a 4th quarter acquisition).

23. *Depreciation/Section 179 Expensing with Bonus Depreciation*

Solution: The total depreciation deduction for 2013 is \$1,371,465. Lenux is limited to \$400,000 [$\$500,000 - (\$2,100,000 - \$2,000,000)$] of Section 179 expensing because its acquisitions exceeded \$2,000,000 and the maximum \$500,000 Section 179 expense deduction must be reduced for each dollar the investment exceeds that amount. It is allowed \$850,000 [$(\$2,100,000 - \$400,000) \times 50\%$] bonus depreciation; regular MACRS depreciation = \$121,465 [$(\$2,100,000 - \$400,000 - \$850,000) \times 14.29\%$]. Office furniture is 7-year property.

The depreciation deduction for 2014 is \$208,165 [$(\$2,100,000 - \$400,000 - \$850,000) \times 24.49\%$].

24. *Depreciation/Section 179 Expensing*

Solution: a. \$450,000 ($\$500,000$ less the excess of \$2,050,000 over \$2,000,000).

b. \$1,600,000 ($\$2,050,000 - \$450,000$).

c. \$678,640 [$(\$1,600,000 \times 14.29\%) + \$450,000$]. The machinery is 7-year property. (Note that used property is not eligible for bonus depreciation.)

25. *Depreciation/Section 179 Expensing with Bonus Depreciation*

Solution: \$694,293. \$500,000 of Section 179 expensing. Bonus depreciation of \$170,000 $[50\% \times (840,000 - \$500,000)]$. Regular MACRS depreciation of \$24,293 $[(\$840,000 - \$500,000 - \$170,000) \times .1429]$.

26. *Depreciation/Averaging Conventions for Fiscal-year Corporation*

Solution: a. \$385,830. The property is not eligible for the Section 179 expensing because the total investment exceeds \$2,500,000 and used property is not eligible for bonus depreciation. If placed in service in June, the half-year convention is used:
 $\$2,700,000 \times 14.29\% = \$385,830$.
 b. \$96,390. The mid-quarter convention applies: $\$2,700,000 \times 3.57\% = \$96,390$.
 c. To maximize the first-year deduction the property should be placed in service sometime prior to August 1 to avoid the mid-quarter convention.

27. *Depreciation of Realty*

Solution: a. \$3,338 $(\$240,000 \times 1.391\%)$. This is 39-year property placed in service in month 6.
 b. \$4,728 $(\$240,000 \times 1.97\%)$. This is 27½-year property placed in service in month 6.

28. *Depreciation in Disposal Year*

Solution: Office Furniture: \$352 $(\$20,000 \times 14.06\% \times 1.5/12)$
 Computer Equipment: \$576 $(\$10,000 \times 11.52\% \times 1/2)$

29. *Section 179 Expensing Limitation and Bonus Depreciation*

Solution: a. \$500,000 Section 179 expensing and \$25,000 $[(\$550,000 - \$500,000) \times 50\%]$ bonus depreciation.
 b. \$500,000 Section 179 expensing and \$25,000 $[(\$550,000 - \$500,000) \times 50\%]$ bonus depreciation for the furniture; \$490,000 $(\$980,000 \times 50\%)$ of bonus depreciation could be claimed on the factory equipment.
 c. \$100,000 $[\$500,000 - (\$550,000 + \$1,850,000 - \$2,000,000)]$ Section 179 expensing but no bonus depreciation is permitted for the furniture because the furniture is used property; \$925,000 $(\$1,850,000 \times 50\%)$ of bonus depreciation could be claimed on the factory equipment.
 d. (a) Total depreciation for 2013 is \$528,572.50 $[\$500,000 \text{ Section 179} + \$25,000 \text{ bonus depreciation} + (\$25,000 \times 14.29\% = \$3,572.50 \text{ regular MACRS depreciation})]$
 (b) Total depreciation for 2013 is \$1,088,593.50. Depreciation for the new office furniture is \$528,572.50 $[\$500,000 \text{ Section 179 expensing} + \$25,000 \text{ bonus depreciation} + (\$25,000 \times 14.29\% = \$3,572.50 \text{ regular MACRS depreciation})]$. Depreciation for the other \$980,000 of new factory equipment acquired in 2013 is \$560,021 $[\$980,000 \times 50\% \text{ bonus depreciation} = \$490,000) + (\$490,000 \times 14.29\% = \$70,021 \text{ regular MACRS depreciation})]$.
 (c) Total depreciation for 2013 is \$1,221,487.50. Depreciation for the used office furniture is \$164,305 $[\$100,000 \text{ Section 179 expensing} + (\$450,000 \times 14.29\% = \$64,305 \text{ regular MACRS depreciation})]$. Depreciation for the

\$1,850,000 of new factory equipment is \$1,057,182.50 [$(\$1,850,000 \times 50\% = \$925,000 \text{ bonus depreciation}) + (\$925,000 \times 14.29\% = \$132,182.50 \text{ regular MACRS depreciation})$].

30. *Depreciation/Section 179 Expensing Limitation*

Solution: \$17,000. David's current-year Section 179 expense deduction is limited to his \$17,000 of net income before the deduction. He will have a Section 179 carryover of \$3,000 that he can use in the following year subject to similar net income limitations.

31. *Depreciation/Section 179 Expensing/Bonus Depreciation/Auto Limits*

Solution:

	<u>2013</u>	<u>2014</u>
Auto	\$11,160	\$5,100
Furniture	\$300,000	\$0
Warehouse	\$1,862	\$14,871

Automobile depreciation is limited to \$11,160 (including \$8,000 bonus depreciation). This limit cannot be circumvented with Sec. 179 or bonus depreciation. All \$300,000 of the new furniture can be expensed under Section 179. The depreciation for the warehouse is \$1,861.80 ($\$580,000 \times .00321$) for 2013 and is \$14,871.20 ($\$580,000 \times .02564$) for 2014. The warehouse is not eligible for Section 179 expensing or bonus depreciation.

32. *ADS vs. MACRS*

Solution: \$616,500 less depreciation over the first three years using ADS vs. MACRS

MACRS Depreciation		
Year 1	\$ 428,700	$(\$3,000,000 \times .1429)$
Year 2	734,700	$(\$3,000,000 \times .2449)$
Year 3	<u>524,700</u>	$(\$3,000,000 \times .1749)$
Total	\$1,688,100	

ADS Depreciation		
Year 1	\$ 214,200	$(\$3,000,000 \times .0714)$
Year 2	428,700	$(\$3,000,000 \times .1429)$
Year 3	<u>428,700</u>	$(\$3,000,000 \times .1429)$
Total	\$1,071,600	

$\$1,688,100 - \$1,071,600 = \$616,500$ less depreciation using ADS.

33. *After-Tax Cost of a Depreciable Asset*

Solution: a. \$449,759. To maximize the current year deduction, Jimbo elects Section 179 expensing. The Section 179 expense = \$500,000; the basis remaining for MACRS depreciation = \$155,000 ($\$655,000 - \$500,000$) which is multiplied by 20% for the first year resulting in \$31,000 depreciation. The total first-year depreciation is \$531,000 ($\$500,000 + \$31,000$). Note that used assets are not eligible for any bonus depreciation. Depreciation for the remaining years is computed by multiplying \$155,000 by 32% for year 2, 19.20% for year 3, 11.52% for year 4,

11.52% for year 5, and 5.76% for year 6. Present value of the after-tax cost of the computers is \$449,758.99.

<u>Year</u>	<u>Cash</u>	<u>Depreciation</u>			<u>PV</u>	<u>PV</u>
<u>2013</u>	<u>Purchase</u>	<u>Deduction</u>	<u>Tax Rate</u>	<u>Cash flow</u>	<u>Factor</u>	<u>Cash Flow</u>
0	\$(655,000)			\$(655,000)		\$(655,000)
1		\$531,000	34%	180,540.00	.943	170,249.22
2		49,600	34%	16,864.00	.890	15,008.96
3		29,760	34%	10,118.40	.840	8,499.46
4		17,856	34%	6,071.04	.792	4,808.26
5		17,856	34%	6,071.04	.747	4,535.07
6		8,928	34%	3,035.52	.705	<u>2,140.04</u>
				Total		\$(449,758.99)

- b. \$465,130.26. In 2014, Jimbo cannot claim any Sec. 179 because too much in assets would be placed in service. The basis remaining for MACRS depreciation is \$655,000 which is multiplied by 20% for the first year resulting in \$131,000 depreciation. Depreciation for the remaining years is computed by multiplying \$655,000 by 32% for year 2, 19.20% for year 3, 11.52% for year 4, 11.52% for year 5, and 5.76% for year 6. Bonus depreciation cannot be claimed in 2014. The present value of the after-tax cost is \$465,130.26 due to the loss of the Section 179 expensing.

<u>Year</u>	<u>Cash</u>	<u>Depreciation</u>			<u>PV</u>	<u>PV</u>
<u>2014</u>	<u>Purchase</u>	<u>Deduction</u>	<u>Tax Rate</u>	<u>Cash flow</u>	<u>Factor</u>	<u>Cash Flow</u>
0	\$(655,000)			\$(655,000)		\$(655,000.00)
1		\$131,000	34%	44,540.00	.943	42,001.22
2		209,600	34%	71,264.00	.890	63,424.96
3		125,760	34%	42,758.40	.840	35,917.06
4		75,456	34%	25,655.04	.792	20,318.79
5		75,456	34%	25,655.04	.747	19,164.31
6		37,728	34%	12,827.52	.705	<u>9,043.40</u>
				Total		\$(465,130.26)

34. Mixed Asset Use with Recapture

Solution: a. \$720 is the 2013 depreciation deduction; cost recovery recapture is \$1,408 (\$3,328 - \$1,920).

2011 depreciation claimed = \$8,000 x 20% MACRS rate x 80% business use = \$1,280. 2012 depreciation claimed = \$8,000 x 32% MACRS rate x 80% business use = \$2,048. Total depreciation claimed for first two years = \$3,328.

ADS 2011 depreciation = \$8,000 x 10% ADS rate x 80% business use = \$640.

ADS 2012 depreciation = \$8,000 x 20% ADS rate x 80% business use = \$1,280.

Total ADS depreciation for first two years = \$1,920.

ADS 2013 depreciation = \$8,000 x 20% ADS rate x 45% business use = \$720. Her cost recovery recapture in 2013 is \$1,408 (\$3,328 - \$1,920)

b. \$3,760. 2011 = \$8,000 x 80% = \$6,400 expensed under Section 179.

ADS 2012 depreciation = \$8,000 x 10% ADS rate x 80% business use = \$640.

ADS 2013 depreciation = \$8,000 x 20% ADS rate x 80% business use = \$1,280.
 Elaine would claim \$720 of ADS depreciation in 2013 (\$8,000 x 20% ADS rate x 45% business use). She would have to recapture \$4,480 (\$6,400 - \$640 - \$1,280) for the excess of the Section 179 deduction over the ADS depreciation in 2011 and 2012. Her net increase in income in 2013 = \$3,760 (\$4,480 - \$720).

35. *Auto lease*

Solution: a. $\$650 \times 12 \times 90\% = \$7,020$.
 b. $\$18 \times 90\% = \16.20 (using the lease inclusion tables for 2013).
 c. Trish would have no lease inclusion amount. The lease inclusion rules only apply to autos with a fair market value exceeding \$19,000 for 2013.

36. *Auto Lease*

Solution: a. $\$660 \times 10 \times 80\% = \$5,280$ for year 1. $\$660 \times 12 \times 90\% = \$7,128$ for year 2.
 b. $\$24 \times (306 \text{ days leased} / 365 \text{ days in year}) \times 80\% = \16.10 for year 1. $\$52 \times 90\% = \46.80 for year 2.

37. *Intangible Asset Amortization*

Solution: $\$2,000,000 / 15 = \$133,333$ per year

38. *Research and Development Expenses*

Solution: a. 2012 = 0; 2013 = 0; 2014 = $[(\$8,000 + \$11,000) / 60] \times 11 = \$3,483$
 b. 2012 = \$8,000; 2013 = \$11,000; 2014 = \$0

39. *Cost Depletion*

Solution: Year 1 = \$6,300; year 2 = \$3,748
 $\$90,000 / 100,000 \text{ tons} = \$.90$ depletion rate;
 Year 1 cost depletion = $\$.90 \times 7,000 \text{ units sold} = \$6,300$
 $(\$90,000 - \$6,300) / 167,500^* = \$.4997$ adjusted depletion rate;
 Year 2 cost depletion = $\$.4997 \times 7,500 \text{ tons} = \$3,748$
 *The \$7,500 sold during the year must be added to the ending estimate of ore remaining to determine the depletion rate.

40. *Cost Depletion*

Solution: $\$100,000 / 100,000 = \1 depletion rate; Year-1 cost depletion = 8,000 tons sold x \$1 = \$8,000
 $(\$100,000 - \$8,000) / 158,000^* = \$.5823$ adjusted depletion rate; Year-2 cost depletion = 8,000 tons sold x \$.5823 = \$4,658.
 *The \$8,000 sold during the year must be added to the ending estimate of ore remaining to determine the depletion rate.

41. *Percentage depletion*

Solution: $\$40,000 \times 15\% \text{ depletion rate} = \$6,000$; this is less than the net income of \$27,000 (\$40,000 - \$13,000).
 His adjusted basis is \$119,000 (\$125,000 - \$6,000)

42. *Adjusted Basis at Disposition with Bonus Depreciation***Solution:** \$3,748 determined as follows:

<u>Year</u>	<u>Depreciation</u>	<u>Adjusted Basis</u>
2013	$(50\% \times \$20,000) + (\$10,000 \times 14.29\%) = \$11,429$	\$8,571
2014	$\$10,000 \times 24.49\% = \$2,449$	\$6,122
2015	$\$10,000 \times 17.49\% = \$1,749$	\$4,373
2016	$\$10,000 \times 12.49\% \times \frac{1}{2} = \625	\$3,748

43. *Mixed Use of Auto with Bonus Depreciation***Solution:** a. The 2013 depreciation is \$11,160 with bonus depreciation per the limitation.

The 2014 deduction is \$5,100 per the second year ceiling limit. The 2015 deduction is \$3,050 per the third year ceiling limit. In 2016 and beyond the deduction is \$1,875 per the ceiling limit.

b. The answer would not change. As long as the company includes the value of Karen's personal use of the auto in her income, it treats it as used 100 percent for business (assuming that Karen is not a more-than-5 percent owner of the business or related to the owner). It is, however, subject to the depreciation limits for automobiles.

44. *Comprehensive Problem for Chapters 4, 5, and 6***Solution:** a. Robert's net income from his business in 2013 is \$74,212

Gross Income		\$600,000
Less:		
Advertising	2,500	
Employee Salaries	150,000	
Office Rent	24,000	
Supplies	18,000	
Taxes and licenses	17,000	
Travel (other than meals)	3,800	
Meals and Entertainment (limited to 50% of \$2,400)	1,200	
Utilities	3,800	
Employee Health Insurance Premiums	<u>6,600</u>	<u>226,900</u>
Subtotal		373,100
Depreciation Expense:		
Automobile (limited to \$11,160 x 80%)	\$8,928	
Used Fixtures (7-year property):		
\$238,000 expensed under Section 179	238,000	
Equipment (5-year property):		
\$50,000 expensed under Section 179	50,000	
		<u>296,928</u>
Subtotal		76,172
Automobile Expense:		
Gas and Oil (\$1,200 x 80%)	960	
Insurance (\$1,000 x 80%)	800	
Parking and Tolls	<u>200</u>	<u>1,960</u>
Net Income		<u>\$74,212</u>

b. Robert must pay \$10,485.82 in self-employment tax.

$$\$74,212 \times 92.35\% = \$68,534.78$$

$$\$68,534.78 \times 15.3\% = \$10,485.82$$

c. Robert's adjusted gross income is \$66,769.

Net income from business	\$74,212
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Less:

Self-employment taxes (\$10,486 x 50%)	(5,243)
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Self-employed health insurance premiums	(2,200)
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Adjusted Gross Income	<u>\$66,769</u>
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Robert is allowed a deduction for the employer's portion of the self-employment tax.

Think Outside the Text

These questions require answers that are beyond the material that is covered in this chapter.

45. Depreciation

Solution: Cost recovery is used to allocate costs of long-lived assets. If the asset is purchased and disposed of in the same year, no depreciation would be claimed.

46. Leasing vs. Purchase of Auto

Solution: The necessary information includes total purchase price of the car; the up-front lease costs plus the monthly lease payments; the allowable depreciation per year if purchased; any lease inclusion amount, if leased; the number of years the car would be used before disposing of it; if purchased, the estimated value when disposed of; the tax rate for the years the car is to be used; the discount rate for evaluation purposes; any differences in insurance or maintenance costs between leasing and buying.

47. Web Site Development Costs

Solution: To operate a Web site, a business must acquire the appropriate computer hardware by either purchasing a Web server or renting space on a Web server from a hosting service or Internet service provider. If a business chooses to purchase the hardware, the company can depreciate the cost of the hardware as five-year recovery property. If a business chooses to outsource its hardware needs, then the lease payments are ordinary and necessary business expenses and are currently deductible.

Determining the proper treatment of software costs is a little more complex.

Software costs can be divided into three broad categories: leased software, developed software, and purchased software. The cost of leasing or licensing software for a specific period of time may be deducted over the lease term.

Developed software is software that is custom designed by a business for its own internal use. Purchased software may be a generic publicly available product or a software package designed by an outside consultant under circumstances where the consultant, rather than the company, bears the risk of failure. However, if the consultant provides services but the company bears the risk with regard to successful implementation, the expenses incurred should be regarded as the

company's software development costs. The costs of developing software are similar to research and experimental expenditures so the business can choose to either immediately expense (which is usually preferred) or amortize over 60 months.

If the software was purchased as part of a package or bundled with new hardware and not priced separately from the hardware, the business must recover the software costs over the useful life of the hardware which usually means five years. Therefore, buying software unbundled, meaning it is either not purchased with hardware or it is but its price is separately stated, generally results in a faster write off. Off-the-shelf software is eligible to be expensed under Section 179 and can also qualify for bonus depreciation. Software acquired as part of a business purchase is usually considered a Section 197 intangible and must be amortized over fifteen years.

Many taxpayers use a combination of purchased and developed software, making it challenging to segregate the costs and apply the correct tax treatment. This can be even further complicated when an outside consultant provides services. It is important that expenses be carefully analyzed to determine whether the costs relate to the modification of purchased computer software or are simply installation costs. Costs incurred to modify purchased software are deductible, while installation costs must be capitalized.

48. *Lease Acquisitions Costs*

Solution: These costs would be capitalized and amortized over the length of the lease.

49. *Goodwill*

Solution: The treatment of goodwill for tax and GAAP differs. For tax purposes, goodwill is amortized over a period of 15 years.

For financial accounting, the income statement is not charged unless goodwill has been impaired. To test for impairment, the fair value of the reporting unit is compared to the carrying amount of its net assets including goodwill. If the fair value of the reporting unit is greater, goodwill is considered not to be impaired and the company does nothing. If, however, the fair value is less than the carrying amount of the net assets, then the "implied value" of goodwill must be determined and compared to the recorded goodwill to determine if a charge is necessary.

Identify the Issues

Identify the issues or problems suggested by the following situations. State each issue as a question.

50. *Unclaimed Depreciation*

Solution: Can James Corporation deduct the unclaimed depreciation in a later year? What must James do to deduct the depreciation for 2013?

51. *Placed in Service Date*

Solution: In what year is the machine considered placed in service so that Denmark Corporation can begin depreciating it?

52. *Cost Recovery for Art Objects*

Solution: Can Marble Corporation claim any form of cost recovery deduction for the statues?

53. *Depreciation/Section 179 Expense*

Solution: How does the restatement of Monicon income by the IRS affect the Section 179 deduction because it now exceeds the restated income? Can Monicon still claim the \$24,000 Section 179 deduction on its 2010 return? Does this affect returns for subsequent tax years?

Develop Research Skills

Solutions to the research problems are in a separate file.

Search the Internet57. *Depreciation*

Solution: a. Sidewalks are 15-year property; MACRS depreciation = $5\% \times \$6,000 = \300 .
 b. The barn is 20-year property; MACRS depreciation = $3.75\% \times \$120,000 = \$4,500$.
 c. The tugboat is 10-year property; MACRS depreciation is $10\% \times \$85,000 = \$8,500$.

58. *ADS*

Solution: The bus is 9 year property for ADS; ADS depreciation is $\$60,000 \times .0556 = \$3,336$

59. *Sole Proprietorship*

Solution: Filled-in forms for 2012 (using 2012 limitations) are included at the end of this file.

Gross Income		\$600,000
Less:		
Advertising	2,500	
Employee Salaries	150,000	
Office Rent	24,000	
Supplies	18,000	
Taxes and licenses	17,000	
Travel (other than meals)	3,800	
Meals and Entertainment (limited to 50% of \$2,400)	1,200	
Utilities	3,800	
Employee Health Insurance Premiums	<u>6,600</u>	<u>226,900</u>
Subtotal		373,100
Depreciation Expense:		
Automobile (limited to \$11,160 x 80%)	8,928	
Used Fixtures (7-year property):		
\$238,000 all expensed under Section 179	238,000	
Equipment (5-year property):		
\$50,000 expensed under Section 179	50,000	
		<u>296,928</u>
Subtotal		76,172

Automobile Expense:		
Gas and Oil (\$1,200 x 80%)	960	
Insurance (\$1,000 x 80%)	800	
Parking and Tolls	<u>200</u>	<u>1,960</u>
Net Income for 2012		\$74,212

Robert must pay \$9,115 in self-employment tax for 2012.

$$\$74,212 \times 92.35\% = \$68,534.78$$

$$\$68,535 \times 13.3\% = \$9,115$$

Robert's adjusted gross income is \$66,844.

Net income from business	\$74,212
Less:	
Self-employment taxes (57.51% x \$9,115)	(5,242)
Self-employed health insurance premiums (100%)	<u>(2,200)</u>
Adjusted Gross Income for 2012	<u>\$66,770</u>

Tax forms for 2013 have not yet been released by IRS. Robert's net income from his business for 2013 is \$74,212

Gross Income		\$600,000
Less:		
Advertising	2,500	
Employee Salaries	150,000	
Office Rent	24,000	
Supplies	18,000	
Taxes and licenses	17,000	
Travel (other than meals)	3,800	
Meals and Entertainment (limited to 50% of \$2,400)	1,200	
Utilities	3,800	
Employee Health Insurance Premiums	<u>6,600</u>	<u>226,900</u>
Subtotal		373,100
Depreciation Expense:		
Automobile (limited to \$11,160 x 80%)	\$8,928	
Used Fixtures (7-year property):		
\$238,000 all expensed under Section 179	238,000	
Equipment (5-year property):		
\$50,000 all expensed under Section 179	<u>50,000</u>	<u>296,928</u>
Subtotal		76,172
Automobile Expense:		
Gas and Oil (\$1,200 x 80%)	960	
Insurance (\$1,000 x 80%)	800	
Parking and Tolls	<u>200</u>	<u>1,960</u>
Net Income for 2013		<u>\$74,212</u>

Robert must pay \$10,486 in self-employment tax for 2013.

$$\$74,212 \times 92.35\% = \$68,534.78$$

$$\$68,535 \times 15.3\% = \$10,486$$

Robert's adjusted gross income is \$66,679 for 2013.

Net income from business	\$74,212
Less:	
Self-employment taxes (\$10,483 x 50%)	(5,243)
Self-employed health insurance premiums	<u>(2,200)</u>
Adjusted Gross Income for 2013	<u>\$66,769</u>

Robert is allowed a deduction for the employer's half of the self-employment tax,

Develop Planning Skills

60. Depreciation

Solution: a. To maximize its depreciation deduction for 2013, Roman should expense \$500,000 of the used office furniture to avoid the application of the mid-quarter convention $[(\$800,000 - \$500,000)/(\$30,000 + \$700,000 + \$800,000 - \$500,000) = 29.13\%]$; used assets are not eligible for bonus depreciation. The warehouse is not eligible for Section 179 expensing because it is not personalty. The automobile is subject to the ceiling limitations for depreciation of automobiles. The used equipment is also not eligible for bonus depreciation.

b. \$654,702 depreciation for 2013

New automobile	\$11,160 ceiling limit =	\$11,160
Used equipment	$\$700,000 \times 14.29\% =$	100,030
Used office furniture	$\$500,000 \text{ Sec. 179 expensing} + [(\$800,000 - \$500,000) \times 14.29\%] =$	542,870
Warehouse	$\$200,000 \times 0.321\% =$	<u>642</u>
Total		<u>\$654,702</u>

61. Depreciation

Solution: If the proposed furniture purchase is made in December, Herald Corporation's depreciation for 2013 will be (a) \$296,196 less if the furniture is new and (b) \$513,164 lower if the furniture is used, rather than postponing the purchase until January of 2014. Therefore, the proposed purchase should be made in January.

If the proposed furniture purchase is postponed until January of 2014, the total depreciation deduction for 2013 is \$701,495 computed as follows:

New computer equipment	$\$25,000 \text{ bonus depreciation} + (\$25,000 \times 20\%)$	\$30,000
Used office furniture	$\$940,000 \times 14.29\% =$	134,326
Used office fixtures	$[(\$1,060,000 - \$450,000 \text{ Sec. 179 expense}) \times 14.29\%] = \$87,169 + \$450,000 \text{ Section 179} =$	<u>537,169</u>
Total depreciation		<u>\$701,495</u>

\$450,000 (\$500,000 - \$50,000 excess over \$2,000,000) can be expensed under Section 179 because Herald placed in service \$2,050,000 of eligible property. By electing to expense \$450,000 of the used office fixtures under Section 179, the mid-quarter convention can be avoided $[(\$1,060,000 - \$450,000) / (\$2,050,000 - \$450,000) = 38.13\%]$.

Total depreciation will decrease if the new office furniture is placed in service in December. Herald will not be eligible for any Section 179 expensing because its asset purchases now total \$2,500,000. The mid-quarter convention will be required because more than 40 percent of personalty will be placed in service in the last quarter of the year $[(\$1,060,000 + \$450,000) / (\$2,050,000 + \$450,000) = 60.4\%]$.

If the proposed new purchase is made in December, the depreciation for the assets using the mid-quarter convention would be as follows:

New computer			
equipment	\$25,000 bonus depreciation + (\$25,000 x 35%) =		\$33,750
Used office furniture	\$940,000 x 10.71% =		100,674
Used office fixtures	\$1,060,000 x 3.57% =		<u>37,842</u>
Subtotal for existing purchases			\$172,266
Proposed additional			
new office furniture	\$225,000 bonus depreciation + (\$225,000 x 3.57%) =		<u>233,033</u>
Total depreciation with proposed office furniture if new			<u>\$405,299</u>
Subtotal for existing purchases			\$172,266
If the proposed additional office furniture is used			
furniture is used	(\$450,000 x 3.57%) =		<u>16,065</u>
Total depreciation with proposed office furniture if used			<u>\$188,331</u>

The \$405,299 total depreciation is \$296,196 less than the amount (\$701,495) that would be allowed if Herald Corporation postponed the purchase of new office furniture until January. If the office furniture is used, then the \$188,331 total depreciation is \$513,164 less than the amount (\$701,495) that would be allowed if Herald postponed the purchase until January. Therefore, Herald should wait until January to make the acquisition.

62. Lease vs. Purchase Decision

Solution: Cost to purchase is \$85,748 - \$88,790 cost to lease = \$3,042 savings by buying.

Year	Basis	Recovery %	Depreciation	Tax Rate	Cash Flow	PV Factor	PV Cash flow
1	120,000	14.29%	17,148	.35	6,002	.943	5,660
2	120,000	24.49%	29,388	.35	10,286	.890	9,155
3	120,000	17.49%	20,988	.35	7,346	.840	6,171
4	120,000	12.49%	14,988	.35	5,246	.792	4,155
5	120,000	8.93%	10,716	.35	3,751	.747	2,802
6	120,000	8.92%	10,704	.35	3,746	.705	2,641
7	120,000	8.93%	10,716	.35	3,751	.665	2,494
8	120,000	4.46%	5,352	.35	1,873	.627	<u>1,174</u>
						Savings	= \$34,252

Net cost to purchase = \$85,748 (\$120,000 - \$34,252 tax savings).

<u>Year</u>	<u>Lease Expense</u>	<u>1 – Tax rate = 1 – .35 = .65</u>	<u>After-tax Lease Cost</u>	<u>PV factor</u>	<u>PV of After-tax Lease Cost</u>
1	\$22,000	.65	\$14,300	.943	\$13,485
2	22,000	.65	14,300	.890	12,727
3	22,000	.65	14,300	.840	12,012
4	22,000	.65	14,300	.792	11,326
5	22,000	.65	14,300	.747	10,682
6	22,000	.65	14,300	.705	10,082
7	22,000	.65	14,300	.665	9,510
8	22,000	.65	14,300	.627	8,966
				Total	\$88,790

Net cost to lease = \$88,790

Arco should buy the equipment as that has a lower after-tax cost.

63. Lease vs. Purchase Decision

Solution: Bing Corporation should lease the car because it has a lower after-tax cost.

The net after-tax cost to purchase the automobile is \$17,920 (-\$40,000 purchase price + \$6,169 tax savings from depreciation deductions + \$15,120 proceeds from sale + \$791 tax savings from loss deduction)

<u>Year</u>	<u>Depreciation</u>	<u>Tax rate</u>	<u>Cash Flow</u>	<u>PV factor</u>	<u>After-tax Cash Flow</u>
1	\$11,160	.35	\$3,906	.943	\$3,683
2	5,100	.35	1,785	.890	1,589
3	3,050	.35	1,068	.840	897
	\$19,310			Total	\$6,169

Present value of proceeds from sale = \$18,000 x .840 = \$15,120

Loss on sale = \$18,000 – [\$40,000 - \$19,310] = -\$2,690

Tax savings from loss deduction = (35% x \$2,690 = \$941.50) x .840 = \$791

The net after-tax cost to lease the car is \$10,854.

<u>Year</u>	<u>Deduction for Payments</u>	<u>Lease Inclusion</u>	<u>Net Tax Deduction</u>	<u>Tax Rate</u>	<u>Tax Savings</u>
1	\$6,100*	\$(13)	\$6,087	35%	2,130
2	6,100*	(28)	6,072	35%	2,125
3	6,100*	(42)	6,058	35%	2,120
					\$6,375

*((\$450 x 12) + (1/3 x \$2,100))

<u>Year</u>	<u>Payments</u>	<u>Tax Savings</u>	<u>Cash Flow</u>	<u>Discount Factor</u>	<u>Present Value</u>
0	\$(2,100)		\$(2,100)		\$(2,100)
1	(5,400)	2,130	(3,270)	.943	(3,084)
2	(5,400)	2,125	(3,275)	.890	(2,915)
3	(5,400)	2,120	(3,280)	.840	(2,755)
					\$(10,854)

Bing Corporation should lease the car because the after-tax cost to lease is \$7,066 less than the cost to purchase (\$17,920 - \$10,854).

Form	1040	Department of the Treasury—Internal Revenue Service (99)	2012	OMB No. 1545-0074	IRS Use Only—Do not write or staple in this space.																																																																																				
For the year Jan. 1–Dec. 31, 2012, or other tax year beginning _____, 2012, ending _____, 20																																																																																									
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City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions).				Presidential Election Campaign Check here if you, or your spouse if filing jointly, want \$3 to go to this fund. Checking a box below will not change your tax or refund. <input type="checkbox"/> You <input type="checkbox"/> Spouse																																																																																					
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SCHEDULE SE
(Form 1040)

Department of the Treasury
Internal Revenue Service (99)

Chapter 6, Problem 59

Self-Employment Tax

► Information about Schedule SE and its separate instructions is at www.irs.gov/form1040.

► Attach to Form 1040 or Form 1040NR.

OMB No. 1545-0074

2012
Attachment
Sequence No. **17**

Name of person with **self-employment** income (as shown on Form 1040)

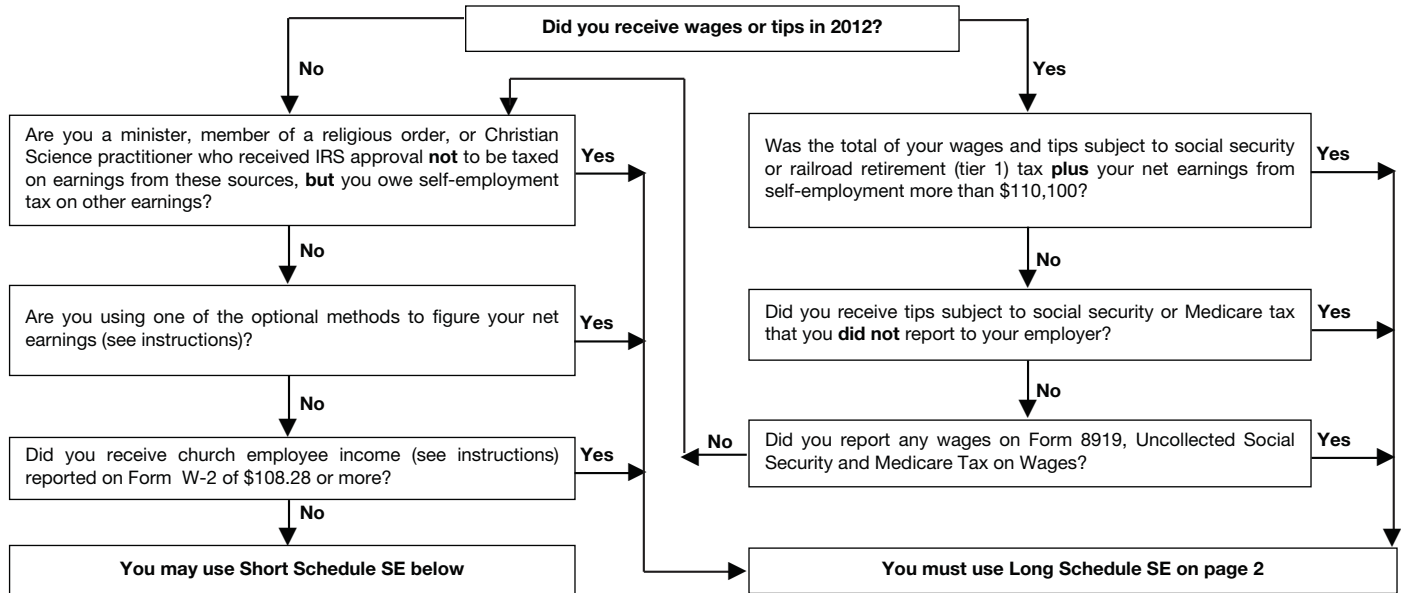
Robert

Social security number of person
with **self-employment** income ►

Before you begin: To determine if you must file Schedule SE, see the instructions.

May I Use Short Schedule SE or Must I Use Long Schedule SE?

Note. Use this flowchart **only** if you must file Schedule SE. If unsure, see *Who Must File Schedule SE* in the instructions.



Section A—Short Schedule SE. Caution. Read above to see if you can use Short Schedule SE.

1a Net farm profit or (loss) from Schedule F, line 34, and farm partnerships, Schedule K-1 (Form 1065), box 14, code A	1a		
b If you received social security retirement or disability benefits, enter the amount of Conservation Reserve Program payments included on Schedule F, line 4b, or listed on Schedule K-1 (Form 1065), box 20, code Y	1b	()
2 Net profit or (loss) from Schedule C, line 31; Schedule C-EZ, line 3; Schedule K-1 (Form 1065), box 14, code A (other than farming); and Schedule K-1 (Form 1065-B), box 9, code J1. Ministers and members of religious orders, see instructions for types of income to report on this line. See instructions for other income to report	2	74,212	
3 Combine lines 1a, 1b, and 2	3	74,212	
4 Multiply line 3 by 92.35% (.9235). If less than \$400, you do not owe self-employment tax; do not file this schedule unless you have an amount on line 1b ► Note. If line 4 is less than \$400 due to Conservation Reserve Program payments on line 1b, see instructions.	4	68,535	
5 Self-employment tax. If the amount on line 4 is: • \$110,100 or less, multiply line 4 by 13.3% (.133). Enter the result here and on Form 1040, line 56 , or Form 1040NR, line 54 • More than \$110,100, multiply line 4 by 2.9% (.029). Then, add \$11,450.40 to the result. Enter the total here and on Form 1040, line 56 , or Form 1040NR, line 54	5	9,115	
6 Deduction for employer-equivalent portion of self-employment tax. If the amount on line 5 is: • \$14,643.30 or less, multiply line 5 by 57.51% (.5751) • More than \$14,643.30, multiply line 5 by 50% (.50) and add \$1,100 to the result. Enter the result here and on Form 1040, line 27 , or Form 1040NR, line 27	6	5,242	

Form **4562**Department of the Treasury
Internal Revenue Service (99)**Depreciation and Amortization**
(Including Information on Listed Property)

▶ See separate instructions.

▶ Attach to your tax return.

OMB No. 1545-0172

2012
Attachment
Sequence No. **179**

Name(s) shown on return

Business or activity to which this form relates

Identifying number

Robert

Part I Election To Expense Certain Property Under Section 179**Note:** If you have any listed property, complete Part V before you complete Part I.

1	Maximum amount (see instructions)	1	500,000
2	Total cost of section 179 property placed in service (see instructions)	2	316,000
3	Threshold cost of section 179 property before reduction in limitation (see instructions)	3	2,000,000
4	Reduction in limitation. Subtract line 3 from line 2. If zero or less, enter -0-	4	0
5	Dollar limitation for tax year. Subtract line 4 from line 1. If zero or less, enter -0-. If married filing separately, see instructions	5	500,000
6	(a) Description of property	(b) Cost (business use only)	(c) Elected cost
	Ne equipment	50,000	50,000
	Used fi tures	238,000	238,000
7	Listed property. Enter the amount from line 29	7	
8	Total elected cost of section 179 property. Add amounts in column (c), lines 6 and 7	8	288,000
9	Tentative deduction. Enter the smaller of line 5 or line 8	9	288,000
10	Carryover of disallowed deduction from line 13 of your 2011 Form 4562	10	
11	Business income limitation. Enter the smaller of business income (not less than zero) or line 5 (see instructions)	11	362,212
12	Section 179 expense deduction. Add lines 9 and 10, but do not enter more than line 11	12	288,000
13	Carryover of disallowed deduction to 2013. Add lines 9 and 10, less line 12 ▶	13	

Note: Do not use Part II or Part III below for listed property. Instead, use Part V.**Part II Special Depreciation Allowance and Other Depreciation (Do not include listed property.)** (See instructions.)

14	Special depreciation allowance for qualified property (other than listed property) placed in service during the tax year (see instructions)	14	
15	Property subject to section 168(f)(1) election	15	
16	Other depreciation (including ACRS)	16	

Part III MACRS Depreciation (Do not include listed property.) (See instructions.)**Section A**

17	MACRS deductions for assets placed in service in tax years beginning before 2012	17	
18	If you are electing to group any assets placed in service during the tax year into one or more general asset accounts, check here <input type="checkbox"/>		

Section B—Assets Placed in Service During 2012 Tax Year Using the General Depreciation System

(a) Classification of property	(b) Month and year placed in service	(c) Basis for depreciation (business/investment use only—see instructions)	(d) Recovery period	(e) Convention	(f) Method	(g) Depreciation deduction
19a 3-year property						
b 5-year property						
c 7-year property						
d 10-year property						
e 15-year property						
f 20-year property						
g 25-year property			25 yrs.		S/L	
h Residential rental property			27.5 yrs.	MM	S/L	
			27.5 yrs.	MM	S/L	
i Nonresidential real property			39 yrs.	MM	S/L	
				MM	S/L	

Section C—Assets Placed in Service During 2012 Tax Year Using the Alternative Depreciation System

20a Class life					S/L	
b 12-year			12 yrs.		S/L	
c 40-year			40 yrs.	MM	S/L	

Part IV Summary (See instructions.)

21	Listed property. Enter amount from line 28	21	8,928
22	Total. Add amounts from line 12, lines 14 through 17, lines 19 and 20 in column (g), and line 21. Enter here and on the appropriate lines of your return. Partnerships and S corporations—see instructions	22	296,928
23	For assets shown above and placed in service during the current year, enter the portion of the basis attributable to section 263A costs	23	

Part V Listed Property (Include automobiles, certain other vehicles, certain computers, and property used for entertainment, recreation, or amusement.)

Note: For any vehicle for which you are using the standard mileage rate or deducting lease expense, complete **only** 24a, 24b, columns (a) through (c) of Section A, all of Section B, and Section C if applicable.

Section A—Depreciation and Other Information (Caution: See the instructions for limits for passenger automobiles.)

24a Do you have evidence to support the business/investment use claimed? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No					24b If "Yes," is the evidence written? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No				
(a) Type of property (list vehicles first)	(b) Date placed in service	(c) Business/investment use percentage	(d) Cost or other basis	(e) Basis for depreciation (business/investment use only)	(f) Recovery period	(g) Method/Convention	(h) Depreciation deduction	(i) Elected section 179 cost	
25 Special depreciation allowance for qualified listed property placed in service during the tax year and used more than 50% in a qualified business use (see instructions) .							25		
26 Property used more than 50% in a qualified business use:									
Ne car	5/15/12	80%	28,000	22,400	5 r.	DDB	8,928		
		%							
		%							
27 Property used 50% or less in a qualified business use:									
		%				S/L -			
		%				S/L -			
		%				S/L -			
28 Add amounts in column (h), lines 25 through 27. Enter here and on line 21, page 1 .							28	8,928	
29 Add amounts in column (i), line 26. Enter here and on line 7, page 1 .							29		

Section B—Information on Use of Vehicles

Complete this section for vehicles used by a sole proprietor, partner, or other "more than 5% owner," or related person. If you provided vehicles to your employees, first answer the questions in Section C to see if you meet an exception to completing this section for those vehicles.

	(a) Vehicle 1	(b) Vehicle 2	(c) Vehicle 3	(d) Vehicle 4	(e) Vehicle 5	(f) Vehicle 6
30 Total business/investment miles driven during the year (do not include commuting miles) .	8,000					
31 Total commuting miles driven during the year						
32 Total other personal (noncommuting) miles driven	2,000					
33 Total miles driven during the year. Add lines 30 through 32	10,000					
34 Was the vehicle available for personal use during off-duty hours?	Yes No	Yes No	Yes No	Yes No	Yes No	Yes No
	✓					
35 Was the vehicle used primarily by a more than 5% owner or related person?	✓					
36 Is another vehicle available for personal use?	✓					

Section C—Questions for Employers Who Provide Vehicles for Use by Their Employees

Answer these questions to determine if you meet an exception to completing Section B for vehicles used by employees who **are not** more than 5% owners or related persons (see instructions).

37 Do you maintain a written policy statement that prohibits all personal use of vehicles, including commuting, by your employees?	Yes	No
38 Do you maintain a written policy statement that prohibits personal use of vehicles, except commuting, by your employees? See the instructions for vehicles used by corporate officers, directors, or 1% or more owners		
39 Do you treat all use of vehicles by employees as personal use?		
40 Do you provide more than five vehicles to your employees, obtain information from your employees about the use of the vehicles, and retain the information received?		
41 Do you meet the requirements concerning qualified automobile demonstration use? (See instructions.)		
Note: If your answer to 37, 38, 39, 40, or 41 is "Yes," do not complete Section B for the covered vehicles.		

Part VI Amortization

(a) Description of costs	(b) Date amortization begins	(c) Amortizable amount	(d) Code section	(e) Amortization period or percentage	(f) Amortization for this year
42 Amortization of costs that begins during your 2012 tax year (see instructions):					
43 Amortization of costs that began before your 2012 tax year					43
44 Total. Add amounts in column (f). See the instructions for where to report					44