THE TRUCK:

Mr's purchase of the truck is for business purposes, it will qualify for a § 162 business expense deduction - for profit motive and is an ordinary and necessary expense.

However, the truck, as it has useful life of over one year is a capital asset, which would normally force the taxpayer to capitalize the cost instead of immediately deducting it as an expense. Her cost of $16,000 would go into the basis of the truck - 1012 cost basis.

Because the truck lasts, the code tries to make the tax benefit line up with the expenditure. The depreciation deduction under §167 (as the truck is used in business property that can wear out) allows her to quickly recover her basis in the truck. As the truck is not real estate she could do a straight line deduction.
Giving her 40k basis back evenly over the 5-year recovery period of 5-year property like a unit truck.

168(c) - giving her 8k deduction over 5 yrs.

Which are above the line business expenses listed in §62. However she would maybe choose

4. Double-declining method - which would allow

168(b)

Much faster recovery. It would allow her a deduction of 40k divided by 5 years x 2 - hence "double".

This would give her 16k deduction in year one, but subject to the half-year convention in 168(b) in the first year - bringing it back to 8k - but then a much higher deduction in year two - declining from there.

Ending with a straight line deduction in year 5.

All this aside, section 179 will provide her a small
BUSINESS EXCEPTION WHERE, BECAUSE SHE BOUGHT LESS

THAT 400K OF DEPRECIABLE PROPERTY, SHE CAN IMMEDIATELY

EXPENSE UP TO 90% OF CAPITAL ASSETS, IF SHE CAN

THIS REDUCE THE 400K, IF THE REDUCTION EXCEEDS

EXPENSES, SHE CAN CARRY BACK THE REMAINING N.O.L.

2 YEARS AND FORWARD 20 YEARS UNDER $172.

\[ \text{Daughter} \]

MUERIL IS SINGLE, AS SUCH SHE CAN CLAIM HERSELF

FOR A PERSONAL EXEMPTION OF $3000 OR HER

TAX RETURN UNDER $15K AS LONG AS HER INCOME

DOES NOT EXCEED $65K, WHICH IS THE LIMIT ON

THE PHASE-OUT ON THE PERSONAL EXEMPTION.

THIS IS CONGRESS'S WAY OF FINDING THE TP A BONE

FOR PERSONAL EXPENSES NOT BEING DEDUCTIBLE.

MUERIL WOULD NOT BE ABLE TO DEDUCT DONNA

AS A DEPENDENT EXEMPTION UNLESS $15K, HOWEVER

A CHILD UNDER $15K WILL HAVE TO MEET 4 ELEMENTS.

DONNA IS MUERIL'S BLOOD DAUGHTER, SHE DOES LIVE WITH

MUERIL MORE THAN 1/2 THE YEAR (WITH SCHOOL NOT

COUNTING AGAINST HER); DONNA IS OVER 19 BUT IS

UNDER 24 AND IN SCHOOL FULL TIME; BUT DONNA

PROVIDES OVER 1/2 OF HER OWN SUPPORT WHICH KILLS

HER QUALIFICATION AS A DEPENDENT CHILD OR
A DEPENDANT RELATIVE. This also means Murriel can't claim any tax credit under § 24 for child tax credit, as the child must qualify under § 152. As a single person, Murriel can take her standard deduction of $5,000 under § 63(b), but will likely itemize because of her business deductions.

THE APARTMENT BUILDING:

The apartment building is a capital asset under § 1221 meaning that her cost on the building of $50K is put in the basis - Ann she is allowed depreciation under § 168 on a straight line basis over 27.5 years. Her cost basis under § 1012 is $50K. The income she receives from the rents is ordinary, but this is a passive income generator - no pal to match it. Income to her. The $50K improvements to the complex are likely capital expenditures not immediately deductible under § 162 because they have long term benefit to the property and will most
Likely be capitalized and added to her basis to make a Adjusted basis of 600K in the property.

However, her depreciation deduction will decrease her basis in the property by 75K - making a Total Adjusted basis of 525K.

The non-recourse loan is not income to Murriel, and the interest she pays on the loan can likely be deducted as a regular expense on the production of income under §812.

When Murriel walks, the transaction must be treated similar to a sale - the bank gets the building back. Under crane/lofts the mortgage she is relieved of is considered income to her. In which case: $46K mortgage relieved minus
1. 525k basis leaves her with an amount realized of 400k on the transaction. This is not a discharge of indebtedness best to muriel because the bank got what it regained for. It did not think it would go after muriel for the debt.

It didn’t care about her credit so the insolvency of muriel is moot. It knew it would get the building if muriel defaulted which it did.

Crazy Wayne’s calculation to save footnote 37 gives us the same result. He treats it as two separate transactions – sale: FMV of 490k minus basis of 525 = loss of 35k. They treat the mortgage relief as doc loan relief.

Remaining of 540k minus FMV at the sale of 490k = gain of 50k.
 Balance the $50,000 gain with the $35,000 loss - and the resulting $15,000 gain is the same as under the rule in crane: tufts. It's a losing non-recourse venture, the result can further be checked by analogy to the depreciation tax benefit rule. Muriel got to take deductions with the bank's money on the basis of paying on the loan. She walked from the loan - which is inconsistent with the deductions she took. So, the deduction amount should be balanced against the money she paid on the loan - with any excess to be reported as income because it gave her less income in prior years. So:

75K deductions - (60K paid [660 loan - now at 540K]) = 15K
The 15K gain on this "transaction" should be §221 capital gain to Muriel through a sale of real property. That would tax him at a lower rate than income usually - at 15%, most often §112(b). The depreciation deduction she recieves on the truck this year should wipe out the 15K gain on this transaction.