

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

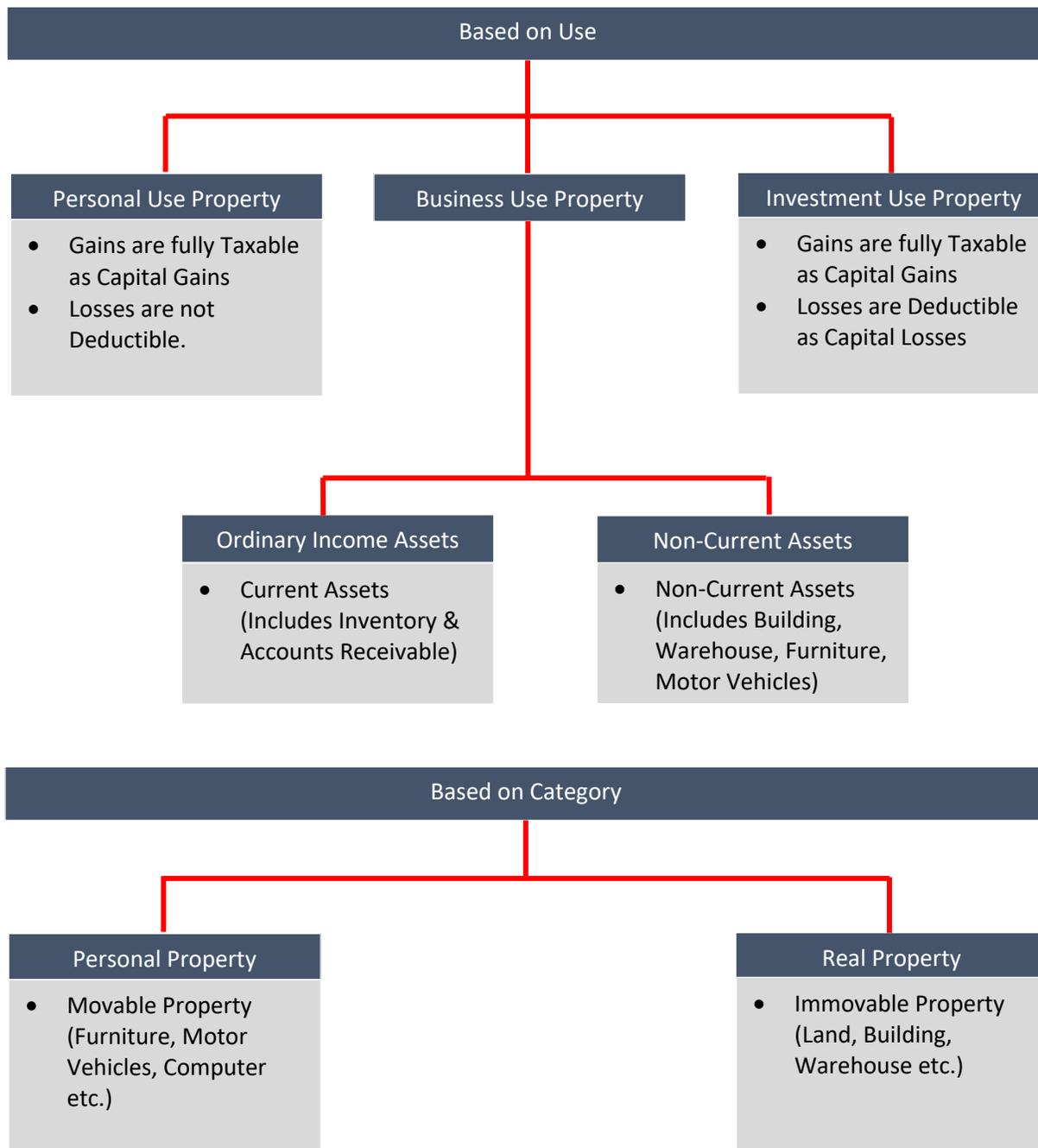
- Tax Treatment of Capital Gains and Losses: Individuals

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 = $\text{Gross Income from Property} \times \text{Depletion \%}$