June 17, 1981
Joint Committee on Taxation
JCX-17-81

EXPENSING AND RATE CUTS

Reductions in top corporate tax rate

The top corporate tax rate would be reduced from 46 percent to 34 percent, according to the following schedule:

present law	1981-1983	1984	1985	1986	after 1986
46%	46%	43%	40%	37%	34%

Depreciation of personal property ("expensing")

The full cost of personal property other than long-lived public utility property would be written off in the year the property is placed in service. No investment credit would be allowed for this property.

This system would be fully phased-in by 1990. In 1981, the new system would apply to the initial $10,000 of property placed in service, plus 20 percent of the cost in excess of that amount. After 1981, the initial amount and percentage applicable to the excess over that initial amount would increase according to the following table:

Year	Initial amount expensed	Applicable percentage
1981	$10,000	20%
1982	$20,000	40%
1983	$30,000	60%
1984	$40,000	80%
1985	$50,000	100%

Prior to 1985, a half year convention would apply. However, the half year convention would be phased-out by 1990.

Until 1985, present law rules would apply to the cost of assets not covered during the phase-in period. Beginning January 1, 1985, present law rules would be repealed.

Public utility property with an ADR midpoint life of 18.5 to 25 years would be depreciated under an open account system using a 150-percent declining balance method over a mandatory 10-year period. Public utility property with an ADR midpoint greater than 25 years would be depreciated under an open account system using a 150-percent declining balance method over a 15-year period. This long-lived public utility property would be eligible for the full 10-percent investment credit.

Depreciation of real property

All real property would be depreciated over an audit-proof recovery period of 15 years, on a composite basis, and without regard to estimated salvage value. Taxpayers could elect to use the 150% declining balance method (in which case Sec. 1245 recapture would apply), or the straight line method (in which case Sec. 1250 recapture would apply). Low-income housing may be depreciated using the 150% declining balance method and would be subject to Sec. 1250 recapture.

Net operating losses

The net operating loss carryforward period would be extended from 7-years to 10-years.

Investment credit for rehabilitated buildings

The current 10-percent investment credit for rehabilitated buildings would be replaced with a new credit with the following three-tier structure: (1) a 15-percent credit for rehabilitations of buildings that are 30 to 40 years old; (2) a 20-percent credit for rehabilitations of buildings that are at least 40 years old; and (3) a 25-percent credit for rehabilitation of certified historic structures.

Carryback of investment tax credit for distressed industries

In distressed industries, unused investment tax credits accumulated through 1981 could be carried back to as much as 100 percent of remaining tax liability since the enactment of the credit in 1962. Distressed industries would be identified as airlines, automobiles, mining, paper, railroads and steel. Certain percentages of these existing carryovers would be claimed over several years in order to smooth the effect on revenues.