Lesson 1 Quiz: Basic Depreciation

1. Which of the following can be depreciated?
    a. A mobile home on which you have a mortgage; you rent the mobile home for a profit.
        i. This answer is correct. This property meets all of the requirements for depreciation: You own the property, even though it is secured by a debt. You use the property to produce income. The property has a useful life that extends substantially beyond the year it is placed in service. The property has a determinable useful life. The property is not excepted property.
    b. Your second home that you live in during the summer; your daughter and her husband use it the rest of the year and there is no mortgage on the property.
        i. This answer is incorrect. Even though you own the home and other tests are met, you do not use this home to produce income. It cannot be depreciated.
    c. A watch with special features that you bought to keep track of time in both your main office location and another office location that is in another time zone.
        i. This answer is incorrect. The watch does not have a useful life that extends beyond the year it is placed in service. Also, even though you use the watch in your business, it can be considered personal property; you cannot depreciate it.
    d. A stove that you bought for use in a rental property; you bought the stove in January and sold the rental property, along with the stove, in June.
        i. This answer is incorrect. You cannot depreciate the stove because you placed it in service and disposed of it within the same year. This makes the stove excepted property; you cannot depreciate it.
    e. A building that you rent as office space; you pay rent monthly.
        i. This answer is incorrect. You cannot depreciate property that you rent. You must actually own property in order to depreciate it.
2. What is the definition of a Section 197 asset?
    a. Any property that is not depreciable, regardless of the circumstances.
        i. This answer is incorrect. Any property that is depreciable regardless of the circumstances is excepted property.
    b. Certain intangible assets that you cannot depreciate, but must amortize.
        i. This answer is correct. These types of assets are discussed in IRC code section 197. You must amortize them over 15 years instead of depreciating them. There are several types of Section 197 intangibles, including goodwill, going concern value, computer-based intangibles, and other types of intangible assets.
    c. Property for which you can elect to take the full deduction in the first year rather than over the depreciable life.
        i. This answer is incorrect. You can elect to take the full deduction in the first year for certain types of property, but that type of treatment is Section 179 treatment; it is not Section 197 treatment.
    d. A life interest in property, an interest in property for a term of years, or an income interest in a trust.
        i. This answer is incorrect. This definition is for a term interest. This is another type of excepted property, but not a Section 197 asset.
    e. A way of measuring your investment for tax purposes.

i. This answer is incorrect. This is the definition of basis, which is not a type of asset, but a way of measuring the value of that asset.