

NINJA NOTES

Regulation 2026



Property Taxation

(July 1, 2025 – June 30, 2026 Exams)

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Property Taxation

Basis of Assets

- Basis & Holding Period of Assets Purchased

| | Basis | Holding Period | |
|-----------------|--|--|------------|
| Asset Purchased | The Basis of the Asset Purchased is calculated as follows: | Date of Acquisition until the Date of Sale | |
| | Cost of Purchase | | XXX |
| | Add: Debt Assumed | | XXX |
| | Add: Other Expense | | XXX |
| | Add: Capital Improvement | | XXX |
| | Basis of Asset Purchased | | XXX |

- Basis & Holding Period of Assets Received as Inheritance

| | Basis | Holding Period |
|-------------------------------|--|------------------|
| Asset Received as Inheritance | FMV of the asset on the date of the original owner's death or FMV on an Alternate Valuation Date (if elected). Alternate Valuation Date is the earlier of: <ul style="list-style-type: none"> • Six months after the date of death or • The date of distribution or sale of the asset | Always Long-Term |

- Basis & Holding Period of Assets Received as Gift

| | | Basis | Holding Period | | | |
|--|--|---|---|---------------------|------------------------|---|
| On Date of Gift: Basis < FMV (Built-in Gains) | | Donor's Carryover Basis | Donor's Carryover Holding Period (Donor's Holding Period + Donee's Holding Period) | | | |
| On Date of Gift: Basis > FMV (Built-in Losses) | Case 1: Sales Price > Donor's Basis > FMV at Date of Gift | Donor's Carryover Basis Therefore, Gain would be recognized as follows: <table border="1" style="margin-left: 20px;"> <tr><td>Sales Price</td></tr> <tr><td>(Donor's Basis)</td></tr> <tr><td>Capital Gain</td></tr> </table> | Sales Price | (Donor's Basis) | Capital Gain | Donor's Carryover Holding Period (Donor's Holding Period + Donee's Holding Period) |
| | Sales Price | | | | | |
| | (Donor's Basis) | | | | | |
| Capital Gain | | | | | | |
| Case 2: Donor's Basis > Sales Price > FMV at Date of Gift | Sales Price Therefore, No Gain or Loss would be recognized. | Donor's Carryover Holding Period (Donor's Holding Period + Donee's Holding Period) | | | | |
| Case 3: Donor's Basis > FMV at Date of Gift > Sales Price | FMV at Date of Gift Therefore, Loss would be recognized as follows: <table border="1" style="margin-left: 20px;"> <tr><td>Sales Price</td></tr> <tr><td>(FMV at Date of Gift)</td></tr> <tr><td>Capital Loss</td></tr> </table> | Sales Price | (FMV at Date of Gift) | Capital Loss | Donee's Holding Period | |
| Sales Price | | | | | | |
| (FMV at Date of Gift) | | | | | | |
| Capital Loss | | | | | | |

- Basis & Holding Period of Assets Converted from Personal-Use to Business-Use

| | Basis | Holding Period |
|---|---|---|
| Asset Converted from Personal Use to Business Use | Lower of: <ul style="list-style-type: none"> Adjusted Basis of Asset FMV of Asset on Date of Conversion | The Holding Period begins from the date the asset was acquired for personal use |

Capital Gains & Losses: Calculation and Treatment

- Calculation of Capital Gains and Losses: Individuals and Corporations

| | |
|--------------------------------------|---|
| Proceeds | <ul style="list-style-type: none"> Cash received Property received (FMV) Services received (FMV) Cancellation of Debt Selling Expenses |
| <Adjusted Basis of Assets Sold> | |
| Capital Gain or Loss Realized | <ul style="list-style-type: none"> Holding Period > 1 Year (Long-Term Capital Gain or Loss) Holding Period < 1 Year (Short-Term Capital Gain or Loss) |

- Netting Process for Capital Gains and Losses: Individuals and Corporations

- Step 1: Net Short-Term Gains and Losses together, and Long-Term Gains and Losses together

| |
|---|
| Short-Term Capital Gain |
| (Short-Term Capital Loss) |
| Net Short-Term Capital Gain / (Net Short-Term Capital Loss) |

| |
|---|
| Long-Term Capital Gain |
| (Long-Term Capital Loss) |
| Net Long-Term Capital Gain / (Net Long-Term Capital Loss) |

- Step 2: Net Short-Term Gains and Losses with Long-Term Gains and Losses if opposite signs or else no netting.

- If one is a net gain and the other is a net loss, net them together. This will result in either a single net Short-Term Capital Gain/Loss or a Single Net Long-Term Capital Gain/Loss.

| |
|------------------------------|
| Net Short-Term Capital Gain |
| (Net Long-Term Capital Loss) |
| Net Short-Term Capital Gain |

| |
|-------------------------------|
| (Net Short-Term Capital Loss) |
| Net Long-Term Capital Gain |
| Net Short-Term Capital Loss |

| |
|-------------------------------|
| Net Long-Term Capital Gain |
| (Net Short-Term Capital Loss) |
| Net Long-Term Capital Gain |

| |
|------------------------------|
| (Net Long-Term Capital Loss) |
| Net Short-Term Capital Gain |
| Net Long-Term Capital Loss |

- If both are gains or both are losses, do not net them together. In this case, you will have either:
 - Net Short-Term Capital Gain and Net Long-Term Capital Gain.
 - Net Short-Term Capital Loss and Net Long-Term Capital Loss.

- Tax Treatment of Capital Gains and Losses

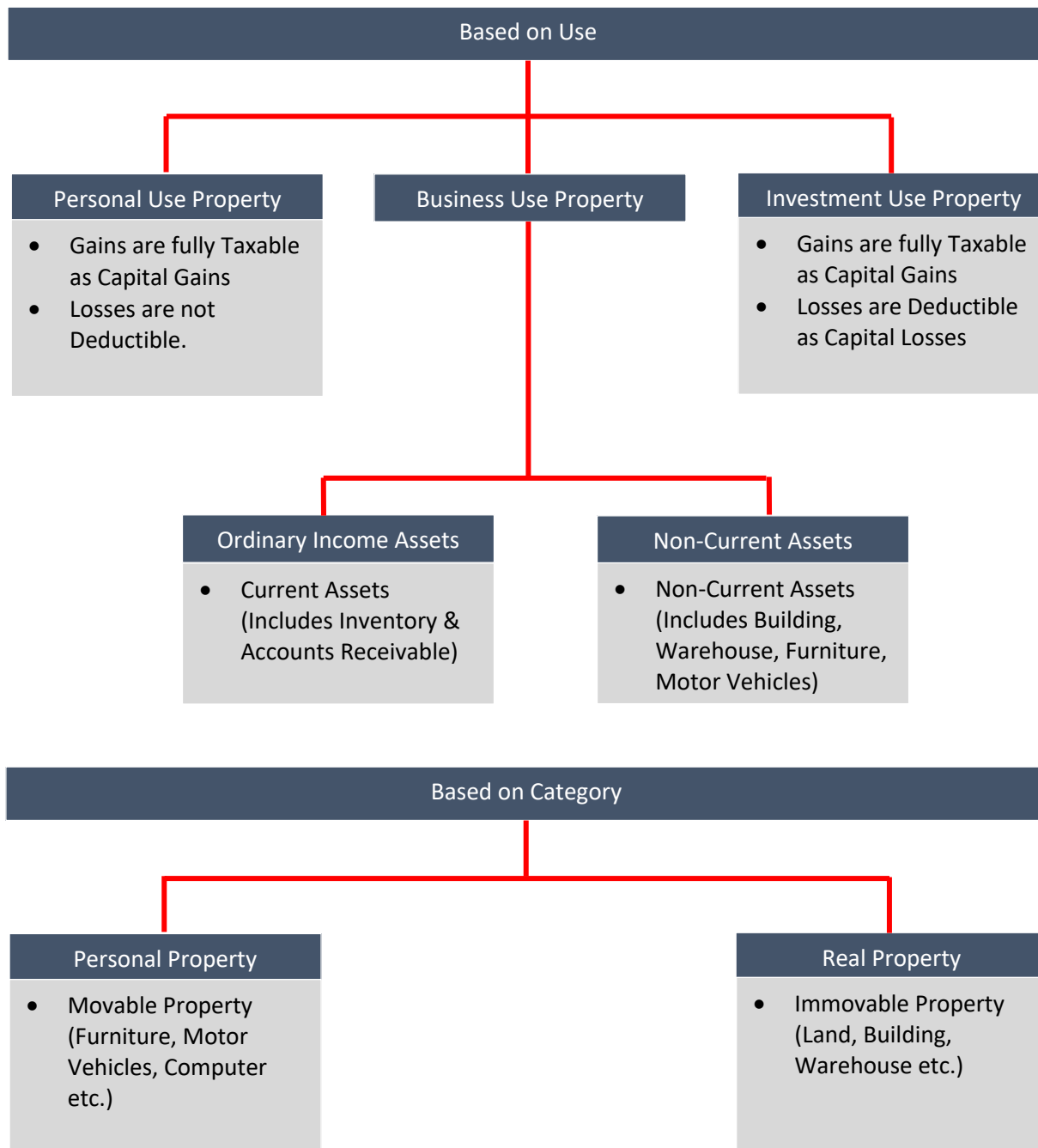
- Tax Treatment of Capital Gains and Losses: Individuals

| Type | Tax Treatment |
|-----------------------------|--|
| Net Short-Term Capital Gain | <ul style="list-style-type: none"> • Short-Term Capital Gains are taxed at ordinary income tax rates |
| Net Short-Term Capital Loss | <ul style="list-style-type: none"> • Set off Net Short-Term Capital Loss from other sources of income up to \$3,000 (MFJ & Single) and \$1,500 (MFS) every year. • Excess carried forward indefinitely |
| Net Long-Term Capital Gain | <ul style="list-style-type: none"> • Long-Term Capital Gains are taxed at capital gain tax rates (0%, 15%, 20%) |
| Net Long-Term Capital Loss | <ul style="list-style-type: none"> • Set off Net Long-Term Capital Loss from other sources of income up to \$3,000 (MFJ & Single) and \$1,500 (MFS) every year. • Excess carried forward indefinitely |

- Tax Treatment of Capital Gains and Losses: Corporations

| Type | Tax Treatment |
|-----------------------------|--|
| Net Short-Term Capital Gain | <ul style="list-style-type: none"> • Short-Term Capital Gains are taxed at Ordinary Corporate Income Tax Rates |
| Net Short-Term Capital Loss | <ul style="list-style-type: none"> • Short-Term Capital Loss may be deducted only to the extent of the Capital Gain during the year. • Net Short-Term Capital Losses not allowed as a deduction can be carried back 3 years and carried forward 5 years. |
| Net Long-Term Capital Gain | <ul style="list-style-type: none"> • Long-Term Capital Gains are taxed at Ordinary Corporate Income Tax Rates |
| Net Long-Term Capital Loss | <ul style="list-style-type: none"> • Long-Term Capital Loss may be deducted only to the extent of the Capital Gain during the year. • Net Long-Term Capital Losses not allowed as a deduction can be carried back 3 years and carried forward 5 years. |

Types of Property



Situations when Capital Loss is Realized but not Deductible

| Situation | Summary |
|------------------|--|
| Wash Sale Losses | <ul style="list-style-type: none">• Losses are disallowed and added to the basis• Gains are fully taxable |

Gain or Loss on Virtual Currency

- Taxable Virtual Currency Transactions
 - Selling Virtual Currency for U.S. Dollars
 - Capital Gain or Loss = Cash Proceeds – Basis in Cryptocurrency
 - Receiving Virtual Currency for Services
 - Ordinary Income = FMV of Cryptocurrency Received
 - Mining Virtual Currency
 - Ordinary Income = FMV of Cryptocurrency Received
 - Exchanging one type of Virtual Currency for another
 - Capital Gain or Loss = FMV of New Cryptocurrency – Basis in Old Cryptocurrency
 - Use of Virtual Currency to buy Goods or Services
 - Capital Gain or Loss = FMV of Goods/Service Received – Basis in Old Cryptocurrency
- Non-Taxable Virtual Currency Transactions
 - Buying Virtual Currency with Dollars and Holding onto it
 - Sending Virtual Currency to a different virtual wallet or account of the same owner

Depreciation and Amortization

- Depreciation on Personal Property (MACRS)

- Method of Depreciation

- 150% Double Declining Balance

- 150% Double Declining Balance = $\frac{(\text{Original Cost} - \text{Accumulated Depreciation})}{\text{Life}} \times 150\%$

- 200% Double Declining Balance

- 200% Double Declining Balance = $\frac{(\text{Original Cost} - \text{Accumulated Depreciation})}{\text{Life}} \times 200\%$

- Depreciation Convention

| | |
|------------------------|---|
| Half-Year Convention | <ul style="list-style-type: none"> • Depreciate for half the year in the year of purchase and sale. |
| Mid-Quarter Convention | <ul style="list-style-type: none"> • Use the Mid-Quarter Convention for all the assets, if more than 40% of total property placed in a year is placed into service in the last quarter. • Depreciate from the middle of the quarter of purchase and sale. |

- Depreciation Life and Depreciation Rates

| | Depreciable Life | DDB Rate |
|---|------------------|----------|
| Tractors for over-the-road use, Racehorses over 2 years old, Other horses over 12 years old | 3-Year | 200% |
| Computers, Office Equipment, Automobiles, Light Trucks | 5-Year | 200% |
| Office Furniture & Fixtures, Equipment | 7-Year | 200% |
| Vessels, Barges, Tugs, and Similar Water Transportation Equipment; and any Tree or Vine bearing Fruits or Nuts | 10-Year | 200% |
| Certain Improvements made to Land (e.g., shrubbery, sidewalks, etc.); and Municipal Wastewater Treatment Plants | 15-Year | 150% |
| Sewer Pipes | 20-Year | 150% |

- Section 179 Deduction

- The maximum amount that can be deducted for Section 179 is \$1,250,000 (for 2025). The \$1,250,000 deduction is reduced dollar-for-dollar for purchases in a year beyond \$3,130,000 (for 2025).
- Also, the maximum Section 179 Expense Deduction for SUVs placed in service is \$31,300 (for 2025).
- Section 179 Deduction would be calculated as follows:

- Step 1: Calculate Phase-Out. Phase-Out applies if Purchases are more than \$3,130,000 (for 2025).

| |
|-------------------------|
| Purchases |
| (\$3,130,000) |
| Excess Purchases |

- Step 2: Calculate Section 179 Deduction

| |
|---------------------------------------|
| \$1,250,000 |
| (Excess Purchases) |
| Eligible Section 179 Deduction |

- Section 179 deduction cannot be greater than the taxable income and is not allowed on property purchased from a related party.

- Bonus Depreciation (40%)

- Bonus depreciation is a tax incentive that allows a business to immediately deduct a large percentage of the purchase price of eligible assets rather than write them off over the "useful life" of that asset.
- Bonus depreciation is allowed for qualifying personal property (new or used) placed into service.
- Bonus depreciation is not allowed on real property.
- Bonus Depreciation is 100% for property placed into service in 2021 and 2022, But is reduced to 80% for 2023, 60% for 2024, 40% for 2025, and 20% for 2026 and 0% for 2027 and after.
- No Taxable Income limitation for Bonus Depreciation.
- Bonus Depreciation is not allowed on property purchased from a related party.

- Order of Depreciation

- Section 179 Deduction
- Bonus Depreciation
- MACRS Depreciation

- Depreciation on Real Property (MACRS)

- Method of Depreciation

- SLM Depreciation = $\frac{\text{Original Cost}}{\text{Useful Life}}$

- Depreciation Convention

- Mid-Month Convention

- Depreciation Life

| | Depreciable Life |
|--|------------------|
| Residential Property (Any building or structure where 80% or more of its gross rental income is rental income from dwelling units) | 27.5 Years |
| Non-Residential Property (Office Buildings, Warehouses, or Retail Stores) | 39 Years |

- Amortization

- Section 197 Intangibles

- Section 197 Intangibles include acquired intangibles like Goodwill, Trademarks, Franchises, Government Licenses and permits, Patents, Copyrights, Customer List, Covenant not to Compete, etc.
 - Section 197 Intangibles are amortized over 180 months on a Straight-Line basis beginning with the month in which acquired.

- Self-Developed Patents and Copyrights

- Self-developed patents and copyrights do not qualify as Section 197 intangibles. They are amortized as per the following schedule:

| | |
|-----------|---------------------------|
| Patent | 20 Years |
| Copyright | Life of Author + 50 Years |

- Research and Experimental Costs

- R&E expenditures that are performed within the U.S. are required to be capitalized and amortized over a five-year period.
 - R&E expenditures that are performed outside the U.S. are required to be capitalized and amortized over a 15-year period.

- Business Start-Up Cost (Individuals & Corporations)
 - Businesses can deduct up to \$5,000 in start-up costs during the first year of operation. However, this \$5,000 limit is reduced dollar-for-dollar for start-up expenses exceeding \$50,000.
 - If your start-up costs exceed the deductible limit the remaining balance will be amortized over 180 months (15 years), beginning with the month your business starts operating.

- Organizational Expenses (Corporations)
 - Business can deduct up to \$5,000 in organizational expenses during the first year of operation. However, this \$5,000 limit is reduced dollar-for-dollar for organizational expenses exceeding \$50,000.
 - If your organizational expenses exceed the deductible limit the remaining balance will be amortized over 180 months (15 years), beginning with the month your business starts operating.
 - Corporations can deduct organizational expenses in addition to start-up costs. This implies a \$5,000 deduction for organizational expenses and a \$5,000 deduction for start-up expenses (subject to phase-out).

- Depletion
 - Depletion is allowed for exhaustible natural resources like minerals, timber, oil, and gas There are two basic methods of depletion allowed for tax purposes: Cost Depletion and Percentage Depletion:
 - Cost Depletion
 - Cost Depletion = $\frac{\text{Basis in Property}}{\text{Estimated Total Units}} \times \text{Units Extracted}$
 - Percentage Depletion
 - Percentage Depletion = $\text{Gross Income from Property} \times \text{Depletion \%}$