

[JOINT COMMITTEE PRINT]

COMPARISON OF PRESENT LAW
WITH
ALTERNATIVE CAPITAL COST
RECOVERY PROPOSALS

Prepared for the Use of the House Committee on Ways and Means
By the Staff of the
Joint Committee on Taxation

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CONTENTS

	Page		Page
A. Comparison of Present Law With Alternative Capital Cost Recovery Proposals.....		11. Depreciation of assets held outside U.S.....	
1. Underlying concept.....		12. Add on minimum and maximum tax.....	
2. Eligible property.....		13. Regular investment tax credit.....	
3. Useful lives (recovery periods) and methods.....		14. At-risk limitation.....	
4. Asset accounting.....		15. Qualified progress expenditures.....	
5. Salvage value.....		16. Rehabilitation expenditures.....	
6. Additional first-year depreciation.....		B. Effective Dates.....	
7. Gain or loss on disposition of assets.....		C. Estimated Revenue Impact of Alternative Capital Cost Recovery Proposals, 1981-1986.....	
8. Recapture of depreciation.....		D. Appendix Tables: ADR and Guideline Lives for Selected Assets.....	
9. Flexibility.....			
10. Earnings and profits.....			

A. COMPARISON OF PRESENT LAW WITH ALTERNATIVE CAPITAL COST RECOVERY PROPOSALS

Item	Present Law	H.R. 3849 (Administration Bill) [H.R. 1053—Messrs. Jones and Conable] ¹	Simplified Cost Recovery System (2-4-7-10) ²	H.R. 3443—Mr. Shannon (First-Year Recovery System) [H.R. 3500—Mr. Hefelf] ³
1. Underlying concept	Designed to allocate depreciation deductions over the period the asset is used in business so that deductions for the cost of an asset are matched with the income produced by the asset.	Cost of an asset is recovered over a short, predetermined period unrelated to useful lives or the period the asset is used to produce income in order to stimulate investment in productive assets.	Cost of personal property is recovered over a predetermined period at least 40 percent shorter than its present useful life. Cost of real property may be recovered over optional audit-proof lives that are shorter than present law lives.	Cost of personal property recovered as a single deduction in year property placed in service (first-year allowance). First-year allowance is in lieu of all future depreciation deductions and the regular investment credit. Cost of real property is recovered over shortened lives.
2. Eligible property	Assets used in a trade or business or for the production of income are depreciable if they are subject to wear and tear, decay or decline from natural causes, or obsolescence. Assets that do not decline in value on a predictable basis or that do not have a determinable useful life, such as land, goodwill, and stock, are not depreciable.	Most tangible depreciable property (real and personal) other than— (1) Property not depreciated in terms of years (except certain railroad property); (2) Property amortized (e.g., leasehold improvements); [(3) Residential rental property, and (4) Certain railroad property.] ⁴	Most tangible depreciable property (real and personal) other than— (1) Property that is not depreciated in terms of years (including certain railroad property); (2) Property amortized (e.g., leasehold improvements); (3) Public utility property; (4) Oil or gas fired boilers; (5) Property used predominantly outside the U.S.; and (6) Certain livestock. ⁴	Most tangible depreciable property (real and personal) other than— (1) Property which is not depreciated in terms of years (including certain railroad property); (2) Property amortized (e.g., leasehold improvements); (3) Oil or gas fired boilers; (4) Property used predominantly outside the U.S.; (5) Certain livestock; (6) Property owned by certain noncorporate lessors; (7) Property disposed of within 1 year after date property placed in service; ⁴ and (8) Long-lived public property.

¹ Bracketed material indicates the provisions of H.R. 1053 that differ from the Administration bill.

² The Simplified Cost Recovery System was part of a bill reported by the Senate Finance Committee in the 96th Congress (H.R. 5329, S. Rep. No. 96-940).

³ Bracketed material indicates provisions of H.R. 3500 that differ from H.R. 3443 with respect to treatment of an item.

⁴ Ineligible property generally remains under present law.

A. COMPARISON OF PRESENT LAW WITH ALTERNATIVE CAPITAL COST RECOVERY PROPOSALS—Continued

Item	Present Law	H.R. 3849 (Administration Bill) [H.R. 1053—Messrs. Jones and Conable] ¹	Simplified Cost Recovery System (2-4-7-10) ²	H.R. 3443—Mr. Shannon (First-Year Recovery System) [H.R. 3500—Mr. Hefte] ³																														
3. Useful lives (recovery periods) and methods		3 years-----Autos, light-duty trucks, R&D equipment and personal property with an ADR midpoint life of 4 years or less. [Autos, light-duty trucks only; limited to \$100,000 of property per year]. Most other equipment except long-lived utility property. [Includes long-lived utility property]. Long-lived utility property and real property with an ADR lower limit life of 10 years or less (e.g. theme park structures). 10 years-----	Property is placed in highest class (2, 4, 7, or 10) with a recovery period at least 40 percent shorter than present ADR midpoint life. This would result in classifying assets based on the table below. <table><tr><th>ADR midpoint* (years)</th><th>Recovery period (years)</th></tr><tr><td>6.5 or less-----</td><td>2</td></tr><tr><td>7.0 to 11.5-----</td><td>4</td></tr><tr><td>12 to 16.5-----</td><td>7</td></tr><tr><td>More than 16.5-----</td><td>10</td></tr></table>	ADR midpoint* (years)	Recovery period (years)	6.5 or less-----	2	7.0 to 11.5-----	4	12 to 16.5-----	7	More than 16.5-----	10	Entire cost recovery deduction must be taken in the year property is placed in service. The percentage of cost allowed as a first-year deduction is set forth in the table below. Because the first-year deduction includes a deduction in lieu of the regular investment credit, the first-year deduction for property not eligible for the regular investment credit would be less than the regular first-year deduction as shown by the amounts in parentheses. <table><tr><th>ADR midpoint (years)⁵</th><th>1st year allowance (%)</th></tr><tr><td colspan="2">H.R. 3443:</td></tr><tr><td>1. Less than 4----</td><td>98.5 (91.3)</td></tr><tr><td>2. 4 to 8-----</td><td>97.3 (79.5)</td></tr><tr><td>3. 8.5 to 14-----</td><td>94.8 (73.1)</td></tr><tr><td>4. More than 14--</td><td>92.7 (71.0)</td></tr><tr><td colspan="2">H.R. 3500:</td></tr><tr><td>1. Less than 4.5--</td><td>100 (90)</td></tr><tr><td>2. 4.5 to 10-----</td><td>95 (75)</td></tr><tr><td>More than 10----</td><td>90 (70)</td></tr></table>	ADR midpoint (years) ⁵	1st year allowance (%)	H.R. 3443:		1. Less than 4----	98.5 (91.3)	2. 4 to 8-----	97.3 (79.5)	3. 8.5 to 14-----	94.8 (73.1)	4. More than 14--	92.7 (71.0)	H.R. 3500:		1. Less than 4.5--	100 (90)	2. 4.5 to 10-----	95 (75)	More than 10----	90 (70)
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a. Personal property																																		
Useful lives (recovery periods)																																		

⁵ A cross-section of ADR lives is set forth in Table 1, p. 13. A full list of present ADR lives are set forth in appendix A of Part II of the staff pamphlet "Proposed Depreciation and Investment Credit Revisions" (JCS-20-81).

⁶ Straight-line allows equal annual deductions over useful life; accelerated methods, such as declining balance and sum of the years-digits, allow larger deductions in earlier years in smaller in later years (See pp. 4-7 of JCS-20-81.)

A. COMPARISON OF PRESENT LAW WITH ALTERNATIVE CAPITAL COST RECOVERY PROPOSALS—Continued

Item	Present Law		H.R. 3849 (Administration Bill) [H.R. 1053—Messrs. Jones and Conable], ¹		Simplified Cost Recovery System (2-4-7-10) ²		H.R. 3343—Mr. Shannon (First-Year Recovery System) [H.R. 3500—Mr. Hefel], ³	
	IRS guideline lives ⁷	Method	Recovery period	Method	Recovery period	Method	Recovery period ³	Method
3. Useful lives (Continued) b. Real property	45-60 years.	150% declining balance (if new) or straight-line.	Option to use 15 or 35 years. [10 years.]	Option to use (1) accelerated rate—200% declining balance, changing to straight-line or (2) straight-line. [Mandatory accelerated rate—200% declining balance, changing to SYD.]	Owner-occupied.—Option to use present law lives or 15-year life (certain warehouses may not use the 15-year life and are treated as other nonresidential property).	150% declining balance.	20 years. [option to use 15 years.] ³	Straight-line.
		<i>New property.</i> —Straight-line, 200% declining balance, or SYD. <i>Used property.</i> —125% declining balance (if property has a remaining useful life of 20 years) or straight-line.	Option to use 15 or 35 years. [same as present law.]	Same as above for nonresidential property. [same as present law].	Option to use present law lives or 15-year life.	Straight-line.	15 years.	Straight-line.
Other residential property	40-45 years.	Same as above.	Option to use 15 or 35 years. [same as present law.]	Same as above for nonresidential property. [same as present law.]	Option to use present law lives or 20-year life.	Straight-line.	20 years. [option to use 15 years.] ³	Straight-line.
Special rules	1. Taxpayer may use different lives for each separate component of a building, such as plumbing, wiring, etc. (component depreciation) or use a single life for the building and all components (composite depreciation). 2. ADR lives are prescribed for certain real property (e.g., farm buildings, theme park structures, and gas stations).		1. Composite depreciation required.	1. Composite depreciation required.	1. Composite depreciation required.	1. Composite depreciation required.	1. Composite depreciation required.	
			2. Real property with ADR lower limit of 10 years or less (e.g., theme parks) are in the 10-year class; other real property with prescribed ADR lives.	2. Real property with ADR lives may continue under present law.	2. Real property with ADR lives may continue under present law.	2. Real property with ADR lives may continue under present law, but ADR variance increased from 20% to 30%.		

⁷ Taxpayers often use shorter useful lives based on facts and circumstances. See Tables 2 and 3 on p. 13 for a more complete list of IRS guideline lives and average lives claimed by taxpayer.

⁸ A taxpayer electing to use present law useful lives must use present law methods.

⁹ If 15-year option elected, section 1245 recapture would apply (see item 8).

A. COMPARISON OF PRESENT LAW WITH ALTERNATIVE CAPITAL COST RECOVERY PROPOSALS—Continued

Item	Present Law	H.R. 3849 (Administration Bill) [H.R. 1053—Messrs. Jones and Conable] ¹	Simplified Cost Recovery System (2-4-7-10) ²	H.R. 3443—Mr. Shannon (First-Year Recovery System) [H.R. 3500—Mr. Hefelf] ³
4. Asset accounting	Item, group, or vintage accounts. ¹⁰	Asset-by-asset accounts. ¹⁰	Open accounts for personal property. ¹¹	No accounts required.
5. Salvage value	Property generally cannot be depreciated below estimated salvage value (salvage value limitation). For personal property, no salvage value limitation if salvage value is 10% or less.	Salvage value limitation eliminated.	Salvage value limitation eliminated for personal property.	Salvage value limitation eliminated.
6. Additional first-year depreciation	Optional bonus depreciation equal to 20% of property costs up to \$10,000 per taxpayer (maximum allowable—\$2,000).	Present law repealed.	Present law replaced with election to deduct immediately (expense) up to \$25,000 of new or used personal property. No investment credit for that property.	Present law replaced with election to deduct immediately (expense) up to \$25,000 of new or used personal property. No investment credit for that property. [Present law repealed, but no special expensing provision.]
7. Gain or loss on disposition of assets	Deferral of gain or loss on "ordinary" or "normal" retirements in general, retirements for causes such as wear and tear or obsolescence contemplated in determining useful life). Current recognition of gain or loss on "extraordinary" or "abnormal" retirements (in general, unanticipated dispositions, such as casualties or sales of business).	Gain or loss recognized, in general, on sale or other dispositions, including ordinary or normal retirements. Allowable depreciation deductions reduce basis for determining gain or loss on disposition.	In general, no immediate gain or loss on disposition of personal property. Amounts realized on asset dispositions reduce the recovery account balance, thus reducing future depreciation allowances. Gain recognized to extent balance in account reduced to a negative amount. For real property, same as present law.	Gain recognized on sale or other disposition of personal property equal to the applicable first-year recovery percentage times the sales price (i.e., the seller would recognize as gain the same amount the purchaser would deduct as its first-year allowance). ¹² For real property, same as present law.
8. Recapture of depreciation <i>a. Personal property</i>	Gain recognized on disposition is ordinary income rather than capital gain to extent of prior depreciation taken (sec. 1245 'recapture').	Same as present law (sec. 1245 recapture).	In general, no separate recapture determination if balance in open account is reduced below zero, entire negative amount is ordinary income rather than capital gain.	All gain is ordinary income.

¹⁰ Under the present system, assets ordinarily must be grouped according to the year property is placed in service. Under the present system, gain or loss is not recognized, in general, on ordinary or normal retirements from the account, though gain is recognized on extraordinary or abnormal retirements. (See item F.) However, under the Administration bill's asset-by-asset account system, gain or loss generally must be recognized on any dispositions, including all retirements. (See item 7 below.)

¹¹ Under an open account system, the depreciable basis of all recovery property is placed into an account for that class of property without regard to the year the property is placed in service. The resulting depreciation deduction is subtracted from the account. In general, no gain or loss is recognized on disposition of assets.

¹² If property ceases to be recovery property in the taxpayer's hands because of a change in use or otherwise, the cessation is treated as a disposition at fair market value. Gain would be the first year allowance that would be allowed in the year of disposition. Basis would be adjusted to market value.

A. COMPARISON OF PRESENT LAW WITH ALTERNATIVE CAPITAL COST RECOVERY PROPOSALS—Continued

Item	Present Law	H.R. 3849 (Administration Bill) [H.R. 1053—Messrs. Jones and Conable] ¹	Simplified Cost Recovery System (2-4-7-10) ²	H.R. 3443—Mr. Shannon (First-Year Recovery System) [H.R. 3500—Mr. Hefte] ³
8. Recapture of depreciation (Con.) <i>b. Real property</i>	Gain recognized on disposition is ordinary income rather than capital gain only to the extent prior depreciation taken exceeds what would have been allowable if straight-line used (see 1250 "recapture").	Nonresidential property.—Section 1245 recapture except section 1250 recapture applies if taxpayer elects to use straight-line. Residential property.—Section 1250 recapture. [Section 1250 recapture continues to apply to residential property, which is not included in system.]	No recapture if audit-proof lives elected except section 1245 recapture would apply for owner-occupied buildings for which the 15-year life is elected.	No recapture. [Section 1245 recapture if 15-year life for real property (other than low-income housing) is elected].
9. Flexibility	<p>a. Option to use useful lives 20% shorter or longer than ADR mid-point lives.</p> <p>b. Option to use straight-line or accelerated, where allowed.</p> <p>c. Required to deduct all depreciation allowable (i.e., no "banking"); net operating losses (NOL's) can be carried back 3 years and forward 7 years.</p> <p>d. Investment credit can be carried back 3 years and forward 7 years.</p> <p>e. Option to use an averaging convention to determine date of additions to and retirements from an account.</p>	<p>a. Option to use one of two predetermined recovery periods.</p> <p>b. Option to use an accelerated method or straight-line.</p> <p>c. As under present law, no banking; NOL carryover period extended to 10 years. [Option to deduct less than all depreciation allowable and claim unused amounts in subsequent years (banking).]</p> <p>d. Investment credit carryover period extended to 10 years. [Investment credit carryover period same as present law.]</p> <p>e. Averaging convention built into proposed rates.</p>	<p>a. In general, fixed recovery periods for recovery property; election to place property in next highest class; option to use present law for real property.</p> <p>b. Annual election to use 200%, 150%, or 100% declining balance method.</p> <p>c. Same as present law, i.e., no banking and 7-year NOL carryover.</p> <p>d. Investment credit carryover period same as present law.</p> <p>e. Averaging convention applies generally as under present law.</p>	<p>a. Deduction for first-year recovery property must be taken in year allowable; fixed recovery period for real property.</p> <p>b. Fixed recovery deduction for first-year recovery property; straight-line method for real property.</p> <p>c. Same as present law, i.e., no banking and 7-year NOL carryover.</p> <p>d. Not applicable.</p> <p>e. A full year of depreciation for year property is placed in service is built into first-year recovery allowance.</p>

A. COMPARISON OF PRESENT LAW WITH ALTERNATIVE CAPITAL COST RECOVERY PROPOSALS—Continued

Item	Present Law	H.R. 3849 (Administration Bill) [H.R. 1053—Messrs. Jones and Conable] ¹	Simplified Cost Recovery System (2-4-7-10) ²	H.R. 3443—Mr. Shannon (First-Year Recovery System) [H.R. 3500—Mr. Hefelf] ³
10. Earnings and profits Distributions to shareholders are taxable as dividends only to extent of earnings and profits. Depreciation deductions reduce earnings and profits.	Based on straight-line depreciation over useful life (including lower limit of permitted ADR lives).	Based on straight-line depreciation over extended recovery period as set forth below: <i>If regular recovery period is—</i> 3-year property----- 5 years. 5-year property----- 12 years. 10-year real and personal property----- 25 years. 15-year real property----- 35 years. [Based on straight-line depreciation over recovery period.]	Based on 100% declining balance rate over the recovery period.	Same as present law.
11. Depreciation of assets held outside U.S.	Accelerated methods generally allowed. No 20% variance from ADR midpoint life.	Option to use (1) the same accelerated method available to other property or (2) straight-line depreciation. <i>Personal property.</i> —Recovery allowance computed using ADR lives in effect on January 1, 1981. <i>Real property.</i> —35-year recovery period. [Treated same as other recovery property.]	Same as present law.	Same as present law.
12. Add-on minimum tax and maximum tax a. Assets subject to application of add-on minimum tax	Personal property leased by individuals, subchapter S corporations, and personal holding companies, and real property.	Same as present law. [Real and personal 5-year and 10-year recovery property leased by individuals, subchapter S corporations, and personal holding companies, unless the property is manufactured by the taxpayer.]	Personal property leased by individuals, subchapter S corporations, and personal holding companies.	No provision.

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12. Add-on minimum tax and maximum tax—Continued																												
b. Amount of tax preference item	Excess of allowable depreciation over amount allowable if straight-line used over useful life (ADR midpoint only).	Excess of depreciation allowed over amount allowable if straight-line were used over the following extended recovery periods: <table><tr><td>Class</td><td>Extended recovery period</td></tr><tr><td>3-year property</td><td>5 years</td></tr><tr><td>5-year property</td><td>8 years</td></tr><tr><td>10-year personal and real property</td><td>15 years</td></tr><tr><td>15-year real property</td><td>15 years</td></tr></table> [Excess of depreciation allowed over the amount allowable if straight-line depreciation used over the recovery period.]	Class	Extended recovery period	3-year property	5 years	5-year property	8 years	10-year personal and real property	15 years	15-year real property	15 years	Excess of deduction allowable over the amount allowable if declining balance rate of 80% used over recovery period.															
Class	Extended recovery period																											
3-year property	5 years																											
5-year property	8 years																											
10-year personal and real property	15 years																											
15-year real property	15 years																											
c. Tax preference offset for maximum tax	Amount of above tax preference item reduces amount eligible for 50% maximum tax.	Amount of tax preference item above reduces amount eligible for 50% maximum tax.	Tax preference item above does not reduce amount eligible for 50% maximum tax.																									
13. Regular investment tax credit				Regular investment credit repealed for eligible first-year recovery property.																								
a. Amount of credit	<table><tr><td>Estimated useful life (years)</td><td>Credit (%)</td></tr><tr><td>Less than 3</td><td>0</td></tr><tr><td>3-4</td><td>3 1/3</td></tr><tr><td>5-6</td><td>6 2/3</td></tr><tr><td>7 or more</td><td>10</td></tr></table>	Estimated useful life (years)	Credit (%)	Less than 3	0	3-4	3 1/3	5-6	6 2/3	7 or more	10	<table><tr><td>Recovery period (years)</td><td>Credit (%)</td></tr><tr><td>3</td><td>6</td></tr><tr><td>5 and 10</td><td>10</td></tr></table>	Recovery period (years)	Credit (%)	3	6	5 and 10	10	<table><tr><td>Recovery period (years)</td><td>Credit (%)</td></tr><tr><td>2</td><td>2.5</td></tr><tr><td>4</td><td>6.0</td></tr><tr><td>7 and 10</td><td>10.0</td></tr></table>	Recovery period (years)	Credit (%)	2	2.5	4	6.0	7 and 10	10.0	
Estimated useful life (years)	Credit (%)																											
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7 and 10	10.0																											
b. Used property limitation	Only \$100,000 of used property eligible.	Same as present law.	\$150,000 of used property eligible.																									
c. Recapture of credit	Credit recomputed on early disposition as if actual useful life had been used to determine amount of credit.	Credit recomputed on early disposition by allowing 2 percent credit for each year held (no recapture if property actually held for at least 5 years). [Same as ACRS, except in recomputing the credit, property held for a portion of a taxable year (other than the year of disposition) is treated as held for an entire year.]	Same as present law.																									

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13. Regular investment tax credit— Continued <i>d. Carryover of credit</i>	Investment credit can be carried back 3 years and forward 7 years.	Investment credit carryover period extended to 10 years. [Investment credit carryover same as present law.]	Same as present law.	
14. At-risk limitation				Same as present law.
<i>a. Depreciation</i>	For certain taxpayers, tax losses limited depending on the activity and the extent to which the taxpayer is at risk. ¹³	Same as present law.	Same as present law.	
<i>b. Investment credit</i>	No at-risk limitation.	For certain taxpayers, credit limited depending on the activity and extent to which the taxpayer is at risk. Amounts borrowed from banks, insurance companies, or savings and loan institutions are considered at risk even if the taxpayer is not personally liable to repay the debt. [Same as present law.]	Same as present law.	No special at-risk limitation, but deduction in lieu of regular credit would be included in determining if for the year there is a tax loss, which is subject to the limitation on tax losses.
15. Qualified progress expenditures				
<i>a. Applicability</i>	Investment tax credit (ITC) only.	ITC only.	ITC and depreciation.	Not applicable.
<i>b. Eligibility requirements</i>	Property with 2-year normal construction period and 7-year useful life.	Same as present law, but no 7-year useful life requirement. [Also eliminates 2-year normal construction period requirement.]	Same as present law, except no 7-year useful life requirement.	
<i>c. Self-constructed property</i>	Progress expenditures allowed at time when amounts are properly chargeable to capital account.	Same as present law.	(Generally same as present law.	
<i>d. Nonself-constructed property</i>	Progress expenditures allowed when actual payment is made (payment rule) but only to the extent of progress in construction (progress rule). Amounts borrowed from the manufacturer or supplier not taken into account as progress expenditures (borrowing rule).	Same as present law. [Progress expenditures allowed at time when actual payment is made. No borrowing or progress rules.]	Same as present law.	
16. Rehabilitation expenditures	10% ITC for nonresidential rehabilitation.	Same as present law.	Increases ITC from 10 to 25 percent.	Same as present law.

¹³ There is no at risk limitation on the depreciation deduction itself. However, depreciation deductions, together with other deductions, may result in tax losses for an activity covered by the at-risk rule and, thus, there is an indirect limitation on the depreciation deduction.

A. COMPARISON OF PRESENT LAW WITH ALTERNATIVE CAPITAL COST RECOVERY PROPOSALS—Continued

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17. Lease financing	<p>A transaction is characterized as a lease if—</p> <ol style="list-style-type: none"> 1. The lessor's minimum at-risk investment in the property throughout the lease term is 20 percent of cost; 2. The lessor has a positive cash flow and a profit from the lease independent of tax benefits; 3. The lease term includes renewals or extensions, except renewals or extensions at the option of the lessee at fair rental value; 4. The lessee does not have a right to purchase the property at less than fair market value; and 5. The lessee does not have an investment in the lease and does not lend any of the purchase costs of the owner.¹⁴ 	<ol style="list-style-type: none"> 1. For corporations only, if the lessor leases the property within 3 months after acquiring it, the minimum at-risk investment in the property would be reduced to 10 percent of cost. 2. The lessor would be able to take into account tax benefits in making the cash-flow and profit determinations. [Same as present law.] 	Same as present law.	Same as present law.

¹⁴ See Rev. Procs. 75-21 (1975-1C.B. 715), 75-28 (1975-1C.B. 752), 76-30 (1976-2C.B. 947), and 79-48 (1979-2C.B. 549).

B. EFFECTIVE DATES

<div>H.R. 3849 (Administration Bill) [H.R. 1053—Messrs. Jones and Conable]¹</div>	<div>Simplified Cost Recovery System (2-4-7-10)²</div> <div><i>In general.</i>—Applies to property placed in service after December 31, 1980. <i>Phase-in.</i>—None.</div>	<div>H.R. 3143—Mr. Shannon (First-Year Recovery System)</div> <div><i>In general.</i>—Applies to property placed in service after December 31, 1980. <i>Phase-in.</i>—Before 1990, only the following percentage of the first-year allowance is immediately deductible: <i>Property placed in service during:</i> <table><tr><td>1981</td><td>35</td></tr><tr><td>1982</td><td>50</td></tr><tr><td>1983</td><td>60</td></tr><tr><td>1984</td><td>70</td></tr><tr><td>1985</td><td>75</td></tr><tr><td>1986</td><td>80</td></tr><tr><td>1987</td><td>85</td></tr><tr><td>1988</td><td>90</td></tr><tr><td>1989</td><td>95</td></tr></table> Portion not immediately deductible is placed in an “interest” bearing suspense account and is deducted as follows: <i>Deductible portion of suspense account is (%):</i> <table><tr><td>For years beginning in:</td><td></td></tr><tr><td>1982</td><td>25</td></tr><tr><td>1983</td><td>30</td></tr><tr><td>1984</td><td>35</td></tr><tr><td>1985</td><td>40</td></tr><tr><td>1986</td><td>45</td></tr><tr><td>1987</td><td>50</td></tr><tr><td>1988</td><td>55</td></tr><tr><td>1989</td><td>70</td></tr><tr><td>1990</td><td>100</td></tr></table> <i>Transitional used property limitation.</i>—For taxable years beginning after 1984, property placed in service by the taxpayer before January 1, 1981, may be treated as recovery property if the property would have been recovery property if placed in service after December 31, 1980.</div>	1981	35	1982	50	1983	60	1984	70	1985	75	1986	80	1987	85	1988	90	1989	95	For years beginning in:		1982	25	1983	30	1984	35	1985	40	1986	45	1987	50	1988	55	1989	70	1990	100																																		
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<div>H.R. 3500—Mr. Heltel (First-Year Recovery System)</div>	<div><i>In general.</i>—Applies to property placed in service after December 31, 1980. <i>Phase-in.</i>—</div> <div><i>The percentage of the first-year allowance that is deductible for the following years is:</i> <table><tr><td>1981</td><td>1982</td><td>1983</td><td>1984</td><td>1985</td><td>1986</td></tr><tr><td>45</td><td>14</td><td>14</td><td>14</td><td>13</td><td>13</td></tr><tr><td>1981</td><td>63</td><td>13</td><td>12</td><td>12</td><td>12</td></tr><tr><td>1982</td><td>70</td><td>13</td><td>15</td><td>15</td><td>15</td></tr><tr><td>1983</td><td>80</td><td>20</td><td>20</td><td>20</td><td>20</td></tr><tr><td>1984</td><td>90</td><td>10</td><td>10</td><td>10</td><td>10</td></tr><tr><td>1985</td><td>90</td><td>10</td><td>10</td><td>10</td><td>10</td></tr></table> <i>In the case of property placed in service during:</i> <table><tr><td>1981</td><td>45</td><td>14</td><td>14</td><td>14</td><td>13</td></tr><tr><td>1982</td><td>63</td><td>13</td><td>12</td><td>12</td><td>12</td></tr><tr><td>1983</td><td>70</td><td>13</td><td>15</td><td>15</td><td>15</td></tr><tr><td>1984</td><td>80</td><td>20</td><td>20</td><td>20</td><td>20</td></tr><tr><td>1985</td><td>90</td><td>10</td><td>10</td><td>10</td><td>10</td></tr></table></div>	1981	1982	1983	1984	1985	1986	45	14	14	14	13	13	1981	63	13	12	12	12	1982	70	13	15	15	15	1983	80	20	20	20	20	1984	90	10	10	10	10	1985	90	10	10	10	10	1981	45	14	14	14	13	1982	63	13	12	12	12	1983	70	13	15	15	15	1984	80	20	20	20	20	1985	90	10	10	10	10	<div><i>Transitional used property limitation.</i>—Same as H.R. 3443.</div>
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¹ Bracketed material indicates provisions of H.R. 1053 that differ from the Administration bill.

² The Simplified Cost Recovery System was part of a bill reported by the Senate Finance Committee in the 96th Congress (H.R. 5829, S. Rep. No. 96-940).

B. EFFECTIVE DATES—Continued

<p>H.R. 2400, S. 683 (Administration Bill) [H.R. 1053—Messrs. Jones and Conable]¹</p>	<p>Simplified Cost Recovery System (2-4-7-10)²</p>	<p>[H.R. 3500—Mr. Hefelf]³ (First-year recovery system)</p>	<p>H.R. 3343—Mr. Shannon (First-Year Recovery System)</p>
<p>Anti-Churning rules.—To prevent the “churning” of used property solely to obtain the benefits of increased investment incentives, “churned” property would be excluded from ACRS and, thus, subject to present law rules. These anti-churning rules would apply as follows:</p> <p>Personal property.—ACRS would not apply to property in use before January 1, 1981, unless the property is transferred in a transaction in which both the owner and user (if different) change.</p> <p>Real property.—ACRS would not apply if (a) a person related to the taxpayer owned the property before January 1, 1981, or (2) the property is acquired in certain like-kind exchanges, “rollovers” of low-income housing, involuntary conversions, or reposessions, for property the taxpayer or a related person owned before January 1, 1981.</p> <p>Real and personal property.—ACRS would not apply to any property in use before January 1, 1981, if acquired by a corporation or a partnership in certain tax-free transactions.</p>	<p>Anti-churning rule.—No anti-churning rules.</p>	<p>Anti-churning rule.—To prevent the “churning” of used property solely to obtain the benefits of the increased investment incentive, the costs of churned property must be recovered under present law. These anti-churning rules would apply if after its acquisition the property is used by a person who used the property before January 1, 1981, or by a person related to that prior user. Also, the amount of used property eligible for such treatment is limited until 1984. (See transitional used property limitation above.)</p>	<p>Anti-churning rules.—Same as H.R. 3443.</p>

C. ESTIMATED REVENUE IMPACT OF ALTERNATIVE CAPITAL COST RECOVERY PROPOSALS, 1981-1986

(Millions of Dollars)

Proposal	Calendar Years					
	1981	1982	1983	1984	1985	1986
Administration (H.R. 3849)-----	-----	-----	-----	-----	-----	-----
First-Year Cost Recovery (H.R. 3443)-----	-7, 852	-11, 577	-17, 671	-22, 926	-20, 094	-21, 553
First-Year Cost Recovery (H.R. 3500)-----	-6, 170	-12, 724	-18, 006	-30, 082	-51, 943	-17, 833
Simplified Cost Recovery ¹ -----	-10, 860	-20, 300	-20, 126	-19, 205	-18, 461	-18, 554
Fiscal Years						
Administration (H.R. 3849)-----	-----	-----	-----	-----	-----	-----
First-Year Cost Recovery (H.R. 3443)-----	-2, 031	-11, 108	-14, 527	-20, 229	-21, 601	-20, 836
First-Year Cost Recovery (H.R. 3500)-----	-1, 721	-10, 427	-15, 200	-23, 669	-40, 314	-35, 922
Simplified Cost Recovery ¹ -----	-2, 970	-17, 335	-20, 244	-19, 706	-18, 872	-18, 507

¹ The Simplified Cost Recovery System was part of a bill reported by the Senate Finance Committee in the 96th Congress (H.R. 5829, S. Rep. No. 96-940).

D. APPENDIX TABLES: ADR AND GUIDELINE LIVES
FOR SELECTED ASSETS

Table 1.—ADR Useful Lives of Various Assets

Description of assets in guideline class	Asset depreciation range (in years)	
	Lower limit	Upper limit
<i>Certain short-lived assets:</i>		
Manufacture of glass products—special tools	2.0	3.0
Manufacture of motor vehicles—Special tools	2.5	3.5
Breeding hogs	2.5	3.5
<i>Certain intermediate-lived assets:</i>		
Data handling equipment except computers	5.0	7.0
Assets used in drilling of oil and gas wells	5.0	7.0
Manufacture of apparel and other finished products	7.0	11.0
<i>Certain long-lived assets:</i>		
Vessels, barges, tugs, and similar water transportation equipment, except those used in marine contract construction	14.5	21.5
Telephone central office equipment	16.0	24.0
Railroad hydraulic electric generating equipment	40.0	60.0

Source: Revenue Procedure 77-10, 1977-1 C.B. 548, as amended.

Table 2.—Guideline Lives for Certain Buildings Under
Revenue Procedure 62-21

Type of Building	Useful life— (years)
Apartments	40
Banks	50
Dwellings	45
Factories	45
Garages	45
Grain Elevators	60
Hotels	40
Loft Buildings	50
Machine Shops	45
Office Buildings	45
Stores	50
Theaters	40
Warehouses	60

Table 3.—Comparison of Guideline Lives and Lives Claimed for
Certain Building Types

[In years]

Building type	Guideline lives under Revenue Pro- cedure 62-21	Average lives claimed by taxpayers (new build- ings only)	Percentage of taxpayers claiming lives shorter than guideline lives
Retail (including shop- ping centers)	50	36	93
Warehouses	60	37	99
Factories	45	37	77
Office buildings	45	41	91
Banks	50	43	79
Apartments	40	32	78

Source: Office of Industrial Economics, Department of the Treasury, *Business Building Statistics* (GPO, Washington, 1975).

