

[JOINT COMMITTEE PRINT]

**PROPOSED  
DEPRECIATION AND INVESTMENT  
TAX CREDIT REVISIONS  
PART II: PRESENT LAW  
AND  
DESCRIPTION OF PROPOSALS**

PREPARED FOR THE USE OF THE  
COMMITTEE ON WAYS AND MEANS  
U.S. HOUSE OF REPRESENTATIVES  
BY THE STAFF OF THE  
JOINT COMMITTEE ON TAXATION



MAY 18, 1981

U.S. GOVERNMENT PRINTING OFFICE  
77-768 O WASHINGTON : 1981 JCS-20-81



## CONTENTS

	Page
Introduction .....	1
I. Present Law .....	3
A. Depreciation .....	3
1. Overview .....	3
2. Depreciation methods .....	4
3. ADR system .....	7
4. Depreciation of real property .....	11
5. Other rules relating to depreciation .....	13
B. Investment tax credit .....	15
1. Overview .....	15
2. Useful life limitations .....	16
3. Recapture of credit .....	16
4. Used property limitations .....	16
5. Tax liability limitation .....	17
6. Progress expenditures .....	17
II. Administration's Proposed Accelerated Cost Recovery System (H.R. 2400) .....	19
A. Overview .....	19
B. Recovery of capital costs .....	20
1. Eligible property .....	20
2. Computation of recovery deduction (method) .....	20
3. Recovery period (in lieu of useful life) .....	21
C. Start of depreciation .....	23
D. Minimum tax .....	24
E. Investment tax credit .....	24
1. Useful life limitations .....	24
2. At-risk limitation .....	24
3. Year credit earned .....	25
4. Recapture of credit .....	25
F. Effective date .....	25
III. Alternative Proposals .....	27
A. Simplified Cost Recovery System ("2-4-7-10") .....	27
1. Depreciation of personal property .....	27
2. Revised useful life requirements for investment tax credit .....	31
3. Optional approaches to depreciating real property .....	32
4. Rehabilitation tax credit .....	32

IV

III. Alternative Proposals—Continued	
B. First-Year Capital Cost Recovery System (H.R. 3443 and H.R. 3500)-----	Page 33
1. Overview-----	33
2. Recovery of capital costs for personal property-----	34
3. Real property-----	37
C. H.R. 1053—Capital Cost Recovery Act of 1981 ("10-5-3")-----	38
Appendices-----	39
Appendix A: Asset Depreciation Range System (ADR)-----	40
Appendix B: Comparison of Industry Tax Changes Under Alternative Capital Cost Recovery Systems-----	49

### INTRODUCTION

This pamphlet is Part II of a series of pamphlets prepared for the use of the House Committee on Ways and Means during its consideration of the Administration's proposed depreciation and investment tax credit revisions (Accelerated Cost Recovery System) and other related capital cost recovery proposals. The Administration's proposal is embodied in H.R. 2400 (introduced by Mr. Conable and others).

The first part of the pamphlet is a detailed description of present law relating to depreciation and the investment tax credit. The second part is a description of the Administration's proposal (H.R. 2400). The third part describes three possible alternative proposals (Simplified Cost Recovery, First-Year Capital Cost Recovery, and H.R. 1053 ("10-5-3")). Appendix A shows the Asset Depreciation Range (ADR) system, which sets forth the periods over which assets may be depreciated and Appendix B shows a comparison of industry tax changes under alternative capital cost recovery systems.

A subsequent pamphlet will provide a detailed analysis of specific issues raised by the principal capital cost recovery proposals. A previously published pamphlet (Part I: JCS-18-81) presents an overview of present law capital cost recovery and alternative capital cost recovery proposals, including the Administration's proposal. The previous pamphlet also provides an economic analysis of the present capital cost recovery system, as well as a comparison of capital cost recovery tax provisions in certain foreign countries.



## I. PRESENT LAW

### A. Depreciation

#### 1. Overview

In computing taxable income, deductions are allowed for ordinary and necessary expenditures incurred in a trade or business or otherwise incurred for the production of income. As a general rule, however, expenditures made to acquire or construct capital assets (assets with useful lives extending substantially beyond the close of the year) are not deductible in the year the expenditure is made. For capital assets such as stocks, bonds, land, and goodwill, which do not decline in value on a predictable basis over the period they are held by the taxpayer, the acquisition costs are deductible in determining the gain or loss in the year the taxpayer disposes the assets. For property subject to wear and tear, decay or decline from natural causes, exhaustion, or obsolescence, the acquisition costs are recovered through a reasonable allowance for depreciation over the period the property is used in a business or for the production of income. The depreciation allowable for a year must be computed in accordance with a reasonably consistent plan (not necessarily at a uniform rate). Under the plan used, total depreciation deductions allowable over the useful life of the asset (the period it may reasonably be expected to be used by the taxpayer) must equal the projected decline in value of the asset over that useful life (i.e., the projected difference between the cost or other basis of the asset and its salvage value).

By allowing the cost of depreciable assets to be recovered over their useful lives as the assets decline in value, depreciation generally accomplishes the objective of matching the deductions for the cost of the assets with the income produced by their use.

The underlying theory of depreciation has been discussed by the courts in a great number of cases. In one leading case, *Massey Motors, Inc. v. United States*, 346 U.S. 92, 96 (1960), the Supreme Court sets out the purpose of depreciation as follows:

[Depreciable] assets, employed from day to day in business, generally decrease in utility and value as they are used. It was the design of the Congress to permit the taxpayer to recover, tax free, the total cost to him of such capital assets; hence it recognized that this decrease in value—depreciation—was a legitimate tax deduction as business expense. It was the purpose of [the depreciation provisions] to make a meaningful allocation of this cost to the tax periods benefited by the use of the asset.

The key factors that determine the amount and the timing of depreciation deductions with respect to an asset are: (1) the cost of the asset;

(2) the salvage value of the asset; (3) the useful life of the asset;<sup>1</sup> and (4) the method of depreciation used (e.g., straight-line or an accelerated method).

The allowance for depreciation is computed using an asset's cost (or other basis where cost is not relevant). An asset generally may not be depreciated below a reasonable salvage value. Salvage value is the amount (determined at the time of acquisition) the taxpayer estimates will be realized on the sale or other disposition of an asset when it is no longer useful in the taxpayer's trade or business or in the production of his income and is to be retired from service. However, a special rule permits the salvage value of depreciable personal property (other than livestock) with a useful life of three years or more to be reduced by an amount up to, but not more than, 10 percent of the asset's original depreciable basis. Thus, if salvage value is less than 10 percent, it may be ignored.

The useful life of an asset for depreciation purposes is not necessarily the useful life inherent in the asset but instead is the period the asset may reasonably be expected to be useful to the taxpayer in his trade or business or in the production of his income. This useful life is determined with reference to the taxpayer's experience with similar property, taking into account present conditions and probable future developments. Thus, useful life depends upon facts and circumstances of each individual taxpayer.<sup>2</sup> Some of the factors to be considered in determining this period are (1) wear and tear and decay or decline from natural causes, (2) the normal progress of the art, economic changes, inventions, and current developments within the industry and the taxpayer's trade or business, (3) the climatic and other local conditions peculiar to the taxpayer's trade or business, and (4) the taxpayer's policy as to repairs, renewals, and replacements. Because the determination of useful lives involves difficult factual questions that frequently give rise to disputes between taxpayers and the Internal Revenue Service, many taxpayers depreciate their assets over audit-proof class lives prescribed by the Department of the Treasury (see below, sections 3. "ADR system" and 4. "Depreciation of real property").

## 2. Depreciation methods

Prior to 1954, the annual allowance for depreciation was generally limited to a recovery of capital costs in equal annual amounts over the asset's useful life—the straight-line method of depreciation. (In certain cases, the Treasury approved the use of a 150-percent declining balance method.) In the 1954 Act, Congress liberalized depreciation

<sup>1</sup> In certain cases, the Code provides for a rapid capital cost recovery of acquisition costs of certain types of assets over a prescribed period which is not, and does not purport to be, related to their useful lives. For example, five-year amortization is allowed for certain rehabilitation expenditures for low-income housing (sec. 167(k)), for costs of certain pollution control facilities (sec. 169), for certain trademark and trade name expenditures (sec. 177), for certain child care facilities (sec. 188), and for certain rehabilitation expenditures for certified historic structures (sec. 191).

<sup>2</sup> In order to reduce controversies concerning useful life, the Internal Revenue Service first published guidelines in the early 1930's in a publication known as "Bulletin F." The Internal Revenue Service updated and revised these guidelines in 1962 in Rev. Proc. 62-21, 1962-2 C.B. 418.

by allowing the use of several accelerated methods, described below, which concentrate the depreciation deductions in the early years of an asset's useful life. Congress felt that machinery and equipment typically depreciate faster and contribute more to income in the early years of use than in the years immediately preceding retirement. Accordingly, it concluded that the permitted accelerated methods would result in a timing of depreciation allowances more in accord with the actual pattern of loss of economic usefulness.

The straight-line (S/L) method of computing the depreciation deduction may be used for any depreciable asset. This method assumes that the appropriate portion of an asset's cost that should be matched with income produced by the asset is uniform throughout the property's useful life. Thus, the cost (or other basis) of the asset, less its estimated salvage value, would be deductible in equal annual amounts over the asset's estimated useful life. For example, assume the cost of the asset is \$100, its estimated useful life is 5 years, and its estimated salvage value at the end of its useful life is negligible. In this example, \$20, or 20 percent (100 percent divided by 5) of the \$100 purchase price would be deducted annually during the 5-year period. (This example assumes the asset was placed in service on the first day of the year. Thus, depreciation for the first year reflects one full year's use of the asset.)

For new tangible personal property with a useful life of 3 years or more, accelerated methods are allowed. Allowable accelerated methods are declining balance methods up to 200 percent of the straight-line rate, the sum of the years-digits method, or any other method used consistently by the taxpayer that does not result in the allowance of greater total depreciation deductions during the first two-thirds of the useful life of the property than would be allowable under the 200-percent declining balance method (e.g., methods based on units of production, machine time, etc.). Administrative practice has permitted the 150-percent declining balance method to be used for used tangible personal property.<sup>3</sup>

Under the declining balance method, a constant depreciation rate is applied to the depreciable basis of the asset reduced by prior depreciation allowances, i.e., a declining balance. Because the rate is applied to a balance that declines each year as depreciation is taken, depreciation is greatest in the early years and becomes smaller in succeeding years. The depreciable basis is cost (or other basis) less prior years' depreciation without reduction for salvage value. However, an asset may not be depreciated below a reasonable salvage value. In the example given above, if the asset is depreciated using the 200-percent declining balance method, the allowable depreciation deduction in the first year would be \$40 (an amount determined by multiplying the full cost of the asset (\$100) by twice the straight-line rate of 20 percent (40 percent)). The deduction allowable in the second year would be \$24 (original cost of \$100 less first year's deduction of \$40 multiplied by 40 percent).

Under the sum of the years-digits (SYD) method, changing fractions are applied each year to the original cost (or other basis) of the property reduced by estimated salvage value. The numerator of the fraction for a given year is the number of years remaining in the

<sup>3</sup> Rev. Rul. 57-352, 1957-2 C.B. 150; Rev. Rul. 59-389, 1959-2 C.B. 89.

asset's useful life, including the year for which the deduction is being computed and the denominator, which remains constant, is the sum of the numerals representing each of the years of the asset's estimated useful life. Thus, in the above example, the numerator of the fraction to be applied against the \$100 depreciable basis for the asset for the first year would be five (the remaining number of years of useful life) and the denominator would be fifteen (1+2+3+4+5, which is the sum of the numerals for years of estimated useful life). Thus, the depreciation allowance for the first year for the asset in the example would be \$33 ( $\frac{5}{15}$  times \$100). In the second year, the allowance would be \$27 ( $\frac{4}{15}$  times \$100).

Annual depreciation allowances for the \$100 asset over its 5-year useful life under the various depreciation methods are compared in table 1:

**Table 1.—Comparison of Depreciation Methods**

(Asset cost—\$100; useful life—5 years; negligible or zero salvage value)

[Annual Allowances]<sup>1</sup>

Year	S/L	200% DB	SYD	200% DB S/L	200% DB; SYD
	(1)	(2)	(3)	(4)	(5)
1.....	\$20	\$40	\$33	\$40	\$40
2.....	20	24	27	24	24
3.....	20	14	20	14	18
4.....	20	9	13	11	12
5.....	20	5	7	11	6
Total....	100	92	100	100	100

<sup>1</sup> This comparison assumes the asset was placed in service on the first day of the first year and that no averaging convention (discussed below in the section "averaging conventions") applied.

As can be seen, if the asset has no salvage value, the first-year depreciation deduction is greatest if the 200-percent declining balance method is used, but the asset is not fully depreciated by the end of the fifth year. The first-year depreciation deduction under the SYD method is not as great as under the 200-percent declining balance method, but the entire depreciable cost is recovered over the asset's useful life. Taxpayers also can recover the full depreciable cost by using the 200-percent declining balance method for the first three years and the switching to the straight-line method after the third year. (See column 4 above.) The depreciable basis used in calculating the deductions under the straight-line method for years 4 and 5 would be \$22 (original cost of \$100 less the previous annual deductions of \$40, \$24, and \$14). Taxpayers can obtain the maximum acceleration of depreciation deductions and fully recover the asset's depreciable

"PROPOSED DEPRECIATION  
PART II: PRESENT LAW

1) Page 7 is to be replac

cost over its useful life by using the SYD method for the first three years and the SL method in the third year. (See column 4 in calculating the annual deduction in 4 and 5 would be \$36 (original cost of \$100 and original deductions of \$40 and \$24).

This would not necessarily oblige the taxpayer to use the declining balance method. Declining balance methods are computed on the full cost of the asset, unreduced by previous depreciation deductions or the asset's cost over its useful life. Line and SYD are computed with the estimated salvage value. Consequently, declining balance methods without the necessity of switching to the straight-line or SYD and will do so on a declining basis if they were made. To illustrate, if the cost of an asset is \$150 and a salvage value of \$30, a balance deduction would be \$60 in year 1, \$36 would be allowed in year 2, and \$4 would be allowed in year 3. If the SYD method were used, depreciation would be computed on the cost over the estimated useful life. In this case, depreciation would be the same.

In addition to the straight-line and declining balance methods which do not focus on specific circumstances, for example, depreciation may be recovered using the income tax credit for depreciation to income tax expense. Assets which may be depreciated using the units of production method (of depreciation to output).

**3. ADR system**

*In general*

The asset depreciation range (ADR) system was first



cost over its useful life by using the 200-percent declining balance method for the first three years and then switching to the SYD method after the third year. (See column 5 above.) The depreciable basis used in calculating the annual deductions under the SYD method for years 4 and 5 would be \$36 (original cost of \$100 less the previous annual deductions of \$40 and \$24).

This would not necessarily obtain if the asset had a substantial salvage value. Declining balance methods are computed with respect to the full cost of the asset, unreduced by the estimated salvage value (but total depreciation deductions over the useful life are limited to the excess of the asset's cost over its salvage value). In contrast, straight-line and SYD are computed with respect to the excess of cost over estimated salvage value. Consequently, where the salvage value is significant, declining balance methods will recover the full cost of the asset without the necessity of switching to another method such as straight-line or SYD and will do so on a more accelerated basis than if a switch were made. To illustrate, if the asset in the example above had a cost of \$150 and a salvage value of \$50, the first year 200-percent declining balance deduction would be \$60 (40 percent of \$150) and the remaining \$40 would be allowed in the second year. Under straight-line and SYD, depreciation would be computed with respect to the \$100 excess of the cost over the estimated salvage value with the result that the depreciation would be the same as set forth in columns 1 and 3.

In addition to the straight-line and accelerated methods, which are based on the useful life of an asset measured in years, other methods which do not focus on a term of years may be available in specific circumstances. For example, the cost of motion picture films may be recovered using the income forecast method (i.e., a matching of depreciation to income expectations) and certain machinery may be depreciated using the units of production method (i.e., a matching of depreciation to output).

### 3. ADR system

#### *In general*

The asset depreciation range (ADR) system for calculating depreciation allowances was first introduced by administrative action by the Department of the Treasury early in 1971.<sup>2</sup> In the Revenue Act of 1971, the Congress amended the Code to authorize expressly the ADR system. This amendment removed any doubt concerning the Treasury's authority to prescribe ADR and made specific modifications to prior law and the ADR system.

The ADR system was designed to minimize disputes between taxpayers and the IRS as to the useful life of certain property, and as to salvage value. Similarly, a repair allowance system was provided to reduce controversies as to whether expenditures should be classified as currently deductible repairs or as capital improvements.

Under ADR, new tangible personal property with a useful life of three years or more may be depreciated using the straight-line method, declining balance method (up to 200 percent), or sum of the years-digits method over a period 20 percent shorter or longer than the

<sup>2</sup> T.D. 7128, 1971-2 C.B. 132.

asset guideline period (the estimated useful life as determined by the Department of the Treasury) for the particular asset class. For used depreciable personal property, the same useful life range is permitted as for new property but accelerated depreciation is limited to the 150-percent declining balance method, i.e., 150 percent of the straight-line rate over the same period as would be allowed for new property of the same class.

***Election***

A taxpayer must make an irrevocable election in order to apply the provisions of the ADR system to eligible property placed in service during a taxable year. This election applies to all eligible assets placed in service during the taxable year and continues to apply to those assets for all subsequent taxable years. If, in a subsequent taxable year, the taxpayer does not elect to apply the ADR system to assets placed in service that year, the regular rules regarding depreciation (the "facts and circumstances" system described above, in 1.) "Overview will apply with respect to those assets. A valid election to apply the ADR provisions must contain the taxpayer's consent to comply with all of the ADR requirements and must specify certain information (for example, the asset guideline class and the first-year convention adopted by the taxpayer for the taxable year of election). In addition, the taxpayer must maintain books and records from which certain specific information can be drawn, e.g., the depreciation period and salvage value for each vintage account established for the taxable year and each asset guideline class for which the taxpayer elects to apply the asset guideline class repair allowance. Also, taxpayers who elect the ADR system must respond to infrequent data surveys conducted by the Treasury.<sup>4</sup>

***Eligible property***

An ADR election applies only to new or used depreciable property for which an asset guideline class and an asset guideline period have been prescribed by the Treasury for the taxable year of election.

A taxpayer may elect to limit the application of the ADR system to new property only if more than 10 percent of the property placed in service by the taxpayer during the year is used property. In that event, the used property would be depreciated on a facts and circumstances basis.

Depreciable real property, except for certain limited exceptions, is not eligible property under the ADR system. Thus, even though a taxpayer has elected the ADR system for eligible property, it must determine the useful life of depreciable real property under Revenue Procedure 62-21 as in effect on December 31, 1970, or on the basis of the facts and circumstances of the particular case.

<sup>4</sup>The information reporting requirements for an electing taxpayer were reduced and simplified by the Treasury on January 26, 1979 (Treas. Reg. § 1.167(a)-11, as amended by T.D. 7593, 1979-1 CB 104). In general, much of the information which was required on IRS Form 4832 is no longer automatically required. Instead, the books and records of the taxpayer must be maintained so that such information is readily available, and if the Treasury Department surveys the taxpayer, the information called for must be submitted on the survey request.

#### *Vintage accounts*

Under the ADR system, the allowance for depreciation is computed on the adjusted bases of assets placed in a vintage account. The vintage of an account refers to the taxable year in which the eligible property is first placed in service. Each eligible property may be placed in a separate vintage account or, under certain circumstances, assets that are in the same guideline class and are placed in service in the same year may be placed in the same vintage account. However, used eligible property may not be combined in the same vintage account with new eligible property. Certain other property also may not be combined in the same vintage account, e.g., property eligible for additional first-year depreciation (sec. 179) may not be combined with property not eligible for the additional depreciation.

#### *Useful lives and asset guideline class*

The estimated useful life of assets in each asset guideline class is established by the Office of Industrial Economics of the Department of the Treasury. Each asset guideline class consists of a category of assets that have certain common characteristics or that are utilized in the same or related activities. Generally, an asset guideline period (midpoint life) is established for each asset guideline class to reflect the actual asset replacement practices being employed by taxpayers and other factors, such as obsolescence.

In general, the taxpayer may use a depreciation life within a range (asset depreciation range) 20 percent shorter or 20 percent longer than the midpoint life of the asset guideline class (rounded to the nearest half year). For example, if the midpoint life for an asset guideline class is 10 years, the taxpayer may elect a useful life for assets in that class that is not less than 8 years (20 percent shorter than the midpoint life) nor more than 12 years (20 percent longer than the midpoint life). However, the taxpayer may not use the 20 percent variance for assets used predominantly outside the United States.

Under the ADR system, there are over 100 asset classes. The present ADR class lives are set forth in Appendix A.

#### *"Averaging" convention rules*

In general, if property is placed in service after the first day of the taxable year, depreciation is not allowed for that full year. Likewise, if an asset is retired before the last day of a taxable year, depreciation is not allowed for that full year. For example, if property were placed in service on July 1 of a calendar year, only one-half year of depreciation would be allowed for that year. If the property were retired March 31 of a calendar year, only 3 months of depreciation would be allowed for that year.

For assets placed in a single asset amount, depreciation is allowed from the actual date the property is placed in service to the actual retirement date. However, to provide a simpler method of determining the amount of depreciation allowable upon the addition of assets to or the retirement of assets from multiple asset accounts, taxpayers may use an appropriate "averaging" convention designed to reflect the fact that assets are added to or retired from the account at various times throughout the year.

Under the ADR system, the taxpayer must use one of two "averaging" conventions. Under the "half-year" convention, a half-year of depreciation is allowable in the year the property is placed in service and a half-year of depreciation is allowable in the year the property is retired, regardless of the actual date the property is placed in service or retired. Alternatively, under the "modified half-year" convention, a full year of depreciation is allowable for assets placed in service during the first half of a taxable year. No depreciation is allowable for the first year for property placed in service during the second half of taxable year. Upon retirement or other disposition of an asset placed in service in the first half of a taxable year, no depreciation is allowable if the asset is disposed of in the first half of a taxable year and one-half year of depreciation is allowed if the asset disposed of in the second half of the taxable year. If an asset was placed in service in the second half of a taxable year, a half-year of depreciation is allowed if the asset is disposed of in the first half of a taxable year and a full year of depreciation is allowed if it is disposed of in the second half of a taxable year. The same convention must be used for all property placed in service in the same taxable year, but the convention may be changed for property placed in service in subsequent taxable years.

***Treatment of repairs, maintenance, etc.***

The characterization of certain expenditures for the repair, maintenance, rehabilitation, or improvement of property is a factual determination. If these expenditures substantially prolong the life of an asset or are made to increase its value or adapt it to another use, the expenditures are capital in nature and are recoverable in the same manner as the cost of a capital asset. All other expenditures for repair, maintenance, etc., are allowed as a deduction during the taxable year in which paid or incurred (i.e., they are "expensed").

If a taxpayer elects to apply the ADR provisions, the taxpayer may make a further election to apply the provisions of the asset guideline class "repair allowance." Under these provisions, a taxpayer is allowed a current deduction for amounts paid or incurred for certain repairs, maintenance, and similar expenditures to the extent that the expenditures do not exceed the class repair allowance, which is, in general, the average unadjusted bases of all repair allowance property multiplied by the repair allowance percentage.

"Repair allowance property" is eligible property in an asset guideline class for which a repair allowance percentage is in effect for the taxable year. The repair allowance percentage is a predetermined rate established for each asset guideline class. (The repair allowance percentages for each ADR class are set forth in Appendix A.) Property improvements (including the amount of repairs, maintenance, etc., in excess of the asset repair allowance) and any expenditures that are clearly capital expenditures ("excluded additions") are capitalized in a special basis vintage account subject to the ADR rules.

If a taxpayer does not elect to use the asset guideline class repair allowance for assets in an asset guideline class, the regular rules regarding the treatment of expenditures for the repair, maintenance, rehabilitation, or improvement of property apply. If the repair al-

lowance is elected, the taxpayer must maintain books and records that identify repair expenditures relating to specific classes of property, that allocate to specific classes of property the expenditures relating to properties in two or more classes, and that identify expenditures for excluded additions.

#### 4. Depreciation of real property

##### *Accelerated methods*

Under present law, new residential rental buildings may be depreciated under the same methods allowable for machinery and equipment, i.e., the declining balance method at a rate up to 200 percent of the straight-line rate, the sum of the years-digits method, or any other method if the total depreciation allowable during the first two-thirds of the property's useful life does not exceed the amount that would have been allowable under the 200-percent declining balance method. A building or structure is considered to be residential rental property for any taxable year only if 80 percent or more of the gross rental income is from the rental of dwelling units. New commercial buildings may be depreciated under a declining balance method using a depreciation rate no greater than 150 percent of the straight-line rate. Used residential properties with an estimated useful life of 20 years or more can be depreciated under the declining balance method at a rate of up to 125 percent of the straight-line rate. All other used real estate must be depreciated under the straight-line method.

Certain rehabilitation expenditures for low-income rental housing may be amortized on a straight-line basis over a period of 60 months. Qualified rehabilitation expenditures for certified historic structures also may be amortized over a 60-month period. Alternatively, in some cases, the cost of an historic structure, including the rehabilitation expenditures, may be depreciated as a new building under the 200-percent declining balance method for residential property or the 150-percent declining balance method for nonresidential property.

A 60-month amortization method also is available for certified pollution control facilities and certain expenditures for child care facilities.

##### *Useful lives*

Depreciation for real property may be determined by estimating useful lives based on a facts-and-circumstances test or by using lives prescribed under Revenue Procedure 62-21, as in effect on December 31, 1970. ADR guideline lives generally have not been prescribed for real property.

Under Revenue Procedure 62-21, useful lives are prescribed for certain types of buildings. The useful lives are based on a composite of the useful lives for the structural shell and all integral parts, including air-conditioning, equipment for fire prevention or power requirements, and equipment such as elevators and escalators. The prescribed lives may not be used for special-purpose structures that are an integral part of a production process and are normally replaced when the housed equipment is replaced. The prescribed lives for buildings under Rev. Proc. 62-21 are set forth in Table 2.

**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

As indicated in Table 3, however, taxpayers generally have claimed useful lives that are shorter than those listed in Rev. Proc. 62-21.

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

[In years]

Building type	Guideline lives under Revenue Procedure 62-21	Average lives claimed by taxpayers (new buildings only)	Percentage of taxpayers claiming lives shorter than guideline lives
Retail (including shopping 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).

The average lives set forth above reflect the use of the component method of depreciation for some buildings and the use of the composite method for some buildings. Under the component method, a taxpayer depreciates the components of a building (i.e., its shell plumbing, wiring, etc.) using separately determined useful lives for each component. By using the component method, some taxpayers have claimed depreciation deductions which approximate using the composite method over terms substantially shorter than the guideline lives. Although it appears clear that many taxpayers claim lives substantially shorter than those contained in Rev. Proc. 62-21, there is no certainty that, in all these cases, such lives would be allowed by the IRS or the courts.

## 5. Other rules relating to depreciation

### *Additional first-year depreciation*

Present law (sec. 179) permits an owner of tangible personal property with a useful life of six years or more to elect, for the first year the property is subject to depreciation, a deduction for additional first-year depreciation in an amount not exceeding 20 percent of the cost of the property. The cost of the property which may be taken into account may not exceed \$10,000 (\$20,000 for individuals who file a joint return).<sup>5</sup> Thus, the maximum additional first-year depreciation deduction is limited to \$2,000 (\$4,000 for individuals filing a joint return).

Depreciable basis is reduced by the additional first-year deduction prior to computation of the regular deduction for the year the property is placed in service and for all subsequent years.

### *Recapture*

Under present law, with certain limited exceptions, gain from the disposition of depreciable personal property (and certain other property—generally property eligible for the investment credit) is “recaptured” as ordinary income to the extent of the depreciation taken (sec. 1245).

Generally, in the case of real property, depreciation (or amortization) in excess of straight-line depreciation is subject to recapture as ordinary income upon a sale or other disposition of the property (rather than being considered long-term capital gain).<sup>6</sup> All of the depreciation (or amortization) allowed, including straight-line depreciation, is recaptured as ordinary income if the property is not held for more than 12 months.

For both personal and real property, any gain in excess of the amount recaptured as ordinary income is treated as gain from the sale or exchange of property used in a trade or business (sec. 1231). This portion of the gain is aggregated with gains and losses from other sales or exchanges of property used in a trade or business. After aggregation, a net gain is eligible for capital gains treatment and a net loss is treated as an ordinary loss.

### *Minimum tax and maximum tax*

A 15-percent “add-on” minimum tax (sec. 56) is imposed on certain categories of tax preferences that exceed the greater of (1) \$10,000 (\$5,000 in the case of married individuals filing separately) or (2) the amount of the regular income tax in the case of a corporation and one-half of the amount of the regular income tax in the case of an individual.<sup>7</sup> For individuals, these tax preference items also reduce dollar-for-dollar the amount of personal service taxable income eligible for the 50-percent maximum tax on personal service taxable income (sec. 1348).

<sup>5</sup> In the case of depreciable property owned by a partnership, the \$10,000 limitation is applied at both the partnership level and the partner level.

<sup>6</sup> For certain low-income housing, recapture phases out after the property has been held 100 months.

<sup>7</sup> The 15-percent “add-on” minimum tax is separate from the alternative minimum tax (sec. 55).

One of the tax preference items taken into account for these purposes is accelerated depreciation on leased personal property.<sup>8</sup> The amount of the preference is the amount by which the income tax deduction for depreciation (or amortization) exceeds the depreciation deduction which would have been allowable had the property been depreciated under the straight-line method of depreciation for each year the taxpayer owned the property. If the leased property is depreciated under the ADR system and the taxpayer chooses to use a life shorter than the ADR midpoint life established for the asset, any additional depreciation for the year attributable to using the shorter useful life is included in the amount of the preference. Thus, additional ADR depreciation is a preference item even if the straight-line method is used. Accelerated depreciation on leased personal property is not a tax preference item for corporations other than personal holding companies and subchapter S corporations.

Another preference item is accelerated depreciation on real property, i.e., the excess of the income tax deduction for depreciation (or amortization) over straight-line depreciation. This item is a tax preference for all taxpayers.

***Sales of depreciable property between related persons***

Under present law, gains from the sale or exchange of depreciable property are denied capital gains treatment (and taxed as ordinary income) if the transaction is between a husband and wife, or between a taxpayer and a corporation or partnership 80-percent owned by the taxpayer (and/or the taxpayer's spouse), or between two entities (e.g., partnership or corporation) each of which is owned at least 80 percent by a single taxpayer (and/or the taxpayer's spouse). (sec. 1239). Also, in the case of sales between these closely related taxpayers, all gain must be reported in the year of sale, regardless of when payments are to be received by the seller. (sec. 453(g)).<sup>9</sup>

These rules were designed to deny the related purchaser the benefit of depreciation deductions (determined by using a stepped-up basis) against ordinary income without the seller being required to include immediately the corresponding gain on the sale as ordinary income.

<sup>8</sup> For this purpose, the term "personal property" means all property which is subject to depreciation recapture under section 1245.

<sup>9</sup> This rule was added by P.L. 96-471, the Installment Sales Revision Act of 1980. A technical error in that legislation (relating to certain "back attribution" rules) would cause certain unrelated parties to be brought under these rules. It is anticipated that this error will be corrected by a technical amendment to the legislation.

## B. Investment Tax Credit

### 1. Overview

In 1962, Congress adopted a credit against income tax for a taxpayer's investment in certain tangible property used in a trade or business or held for the production of income. To be eligible, the property must be depreciable or amortizable and have a useful life of at least 3 years. The useful life of the asset for the investment credit is the same as the useful life of the asset for depreciation. In general, buildings and their structural components do not qualify for the credit.

When originally adopted, the credit allowed was generally 7 percent of the cost of eligible property (3 percent for public utility property) placed in service by the taxpayer during the year. In 1975, the credit was increased to 10 percent for all eligible property, including public utility.

The reasons given by the Congress in 1962 for allowing the credit were to (1) encourage modernization and expansion of the nation's productive facilities, (2) increase job opportunities, and (3) improve the United States competitive position in the world economy.

Congress suspended the credit from October 10, 1966, to March 9, 1967, to reduce inflationary pressures and ease the pressures of an unusually tight money market. The credit restored in 1967 because denial of the credit was believed to have reduced the inflationary and monetary pressures. In 1969, Congress terminated the investment credit again, largely because of inflationary pressures. Congress felt that the investment credit made anti-inflationary policies, such as tight money, budget surpluses, and higher taxes, less effective. Congress reinstated the investment credit in 1971 due to depressed economic conditions brought on by lagging investment in machinery and equipment.

The investment credit was increased to 10 percent for the years 1975 to 1980 for all eligible property, including public utility property. Changes in 1975 also permitted a corporate taxpayer under certain circumstances to elect an additional one-percent investment tax credit if an amount equal to one percent of the qualified investment for the year is contributed to an employee stock ownership plan (ESOP). Further, under changes made in 1976, an additional one-half of one-percent investment tax credit is available if (1) an equivalent amount is contributed to the ESOP by the taxpayer and is matched by employee contributions and (2) certain other requirements concerning the operation of the ESOP are met.

An additional 10-percent energy credit was made available in 1978 for certain energy property to encourage businesses to conserve energy and develop and use sources of energy other than oil and gas. Also, in 1978 the 10-percent regular investment credit was made permanent and extended to special purpose agricultural structures and reha-

bililitated buildings. In 1980, the energy credit was increased for certain types of energy property.

In addition to buildings and their structural components, eligible property generally does not include (1) property used for tax exempt or governmental functions, (2) property used predominantly outside the U.S., (3) property used for lodging or residential use, (4) certain oil and gas fired boilers, (5) air conditioning units, (6) houses, and (7) property amortized under certain special provisions (e.g., amortization of certified historic rehabilitation expenditures under sec. 191). Also, buildings and their structural components generally do not qualify for the credit.

#### **2. Useful life limitations**

To minimize the bias that a fixed percentage credit would provide in favor of investments in short-lived assets, Congress in 1962 allowed a full credit of 7 percent only for property with a useful life of 8 years or more. Property with a useful life of 6 or 7 years received two-thirds of that amount ( $4\frac{2}{3}$  percent) and property with a useful life of 4 or 5 years received one-third of that amount ( $2\frac{1}{3}$  percent). Since 1962, the amount of the credit has been increased and the minimum useful lives have been shortened by 1 year so that, under present law, property with a useful life of 7 years or more is allowed a full 10-percent credit. Property with a useful life of 5 or 6 years is allowed a  $6\frac{2}{3}$  percent credit, and property with a useful life of 3 or 4 years is allowed a  $3\frac{1}{2}$  percent credit.

#### **3. Recapture of credit**

If the taxpayer disposes of investment credit property or the property otherwise ceases to be qualifying property (e.g., the property is converted to personal use or removed from service) before the end of its estimated useful life, the credit must be recomputed using the actual period of time the property was held. Any difference between the credit allowed and the recomputed credit results in an increase in tax for the year of disposition or cessation (i.e., the excess credit is "recaptured").

For example, assume \$50,000 of property with an estimated useful life of 7 years is placed in service by a calendar year taxpayer on December 1, 1981. The taxpayer is allowed a \$5,000 credit (10 percent of \$50,000) against his 1981 tax liability. If the property is sold on February 1, 1983, the recomputed credit would be zero because the property was actually held for only 14 months. Thus, the tax for calendar year 1983 would be increased by \$5,000. If the property were instead sold on January 1, 1985, the recomputed credit would be \$1,667, which is a  $3\frac{1}{2}$  percent credit based on an actual useful life of 3 years and 1 month. Thus, the tax for 1985 would be increased by \$3,333, which is the difference between the recomputed credit and the credit allowed.

#### **4. Used property limitations**

Under the original version of the investment credit in 1962, only \$50,000 of the cost of used property was taken into account for any taxable year. The eligible cost of used property was limited because Congress wanted to expand the existing asset base. However, be-

cause of the greater dependence of small business on used property, a limited credit was made available for newly acquired used property. The original \$50,000 limitation was increased to \$100,000 in 1975.

To prevent a double allowance when used property is traded in on used property, or when used property is disposed of and other used property "similar or related in service or use" is acquired as a replacement, the cost otherwise allowable for the used property acquired under these circumstances is reduced by the adjusted basis of the disposed property. However, this reduction in the credit for acquired used property does not apply if any of the credit or the property disposed of is recaptured because of an "early disposition."

#### 5. Tax liability limitation

As originally enacted, the regular investment credit could be used to offset the first \$25,000 of tax liability plus 50 percent of tax liability in excess of \$25,000. The limitation was intended to prevent the credit (in combination with other credits) from relieving large taxpayers of substantial tax liability in any one year. Under the original version, any unused credit earned in a taxable year could be carried back against tax liability for the 3 preceding years and carried forward against tax liability for the 5 succeeding years. The carryover period was later extended to 7 years to minimize the number of cases in which there would be a loss of credits.

Under present law, the investment credit is applied against tax liability under a first-in first-out (FIFO) rule requiring the application of carryovers, credit earned for the taxable year, and carrybacks, in that order. In some situations, the tax liability limitation still could prevent full use of the credit (i.e., credits cannot be carried forward more than 7 years). To minimize the extent to which the tax liability limitation operated to prevent permanently the use of otherwise allowable credits, Congress in 1978 increased the limitation on the amount of credit that can be used to offset tax liability exceeding \$25,000 by 10 percentage points per year over a 4-year period. The percentage limitation was 60 percent for 1979 and 70 percent for 1980. In 1981, the percentage is 80 percent and for 1982 and subsequent years the percentage will be 90 percent.<sup>10</sup>

#### 6. Progress expenditures

In general, the credit is earned in the year property is placed in service. However, Congress felt that the "placed in service" rule created an inequity for property that requires payments to be made over a long construction period. Thus, in 1975, Congress permitted the credit for progress expenditures made during the construction period for property with an expected useful life of 7 years or more and a normal construction period of 2 years or more.

In general, progress expenditures are amounts paid (or incurred for self-constructed property) for the construction of eligible property. For self-constructed property,<sup>11</sup> progress expenditures are taken into

<sup>10</sup> The energy credit may be used to offset 100 percent of tax liability remaining after application of the regular and ESOP credit.

<sup>11</sup> Property is self-constructed if it is reasonable to believe that the taxpayer will bear directly more than half of the construction costs.

account at the time an amount is properly chargeable to capital account for the property. For property that is not self-constructed, progress expenditures generally are taken into account when an amount is actually paid for the property, but only to the extent there has been progress in construction. Amounts borrowed from the supplier or manufacturer are not taken into account as progress expenditures. To prevent a manufacturer from certifying unrealistic amounts of progress on a project, progress is deemed to occur not more rapidly than ratably in the absence of contrary evidence.

Under proposed Treasury regulations interpreting this provision, it appears that progress expenditures do not include amounts paid or incurred prior to commencement of physical work on the property (Prop. Treas. Reg. § 1.46-5). Any amount not taken into account as progress expenditures, such as an amount borrowed from the manufacturer, is taken into account in the year the property is placed in service.

The credit for the year the property is placed in service is first determined without regard to whether progress expenditures have been taken into account in computing the credit during the construction period. The credit otherwise allowable is then reduced by the credit earned during the construction period.

## II. ADMINISTRATION'S PROPOSED ACCELERATED COST RECOVERY SYSTEM (H.R. 2400)

### A. Overview

For most depreciable assets, the bill would replace existing depreciation rules, which are based on a useful life concept, with an accelerated cost recovery system (ACRS). ACRS would permit recovery of capital costs using accelerated methods of depreciation over predetermined recovery periods unrelated to, but generally substantially shorter than, present law useful lives. However, recovery periods for some personal property would be lengthened, e.g., certain special manufacturing tools.

The bill would require the cost of most personal property, whether new or used, to be written off over a 5-year recovery period. A 3-year recovery period would be required for automobiles, light duty trucks, and tangible property (other than buildings and their structural components) used in connection with research and experimentation. A 10-year recovery period would be required for public utility property (other than buildings) with an ADR midpoint life exceeding 18 years under present law. The bill would provide for deductions equivalent to those allowed by using the 200 percent declining balance method for the first year and then switching to the sum of the years-digits method. (this combination of methods is the fastest permitted under present law.) The additional first-year depreciation allowable under present law (see 179) would be repealed.

Real property, other than qualified owner-user buildings, would be required to be depreciated using the straight-line method over recovery periods generally shorter than accepted useful lives under present law. The recovery period would be 18 years for residential rental housing and 15 years for low-income rental housing and all other buildings. Qualified owner-user industrial, distribution, and research and experimental structures would be written off over 10 years at the same accelerated rates as 10-year personal property.

New property and, in general, used property placed in service after December 31, 1980, would be subject to these new rules. Also, for property with a construction period of two years or more, the recovery period for qualified progress expenditures would begin when the expenditures are made rather than, as under present law, when the asset is placed in service.

There would be a five-year phase-in of the system for 10-year and most 5-year property and a three year phase-in of 15-year real property. Thus, ACRS would not be fully effective until 1985.

The bill would shorten the requirement for the full 10-percent investment credit from 7 years to 5 years. Assets qualifying for a 3-year writeoff would be eligible for a 6-percent investment credit. In addi-

tion, the investment credit (as well as the WIN and jobs tax credits) carryover period would be extended from 7 to 10 years. Investment credit recapture rules also would be liberalized. The bill also would increase the net operating loss carryover period to 10 years from the present law 7-year period.

## **B. Recovery of Capital Costs**

### **1. Eligible property**

Generally, the capital cost of most assets used by a taxpayer in the taxpayer's trade or business or held for the production of income would be recovered under ACRS. Tangible personal property would be placed either in the 3-year, 5-year, or 10-year class. Qualified owner-user buildings also would be placed in the 10-year class. (Property placed in these three recovery periods is referred to as "recovery property." The classification of owner-user buildings is discussed more thoroughly below in section 3, "Recovery period".) Real property, other than qualified owner-user buildings, would have mandatory periods of 15 or 18 years, which are generally shorter than those allowable under present law. (Property placed in these two recovery periods is referred to in the pamphlet as "other real property.")

However, eligible property does not include: (1) property placed in service by the taxpayer before January 1, 1981; (2) property for which the taxpayer properly elects to use a method of depreciation not expressed in a term of years (except certain railroad property depreciated under current law using the retirement-replacement-betterment (RRB) method); (3) eligible property for which amortization is properly elected; or (4) property which is a leasehold improvement depreciable over the term of the lease. Finally, public utility property would be eligible only if the normalization method of accounting is used in ratemaking.

An "anti-churning" rule is provided in the bill to prevent the basis of property held by the taxpayer (or a related person) before January 1, 1981, from being recovered under ACRS by transferring such property after January 1, 1981, to a related party. Instead, if such transfers are made, costs would be recovered over extended recovery periods using the straight-line method of depreciation. (See discussion below under "Recovery period".)

### **2. Computation of recovery deduction (method)**

#### *Recovery property*

The recovery deduction would be determined by applying a statutory percentage to the unadjusted basis of the recovery property. The applicable percentage to be applied to the unadjusted basis of the recovery property would depend on the property's class and the recovery year. No recovery deduction would be allowable in the year of an asset's disposition. The percentages are set forth in the following table.

In general, use of this table would result in a deduction approximating the deduction that would result from using—(1) 200-percent declining balance depreciation for the first year of the recovery period, (2) sum of the year-digits depreciation for later years, (3) an averag-

ACCELERATED COST RECOVERY TABLE

If the recovery year is—	The applicable percentage for the class of property is—		
	10-year	5-year	3-year
1.....	10	20	33
2.....	18	32	45
3.....	16	24	22
4.....	14	16	
5.....	12	8	
6.....	10		
7.....	8		
8.....	6		
9.....	4		
10.....	2		

ing convention (under which a half year of depreciation is allowable for all assets for the first taxable year regardless of when placed in service during the taxable year), and (4) no reduction of depreciable basis for salvage value.

***Other real property***

Capital costs of real property other than qualified owner-user buildings would be recovered, without reduction for salvage value, over the applicable recovery period using the straight-line method. The recovery deduction for the year the property is first placed in service or for the year the property is retired would be a portion of the full year allowance based on the number of days the property is actually in service during such taxable year in comparison to the number of days in the taxable year.

**3. Recovery period (in lieu of useful life)**

***Recovery property***

Recovery property (tangible personal property and qualified owner-user buildings) placed in service after December 31, 1980, would be classified either as 10-year, 5-year, or 3-year property. The capital costs of the properties within a particular class (other than property placed in service during a phase-in period) would be recovered over the applicable recovery period (10, 5, or 3 years).

The three-year class would include (1) automobiles, (2) light-duty trucks, and (3) tangible property (other than buildings and their structural components) used in connection with research and experimentation.

The ten-year class would include (1) public utility property (other than buildings and their structural components) with an ADR mid-point life greater than 18 years and (2) qualified owner-user buildings (including all structural components). The structural components of owner-user buildings also would be 10-year property. A qualified owner-user building would be an industrial building or distribution facility owned by the taxpayer (other than as a condominium),

80 percent of the usable area of which is used by the taxpayer for industrial or distribution purposes. For this purpose, industrial use is direct use for manufacturing, production, extraction, cultivation of the soil, raising of livestock (including poultry), or the furnishing of transportation or communications services. A building used as public utility property or as a research facility used in connection with any of the preceding activities also would be an industrial building. A distribution facility would be a building used directly for the storage or sale of goods.

Under this definition of industrial buildings and distribution facilities, amusement, health care, educational, general office, and service facilities, for example, would not qualify for inclusion in the 10-year class. This would be true even if, for example, the general offices were associated with a nearby manufacturing plant. To qualify as an owner-user building, the building must be owned and used as described above when the building is first placed in service by the taxpayer and for all subsequent taxable years the building is owned by the taxpayer. If a building should cease to be a qualified owner-user building, unrecovered capital costs would be recovered using the recovery period applicable for real property of its class (generally, 15 years unless the new use is for residential rental housing) less the number of years over which recovery deductions have already been allowed the taxpayer.

Recovery property not included in either the 3-year or 10-year classes would be in the 5-year class.

Extended recovery periods would be provided to prevent the churning of used assets solely to obtain the benefits of ACRS. These anti-churning rules would apply, in four circumstances, to property acquired directly or indirectly from a person who used the property prior to 1981. First, the rules would apply to property leased back to the prior owner. Second, property acquired from a related prior user would be subject to the extended recovery periods.<sup>1</sup> Third, the anti-churning rules would apply to property acquired from a prior user who is engaged with the taxpayer in trades or business under common control.<sup>2</sup> Finally, the rules would apply if the property were acquired in a transaction the principal purpose of which was avoidance of the post-1980 effective date. These transactions would be described in Treasury regulations.

If the anti-churning rules apply, the costs of the transferred property would be recovered using the straight-line method of depreciation over the following extended recovery periods: 3-year property—5 years; 5-year property—10 years; 10-year property other than owner-user buildings—20 years; and 10-year owner-user buildings—30 years. (These extended recovery periods are used for several other purposes under the proposal including the computation of earnings and profits, the computation of depreciation of assets used overseas, and the determination of tax preferences for minimum and maximum tax purposes.)

<sup>1</sup> Related parties would be defined as in sections 267(b) and 707(b)(1) except that a 10-percent control test would be substituted for the 50-percent test in those sections.

<sup>2</sup> Common control would be as defined in sections 414(b) and (c), except that "more than 50 percent" control would be substituted for "at least 50 percent" control.

**Other real property**

Mandatory recovery periods would also be assigned to real property (including all structural components) other than qualified owner-user buildings. The recovery period would be 18 years for residential rental housing and 15 years for low-income rental housing and all other buildings.

An "anti-churning" rule identical to the one described above for recovery property is included in the bill for real property with 15-year and 18-year recovery periods. In such cases, the recovery period would be extended to 30 years.

**Foreign assets**

The capital costs of recovery property used predominantly outside the United States would be recovered using the straight-line method of depreciation over the following extended recovery periods: 3-year property—5 years; 5-year property—10 years; 10-year property other than owner-user buildings—20 years; 10-year owner-user buildings—30 years. Other real property located outside the United States would have a recovery period of 30 years.

**C. Start of Depreciation**

Under the Administration's bill, the capital cost of recovery property would generally continue to be taken into account beginning in the year the property is placed in service, as under present law.<sup>2</sup> However, the bill would extend to depreciation the progress expenditure rules now applicable only to the investment credit. Thus, if the property qualifies for progress expenditure treatment, depreciation as well as the investment credit could be claimed during the construction period. The revisions made by the bill in the progress expenditure provisions for the investment credit (discussed below) would apply to progress expenditure treatment for depreciation. Thus, the 7-year useful life requirement would be removed and progress expenditure treatment would be made mandatory for qualifying property.

Progress expenditures for a particular tax year would have a recovery period separate from the recovery period for progress expenditures for other taxable years. For depreciation, a progress expenditure for a particular year would be treated as a separate item of property placed in service in the year in which the progress expenditure is made. For example, for 5-year property with a 5-year normal construction period, progress expenditures made in the first year of construction would be recovered over a 5-year period beginning in the year the progress expenditure was made and ending in the year the property is placed in service. Progress expenditures made in the second year of construction would be recovered over the 5-year period beginning in the year the progress expenditure is made and ending in the first year after the year the property is placed in service, and so on.

<sup>2</sup> An average convention for depreciation is built into the statutory recovery percentage. Thus, although under the general rule depreciation would begin in the year the property is placed in service, the amount of depreciation for the first year is one-half of the amount otherwise allowable.

#### D. Minimum Tax and Maximum Tax

Unlike present law, which treats accelerated depreciation on real property and accelerated depreciation on leased personal property as items of tax preference subject to the minimum tax, the Administration's bill would treat only accelerated depreciation on leased personal property as an item of tax preference. The amount of the tax preference for leased personal property would be the amount by which the recovery deduction allowed exceeds the amounts that would have been allowable if the deduction had been calculated using the straight-line method over the extended recovery period. The extended recovery period would be 5 years for 3-year property, 10 years for 5-year property and 20 years for 10-year personal property. As under present law, accelerated depreciation on leased personal property would not be an item of tax preference for corporations other than subchapter S corporations and personal holding companies.

Although accelerated depreciation would be permitted on qualified owner-user buildings, the bill would not make this acceleration of depreciation an item of tax preference. Other real property would be depreciated over generally shortened recovery periods using only the straight-line method. The bill would not treat the acceleration of depreciation attributable to the use of a life shorter than the property's actual useful life as a preference.

#### E. Investment Tax Credit

##### 1. Useful life limitations

As a part of its accelerated cost recovery system, the Administration's bill would revise the investment credit useful life limitations for recovery property. Under these rules, the useful life of recovery property would be the recovery period determined under the accelerated cost recovery system. For 5-year recovery property and 10-year recovery property (other than real property), the credit would be 10 percent. For 3-year recovery property, the credit would be 6 percent. The credit for property that is not recovery property would continue to be determined under the applicable present law rules. The present law rules relating to rehabilitation expenditures would continue to apply.

##### 2. At-risk limitation

The Administration's bill would apply an "at-risk" limitation on the allowance of the investment credit and energy credits. The limitation would be similar to the at-risk limitation that presently applies to losses (sec. 465).

Under the Administration's bill, the cost used to compute the investment credit and the energy credit would not include invested amounts that are not at risk. In general, an amount would not be at risk if the amount was financed by debt the taxpayer is not personally required to repay. This is the same general at-risk rule that applies under present law for loss limitation purposes.

Just as losses are suspended under the present loss limitation rule, credits that are not allowed by reason of the proposed limitation would be suspended and allowed in later years if the amount at-risk increases. Also, if the amount at-risk were reduced in later years, there

would be a recapture of previously allowed credits in much the same fashion as losses are recaptured under the loss limitation rule of present law.

The credit limitation rule would apply to taxpayers engaged in activities subject to the loss limitation rules of present law. Thus, individuals, subchapter S corporations, and certain closely held corporations would be subject to the proposed credit limitation rules.

### 3. Year credit earned

The bill would revise the progress expenditure rules, which permit the credit to be taken during the construction period for property with an estimated useful life of 7 years and a normal construction period of 2 years or more. The bill would make progress expenditure treatment mandatory and would eliminate the requirement that the property have a 7-year useful life. The 2-year normal construction period requirement and the distinctions between self-constructed and nonself-constructed property would be retained.

### 4. Recapture of credit

The present law rules, which require a recomputation of the credit upon early disposition of property based on a comparison of the credit allowed and the credit that would have been allowable if the actual useful life had been used, would be revised. In general, the revisions would (1) conform the recapture rules for recovery property to the revised useful life requirements contained in the proposal and (2) revise the recapture rules to permit the taxpayer to retain, in effect, a credit of 2 percent for each year the property is held by the taxpayer.

For 5-year and 10-year property, all credit allowed would be recaptured for property held less than 1 year. The amount of credit recaptured in each year thereafter would decrease at a rate of 20 percent per year. No recapture would be required after 5 years.

For 3-year property, the entire credit claimed would be recaptured for property held less than 1 year. If the property were held for 1 year but less than 2 years, 66 percent of the credit would be recaptured. If the property were held 2 years but less than 3 years, 33 percent of the credit would be recaptured. No recapture would be required after 3 years.

### F. Effective Date

The accelerated cost recovery system, in general, would apply to capital investments made after December 31, 1980. However, transitional rules require a phase-in of the recovery periods for certain property.

As set forth in the table below, 10-year property and most 5-year property would have a 5-year phase-in and 15-year property would have a 3-year phase-in. There would be no phase-in for the investment credit or for 3-year property, 18-year property, or retirement-replacement-betterment property that is recovery property. In addition, for 5-year property, the taxpayer could elect to use the 5-year recovery period without a phase-in for the first \$100,000 of investment in 5-year property for each year of the phase-in. Accelerated rates to be used in computing the recovery deduction during the phase-in period would be provided by the Treasury. These rates would be based on the same methods and principles used in determining the rates for the regular recovery periods.

Table 5

EFFECTIVE DATE OF ADMINISTRATION PROPOSAL

Transition year	If lower limit of permitted ADR life is—	Recovery period (years) is—
<i>1981:</i>		
5-yr property	5.5 yrs or less	5
	6 to 6.5 yrs	6
	7 to 7.5 yrs	7
	8 to 8.5 yrs	8
	9 yrs or more	9
10-yr property	All lives	18
15-yr property	All lives	18
<i>1982:</i>		
5-yr property	6.5 yrs or less	5
	7 to 7.5 yrs	6
	8 to 8.5 yrs	7
	9 yrs or more	8
	10-yr property	All lives
15-yr property	All lives	16
<i>1983:</i>		
5-yr property	7.5 yrs or less	5
	8 to 8.5 yrs	6
	9 yrs or more	7
10-yr property	All lives	14
15-yr property	All lives	15
<i>1984:</i>		
5-yr property	8.5 yrs or less	5
	9 yrs or more	6
10-yr property	All lives	12
15-yr property	All lives	15
<i>1985:</i>		
5-yr property	All lives	5
10-yr property	All lives	10
15-yr property	All lives	15

### III. ALTERNATIVE PROPOSALS

#### A. Simplified Cost Recovery System (“2-4-7-10”)<sup>1</sup>

##### 1. Depreciation of personal property

###### *Overview*

Under the 1980 Senate Finance Committee bill, a new method of depreciating most tangible personal property (the “Simplified Cost Recovery” system) would be substituted for present depreciation methods, including the Asset Depreciation Range (ADR) system. Generally, the new system would be mandatory for all eligible property. Public utility property would not be eligible property and would continue to be depreciated under present rules, except that the ADR variance for such property would be increased from 20 to 30 percent.

The depreciable basis of eligible property (referred to as recovery property) would be assigned to one of four recovery accounts. Depreciation for assets in these four recovery accounts would be based on recovery periods of 2, 4, 7, and 10 years. Most property now eligible for ADR would be assigned to an account with a recovery period that is at least 40 percent shorter than the property’s present asset guideline period (i.e., the midpoint life under the present ADR system) except that no recovery period would be less than 2 years. The depreciable bases of all eligible property with the same recovery period would be placed in the same open-ended recovery account.

The amount of the allowable deduction would be determined for each recovery account by using a declining balance method of depreciation. The taxpayer could elect annually for each account one of three declining balance rates (200 percent, 150 percent, or 100 percent of the straight-line rate based on the recovery period for the account). The amount of the recovery deduction would be subtracted from the account balance to establish the opening balance in the account on which the subsequent year’s recovery deduction would be computed. Generally, no gain or loss would be recognized on the disposition of recovery property. In general, the amount realized on a disposition would reduce the balance in the account: as a result, the recovery deductions in the current and subsequent taxable years would reflect this reduction. If the amount realized from the disposition of recovery property reduces the balance of the account to a negative amount, such amount generally would be recaptured as ordinary income.

Under other provisions of the bill, a taxpayer would be permitted to make an annual election to currently deduct or “expense” up to \$25,000 of the costs of new or used tangible personal property purchased for use in the taxpayer’s trade or business and placed in service

<sup>1</sup> Reported by the Senate Finance Committee in the 96th Congress as an amendment to H.R. 5829 (S. Rept. 96-940).

during the taxable year. This provision would replace the present provision which permits a taxpayer to elect an additional first year depreciation allowance for qualified property placed in service during a taxable year (sec. 179).

***Recovery property***

Most tangible personal property presently subject to an allowance for depreciation would be included in the new simplified cost recovery system. Eligible property, referred to as "recovery property," generally would include both new and used tangible personal property that is placed in service after December 31, 1980. Such property would be tangible property described in section 1245(a)(3), except elevators, escalators, and certain real property subject to amortization. However, recovery property would not include: (1) public utility property; (2) certain livestock (described in section 1231(b)(3)), unless the taxpayer elects to treat such livestock as recovery property; (3) property that may be amortized (in lieu of depreciated) and for which the taxpayer elects such amortization; (4) property subject to a method of depreciation not expressed in a term of years (such as property depreciated under the units of production or machine-hour methods of depreciation), if the taxpayer elects to exclude such property; (5) leasehold improvements depreciated or amortized over the term of the lease; (6) certain boilers fueled by oil or gas (as described in section 167(p)); (7) property depreciated under the retirement-replacement-betterment method; and (8) property used predominantly outside the United States (within the meaning of section 48(a)(2)) during the taxable year. Personal property that is not recovery property would be depreciated under methods permitted by present law.

***Openended recovery accounts***

Under the simplified cost recovery system, the depreciable basis of recovery property would be placed in one of four open recovery accounts. Under an open account system, the costs of all eligible property with the same recovery period would be placed in the same open account regardless of the year of acquisition. Used and new recovery properties would be aggregated in the same recovery account. This system would apply in lieu of closed vintage accounts under the ADR system and other types of closed accounts for non-ADR assets.

The amount added to the recovery account would be the taxpayer's cost or other basis in the property without reduction for salvage value. Qualified progress expenditures would be added to the appropriate recovery account if the taxpayer so elects. As an averaging convention, one-half of the cost of the recovery property (other than progress payments previously taken into account) would be added to the account in the year the asset is placed in service. The remaining half of the cost would be added to the account in the subsequent taxable year.

***Recovery periods***

The recovery periods of the four recovery accounts would correspond to depreciation terms of 2, 4, 7, and 10 years. The system provides that property would be assigned to a recovery account with the longest recovery period that is at least 40 percent shorter than the property's

present asset guideline period under the present ADR system, except that no recovery period would be less than 2 years. The bill specifically provides that the Treasury Department would have the authority to shorten, but not lengthen, the asset guideline period of any asset class.

The bill would permit a taxpayer to elect to place property in a recovery account having the next longer recovery period than the recovery period otherwise prescribed for that property. The election would apply both for depreciation and investment credit purposes. This election could be made for the taxable year in which the property is placed in service or, if qualified progress expenditures are recovered in earlier years, for the first taxable year in which such expenditures for the property are placed in a recovery account.

Assets would be assigned to recovery accounts in accordance with the following schedule:

<i>Asset guideline period</i>	<i>Recovery period (years)</i>
6.5 years or less.....	2
7.0 years to 11.5 years.....	4
12.0 years to 16.5 years.....	7
More than 16.5 years.....	10

For example, assets used to manufacture clothing, which now have an asset guideline period of 9 years, would be placed in a recovery account with a 4-year recovery period (unless an election is made to place them in a recovery account with a 7-year recovery period). Equipment placed in the 7-year class would include the following types of assets, which now have an asset guideline period of 12 years: assets (other than special tools) used in the manufacture of fabricated metal products, electrical equipment, motor vehicles, ships, and railroad cars. The bill would require the Treasury to publish simplified tables setting forth these shortened recovery periods and to establish the recovery periods of those types of tangible personal property not currently covered under the ADR system.

#### ***Computation of the annual recovery deduction***

The amount of the allowable recovery deduction for any taxable year would be computed by using a declining balance method. For each recovery account, the taxpayer would elect annually one of three declining balance rates (200 percent, 150 percent, or 100 percent). The recovery deduction for a particular taxable year would then be computed by multiplying the end-of-the-year balance of unrecovered costs in the recovery account by a recovery percentage. The recovery percentage would reflect the number of years in the recovery period and the declining balance method elected for that year. The amount of the allowable recovery deduction would be subtracted from the account to determine the opening balance in the account for the following year.

For example, assume the unrecovered costs in the 4-year recovery account at the end of the taxable year are \$1,000. If the taxpayer elects the 200-percent declining balance method, the recovery percentage would be determined by dividing the declining balance percentage by the number of years in the recovery period (200 divided by 4). The

recovery percentage would be 50 percent and the recovery deduction allowable for the taxable year would be \$500. The balance in the account used to determine the recovery deduction for the subsequent year would be \$500, increased or decreased by any additions to, or subtractions from, the account for that year. Thus, if in the example the taxpayer placed in service in the second year an additional \$1,000 of equipment assigned to the 4-year recovery account, the account balance would be increased to \$1,000 (\$500 ending balance from year 1 plus one-half of cost of additions (\$500)). The deduction for that account in the second year would be \$500 (50 percent of the new \$1,000 balance).

Additions would be made to an account in the years qualified assets are placed in service, or, if an election is made, in the years qualified progress expenditures are made. A subtraction would be made from the account balance equal to the amount of depreciation allowed for the year plus the amount realized, in the case of the sale of an asset assigned to the account, or the fair market value of the asset, in the case of a transfer other than by a sale (except for like-kind exchanges, involuntary conversions, and certain other transactions). If the balance of an account at the end of the taxable year, but prior to computation of depreciation, is either zero or a negative amount, no recovery deduction would be allowed for the year.

#### ***Disposition of assets and recapture***

Under the simplified cost recovery system, gains and losses on the disposition of recovery property generally would be deferred. Instead of immediate gain or loss recognition, the amount realized on the disposition would reduce the balance in the account which, in turn, would reduce the amount of recovery deductions in the year of the disposition and subsequent years. If the amount realized reduces the balance in the account to a negative amount, such amount generally would be recaptured as ordinary income. However, the recapture would be reduced to the extent of the remaining one-half of the depreciable bases of assets placed in service during the taxable year (or the remaining one-half of qualified progress expenditures made).

Property that ceases to be recovery property, such as property which is converted to personal use or to a use predominantly outside of the United States, would be treated as if it were disposed of during the taxable year in which it ceases to be recovery property. The balance of the recovery account to which it is assigned would be reduced by the fair market value of the property at the time it ceases to be recovery property. If such property continues to be depreciable property in the hands of the taxpayer (as it might if it were used predominantly outside the United States), the property's basis would be its fair market value at the time it ceased to be recovery property.

#### ***Public utility property***

Capital costs of public utility property would not be recovered under the new simplified cost recovery rules. Rather, such property would continue to be depreciated under existing rules. However, the present 20-percent variance in useful rules allowed under the ADR depreciation system would be increased to 30 percent for public utility property placed in service after December 31, 1980.

***Earnings and profits***

The amount of depreciation used to determine earnings and profits would approximate the deduction allowable under a straight-line method of depreciation over the shortest useful life in the asset depreciation range (ADR) system (generally the most accelerated method of computing depreciation for earnings and profits purposes under present law). To achieve this result, the recovery deduction used in computing earnings and profits would be the amount which would have been determined for the taxable year under the recovery system if the declining balance percentage elected by the taxpayer for each taxable year had been 100 percent divided by the number of years in the recovery period.

***Minimum tax and maximum tax***

Personal property owned by noncorporate lessors would be recovery property, unless it is specifically excluded from such treatment by another specific provision in the system. The rule in the minimum tax which treats accelerated depreciation on personal property leased by noncorporate lessors as an item of tax preference also would apply to recovery property. For any class of recovery property, the amount of the tax preference would be the amount by which the recovery deduction attributable to the portion of the class subject to a lease exceeds the deduction which would have been allowable as a recovery deduction with respect to such portion of the class if it were computed for all taxable years using a rate of depreciation equal to 80 percent divided by the number of years in the recovery period for such class. This computation of the amount of tax preference item is intended to approximate the present law amount.

Although accelerated depreciation on leased recovery property would be a tax preference item for noncorporate lessors for purposes of the minimum tax, it would not be a tax preference item for purposes of reducing the amount of personal service taxable income which is subject to the maximum tax.

**2. Revised useful life requirements for investment tax credit**

As a part of its revision of the cost recovery structure, the bill would revise the rules relating to useful life qualifications of property for the investment tax credit. These rules would apply to the investment tax credit available both for property subject to the new cost recovery system and other property, including public utility property. Under these rules, the useful life of any recovery property would be the recovery period determined under the cost recovery system and the useful life of any other property would be the useful life used in computing the allowance for depreciation under the normal depreciation rules (sec. 167) for the taxable year which the property is placed in service. For property with a useful life (or recovery period) of 2 years or more but less than 4 years, a 2.5-percent regular investment credit would be available. If the useful life (or recovery period) is 4 years or more but less than 7 years, the regular investment credit would be 6 percent. If the useful life (or recovery period) of the property is 7 years or more, the regular investment credit would be 10 percent.

### 3. Optional approaches to depreciating real property

The bill would provide several new elective approaches to depreciation of real property (without eliminating the present law methods). First, a taxpayer could elect to depreciate structures over a period of 20 years using the straight-line method and composite depreciation. (Under composite depreciation, the entire structure must be depreciated over a single life; under component depreciation, each of the different parts of the structure are depreciated over different lives.) Second, a taxpayer could elect to depreciate low-income rental housing over 15 years using the straight-line method and composite depreciation. Third, certain owner-occupied business structures could be depreciated over a period of 15 years using the 150-percent declining balance method and composite depreciation. However, if this latter election were made, the recapture rules currently applicable to depreciable personal property would apply. Under these personal property recapture rules, the sale of depreciable property would result in recapture (i.e., ordinary income treatment) for an amount equal to the lesser of the amount of gain recognized or the amount of depreciation deductions allowable. These lives would be audit-proof, i.e., if the taxpayer were to make one of these elections, the useful life could not be challenged by the Internal Revenue Service.

For depreciable real property with a normal construction period of 2 years or more, the progress expenditure rule applicable to the investment credit under present law would be extended to depreciation of real property.

### 4. Rehabilitation tax credit

The present 10-percent rehabilitation tax credit for industrial and commercial structures would be increased to 25 percent for amounts paid or incurred after December 31, 1980. Under present law and under the bill, costs that qualify for the credit are depreciable rehabilitation costs incurred for the interior or exterior renovation, restoration or reconstruction of a building which has been in use for at least 20 years.

**B. First-Year Capital Cost Recovery System**  
**(H.R. 3443 and H.R. 3500)**

**1. Overview**

Two bills, H.R. 3443 (Messrs. Shannon, Gibbons, Matsui, Stark, Ford and Downey) and H.R. 3500 (Mr. Heftel), have been introduced proposing first-year capital cost recovery systems based on the Jorgenson-Auerbach plan. Under these capital cost recovery systems, the capital costs of personal property would be recovered through a single deduction allowable for the taxable year the asset is placed in service rather than several depreciation deductions spread over the useful life of the property. This first-year allowance would approximate the present value of the future depreciation deductions and the regular investment credit that otherwise would be allowable for the asset.

Under conventional depreciation methods, where deductions are allowed over an asset's useful life or other recovery period, capital costs measured in constant dollars are not fully recovered in periods of high inflation. This is because the dollars recovered through future deductions against income have less purchasing power than the dollars originally invested in the capital asset. Inflation becomes, in effect, an additional "tax" on capital. Under a first-year capital cost recovery system, the dollars recovered through depreciation deductions have the same purchasing power as the dollars invested in the capital asset because the present value of all future depreciation deductions are allowed against income for the taxable year the asset is placed in service.

The regular investment tax credit, the deduction-equivalent of which is built into the first-year allowance, would not be available for property placed in service under this system. Long-lived public utility property would not be included under the first-year system, but would be depreciated under present rules with the ADR variance increased from 20 percent to 30 percent.

Under both bills, energy credits would continue to be allowed, as under present law. The ESOP credit would not be available for property placed in service under the first-year system. Real property, other than low-income housing, generally would be depreciated on a composite basis without reduction for salvage value over a 20-year period using the straight-line method. Low-income housing would be depreciated on a composite basis without reduction for salvage value using the straight-line method over a 15-year period. The proposed first-year recovery systems generally would be mandatory for new and used assets placed in service after 1980. The amount of used property eligible for the first-year allowance would be limited for taxable years beginning in 1980 through 1983.

## 2. Recovery of Capital Costs for Personal Property

### *Eligible property*

Eligible property generally would include new and used tangible personal property placed in service after 1980. The amount of eligible used property would be limited for taxable years beginning before 1984.

Property excluded from the first-year recovery system generally would be (1) assets used predominantly outside the United States (within the meaning of sec. 48(a)(2)), (2) certain livestock the taxpayer elects to exclude, (3) property amortized or depreciated on a basis other than a term of years, (4) long-lived public utility property (including regulated oil pipeline property), (5) oil and gas-fired boilers, (6) property held for less than one year, and (7) property owned by certain noncorporate lessors. Excluded property would continue to be subject to present law depreciation and investment credit rules, although excluded long-lived public utility property would be eligible for a 30 percent variance from the ADR class life (rather than the 20 percent variance permitted under present law).

### *Computation of deduction*

Eligible property would be assigned to a class for which a first-year allowance is provided. The assignment of property to a recovery class initially would be based on its present ADR class life. The Treasury, however, would be able to assign property to a different class if it determines that the first-year allowance for a different class would better reflect yearly declines in the real value of the property relative to other property. If property does not have a present ADR guideline life, the Secretary would make the initial assignment to a class in a manner consistent with the procedure for reassignment of property to classes.

Under H.R. 3443, eligible property would be assigned to one of four classes. The classification of assets and the first-year allowances would be as set forth below:

<i>Recovery class</i>	<i>ADR Class (years)</i>	<i>First-year recovery percentage</i>
1.....	Less than 4.0.....	98.5
2.....	4.0 to 8.0.....	97.3
3.....	8.5 to 14.0.....	94.8
4.....	Over 14.0.....	92.7

Under H.R. 3500, eligible property would be assigned to one of three classes. The classification of assets and the first-year allowances would be as set forth below:

<i>Recovery class</i>	<i>ADR Class (years)</i>	<i>First-year recovery percentage</i>
1.....	Less than 4.5.....	100
2.....	4.5 to 10.0.....	95
3.....	Over 10.0.....	90

For property that is not eligible for the regular investment credit under present law (determined without regard to the used property

limitations), reduced first-year allowances would be provided under each bill to reflect ineligibility for the credit.

***Recognition of income on sale or disposition***

Both bills contain a rule that would require the recognition of ordinary income on the sale or other disposition of eligible property. If the property is sold, the first-year recovery percentage would be applied to the sales price to determine the amount of ordinary income recognized. If the property were retired without being sold or exchanged or if the property otherwise ceased to be eligible property in the taxpayer's hands, the first-year recovery percentage would be applied to the fair market value of the property to determine the amount of ordinary income recognized. Under both bills, no other income would be recognized on the sale or other disposition of eligible property.

***Transition rules***

Both bills provide transition rules to phase in the first-year recovery system. Under both bills, used eligible property would be limited to \$100,000 of investments placed in service in taxable years beginning in 1980 and 1981, \$200,000 for taxable years beginning in 1982, and \$300,000 for taxable years beginning in 1983. If the amount of investment in used property exceeds the transitional limitation, the taxpayer would select the items that would be eligible for a first-year allowance. Used property ineligible for the first-year allowance would be subject to present law rules for depreciation and the investment credit. Eligible used property would be treated as used property for which the investment credit is allowed and therefore would reduce the amount of used property eligible for the investment credit under the investment credit used property limitations. There would be no limit on the amount of eligible investment for used property placed in service in taxable years beginning after 1983. A similar limitation is provided in both bills to prevent the "churning" of assets. Under the anti-churning rule, property would not be eligible for a first-year recovery allowance if, after the property is acquired by the taxpayer, it is used either by a person who used the property before January 1, 1981, or by a person related to such prior user (within the meaning of sec. 179(d)(2)(A) or (B) of present law).

Both bills also provide phase-in rules that would defer the allowance of deductions for property placed in service during the first years of the proposed system. H.R. 3443 would allow the deduction of only a portion of the otherwise allowable first-year deduction for assets placed in service in 1981 through 1989. The portion of the deduction not allowed when the property was placed in service would be added to a suspense account to be withdrawn and deducted in later years (through 1990) under a formula provided in the bill. Amounts in the suspense account would be increased annually by an amount that compensates for the deferral of deductions. This compensatory amount—similar to a nontaxable interest payment—would be computed by multiplying the suspense account balance by one-half of the interest rate payable on deficiencies and refunds (generally 90 percent of the prime rate) for the year a percentage of the suspense account balance would be deductible as a recovery allowance in years 1982 through 1990, and the suspense account balance would be reduced by the amount thus allowed. The percentage of deductions that would be

currently allowed for each of the years 1981 through 1989 and the percentage of the suspense account balance that would be deductible as a recovery allowance in each of the years 1982 through 1990 are set forth below:

*Percentage of allowable currently deductible*

In the case of property placed in service during:

	<i>The currently deductible percentage would be:</i>
1981 -----	35
1982 -----	50
1983 -----	60
1984 -----	70
1985 -----	75
1986 -----	80
1987 -----	85
1988 -----	90
1989 -----	95

*Percentage of suspense account balance currently deductible*

In the case of taxable years beginning in:

	<i>The currently deductible percentage would be:</i>
1982 -----	25
1983 -----	30
1984 -----	35
1985 -----	40
1986 -----	45
1987 -----	50
1988 -----	55
1989 -----	70
1990 -----	100

Under H.R. 3500, a phase-in rule is provided for eligible property placed in service after 1980 and before 1986. Under this rule, the deduction for property placed in service during the phase-in period would be spread over two to five years. The deduction would not be spread evenly, but would be weighted toward the year the property was placed in service. The phase-in allowance under H.R. 3500 are set forth below.

<i>In the case of property placed in service during:</i>	<b>The percentage of the first-year allowance that would be deducted during the following years would be--</b>					
	1981	1982	1983	1984	1985	1986
1981 -----	45	14	14	14	13	-----
1982 -----	-----	63	13	12	12	-----
1983 -----	-----	-----	70	15	15	-----
1984 -----	-----	-----	-----	80	20	-----
1985 -----	-----	-----	-----	-----	90	10

***Expensing in lieu of additional first-year depreciation***

Under both bills, section 179, which allows a deduction for additional first-year depreciation, would be repealed. Under H.R. 3443, section 179 would be replaced by a provision requiring that the first \$25,000 of investment in eligible property be expensed, i.e., currently deducted in full, rather than be recovered through a lesser first-year recovery allowance. If more than \$25,000 is invested in a taxable year, the property subject to the mandatory \$25,000 expensing rule would first be the property with the highest first-year recovery percentage, in the order of acquisition, and then property with the next highest first-year recovery percentage, in order of acquisition, until \$25,000 of investment has been expensed. The expensing rule would not apply to estates and trusts. Expensing treatment would not be available with respect to assets "churned" between related taxpayers or assets exchanged in tax-free like-kind exchanges or involuntary conversions. All members of a controlled group would be treated as one taxpayer for purposes of the \$25,000 limitation and the limit also would apply both to a partnership and to each of its partners. Another special rule is provided that would coordinate the first-year allowance rules and the special \$25,000 expensing rules when they both apply to a portion of a single item of property. Under H.R. 3500, there is no mandatory \$25,000 expensing provision but all short-lived assets would have a first-year allowance of 100 percent.

**3. Real property**

Both bills would change the depreciation rules for real property placed in service after 1980. Under both bills, buildings and their structural components generally would be depreciated on a composite basis over 20 years using the straight-line method and no reduction for salvage value. However, low-income housing would be depreciated over a 15-year recovery period. Real property other than low-income housing generally would be depreciated over a 20-year recovery period. In addition, H.R. 3500 would allow taxpayers to elect to use a 15-year recovery period rather than the general 20-year recovery period, but any gain realized on disposition of the property (other than low-income housing) would be "recaptured" as ordinary income to the extent of depreciation previously taken.

Both bills provide that structures for which an ADR guideline class life has been established under present law would be depreciated under present law rules and would be allowed a variance of 30 percent from the ADR guideline class life, instead of the 20 percent variance under present law. Such property would include farm buildings (guideline class life of 25 years), gas stations (guideline class life of 20 years), and theme park structures (guideline class life of 12.5 years). The increased ADR variance for these assets is the same rule that would be applied to long-lived public utility property (including regulated oil pipeline property).

**C. H.R. 1053—Capital Cost Recovery Act of 1981**  
**(“10-5-3”)**

For most depreciable assets H.R. 1053, the Capital Cost Recovery Act of 1981 (Messers. Jones, Conable, and others) would replace existing depreciation rules with a system that is, with certain exceptions, very similar to the Administration's proposal.

Unlike the Administration's proposal, this bill would place all real property, except for residential real property, in the 10-year class. Also, the 3-year class would include only the first \$100,000 of investment in cars and light trucks. Assets used predominantly outside the United States would be treated the same as other recovery property under H.R. 1053 while the capital costs of such assets would be recovered over extended recovery periods under ACRS.

Accelerated deductions would be equivalent to those under the Administration's bill. However, a taxpayer could, for any taxable year, deduct less than the allowable deduction and carry over any unused deductions to any succeeding year. This concept is known as “banking.” The Administration's bill would not permit banking.

The bills differ in their treatment of the investment tax credit. The investment credit (and net operating loss) carryforward would remain at 7 years under H.R. 1053, while the Administration's bill would extend the investment credit (and net operating loss) carryforward to 10 years. The investment credit recapture provisions of the two bills are similar, except that in recomputing the credit under H.R. 1053, property held for a portion of a taxable year (other than the year of acquisition) would be treated as held for an entire year. Thus, under H.R. 1053, if an asset were purchased on December 31 by a calendar year taxpayer and sold on January 1 of the following year, the taxpayer would receive credit as if the property had been held one full year. The Administration's bill would impose an “at-risk” limitation on the investment credit for certain taxpayers engaged in certain activities while H.R. 1053 would impose no such limitation. For qualified progress expenditures, the Administration's bill would retain the present law 2-year normal construction period limitation, but eliminate the 7-year useful life limitation. H.R. 1053 would eliminate both the 2-year normal construction period and the 7-year useful life limitations. In addition, H.R. 1053 would eliminate the progress limitation and borrowing limitation, which apply under present law to nonself-constructed property.

---

**APPENDICES**

---

**APPENDIX A**  
**ASSET DEPRECIATION RANGE SYSTEM (ADR)**

Asset guide- line class <sup>1</sup>	Description of assets included	Asset depreciation range (in years)			Annual asset guideline repair allowance percentage
		Lower limit	Asset guide- line period	Upper limit	
32. 11	Manufacture of glass products—special tools.....	2	2. 5	3	10
00. 22	Automobiles, taxis.....	2. 5	3	3. 5	16. 5
01. 23	Hogs, breeding.....	2. 5	3	3. 5	----
34. 01	Manufacture of fabricated metal products—special tools.....	2. 5	3	3. 5	3. 5
37. 12	Manufacture of motor vehicles—special tools.....	2. 5	3	3. 5	12. 5
30. 21	Manufacture of finished plastic products—special tools.....	3	3. 5	4	5. 5
00. 241	Light general purpose trucks.....	3	4	5	16. 5
00. 26	Tractor units for use over-the-road.....	3	4	5	16. 5
20. 5	Manufacture of food and beverages—special handling devices.....	3	4	5	20
30. 11	Manufacture of rubber products—special tools and devices.....	3	4	5	----
01. 24	Sheep and goats; breeding.....	4	5	6	----
49. 121	Electric utility nuclear fuel assemblies.....	4	5	6	----
00. 21	Airplanes (airframes and engines), except those used in commercial or contract carrying of passengers or freight, and all helicopters (airframes and engines).....	5	6	7	14

5

00.242	Heavy general purpose trucks.....	5	6	7	10
00.27	Trailers and trailer-mounted containers....	5	6	7	10
13.1	Drilling of oil and gas wells.....	5	6	7	10
24.1	Cutting of timber.....	5	6	7	10
24.3	Sawing of dimensional stock from logs.....	5	6	7	10
15.0	Construction.....	5	6	7	9
45.1	Air transport (restricted).....	5	6	7	1.5
48.2	Radio and television broadcasting.....	5	6	7	10
00.12	Information systems.....	5	6	7	7.5
36.0	Manufacture of electronic components, products, and systems.....	5	6	7	8
00.13	Data handling equipment, except com- puters.....	5	6	7	15
33.21	Manufacture of primary nonferrous metals—special tools.....	5	6.5	8	4
37.33	Ship and boat building—special tools.....	5	6.5	8	0.5
01.21	Cattle, breeding or dairy.....	5.5	7	8.5	---
22.1	Manufacture of knitted goods.....	6	7.5	9	7
13.0	Offshore drilling.....	6	7.5	9	3
22.4	Manufacture of textured yarns.....	6.5	8	9.5	7
41.0	Motor transport-passengers.....	6.5	8	9.5	11.5
42.0	Motor transport-freight.....	6.5	8	9.5	11
48.37	Telegraph, ocean cable, and satellite com- munications—satellite space segment property.....	6.5	8	9.5	---
48.44	Cable-Television service and test.....	7	8.5	10	2.5
00.23	Buses.....	7	9	11	11.5
48.43	Cable-Television program origination.....	7	9	11	9
57.0	Distributive trades and services.....	7	9	11	8
22.3	Manufacture of carpets, and dyeing, finish- ing and packaging of textile products and manufacture of medical and dental supplies.....	7	9	11	15

See footnotes at end of table.

Appendix A

Asset Depreciation Range System (ADR)—Continued

Asset guide- line class <sup>1</sup>	Description of assets included	Asset depreciation range (in years)			Annual asset guideline repair allowance percentage
		Lower limit	Asset guide- line period	Upper limit	
23.0	Manufacture of apparel and other finished products.....	7	9	11	7
28.0	Manufacture of chemicals and allied products.....	7.5	9.5	11.5	12.5
48.45	Cable television-microwave systems.....	7.5	9.5	11.5	2
10.0	Mining.....	8	10	12	6.5
22.5	Manufacture of nonwoven fabrics.....	8	10	12	15
24.2	Sawing of dimensional stock from logs.....	8	10	12	6.5
24.4	Manufacture of wood products, and furniture.....	8	10	12	6.5
48.36	Telegraph, ocean cable, and satellite communications-satellite, ground segment property.....	8	10	12	----
35.0	Manufacture of electrical and non-electrical machinery and other mechanical products.....	8	10	12	11
49.5	Waste reduction and resource recovery plants.....	8	10	12	15
26.2	Manufacture of converted paper, paper board, and pulp products.....	8	10	12	15
37.2	Manufacture of aerospace products.....	8	10	12	7.5
48.13	Telephone station equipment.....	8	10	12	10
01.22	Horses, breeding or work.....	8	10	12	----

42

48.38	Telegraph, ocean cable, and satellite communications-equipment installed on customer's premises	8	10	12	---
01.1	Agriculture	8	10	12	11
48.42	Cable television-subscriber connection and distribution systems	8	10	12	5
00.11	Office furniture, fixtures, and equipment	8	10	12	2
79.0	Recreation	8	10	12	6.5
48.35	Telegraph, ocean cable, and satellite communications-computerized switching, channeling, and associated control equipment	8.5	10.5	12.5	---
22.2	Manufacture of yarn, thread, and woven fabric	9	11	13	16
27.0	Printing, publishing, and allied industries	9	11	13	5.5
30.2	Manufacture of finished plastics products	9	11	13	5.5
31.0	Manufacture of leather and leather products	9	11	13	5.5
48.41	Cable television-headend	9	11	13	5
37.41	Manufacture of locomotives	9	11.5	14	7.5
20.4	Manufacture of other food and kindred products	9.5	12	14.5	5.5
34.0	Manufacture of fabricated metal products	9.5	12	14.5	6
01.11	Cotton ginning assets	9.5	12	14.5	5.5
37.11	Manufacture of motor vehicles	9.5	12	14.5	9.5
37.31	Ship and boat building machinery and equipment	9.5	12	14.5	8.5
37.42	Manufacture of railroad cars	9.5	12	14.5	5.5
39.0	Manufacture of athletic, jewelry, and other goods	9.5	12	14.5	5.5

See footnotes at end of table.

**Appendix A**  
**Asset Depreciation Range System (ADR)—Continued**

Asset guide- line class <sup>1</sup>	Description of assets included	Asset depreciation range (in years)			Annual asset guideline repair allowance percentage
		Lower limit	Asset guide- line period	Upper limit	
45.0	Air transport.....	9.5	12	14.5	15
80.0	Theme and amusement parks.....	10	12.5	15	12.5
26.1	Manufacture of pulp and paper.....	10.5	13	15.5	10
48.32	Telegraph, ocean cable, and satellite com- munications-high frequency radio and microwave systems.....	10.5	13	15.5	----
48.39	Telegraph, ocean cable, and satellite com- munications-support and service equipment.....	11	13.5	16	----
13.2	Exploration for and production of petro- leum and natural gas deposits.....	11	14	17	4.5
30.1	Manufacture of rubber products.....	11	14	17	5
32.1	Manufacture of glass products.....	11	14	17	12
33.2	Manufacture of primary nonferrous metals..	11	14	17	4.5
40.1	Railroad machinery and equipment.....	11	14	17	10.5
49.222	Gas utility substitute natural gas (SNG) production plant (naphtha or lighter hydrocarbon feedstocks).....	11	14	17	4.5
49.23	Natural gas production plant.....	11	14	17	4.5
33.3	Manufacture of foundry products.....	11	14	17	18
00.25	Railroad cars and locomotives, except those owned by railroad transportation companies.....	12	15	18	8

3  
 2  
 1

21. 0	Manufacture of tobacco and tobacco products.....	12	15	18	5
32. 3	Manufacture of other stone and clay products.....	12	15	18	4. 5
33. 4	Manufacture of primary steel mill products.....	12	15	18	18
13. 3	Petroleum refining.....	13	16	19	7
37. 32	Ship and boat building dry docks and land improvements.....	13	16	19	2. 5
48. 34	Telegraph, ocean cable, and satellite communications—central office control equipment.....	13	16. 5	20	---
20. 1	Manufacture of grain and grain mill products.....	13. 5	17	20. 5	6
00. 28	Vessels, barges, tugs, and similar water transportation equipment, except those used in marine contract construction.....	14. 5	18	21. 5	6
20. 2	Manufacture of sugar and sugar products.....	14. 5	18	21. 5	4. 5
20. 3	Manufacture of vegetable oils and vegetable oil products.....	14. 5	18	21. 5	3. 5
49. 233	Substitute natural gas—coal gasification.....	14. 5	18	21. 5	15
48. 31	Telegraph, ocean cable, and satellite communications—electric power generating and distribution system.....	15	19	23	---
32. 2	Manufacture of cement.....	16	20	24	3
57. 1	Distributive trades and services—billboard, service station buildings and petroleum marketing land improvements.....	16	20	24	5
40. 3	Railroad wharves and docks.....	16	20	24	5. 5
40. 52	Railroad nuclear electric generating equipment.....	16	20	24	3
44. 0	Water transportation.....	16	20	24	8
48. 12	Telephone central office equipment.....	16	20	24	6
49. 12	Electric utility nuclear production plant.....	16	20	24	3

45

See footnote at end of table.

**Appendix A**  
**Asset Depreciation Range System (ADR)—Continued**

Asset guide- line class <sup>1</sup>	Description of assets included	Asset depreciation range (in years)			Annual asset guideline repair allowance percentage
		Lower limit	Asset guide- line period	Upper limit	
49.15	Electric utility combustion turbine production plant.....	16	20	24	4
00.3	Land improvements (does not include buildings and their structural components).....	-----	20	-----	-----
46.0	Pipeline transportation.....	17.5	22	26.5	3
49.24	Gas utility trunk pipelines and related storage facilities.....	17.5	22	26.5	3
00.4	Industrial steam and electric generation and/or distribution systems.....	17.5	22	26.5	2.5
49.25	Liquefied natural gas plant.....	17.5	22	26.5	4.5
01.3	Farm buildings.....	20	25	30	5
48.33	Telegraph, ocean cable, and satellite communications—cable and long-line systems.....	21	26.5	32	-----
40.53	Railroad steam electric generating equipment.....	22.5	28	33.5	2.5
40.54	Railroad steam, compressed air, and other power plant equipment.....	22.5	28	33.5	7.5
49.13	Electric utility steam production plant.....	22.5	28	33.5	5
49.4	Central steam utility production and distribution.....	22.5	28	33.5	2.5

40.2	Railroad structures and similar im- provements.....	24	30	36	5
49.14	Electric utility transmission and distribu- tion plant.....	24	30	36	4.5
49.221	Gas utility manufactured gas production plants.....	24	30	36	2
48.14	Telephone distribution plant.....	28	35	42	2
49.21	Gas utility distribution facilities.....	28	35	42	2
48.11	Telephone central office buildings.....	36	45	54	1.5
49.11	Electric utility hydraulic production plant..	40	50	60	1.5
49.3	Water utilities.....	40	50	60	1.5
40.51	Railroad hydraulic electric generating equipment.....	40	50	60	1.5

<sup>1</sup> The asset guideline classes have been arranged in order of ascending asset guideline period (midpoint life).  
Source: Revenue Procedure 77-10, 1977-1 C.B. 548, as modified by Rev. Proc. 80-58, 1980-52 I.R.B. 46.



## APPENDIX B

### COMPARISON OF INDUSTRY TAX CHANGES UNDER ALTERNATIVE CAPITAL COST RECOVERY SYSTEMS

Tables *a*, *b*, *c* and *d* of Appendix Tables B.1, B.2 and B.3 indicate, using different measures, the distribution among industries of the estimated tax changes due to depreciation and investment tax credit revisions under the Administration's Accelerated Cost Recovery System, the Simplified Cost Recovery System, and the First-Year Cost Recovery System, respectively. Industry tax change and investment levels are based on establishment data rather than company data. Thus, many firms will have investment in each of a number of the industrial classifications.

#### ***a. Revenue loss by industry***

Tables *a* show for each of the three proposals the estimated tax change for each industry. A large revenue loss in this table could result from high investment levels in an industry or from proposed recovery provisions which (relative to present law provisions) would be especially beneficial for the type of assets in the industry.

#### ***b. Percent of revenue loss by industry***

Tables *b* show for each of the three proposals the estimated amount of tax change for each industry, expressed as a percentage of the aggregate tax change for all industries.

#### ***c. Revenue loss relative to annual investment by industry***

Tables *c* show for each proposal how tax changes would be distributed when they are related to the amount of annual investment. An entry for an industry is its estimated percentage of the aggregate tax change divided by its percentage of aggregate annual investment. An entry which is greater than 1.0 suggests that an industry's share of the proposed tax change is estimated to exceed its share of annual investment. This could result from proposed recovery provisions which (relative to present law provisions) would be especially beneficial for the type of assets in a particular industry—possibly because a present law bias against such assets would be lessened or possibly because a new bias in favor of such assets would be created by a proposal.

#### ***d. Revenue loss relative to capital stock by industry***

Tables *d* show for each proposal how tax changes would be distributed when they are related to the capital stock in an industry (assuming new investment is to replace retired assets). An entry for an industry is its estimated percentage of the aggregate tax change divided by its percentage of the aggregate capital stock. An entry which is greater than 1.0 suggests that an industry's share of the proposed tax change is estimated to exceed its share of the capital stock.

Table B.1.—Industry Tax Change Under the Accelerated Cost Recovery System (H.R. 2400)<sup>1</sup>

*a. Total Tax Change*

Calendar Years (millions of dollars)

Industry	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Agriculture.....	-373	-980	-1,541	-2,070	-2,602	-2,959	-3,298	-3,575	-3,847	-4,382
Mining.....	-175	-417	-765	-1,211	-1,680	-2,009	-2,225	-2,303	-2,265	-2,547
Construction.....	-507	-912	-1,274	-1,436	-1,385	-1,354	-1,388	-1,483	-1,677	-1,988
Grain products.....	-35	-78	-137	-201	-284	-366	-432	-476	-496	-493
Sugar products.....	-10	-22	-38	-55	-77	-98	-113	-122	-124	-121
Vegetable oil.....	-10	-22	-37	-52	-73	-92	-107	-117	-121	-120
Prepared food.....	-90	-190	-345	-516	-750	-978	-1,169	-1,291	-1,346	-1,339
Tobacco.....	-9	-23	-43	-64	-91	-116	-136	-148	-151	-144
Knitted goods.....	-9	-21	-33	-43	-53	-60	-65	-74	-84	-95
Yarn, thread, woven fabrics.....	-11	-32	-62	-103	-165	-223	-268	-293	-296	-281
Carpets, dyeing.....	-6	-16	-31	-46	-61	-83	-72	-74	-85	-96
Textured yarns.....	-4	-8	-13	-16	-19	-21	-23	-26	-29	-33
Nonwoven fabrics.....	-2	-4	-7	-9	-13	-16	-19	-20	-21	-24
Apparel.....	-25	-66	-121	-171	-215	-237	-252	-268	-316	-365
Logging.....	-22	-47	-67	-76	-80	-77	-80	-89	-102	-115
Sawmills.....	-24	-54	-86	-114	-142	-162	-182	-197	-206	-230
Wood products and furniture.....	-35	-82	-137	-192	-245	-289	-333	-369	-397	-448
Pulp and paper.....	-89	-248	-424	-624	-899	-1,170	-1,354	-1,428	-1,382	-1,252
Converted paper.....	-38	-85	-137	-188	-247	-294	-330	-346	-344	-385
Printing and publishing.....	-78	-186	-324	-458	-634	-779	-895	-971	-999	-998
Chemicals.....	-258	-750	-1,402	-1,989	-2,438	-2,666	-2,740	-2,597	-2,915	-3,250
Petroleum refining.....	-471	-1,115	-1,643	-2,164	-2,832	-3,453	-3,943	-4,246	-4,317	-4,166
Oil and gas production.....	-253	-655	-1,223	-1,812	-2,539	-3,211	-3,750	-4,099	-4,200	-3,961
Petroleum marketing.....	-25	-70	-143	-218	-298	-372	-440	-496	-569	-637
Oil and gas drilling.....	-46	-112	-178	-226	-261	-263	-267	-282	-314	-347
Rubber.....	-13	-33	-57	-80	-104	-125	-146	-165	-180	-188
Plastic.....	-25	-66	-138	-216	-313	-393	-462	-518	-559	-578
Leather.....	-7	-14	-22	-29	-39	-48	-56	-64	-71	-76
Glass.....	-30	-68	-112	-156	-210	-257	-298	-329	-346	-348

Cement.....	-11	-28	-48	-70	-96	-121	-142	-159	-169	-172
Stone and clay.....	-44	-108	-184	-262	-355	-453	-539	-603	-639	-647
Ferrous metal.....	-38	-117	-216	-337	-479	-611	-712	-773	-786	-742
Nonferrous metal.....	-19	-58	-113	-170	-229	-290	-339	-370	-388	-397
Fabricated metal.....	-89	-144	-269	-397	-559	-693	-818	-926	-1,016	-1,084
Machinery.....	-208	-559	-1,089	-1,753	-2,457	-2,976	-3,380	-3,632	-3,762	-4,272
Electronics.....	-59	-148	-249	-327	-381	-390	-411	-459	-533	-613
Motor vehicle production.....	-105	-5	-340	-893	-1,568	-2,023	-2,293	-2,434	-2,426	-2,226
Aerospace.....	-34	-92	-166	-259	-338	-378	-407	-422	-432	-484
Shipbuilding.....	-13	-33	-58	-87	-126	-164	-196	-221	-235	-242
Locomotives and railroad cars.....	-2	-4	-8	-13	-19	-25	-30	-32	-32	-31
Railroad transportation.....	-47	-152	-332	-549	-811	-1,044	-1,203	-1,268	-1,219	-1,048
Land passenger transportation.....	-54	-93	-137	-141	-164	-181	-196	-214	-239	-265
Land freight transportation.....	-117	-214	-352	-426	-434	-445	-483	-553	-634	-709
Water transportation.....	-34	-143	-282	-442	-638	-824	-969	-1,064	-1,100	-1,064
Airlines.....	-55	-131	-384	-739	-1,228	-1,691	-1,998	-2,108	-1,980	-1,591
Oil and gas pipelines.....	-29	-88	-237	-502	-831	-1,147	-1,419	-1,639	-1,803	-1,906
Telecommunications.....	-90	-226	-1,115	-2,533	-4,001	-5,127	-5,968	-6,523	-6,798	-7,580
Radio and TV.....	-18	-45	-69	-85	-92	-81	-71	-71	-82	-94
Cable TV.....	-6	-17	-33	-54	-74	-83	-83	-74	-60	-67
Electric utilities.....	-603	-1,966	-2,977	-3,752	-4,838	-6,072	-7,407	-8,737	-9,964	-11,099
Gas utilities.....	-147	-480	-803	-1,073	-1,436	-1,846	-2,279	-2,708	-3,102	-3,465
Trade.....	-740	-1,488	-2,123	-2,393	-2,776	-3,192	-3,735	-4,328	-4,945	-5,636
Amusements.....	-56	-189	-305	-371	-455	-523	-585	-629	-652	-662
Finance, insurance and real estate..	-84	-250	-461	-702	-978	-1,297	-1,651	-2,025	-2,431	-2,893
Personal and professional services..	-168	-501	-840	-1,077	-1,322	-1,521	-1,704	-1,879	-2,145	-2,457
<b>Industry total<sup>1</sup>.....</b>	<b>-5,547</b>	<b>-13,654</b>	<b>-23,731</b>	<b>-33,943</b>	<b>-45,434</b>	<b>-55,354</b>	<b>-63,864</b>	<b>-70,318</b>	<b>-75,330</b>	<b>-80,453</b>
<b>Grand total<sup>2</sup>.....</b>	<b>-5,804</b>	<b>-14,961</b>	<b>-25,192</b>	<b>-35,086</b>	<b>-46,178</b>	<b>-55,767</b>	<b>-64,162</b>	<b>-70,730</b>	<b>-76,108</b>	<b>-81,872</b>

<sup>1</sup> The industry estimates do not include the effect of residential real estate provisions, the at-risk rule for the investment tax credit, the extension of the net operating loss and investment tax credit carryover periods, the change in treatment of foreign depreciable assets, and the inclusion of research and development equipment in the 3-year class.

<sup>2</sup> The grand total includes items not allocated by industry as indicated in footnote 1. The estimated additional revenue loss for these items (in millions of dollars) is:

1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
-257	-1,307	-1,462	-1,143	-743	-414	-207	-411	-778	-1,419

Table B.1.—Accelerated Cost Recovery System (H.R. 2400) <sup>1</sup>—Continued

*b. Percent of Revenue Loss*

Calendar Years

Industry	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Agriculture.....	6.7	7.2	6.5	6.1	5.7	5.3	5.2	5.1	5.1	5.4
Mining.....	3.1	3.1	3.2	3.6	3.7	3.6	3.5	3.3	3.0	3.2
Construction.....	9.1	6.7	5.4	4.2	3.0	2.4	2.2	2.1	2.2	2.5
Grain products.....	.6	.6	.6	.6	.6	.7	.7	.7	.7	.6
Sugar products.....	.2	.2	.2	.2	.2	.2	.2	.2	.2	.2
Vegetable oil.....	.2	.2	.2	.2	.2	.2	.2	.2	.2	.1
Prepared food.....	1.6	1.4	1.5	1.5	1.7	1.8	1.8	1.8	1.8	1.7
Tobacco.....	.2	.2	.2	.2	.2	.2	.2	.2	.2	.2
Knitted goods.....	.2	.2	.1	.1	.1	.1	.1	.1	.1	.1
Yarn, thread, woven fabrics.....	.2	.2	.3	.3	.4	.4	.4	.4	.4	.3
Carpets, dyeing.....	.1	.1	.1	.1	.1	.1	.1	.1	.1	.1
Textured yarns.....	.1	.1	.1	(*)	(*)	(*)	(*)	(*)	(*)	(*)
Nonwoven fabrics.....	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)
Apparel.....	.5	.5	.5	.5	.5	.4	.4	.4	.4	.5
Logging.....	.4	.3	.3	.2	.2	.1	.1	.1	.1	.1
Sawmills.....	.4	.4	.4	.3	.3	.3	.3	.3	.3	.3
Wood products and furniture.....	.6	.6	.6	.6	.5	.5	.5	.5	.5	.6
Pulp and paper.....	1.6	1.8	1.8	1.8	2.0	2.1	2.1	2.0	1.8	1.6
Converted paper.....	.7	.6	.6	.6	.5	.5	.5	.5	.5	.5
Printing and publishing.....	1.4	1.4	1.4	1.3	1.4	1.4	1.4	1.4	1.3	1.2
Chemicals.....	4.7	5.5	5.9	5.9	5.4	4.8	4.3	3.7	3.9	4.0
Petroleum refining.....	8.5	8.2	6.9	6.4	6.2	6.2	6.2	6.0	5.7	5.2
Oil and gas production.....	4.6	4.8	5.2	5.3	5.6	5.8	5.9	5.8	5.6	4.9
Petroleum marketing.....	.5	.5	.6	.6	.7	.7	.7	.7	.8	.8
Oil and gas drilling.....	.8	.8	.8	.7	.6	.5	.4	.4	.4	.4
Rubber.....	.2	.2	.2	.2	.2	.2	.2	.2	.2	.2

Plastic.....	.4	.5	.6	.6	.7	.7	.7	.7	.7	.7
Leather.....	.1	.1	.1	.1	.1	.1	.1	.1	.1	.1
Glass.....	.5	.5	.5	.5	.5	.5	.5	.5	.5	.4
Cement.....	.2	.2	.2	.2	.2	.2	.2	.2	.2	.2
Stone and clay.....	.8	.8	.8	.8	.8	.8	.8	.9	.8	.8
Ferrous metal.....	.7	.9	.9	1.0	1.1	1.1	1.1	1.1	1.0	.9
Nonferrous metal.....	.3	.4	.5	.5	.5	.5	.5	.5	.5	.5
Fabricated metal.....	1.6	1.1	1.1	1.2	1.2	1.3	1.3	1.3	1.3	1.3
Machinery.....	3.7	4.1	4.6	5.2	5.4	5.4	5.3	5.2	5.0	5.3
Electronics.....	1.1	1.1	1.1	1.0	.8	.7	.6	.7	.7	.8
Motor vehicle production.....	1.9	(*)	1.4	2.6	3.5	3.7	3.6	3.5	3.2	2.8
Aerospace.....	.6	.7	.7	.8	.7	.7	.6	.6	.6	.6
Shipbuilding.....	.2	.2	.2	.3	.3	.3	.3	.3	.3	.3
Locomotives and railroad cars.....	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)
Railroad transportation.....	.9	1.1	1.4	1.6	1.8	1.9	1.9	1.8	1.6	1.3
Land passenger transportation.....	1.0	.7	.6	.4	.4	.3	.3	.3	.3	.3
Land freight transportation.....	2.1	1.6	1.5	1.3	1.0	.8	.8	.8	.8	.9
Water transportation.....	.6	1.0	1.2	1.3	1.4	1.5	1.5	1.5	1.5	1.3
Airlines.....	1.0	1.0	1.6	2.2	2.7	3.1	3.1	3.0	2.6	2.0
Oil and gas pipelines.....	.5	.6	1.0	1.5	1.8	2.1	2.2	2.3	2.4	2.4
Telecommunications.....	1.6	1.7	4.7	7.5	8.8	9.3	9.3	9.3	9.0	9.4
Radio and TV.....	.3	.3	.3	.2	.2	.1	.1	.1	.1	.1
Cable TV.....	.1	.1	.1	.2	.2	.1	.1	.1	.1	.1
Electric utilities.....	10.9	14.4	12.5	11.1	10.6	11.0	11.6	12.4	13.2	13.8
Gas utilities.....	2.7	3.5	3.4	3.2	3.2	3.3	3.6	3.9	4.1	4.3
Trade.....	13.3	10.9	8.9	7.0	6.1	5.8	5.8	6.2	6.6	7.0
Amusements.....	1.0	1.4	1.3	1.1	1.0	.9	.9	.9	.9	.8
Finance, insurance and real estate.....	1.5	1.8	1.9	2.1	2.2	2.3	2.6	2.9	3.2	3.6
Personal and professional services.....	3.0	3.7	3.5	3.2	2.9	2.7	2.7	2.7	2.8	3.1
<b>Grand total.....</b>	<b>100.0</b>									

\*Less than .05.

<sup>1</sup>This distribution does not include the effect of residential real estate provisions, the at-risk rule for the investment tax credit, the extension of the net operating loss and investment tax credit carryover periods, the change in treatment of foreign depreciable assets, and the inclusion of research and development equipment in the 3-year class.

Table B.1.—Accelerated Cost Recovery System (H.R. 2400) <sup>1</sup>—Continued

c. Ratio of Percent Revenue Loss to Percent Annual Investment

Industry	Calendar Years									
	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Agriculture.....	1.1	1.2	1.0	.9	.8	.8	.7	.7	.7	.7
Mining.....	.8	.7	.7	.8	.8	.8	.7	.7	.6	.6
Construction.....	1.7	1.3	1.1	.9	.6	.5	.5	.5	.5	.6
Grain products.....	1.3	1.2	1.3	1.3	1.3	1.4	1.5	1.5	1.5	1.4
Sugar products.....	1.4	1.3	1.3	1.3	1.4	1.5	1.5	1.5	1.4	1.3
Vegetable oil.....	1.6	1.5	1.5	1.4	1.5	1.5	1.6	1.6	1.6	1.5
Prepared food.....	1.0	.9	1.0	1.0	1.1	1.2	1.3	1.3	1.3	1.2
Tobacco.....	1.2	1.3	1.4	1.5	1.6	1.7	1.7	1.6	1.6	1.4
Knitted goods.....	1.4	1.4	1.3	1.0	.9	.8	.8	.8	.9	.9
Yarn, thread, woven fabrics.....	.7	.8	.9	1.0	1.1	1.2	1.3	1.2	1.2	1.0
Carpets, dyeing.....	.8	1.0	1.1	1.1	1.0	.9	.8	.8	.8	.9
Textured yarns.....	1.5	1.4	1.3	1.0	.9	.8	.7	.8	.8	.8
Nonwoven fabrics.....	1.2	1.1	1.1	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Apparel.....	1.0	1.1	1.2	1.2	1.1	1.0	.9	.9	1.0	1.1
Logging.....	1.9	1.6	1.3	1.0	.8	.7	.6	.6	.6	.7
Sawmills.....	1.4	1.2	1.1	1.0	.9	.9	.8	.8	.8	.8
Wood products and furniture.....	1.3	1.2	1.2	1.1	1.1	1.0	1.0	1.0	1.0	1.1
Pulp and paper.....	1.0	1.2	1.3	1.3	1.4	1.5	1.5	1.4	1.3	1.1
Converted paper.....	1.2	1.1	1.2	1.1	1.1	1.0	1.0	1.0	.9	.9
Printing and publishing.....	1.0	1.1	1.1	1.1	1.2	1.2	1.1	1.1	1.1	1.0
Chemicals.....	1.1	1.3	1.4	1.4	1.3	1.2	1.0	.9	.9	.9
Petroleum refining.....	4.1	3.2	2.5	2.2	2.1	2.1	2.0	2.0	1.9	1.7
Oil and gas production.....	1.4	1.2	1.1	1.1	1.2	1.2	1.2	1.2	1.1	1.0
Petroleum marketing.....	.8	.7	.8	.8	.8	.8	.8	.8	.9	.9
Oil and gas drilling.....	1.8	1.5	1.2	1.0	.9	.7	.6	.6	.6	.6
Rubber.....	1.0	1.0	1.1	1.2	1.1	1.1	1.1	1.1	1.0	1.0

Plastic.....	.6	.7	.8	1.0	1.1	1.1	1.0	1.0	1.0	1.0
Leather.....	1.2	1.1	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.1
Glass.....	1.6	1.5	1.4	1.4	1.4	1.4	1.4	1.4	1.3	1.2
Cement.....	1.4	1.4	1.4	1.4	1.5	1.5	1.5	1.5	1.5	1.4
Stone and clay.....	1.3	1.3	1.3	1.3	1.3	1.3	1.4	1.4	1.3	1.3
Ferrous metal.....	.6	.8	.9	1.0	1.1	1.1	1.1	1.1	1.0	.9
Nonferrous metal.....	.5	.6	.7	.8	.8	.8	.8	.8	.8	.8
Fabricated metal.....	1.3	.9	.9	.9	1.0	1.0	1.0	1.0	1.1	1.1
Machinery.....	.8	.9	1.0	1.1	1.1	1.1	1.1	1.0	1.0	1.0
Electronics.....	.9	.9	.9	.8	.7	.6	.5	.5	.6	.6
Motor vehicle production.....	.6	(*)	.4	.8	1.0	1.0	1.0	1.0	.9	.8
Aerospace.....	.7	.8	.9	1.0	1.0	.9	.9	.8	.8	.8
Shipbuilding.....	.9	1.1	1.0	1.0	1.1	1.2	1.3	1.3	1.3	1.2
Locomotives and railroad cars.....	.6	.8	.8	.9	1.0	1.1	1.1	1.1	1.1	.9
Railroad transportation.....	.6	.8	1.0	1.2	1.3	1.4	1.3	1.3	1.2	.9
Land passenger transportation.....	1.5	1.0	.8	.6	.5	.5	.4	.4	.5	.5
Land freight transportation.....	1.5	1.1	1.0	.8	.6	.5	.5	.5	.5	.6
Water transportation.....	.7	1.1	1.2	1.3	1.4	1.5	1.6	1.6	1.5	1.4
Airlines.....	.4	.4	.6	.8	.9	1.0	1.1	1.0	.9	.7
Oil and gas pipelines.....	.3	.4	.6	.8	1.0	1.2	1.2	1.3	1.3	1.3
Telecommunications.....	.2	.2	.6	.9	1.1	1.2	1.2	1.2	1.2	1.2
Radio and TV.....	1.6	1.6	1.5	1.3	1.0	.8	.6	.5	.6	.6
Cable TV.....	.8	.9	1.1	1.3	1.3	1.2	1.1	.9	.7	.7
Electric utilities.....	1.3	1.8	1.6	1.4	1.4	1.5	1.6	1.7	1.8	1.9
Gas utilities.....	1.0	1.3	1.3	1.2	1.2	1.3	1.5	1.6	1.7	1.8
Trade.....	1.3	1.1	1.0	.8	.7	.6	.7	.7	.8	.8
Amusements.....	.6	.8	.8	.7	.6	.6	.6	.6	.6	.6
Finance, insurance and real estate.....	.3	.3	.4	.4	.4	.5	.5	.6	.7	.8
Personal and professional services.....	.6	.8	.8	.8	.7	.7	.7	.7	.7	.8
<b>Grand total.....</b>	<b>1.0</b>									

\*Less than .05.

<sup>1</sup> This distribution does not include the effect of residential real estate provisions, the at-risk rule for the investment tax credit, the extension of the net operating loss and investment tax credit carryover periods, the change in treatment of foreign depreciable assets, and the inclusion of research and development equipment in the 3-year class.

Table B.1.—Accelerated Cost Recovery System (H.R. 2400)<sup>1</sup>—Continued

d. Ratio of Percent Revenue Loss to Percent Capital Stock

Industry	Calendar Years									
	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Agriculture.....	1.6	1.7	1.4	1.3	1.2	1.1	1.1	1.0	1.0	1.1
Mining.....	1.2	1.0	1.0	1.1	1.1	1.1	1.0	.9	.9	.9
Construction.....	4.3	3.2	2.7	2.1	1.5	1.3	1.2	1.2	1.2	1.4
Grain products.....	1.2	1.1	1.1	1.2	1.2	1.3	1.4	1.4	1.4	1.3
Sugar products.....	1.5	1.4	1.4	1.4	1.5	1.5	1.6	1.6	1.5	1.4
Vegetable oil.....	1.5	1.4	1.4	1.3	1.4	1.4	1.5	1.5	1.4	1.4
Prepared food.....	1.0	.9	1.0	1.0	1.1	1.2	1.2	1.3	1.2	1.2
Tobacco.....	1.2	1.3	1.4	1.5	1.6	1.7	1.6	1.6	1.5	1.4
Knitted goods.....	1.9	1.8	1.7	1.4	1.2	1.1	1.0	1.0	1.1	1.2
Yarn, thread, woven fabrics.....	.8	1.0	1.1	1.2	1.3	1.4	1.5	1.5	1.4	1.2
Carpets, dyeing.....	1.0	1.2	1.4	1.3	1.3	1.1	1.0	.9	1.0	1.1
Textured yarns.....	2.1	2.0	1.8	1.5	1.3	1.1	1.0	1.1	1.1	1.2
Nonwoven fabrics.....	1.4	1.3	1.3	1.2	1.2	1.1	1.1	1.1	1.1	1.1
Apparel.....	1.0	1.1	1.2	1.2	1.1	1.0	.9	.9	.9	1.0
Logging.....	3.6	3.0	2.4	1.9	1.5	1.2	1.1	1.1	1.2	1.2
Sawmills.....	1.7	1.5	1.3	1.2	1.1	1.1	1.0	1.0	1.0	1.0
Wood products and furniture.....	1.3	1.2	1.2	1.1	1.1	1.0	1.0	1.0	1.0	1.1
Pulp and paper.....	1.2	1.4	1.6	1.6	1.6	1.7	1.7	1.6	1.5	1.3
Converted paper.....	1.4	1.4	1.5	1.4	1.3	1.3	1.2	1.2	1.1	1.1
Printing and publishing.....	1.3	1.3	1.3	1.3	1.4	1.4	1.3	1.3	1.2	1.2
Chemicals.....	1.3	1.6	1.7	1.7	1.6	1.4	1.2	1.0	1.1	1.1
Petroleum refining.....	4.8	3.8	2.9	2.5	2.4	2.4	2.3	2.3	2.2	1.9
Oil and gas production.....	1.9	1.6	1.6	1.6	1.6	1.7	1.7	1.6	1.6	1.4
Petroleum marketing.....	.9	.9	.9	.9	.9	.9	.9	.9	1.0	1.1
Oil and gas drilling.....	3.9	3.1	2.6	2.2	1.9	1.5	1.3	1.3	1.3	1.3
Rubber.....	1.1	1.1	1.2	1.3	1.2	1.1	1.1	1.1	1.1	1.0
Plastic.....	.6	.7	.8	1.0	1.1	1.1	1.1	1.0	1.0	1.0

Leather.....	1.2	1.1	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Glass.....	1.9	1.7	1.6	1.6	1.6	1.5	1.5	1.5	1.5	1.4
Cement.....	1.3	1.3	1.3	1.3	1.3	1.4	1.4	1.4	1.3	1.3
Stone and clay.....	1.3	1.3	1.2	1.2	1.3	1.3	1.3	1.3	1.3	1.2
Ferrous metal.....	.6	.8	.8	.9	1.0	1.0	1.0	1.0	1.0	.9
Nonferrous metal.....	.5	.6	.7	.8	.8	.8	.8	.8	.8	.7
Fabricated metal.....	1.6	1.0	1.1	1.1	1.2	1.2	1.2	1.2	1.2	1.2
Machinery.....	.9	1.0	1.0	1.2	1.2	1.1	1.1	1.0	1.0	1.1
Electronics.....	1.2	1.2	1.1	1.0	.9	.8	.7	.7	.8	.8
Motor vehicle production.....	1.2	(*)	.8	1.4	1.8	1.9	1.9	1.8	1.7	1.5
Aerospace.....	.8	.9	1.0	1.1	1.1	1.0	1.0	.9	.9	.9
Shipbuilding.....	.7	.9	.8	.8	.9	1.0	1.0	1.1	1.1	1.0
Locomotives and railroad cars.....	.7	.9	.9	.9	1.1	1.2	1.2	1.2	1.1	1.0
Railroad transportation.....	.8	1.0	1.3	1.5	1.7	1.8	1.7	1.6	1.5	1.2
Land passenger transportation.....	3.7	2.5	2.0	1.4	1.2	1.1	1.0	1.0	1.1	1.1
Land freight transportation.....	3.0	2.2	2.0	1.7	1.3	1.1	1.0	1.0	1.1	1.2
Water transportation.....	.5	.9	.9	1.0	1.1	1.1	1.1	1.1	1.1	1.0
Airlines.....	.5	.4	.7	.9	1.1	1.3	1.3	1.2	1.1	.8
Oil and gas pipelines.....	.3	.3	.4	.6	.8	.9	1.0	1.0	1.0	1.0
Telecommunications.....	.2	.2	.4	.7	.9	.9	.9	.9	.9	.9
Radio and TV.....	3.4	3.4	3.1	2.6	2.2	1.7	1.3	1.1	1.2	1.3
Cable TV.....	1.4	1.6	1.8	2.1	2.2	2.1	1.8	1.5	1.1	1.2
Electric utilities.....	1.0	1.3	1.1	1.0	1.0	1.0	1.1	1.2	1.3	1.3
Gas utilities.....	.7	.9	.8	.8	.8	.9	.9	1.0	1.1	1.2
Trade.....	1.2	1.0	.9	.7	.6	.6	.6	.6	.7	.7
Amusements.....	.7	1.0	.9	.8	.7	.7	.7	.7	.7	.6
Finance, insurance and real estate.....	.1	.2	.2	.2	.2	.2	.3	.3	.3	.4
Personal and professional services.....	.5	.7	.7	.6	.6	.5	.5	.6	.6	.6
Grand total.....	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0

\*Less than 0.05.

<sup>1</sup> This distribution does not include the effect of residential real estate provisions, the at-risk rule for the investment tax credit, the extension of the net operating loss and investment tax credit carryover periods, the change in treatment of foreign depreciable assets and the inclusion of research and development equipment in the 3-year class.

Table B.2.—Industry Tax Change Under the Simplified Cost Recovery System  
 ("2-4-7-10")<sup>1</sup>

a. Total Tax Change

Calendar Years (millions of dollars)

Industry	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Agriculture.....	-1,082	-1,328	-1,312	-1,287	-1,197	-1,128	-1,128	-1,114	-1,112	-1,228
Mining.....	-326	-830	-899	-882	-851	-797	-766	-731	-727	-787
Construction.....	-1,167	-1,669	-1,133	-688	-286	-163	-103	-70	-80	-138
Grain products.....	-44	-90	-89	-93	-100	-108	-117	-128	-138	-148
Sugar products.....	-13	-26	-26	-26	-28	-29	-31	-33	-35	-37
Vegetable oil.....	-13	-26	-26	-26	-28	-30	-33	-35	-38	-41
Prepared food.....	-149	-307	-307	-313	-326	-343	-362	-382	-402	-420
Tobacco.....	-18	-39	-44	-47	-47	-48	-52	-56	-60	-64
Knitted goods.....	-12	-28	-25	-23	-23	-22	-21	-22	-25	-28
Yarn, thread, woven fabrics.....	-22	-77	-93	-97	-102	-103	-103	-101	-96	-97
Carpets, dyeing.....	-8	-25	-26	-24	-23	-19	-16	-15	-19	-21
Textured yarns.....	-4	-11	-9	-8	-8	-8	-7	-7	-8	-9
Nonwoven fabrics.....	-3	-7	-6	-6	-6	-7	-7	-7	-7	-8
Apparel.....	-48	-88	-90	-83	-76	-64	-56	-61	-78	-95
Loggins.....	-42	-90	-66	-45	-31	-21	-18	-20	-24	-25
Sawmills.....	-41	-91	-82	-71	-60	-53	-54	-58	-62	-69
Wood products and furniture.....	-65	-120	-122	-120	-111	-108	-115	-124	-136	-152
Pulp and paper.....	-186	-396	-437	-431	-433	-441	-451	-460	-463	-463
Converted paper.....	-83	-196	-171	-135	-126	-123	-124	-127	-135	-152
Printing and publishing.....	-196	-408	-410	-383	-352	-332	-333	-341	-340	-358
Chemicals.....	-452	-1,377	-1,477	-1,308	-1,128	-991	-928	-902	-1,003	-1,125
Petroleum refining.....	-827	-1,781	-1,873	-1,869	-1,917	-2,025	-2,157	-2,298	-2,438	-2,580
Oil and gas production.....	-642	-1,251	-1,435	-1,515	-1,489	-1,484	-1,511	-1,550	-1,569	-1,562
Petroleum marketing.....	-85	-144	-151	-136	-117	-102	-95	-94	-102	-104
Oil and gas drilling.....	-119	-286	-274	-231	-178	-135	-114	-102	-98	-102
Rubber.....	-27	-50	-53	-50	-46	-48	-54	-60	-66	-70
Plastic.....	-65	-161	-183	-173	-156	-157	-165	-172	-181	-203
Leather.....	-10	-20	-19	-19	-18	-19	-20	-22	-24	-26

Glass.....	-60	-118	-116	-111	-110	-114	-122	-132	-141	-149
Cement.....	-16	-31	-33	-36	-37	-41	-46	-52	-58	-64
Stone and clay.....	-80	-158	-173	-182	-187	-200	-221	-245	-269	-291
Ferrous metal.....	-74	-192	-224	-232	-237	-246	-259	-274	-288	-300
Nonferrous metal.....	-44	-102	-114	-120	-122	-124	-129	-137	-145	-151
Fabricated metal.....	-190	-306	-259	-226	-220	-232	-262	-294	-319	-339
Machinery.....	-462	-1,202	-1,298	-1,284	-1,243	-1,209	-1,212	-1,241	-1,342	-1,495
Electronics.....	-159	-377	-287	-205	-141	-94	-73	-71	-85	-98
Motor vehicle production.....	-526	-995	-885	-659	-557	-597	-610	-548	-509	-474
Aerospace.....	-82	-241	-222	-188	-145	-120	-108	-106	-112	-121
Shipbuilding.....	-24	-48	-51	-57	-60	-63	-66	-71	-76	-83
Locomotives and railroad cars.....	-4	-11	-11	-12	-12	-11	-11	-11	-10	-11
Railroad transportation.....	-82	-222	-284	-310	-315	-315	-318	-321	-311	-291
Land passenger transportation.....	-107	-145	-103	-81	-82	-84	-88	-97	-106	-114
Land freight transportation.....	-318	-521	-419	-316	-202	-147	-158	-202	-235	-244
Water transportation.....	-30	-93	-134	-168	-198	-225	-252	-278	-305	-330
Airlines.....	-74	-218	-296	-336	-342	-327	-314	-310	-283	-231
Oil and gas pipelines.....	-35	-72	-114	-161	-205	-241	-278	-314	-349	-383
Telecommunications.....	-77	-171	-331	-532	-736	-858	-956	-1,036	-1,121	-1,240
Radio and TV.....	-44	-106	-84	-63	-47	-30	-16	-12	-16	-19
Cable TV.....	-13	-36	-40	-38	-34	-27	-21	-14	-11	-12
Electric utilities.....	-94	-241	-386	-536	-617	-688	-811	-974	-1,144	-1,316
Gas utilities.....	-35	-87	-133	-179	-198	-215	-252	-303	-355	-407
Trade.....	-1,451	-2,014	-1,543	-1,259	-1,180	-1,250	-1,431	-1,685	-1,959	-2,213
Amusements.....	-184	-265	-212	-166	-140	-128	-123	-123	-125	-122
Finance, insurance and real estate.....	-97	-214	-272	-339	-430	-547	-687	-844	-1,027	-1,235
Personal and professional services.....	-213	-505	-443	-369	-322	-292	-281	-313	-385	-461
<b>Industry total <sup>1</sup>.....</b>	<b>-10,321</b>	<b>-19,614</b>	<b>-19,307</b>	<b>-18,253</b>	<b>-17,382</b>	<b>-17,333</b>	<b>-18,044</b>	<b>-19,099</b>	<b>-20,554</b>	<b>-22,356</b>
<b>Grand total <sup>2</sup>.....</b>	<b>-10,860</b>	<b>-20,300</b>	<b>-20,126</b>	<b>-19,205</b>	<b>-18,461</b>	<b>-18,554</b>	<b>-19,431</b>	<b>-20,680</b>	<b>-22,361</b>	<b>-24,419</b>

<sup>1</sup> The industry amounts do not include the effect of residential real estate provisions and the increase in the investment tax credit for rehabilitated structures.

<sup>2</sup> The grand total includes items not allocated by industry as indicated in footnote 1. The estimated additional revenue loss for these items in millions of dollars is:

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
	-539	-685	-819	-932	-1,078	-1,221	-1,387	-1,582	-1,806	-2,063

Table B.2.—Simplified Cost Recovery System ("2-4-7-10")<sup>1</sup>—Continued

*b. Percent of Revenue Loss*

Industry	Calendar Years									
	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Agriculture.....	10.5	6.8	6.8	7.1	6.9	6.5	6.3	5.8	5.4	5.5
Mining.....	3.2	4.2	4.7	4.8	4.9	4.6	4.2	3.8	3.5	3.5
Construction.....	11.3	8.5	5.9	3.8	1.6	.9	.6	.4	.4	.8
Grain products.....	.4	.5	.5	.5	.6	.6	.7	.7	.7	.7
Sugar products.....	.1	.1	.1	.1	.2	.2	.2	.2	.2	.2
Vegetable oil.....	.1	.1	.1	.1	.2	.2	.2	.2	.2	.2
Prepared food.....	1.4	1.6	1.6	1.7	1.9	2.0	2.0	2.0	2.0	1.9
Tobacco.....	.2	.2	.2	.3	.3	.3	.3	.3	.3	.3
Knitted goods.....	.1	.1	.1	.1	.1	.1	.1	.1	.1	.1
Yarn, thread, woven fabrics.....	.2	.4	.5	.5	.6	.6	.6	.5	.5	.4
Carpets, dyeing.....	.1	.1	.1	.1	.1	.1	.1	.1	.1	.1
Textured yarns.....	(*)	.1	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)
Nonwoven fabrics.....	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)
Apparel.....	.5	.4	.5	.5	.4	.4	.3	.3	.4	.4
Logging.....	.4	.5	.3	.2	.2	.1	.1	.1	.1	.1
Sawmills.....	.4	.5	.4	.4	.3	.3	.3	.3	.3	.3
Wood products and furniture.....	.6	.6	.6	.7	.6	.6	.6	.7	.7	.7
Pulp and paper.....	1.8	2.0	2.3	2.4	2.5	2.5	2.5	2.4	2.3	2.1
Converted paper.....	.8	1.0	.9	.7	.7	.7	.7	.7	.7	.7
Printing and publishing.....	1.9	2.1	2.1	2.1	2.0	1.9	1.8	1.8	1.7	1.6
Chemicals.....	4.4	7.0	7.6	7.2	6.5	5.7	5.1	4.7	4.9	5.0
Petroleum refining.....	8.0	9.1	9.7	10.2	11.0	11.7	12.0	12.0	11.9	11.5
Oil and gas production.....	6.2	6.4	7.4	8.3	8.6	8.6	8.4	8.1	7.6	7.0
Petroleum marketing.....	.8	.7	.8	.7	.7	.6	.5	.5	.5	.5
Oil and gas drilling.....	1.1	1.5	1.4	1.3	1.0	.8	.6	.5	.5	.5
Rubber.....	.3	.3	.3	.3	.3	.3	.3	.3	.3	.3

Plastic.....	.6	.8	.9	.9	.9	.9	.9	.9	.9	.9
Leather.....	.1	.1	.1	.1	.1	.1	.1	.1	.1	.1
Glass.....	.6	.6	.6	.6	.6	.7	.7	.7	.7	.7
Cement.....	.2	.2	.2	.2	.2	.2	.3	.3	.3	.3
Stone and clay.....	.8	.8	.9	1.0	1.1	1.2	1.2	1.3	1.3	1.3
Ferrous metal.....	.7	1.0	1.2	1.3	1.4	1.4	1.4	1.4	1.4	1.3
Nonferrous metal.....	.4	.5	.6	.7	.7	.7	.7	.7	.7	.7
Fabricated metal.....	1.8	1.6	1.3	1.2	1.3	1.3	1.5	1.5	1.6	1.5
Machinery.....	4.5	6.1	6.7	7.0	7.1	7.0	6.7	6.5	6.5	6.7
Electronics.....	1.5	1.9	1.5	1.1	.8	.5	.4	.4	.4	.4
Motor vehicle production.....	5.1	5.1	4.6	3.6	3.2	3.4	3.4	2.9	2.5	2.1
Aerospace.....	.8	1.2	1.2	1.0	.8	.7	.6	.6	.5	.5
Shipbuilding.....	.2	.2	.3	.3	.3	.4	.4	.4	.4	.4
Locomotives and railroad cars.....	(*)	.1	.1	.1	.1	.1	.1	.1	(*)	(*)
Railroad transportation.....	.8	1.1	1.5	1.7	1.8	1.8	1.8	1.7	1.5	1.3
Land passenger transportation.....	1.0	.7	.5	.4	.5	.5	.5	.5	.5	.5
Land freight transportation.....	3.1	2.7	2.2	1.7	1.2	.8	.9	1.1	1.1	1.1
Water transportation.....	.3	.5	.7	.9	1.1	1.3	1.4	1.5	1.5	1.5
Airlines.....	.7	1.1	1.5	1.8	2.0	1.9	1.7	1.6	1.4	1.0
Oil and gas pipelines.....	.3	.4	.6	.9	1.2	1.4	1.5	1.6	1.7	1.7
Telecommunications.....	.7	.9	1.7	2.9	4.2	5.0	5.3	5.4	5.5	5.5
Radio and TV.....	.4	.5	.4	.3	.3	.2	.1	.1	.1	.1
Cable TV.....	.1	.2	.2	.2	.2	.2	.1	.1	.1	.1
Electric utilities.....	.9	1.2	2.0	2.9	3.5	4.0	4.5	5.1	5.6	5.9
Gas utilities.....	.3	.4	.7	1.0	1.1	1.2	1.4	1.6	1.7	1.8
Trade.....	14.1	10.3	8.0	6.9	6.8	7.2	7.9	8.8	9.5	9.9
Amusements.....	1.8	1.4	1.1	.9	.8	.7	.7	.6	.6	.5
Finance, insurance and real estate.....	.9	1.1	1.4	1.9	2.5	3.2	3.8	4.4	5.0	5.5
Personal and professional services.....	2.1	2.6	2.3	2.0	1.9	1.7	1.6	1.6	1.9	2.1
<b>Grand total.....</b>	<b>100.0</b>									

\* Less than .05.

† This distribution does not include the effect of residential real estate provisions and the increase in the investment tax credit for rehabilitated structures.

Table B.2.—Simplified Cost Recovery System ("2-4-7-10")<sup>1</sup>—Continued  
*c. Ratio of Percent Revenue Loss to Percent Annual Investment*

Industry	Calendar Years									
	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Agriculture.....	1.7	1.1	1.1	1.0	1.0	1.0	.9	.8	.8	.7
Mining.....	.8	1.0	1.0	1.0	1.0	1.0	.9	.8	.7	.7
Construction.....	2.2	1.7	1.2	.8	.3	.2	.1	.1	.1	.2
Grain products.....	.9	1.0	1.0	1.1	1.2	1.3	1.4	1.5	1.5	1.5
Sugar products.....	1.0	1.1	1.1	1.2	1.3	1.4	1.5	1.5	1.5	1.5
Vegetable oil.....	1.1	1.2	1.2	1.3	1.5	1.6	1.7	1.8	1.8	1.8
Prepared food.....	.9	1.0	1.1	1.1	1.3	1.3	1.4	1.4	1.4	1.4
Tobacco.....	1.2	1.5	1.7	2.0	2.2	2.2	2.3	2.3	2.3	2.2
Knitted goods.....	1.0	1.3	1.2	1.0	1.1	1.0	.9	.9	.9	1.0
Yarn thread, woven fabrics.....	.7	1.3	1.6	1.7	1.8	1.8	1.7	1.6	1.4	1.3
Carpets, dyeing.....	.6	1.1	1.1	1.0	1.0	.8	.6	.6	.7	.7
Textured yarns.....	1.0	1.3	1.2	1.0	1.1	1.0	.8	.8	.8	.8
Nonwoven fabrics.....	1.0	1.3	1.3	1.2	1.3	1.3	1.3	1.2	1.2	1.2
Apparel.....	1.0	1.0	1.1	1.1	1.1	.9	.7	.7	.9	1.0
Logging.....	2.0	2.2	1.6	1.1	.8	.6	.5	.5	.5	.5
Sawmills.....	1.2	1.4	1.3	1.2	1.0	.9	.9	.9	.9	.9
Wood products and furniture.....	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Pulp and paper.....	1.1	1.3	1.7	1.7	1.7	1.8	1.7	1.7	1.6	1.4
Converted paper.....	1.4	1.8	1.9	1.5	1.4	1.4	1.4	1.3	1.3	1.3
Printing and publishing.....	1.4	1.6	1.7	1.7	1.7	1.6	1.5	1.4	1.3	1.3
Chemicals.....	1.0	1.7	1.9	1.8	1.6	1.4	1.2	1.1	1.1	1.2
Petroleum refining.....	3.8	3.6	3.4	3.5	3.7	3.9	3.9	3.9	3.9	3.8
Oil and gas production.....	1.9	1.6	1.7	1.8	1.8	1.8	1.7	1.7	1.6	1.4
Petroleum marketing.....	1.4	1.1	1.0	.9	.8	.7	.6	.6	.6	.5
Oil and gas drilling.....	2.5	2.6	2.3	2.0	1.6	1.2	.9	.8	.7	.7

Rubber.....	1.1	1.1	1.2	1.4	1.3	1.3	1.4	1.4	1.4	1.3
Plastic.....	.9	1.1	1.4	1.5	1.4	1.3	1.3	1.3	1.2	1.2
Leather.....	1.0	1.1	1.1	1.2	1.2	1.2	1.3	1.3	1.3	1.3
Glass.....	1.8	1.8	1.8	1.9	1.9	2.0	2.0	2.0	2.0	1.9
Cement.....	1.1	1.1	1.2	1.4	1.5	1.6	1.7	1.8	1.9	1.9
Stone and clay.....	1.3	1.3	1.5	1.7	1.8	1.9	2.0	2.1	2.1	2.0
Ferrous metal.....	.7	.9	1.1	1.3	1.4	1.4	1.4	1.4	1.4	1.3
Nonferrous metal.....	.6	.8	.9	1.0	1.1	1.1	1.1	1.1	1.1	1.0
Fabricated metal.....	1.5	1.3	1.1	1.0	1.0	1.1	1.1	1.2	1.2	1.2
Machinery.....	1.0	1.4	1.4	1.5	1.5	1.4	1.3	1.3	1.3	1.3
Electronics.....	1.3	1.6	1.2	.9	.7	.4	.3	.3	.3	.4
Motor vehicle production.....	1.6	1.4	1.3	1.0	.9	1.0	.9	.8	.7	.6
Aerospace.....	.9	1.5	1.4	1.3	1.1	.9	.8	.8	.7	.8
Shipbuilding.....	.9	1.2	1.1	1.3	1.4	1.5	1.5	1.6	1.6	1.5
Locomotives and railroad cars.....	.9	1.6	1.5	1.5	1.7	1.6	1.5	1.4	1.3	1.2
Railroad transportation.....	.5	.8	1.0	1.3	1.3	1.3	1.3	1.2	1.1	.9
Land passenger transportation.....	1.6	1.1	.8	.6	.7	.7	.7	.7	.7	.7
Land freight transportation.....	2.1	1.8	1.4	1.1	.7	.5	.6	.7	.7	.7
Water transportation.....	.3	.5	.7	.9	1.2	1.3	1.4	1.5	1.5	1.5
Airlines.....	.3	.4	.5	.6	.7	.6	.6	.5	.5	.3
Oil and gas pipelines.....	.2	.2	.3	.5	.7	.8	.9	.9	.9	1.0
Telecommunications.....	.1	.1	.2	.4	.5	.6	.7	.7	.7	.7
Radio and TV.....	2.1	2.7	2.2	1.8	1.4	.9	.5	.3	.4	.4
Cable TV.....	.9	1.4	1.6	1.6	1.5	1.3	1.0	.6	.4	.5
Electric utilities.....	.1	.2	.3	.4	.5	.5	.6	.7	.8	.8
Gas utilities.....	.1	.2	.3	.4	.4	.5	.6	.7	.7	.8
Trade.....	1.4	1.1	.9	.8	.8	.8	.9	1.0	1.1	1.2
Amusements.....	1.0	.8	.7	.6	.5	.5	.4	.4	.4	.4
Finance, insurance and real estate.....	.2	.2	.3	.4	.5	.6	.8	.9	1.0	1.2
Personal and professional services.....	.4	.6	.5	.5	.4	.4	.4	.4	.5	.5
<b>Grand total.....</b>	<b>1.0</b>									

<sup>1</sup> This distribution does not include the effect of residential real estate provisions and the increase in the investment tax credit for rehabilitated structures.

Table B.2.—Simplified Cost Recovery System ("2-4-7-10")<sup>1</sup>—Continued

d. Ratio of Percent Revenue Loss to Percent Capital Stock

Industry	Calendar Years									
	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Agriculture.....	2.6	1.6	1.5	1.5	1.4	1.4	1.3	1.2	1.1	1.1
Mining.....	1.2	1.4	1.5	1.5	1.5	1.4	1.3	1.1	1.0	1.0
Construction.....	5.3	4.1	2.9	1.9	.8	.5	.3	.2	.2	.5
Grain products.....	.8	.9	.9	1.0	1.1	1.2	1.3	1.4	1.4	1.4
Sugar products.....	1.0	1.2	1.2	1.2	1.4	1.5	1.5	1.6	1.6	1.5
Vegetable oil.....	1.0	1.2	1.1	1.2	1.4	1.5	1.6	1.6	1.7	1.7
Prepared food.....	.9	1.0	1.1	1.1	1.2	1.3	1.3	1.4	1.4	1.3
Tobacco.....	1.3	1.5	1.7	2.0	2.2	2.2	2.2	2.2	2.2	2.2
Knitted goods.....	1.3	1.7	1.5	1.4	1.4	1.3	1.2	1.1	1.2	1.2
Yarn, thread, woven fabrics.....	.8	1.6	2.0	2.0	2.2	2.1	2.0	1.9	1.6	1.5
Carpets, dyeing.....	.7	1.4	1.4	1.3	1.3	1.0	.8	.7	.8	.8
Textured yarns.....	1.4	1.8	1.7	1.5	1.5	1.3	1.2	1.1	1.2	1.2
Nonwoven fabrics.....	1.1	1.5	1.5	1.4	1.5	1.5	1.5	1.4	1.4	1.4
Apparel.....	1.0	1.0	1.0	1.1	1.1	.9	.7	.7	.9	1.0
Logging.....	3.7	4.1	2.9	2.1	1.6	1.1	.9	.9	1.0	1.0
Sawmills.....	1.5	1.7	1.5	1.4	1.3	1.1	1.1	1.1	1.1	1.1
Wood products and furniture.....	1.3	1.3	1.3	1.3	1.3	1.2	1.3	1.3	1.3	1.3
Pulp and paper.....	1.3	1.5	2.0	2.0	2.1	2.1	2.0	1.9	1.8	1.7
Converted paper.....	1.7	2.2	2.3	1.9	1.8	1.7	1.6	1.6	1.5	1.6
Printing and publishing.....	1.7	1.9	2.0	2.0	2.0	1.9	1.8	1.7	1.5	1.5
Chemicals.....	1.2	2.0	2.3	2.1	1.9	1.6	1.5	1.3	1.4	1.4
Petroleum refining.....	4.6	4.2	4.0	4.0	4.3	4.5	4.5	4.5	4.5	4.3
Oil and gas production.....	2.6	2.2	2.3	2.4	2.5	2.5	2.4	2.3	2.1	2.0
Petroleum marketing.....	1.7	1.2	1.2	1.1	.9	.8	.7	.7	.6	.6
Oil and gas drilling.....	5.4	5.6	4.8	4.1	3.3	2.5	2.0	1.7	1.6	1.4
Rubber.....	1.2	1.2	1.3	1.5	1.4	1.4	1.5	1.5	1.5	1.4

64

Plastic.....	.9	1.1	1.4	1.6	1.4	1.4	1.3	1.3	1.2	1.2
Leather.....	1.0	1.1	1.1	1.1	1.2	1.2	1.2	1.2	1.2	1.2
Glass.....	2.0	2.0	2.0	2.1	2.1	2.2	2.2	2.2	2.2	2.1
Cement.....	1.0	1.0	1.1	1.2	1.4	1.5	1.6	1.6	1.7	1.7
Stone and clay.....	1.3	1.3	1.4	1.6	1.7	1.8	1.9	2.0	2.0	1.9
Ferrous metal.....	.6	.9	1.1	1.2	1.3	1.3	1.3	1.3	1.3	1.2
Nonferrous metal.....	.6	.8	.9	1.0	1.1	1.1	1.1	1.1	1.1	1.0
Fabricated metal.....	1.8	1.5	1.3	1.2	1.2	1.2	1.3	1.4	1.4	1.4
Machinery.....	1.0	1.4	1.5	1.6	1.6	1.5	1.4	1.3	1.3	1.3
Electronics.....	1.7	2.1	1.6	1.2	.9	.6	.4	.4	.4	.5
Motor vehicle production.....	3.2	2.7	2.4	2.0	1.7	1.8	1.7	1.5	1.3	1.1
Aerospace.....	1.0	1.7	1.6	1.5	1.3	1.0	.9	.8	.8	.8
Shipbuilding.....	.7	1.0	.9	1.0	1.1	1.2	1.2	1.2	1.3	1.2
Locomotives and railroad cars.....	1.0	1.7	1.5	1.6	1.7	1.7	1.5	1.4	1.3	1.2
Railroad transportation.....	.7	1.0	1.3	1.6	1.7	1.7	1.6	1.5	1.4	1.2
Land passenger transportation.....	3.9	2.7	1.9	1.5	1.6	1.6	1.6	1.7	1.7	1.7
Land freight transportation.....	4.4	3.7	2.9	2.3	1.5	1.1	1.1	1.4	1.5	1.4
Water transportation.....	.2	.4	.5	.7	.9	1.0	1.0	1.1	1.1	1.1
Airlines.....	.4	.5	.7	.8	.8	.8	.7	.7	.6	.4
Oil and gas pipelines.....	.2	.2	.3	.4	.5	.6	.7	.7	.7	.8
Telecommunications.....	.1	.1	.2	.3	.4	.5	.5	.5	.5	.6
Radio and TV.....	4.4	5.6	4.6	3.7	3.0	2.0	1.0	.7	.9	.9
Cable TV.....	1.6	2.4	2.7	2.7	2.6	2.2	1.6	1.0	.7	.8
Electric utilities.....	.1	.1	.2	.3	.3	.4	.4	.5	.5	.6
Gas utilities.....	.1	.1	.2	.2	.3	.3	.4	.4	.5	.5
Trade.....	1.3	1.0	.8	.7	.7	.7	.8	.9	1.0	1.0
Amusements.....	1.2	.9	.8	.7	.6	.5	.5	.5	.5	.4
Finance, insurance and real estate.....	.1	.1	.1	.2	.2	.3	.4	.5	.5	.6
Personal and professional services.....	.4	.5	.5	.4	.4	.3	.3	.3	.4	.4
<b>Grand total.....</b>	<b>1.0</b>									

<sup>1</sup> This distribution does not include the effect of residential real estate provisions and the increase in the investment tax credit for rehabilitated structures.

Table B.3.—Industry Tax Change Under the First-Year Capital Cost Recovery System (H.R. 3443) <sup>1</sup>

a. Total Tax Change

Calendar Years (millions of dollars)

Industry	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Agriculture.....	-1,956	-1,715	-1,695	-1,646	-1,150	-1,091	-1,087	-1,000	-956	-936
Mining.....	-50	-237	-497	-809	-547	-627	-632	-553	-660	-589
Construction.....	-1,434	-1,128	-906	-591	-360	850	963	1,072	1,065	1,177
Grain products.....	-18	-220	-284	-332	-297	-296	-275	-249	-253	-220
Sugar products.....	-6	-23	-44	-63	-60	-68	-68	-66	-70	-62
Vegetable oil.....	-5	-15	-32	-48	-46	-53	-55	-54	-58	-53
Prepared food.....	-39	-99	-273	-453	-407	-481	-484	-454	-486	-398
Tobacco.....	-2	-45	-70	-88	-73	-77	-78	-75	-78	-68
Knitted goods.....	-2	-4	-15	-31	-30	-34	-34	-32	-38	-34
Yarn, thread, woven fabrics.....	-11	-48	-89	-140	-117	-135	-138	-128	-128	-108
Carpets, dyeing.....	-1	-15	-27	-42	-32	-34	-30	-26	-31	-25
Textured yarns.....	-1	-3	-7	-13	-12	-14	-13	-12	-14	-12
Nonwoven fabrics.....	0	-1	-4	-7	-7	-9	-9	-8	-9	-8
Apparel.....	-63	-56	-74	-86	-54	-56	-51	-49	-64	-58
Logging.....	-8	-17	-28	-27	-11	-10	-8	-5	-11	0
Sawmills.....	-13	-24	-42	-42	-23	-25	-28	-22	-27	-14
Wood products and furniture.....	-70	-85	-110	-108	-83	-89	-98	-95	-105	-95
Pulp and paper.....	-122	-364	-513	-758	-635	-719	-748	-714	-746	-628
Converted paper.....	-18	-71	-100	-153	-129	-143	-141	-122	-133	-108
Printing and publishing.....	-168	-138	-309	-402	-322	-373	-395	-379	-382	-324
Chemicals.....	-7	-444	-899	-1,367	-914	-1,029	-1,038	-933	-1,150	-946
Petroleum refining.....	-49	-579	-1,148	-1,658	-1,623	-1,807	-1,883	-1,864	-2,013	-1,801
Oil and gas production.....	-345	-900	-1,622	-2,232	-2,006	-2,202	-2,249	-2,164	-2,304	-1,925
Petroleum marketing.....	-105	-202	-223	-219	-165	-152	-136	-122	-131	-114
Oil and gas drilling.....	-21	-65	-138	-200	-153	-159	-147	-127	-155	-115
Rubber.....	-14	-42	-61	-71	-60	-70	-76	-80	-91	-80
Plastic.....	-38	-88	-133	-164	-136	-165	-179	-183	-208	-185
Leather.....	-5	-14	-21	-25	-24	-26	-26	-24	-25	-22

Glass.....	-21	-47	-91	-131	-120	-141	-152	-154	-175	-161
Cement.....	-12	-33	-55	-70	-66	-77	-84	-89	-101	-99
Stone and clay.....	-50	-101	-175	-224	-199	-234	-258	-268	-304	-284
Ferrous metal.....	-69	-153	-217	-292	-238	-271	-284	-282	-300	-261
Nonferrous metal.....	-35	-63	-96	-137	-101	-110	-112	-106	-116	-101
Fabricated metal.....	-117	-99	-189	-276	-290	-355	-404	-410	-457	-414
Machinery.....	-202	-447	-895	-1,374	-1,167	-1,331	-1,385	-1,353	-1,496	-1,319
Electronics.....	-15	-92	-144	-212	-120	-114	-94	-66	-97	-63
Motor vehicle production.....	7	-185	-632	-1,242	-1,354	-1,750	-1,778	-1,611	-1,771	-1,358
Aerospace.....	-26	-125	-188	-245	-190	-201	-195	-180	-202	-170
Shipbuilding.....	-16	-41	-67	-90	-79	-87	-88	-86	-90	-96
Locomotives and railroad cars.....	-2	-8	-13	-18	-14	-15	-15	-13	-13	-14
Railroad transportation.....	-150	-386	-596	-785	-655	-751	-794	-774	-802	-707
Land passenger transportation.....	-93	22	0	38	-64	-94	-102	-98	-116	-94
Land freight transportation.....	-337	-344	-380	-495	-414	-404	-416	-438	-484	-417
Water transportation.....	-71	-202	-343	-492	-537	-608	-655	-686	-745	-739
Airlines.....	-104	-396	-738	-1,063	-1,165	-1,283	-1,297	-1,227	-1,243	-1,014
Oil and gas pipelines.....	-12	-26	-44	-68	-91	-111	-132	-153	-175	-199
Telecommunications.....	262	-418	-1,084	-1,646	-1,135	-1,179	-1,168	-1,048	-1,163	-1,008
Radio and TV.....	-13	-125	-145	-157	-113	-93	-68	-49	-52	-39
Cable TV.....	-10	-28	-44	-59	-40	-41	-37	-28	-27	-20
Electric utilities.....	7	-186	-511	-433	-632	-792	-955	-1,111	-1,356	-1,408
Gas utilities.....	20	-47	-132	-143	-185	-224	-288	-310	-376	-397
Trade.....	-1,688	-818	-765	-670	-830	-1,078	-1,208	-1,343	-1,609	-1,568
Amusements.....	-267	-221	-229	-236	-202	-225	-221	-212	-228	-164
Finance, insurance and real estate.....	-79	-122	-207	-317	-406	-534	-670	-820	-1,004	-1,192
Personal and professional services.....	-196	-211	-340	-476	-464	-552	-564	-583	-713	-694
<b>Industry total<sup>1</sup>.....</b>	<b>-7,861</b>	<b>-11,596</b>	<b>-17,684</b>	<b>-22,917</b>	<b>-20,046</b>	<b>-21,449</b>	<b>-22,246</b>	<b>-21,666</b>	<b>-24,176</b>	<b>-21,446</b>
<b>Grand total<sup>2</sup>.....</b>	<b>-7,852</b>	<b>-11,577</b>	<b>-17,671</b>	<b>-22,926</b>	<b>-20,094</b>	<b>-21,553</b>	<b>-22,427</b>	<b>-21,944</b>	<b>-24,576</b>	<b>-21,990</b>

<sup>1</sup> The industry amounts do not include the effect of residential real estate provisions.

<sup>2</sup> The grand total includes items not allocated by industry as indicated in footnote 1. The estimated additional revenue loss for these items in millions of dollars is:

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
	+0	+18	+13	-0	-48	-105	-181	-279	-399	-544

Table B.3.—First-Year Capital Cost Recovery System (H.R. 3443)<sup>1</sup>—Continued

*b. Percent of Revenue Loss*

Industry	Calendar Years									
	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Agriculture.....	24.9	14.8	9.6	7.2	5.7	5.1	4.9	4.6	4.0	4.4
Mining.....	.6	2.0	2.8	3.5	2.7	2.9	2.8	2.6	2.7	2.7
Construction.....	18.2	9.7	5.1	2.6	1.8	-4.0	-4.3	-4.9	-4.4	-5.5
Grain products.....	.2	1.9	1.6	1.4	1.5	1.4	1.2	1.1	1.0	1.0
Sugar products.....	.1	.2	.2	.3	.3	.3	.3	.3	.3	.3
Vegetable oil.....	.1	.1	.2	.2	.2	.2	.2	.2	.2	.2
Prepared food.....	.5	.8	1.5	2.0	2.0	2.2	2.2	2.1	2.0	1.9
Tobacco.....	(*)	.4	.4	.4	.4	.4	.3	.3	.3	.3
Knitted goods.....	(*)	(*)	.1	.1	.1	.2	.2	.1	.2	.2
Yarn, thread, woven fabrics.....	.1	.4	.5	.6	.6	.6	.6	.6	.5	.5
Carpets, dyeing.....	(*)	.1	.2	.2	.2	.2	.1	.1	.1	.1
Textured yarns.....	(*)	(*)	(*)	.1	.1	.1	.1	.1	.1	.1
Nonwoven fabrics.....	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)
Apparel.....	.8	.5	.4	.4	.3	.3	.2	.2	.3	.3
Logging.....	.1	.1	.2	.1	.1	(*)	(*)	(*)	(*)	(*)
Sawmills.....	.2	.2	.2	.2	.1	.1	.1	.1	.1	.1
Wood products and furniture.....	.9	.7	.6	.5	.4	.4	.4	.4	.4	.4
Pulp and paper.....	1.5	3.1	2.9	3.3	3.2	3.4	3.4	3.3	3.1	2.9
Converted paper.....	.2	.6	.6	.7	.6	.7	.6	.6	.6	.5
Printing and publishing.....	2.1	1.6	1.7	1.8	1.6	1.7	1.8	1.7	1.6	1.5
Chemicals.....	.1	3.8	5.1	6.0	4.6	4.8	4.7	4.3	4.8	4.4
Petroleum refining.....	.6	5.0	6.5	7.2	8.1	8.4	8.5	8.6	8.3	8.4
Oil and gas production.....	4.4	7.8	9.2	9.7	10.0	10.3	10.1	10.0	9.5	9.0
Petroleum marketing.....	1.3	1.7	1.3	1.0	.8	.7	.6	.6	.5	.5
Oil and gas drilling.....	.3	.6	.8	.9	.8	.7	.7	.6	.6	.5
Rubber.....	.2	.4	.3	.3	.3	.3	.3	.4	.4	.4

86

Plastic.....	.5	.8	.8	.7	.7	.8	.8	.8	.9	.9
Leather.....	.1	.1	.1	.1	.1	.1	.1	.1	.1	.1
Glass.....	.3	.4	.5	.6	.6	.7	.7	.7	.7	.8
Cement.....	.2	.3	.3	.3	.3	.4	.4	.4	.4	.5
Stone and clay.....	.6	.9	1.0	1.0	1.0	1.1	1.2	1.2	1.3	1.3
Ferrous metal.....	.9	1.3	1.2	1.3	1.2	1.3	1.3	1.3	1.2	1.2
Nonferrous metal.....	.4	.5	.5	.6	.5	.5	.5	.5	.5	.5
Fabricated metal.....	1.5	.9	1.1	1.2	1.4	1.7	1.8	1.9	1.9	1.9
Machinery.....	2.6	3.9	5.1	6.0	5.8	6.2	6.2	6.2	6.2	6.1
Electronics.....	.2	.8	.8	.9	.6	.5	.4	.3	.4	.3
Motor vehicle production.....	-.1	1.6	3.6	5.4	6.8	8.2	8.0	7.4	7.3	6.3
Aerospace.....	.3	1.1	1.1	1.1	.9	.9	.9	.8	.8	.8
Shipbuilding.....	.2	.3	.4	.4	.4	.4	.4	.4	.4	.4
Locomotives and railroad cars.....	(*)	.1	.1	.1	.1	.1	.1	.1	.1	.1
Railroad transportation.....	1.9	3.3	3.4	3.4	3.3	3.5	3.6	3.6	3.3	3.3
Land passenger transportation.....	1.2	-.2	(*)	.2	.3	.4	.5	.5	.5	.4
Land freight transportation.....	4.3	3.0	2.2	.9	.6	.5	.5	.6	.8	.5
Water transportation.....	.9	1.7	1.9	2.1	2.7	2.8	2.9	3.2	3.1	3.4
Airlines.....	1.3	3.4	4.2	4.6	5.8	6.0	5.8	5.7	5.1	4.7
Oil and gas pipelines.....	.2	.2	.3	.3	.5	.5	.6	.7	.7	.9
Telecommunications.....	-3.3	3.6	6.1	7.2	5.7	5.5	5.2	4.8	4.8	4.7
Radio and TV.....	.2	1.1	.8	.7	.6	.4	.3	.2	.2	.2
Cable TV.....	-.1	.2	.3	.3	.2	.2	.2	.1	.1	.1
Electric utilities.....	-.1	1.6	2.9	2.1	3.2	3.7	4.3	5.1	5.6	6.6
Gas utilities.....	-.3	.4	.7	.6	.9	1.0	1.2	1.4	1.6	1.9
Trade.....	21.5	7.1	4.3	2.9	4.1	5.0	5.4	6.2	6.7	7.3
Amusements.....	3.4	1.9	1.3	1.0	1.0	1.0	1.0	1.0	.9	.8
Finance, insurance and real estate.....	1.0	1.1	1.2	1.4	2.0	2.5	3.0	3.8	4.2	5.6
Personal and professional services.....	2.5	1.8	1.9	2.1	2.3	2.6	2.5	2.7	3.0	3.2
<b>Grand total.....</b>	<b>100.0</b>									

\*Less than .05.

† This distribution does not include the effect of residential real estate provisions.

Table B.3.—First-Year Capital Cost Recovery System (H.R. 3443)<sup>1</sup>—Continued

c. Ratio of Percent Revenue Loss to Percent Annual Investment

Industry	Calendar Years									
	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Agriculture.....	4.1	2.4	1.5	1.1	.8	.7	.7	.7	.5	.6
Mining.....	.2	.5	.6	.8	.6	.6	.6	.5	.5	.5
Construction.....	3.5	1.9	1.1	.5	.4	-.9	-1.0	-1.1	-1.0	-1.3
Grain products.....	.5	4.1	3.5	3.1	3.2	3.0	2.7	2.6	2.4	2.4
Sugar products.....	.6	1.6	2.0	2.2	2.4	2.6	2.6	2.6	2.5	2.6
Vegetable oil.....	.6	1.2	1.6	1.9	2.1	2.3	2.3	2.4	2.4	2.5
Prepared food.....	.3	.6	1.0	1.3	1.4	1.5	1.5	1.5	1.4	1.3
Tobacco.....	.2	2.9	3.0	3.0	2.9	2.9	2.7	2.7	2.5	2.5
Knitted goods.....	.2	.3	.8	1.1	1.2	1.2	1.2	1.1	1.2	1.2
Yarn, thread, woven fabrics.....	.5	1.4	1.7	2.0	1.8	1.9	1.9	1.7	1.6	1.5
Carpets, dyeing.....	.1	1.1	1.3	1.5	1.2	1.2	1.0	.9	.9	.9
Textured yarns.....	.2	.6	1.0	1.3	1.3	1.4	1.3	1.2	1.2	1.2
Nonwoven fabrics.....	.2	.4	.8	1.2	1.3	1.4	1.4	1.3	1.3	1.3
Apparel.....	1.7	1.1	1.0	.9	.6	.6	.5	.5	.6	.6
Logging.....	.5	.7	.7	.5	.3	.2	.2	.1	.2	(*)
Sawmills.....	.5	.6	.7	.5	.4	.4	.4	.3	.3	.2
Wood products and furniture.....	1.9	1.5	1.2	.9	.8	.8	.9	.9	.9	.9
Pulp and paper.....	.9	2.0	2.2	2.4	2.2	2.3	2.3	2.3	2.1	2.0
Converted paper.....	.4	1.1	1.2	1.4	1.3	1.3	1.2	1.1	1.1	1.0
Printing and publishing.....	1.6	1.3	1.4	1.4	1.3	1.4	1.4	1.4	1.3	1.2
Chemicals.....	(*)	.9	1.2	1.5	1.1	1.2	1.1	1.0	1.1	1.0
Petroleum refining.....	.3	2.0	2.3	2.5	2.7	2.8	2.8	2.8	2.7	2.7
Oil and gas production.....	1.3	1.9	2.0	2.1	2.1	2.1	2.1	2.0	1.9	1.8
Petroleum marketing.....	2.3	2.5	1.7	1.2	1.0	.8	.7	.7	.6	.6
Oil and gas drilling.....	.6	1.0	1.3	1.4	1.2	1.1	1.0	.9	1.0	.8
Rubber.....	.8	1.6	1.5	1.6	1.5	1.5	1.6	1.6	1.6	1.6

Plastic.....	.7	1.0	1.1	1.2	1.1	1.1	1.2	1.2	1.2	1.2
Leather.....	.7	1.4	1.3	1.2	1.4	1.4	1.3	1.2	1.1	1.1
Glass.....	.8	1.2	1.5	1.8	1.8	2.0	2.0	2.1	2.1	2.2
Cement.....	1.1	2.0	2.1	2.1	2.3	2.5	2.6	2.8	2.8	3.0
Stone and clay.....	1.1	1.4	1.6	1.6	1.7	1.8	1.9	2.0	2.0	2.1
Ferrous metal.....	.8	1.3	1.2	1.3	1.2	1.3	1.3	1.3	1.2	1.2
Nonferrous metal.....	.7	.8	.8	.9	.8	.8	.8	.8	.7	.7
Fabricated metal.....	1.2	.7	.8	1.0	1.2	1.3	1.4	1.5	1.5	1.5
Machinery.....	.6	.9	1.1	1.3	1.2	1.3	1.2	1.2	1.2	1.2
Electronics.....	.2	.7	.7	.8	.5	.4	.3	.2	.3	.2
Motor vehicle production.....	(*)	.4	1.0	1.6	1.9	2.3	2.2	2.1	2.1	1.8
Aerospace.....	.4	1.3	1.3	1.4	1.3	1.3	1.2	1.1	1.1	1.1
Shipbuilding.....	.8	1.7	1.6	1.6	1.6	1.6	1.6	1.7	1.6	1.8
Locomotives and railroad cars.....	.7	2.0	1.9	1.8	1.7	1.7	1.6	1.5	1.4	1.6
Railroad transportation.....	1.3	2.4	2.4	2.5	2.4	2.5	2.5	2.5	2.4	2.3
Land passenger transportation.....	1.8	-.3	(*)	.2	.5	.6	.7	.6	.7	.6
Land freight transportation.....	3.0	2.0	1.4	.5	.4	.3	.3	.4	.5	.3
Water transportation.....	1.0	1.9	2.0	2.2	2.7	2.9	3.0	3.3	3.2	3.6
Airlines.....	.5	1.3	1.5	1.6	2.0	2.0	2.0	1.9	1.7	1.6
Oil and gas pipelines.....	.1	.1	.1	.2	.3	.3	.3	.4	.4	.5
Telecommunications.....	-.4	.4	.7	.9	.7	.7	.7	.6	.6	.6
Radio and TV.....	.8	5.3	4.1	3.5	2.9	2.3	1.6	1.2	1.2	1.0
Cable TV.....	1.0	1.9	1.9	2.0	1.6	1.6	1.4	1.1	.9	.8
Electric utilities.....	(*)	.2	.4	.3	.4	.5	.6	.7	.8	.9
Gas utilities.....	-.1	.2	.3	.2	.4	.4	.5	.6	.6	.8
Trade.....	2.1	.7	.5	.3	.5	.6	.6	.7	.8	.9
Amusements.....	1.9	1.1	.8	.7	.6	.7	.6	.6	.6	.5
Finance, insurance and real estate.....	.2	.2	.2	.3	.4	.5	.6	.8	.9	1.2
Personal and professional services.....	.5	.4	.5	.5	.6	.6	.6	.7	.7	.8
Grand total.....	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0

\* Less than .05.

† This distribution does not include the effect of residential real estate provisions.

Table B.3.—First-Year Capital Cost Recovery System (H.R. 3443)—Continued

*d. Ratio of Percent Revenue Loss to Percent Capital Stock*

Industry	Calendar Years									
	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Agriculture.....	6.1	3.5	2.1	1.5	1.2	1.1	1.0	.9	.8	.8
Mining.....	.2	.7	.9	1.1	.8	.9	.8	.7	.8	.8
Construction.....	8.5	4.6	2.5	1.3	.9	-2.1	-2.4	-2.7	-2.5	-3.1
Grain products.....	.4	3.8	3.2	2.8	2.9	2.7	2.5	2.4	2.2	2.2
Sugar products.....	.7	1.7	2.1	2.4	2.6	2.7	2.7	2.7	2.7	2.7
Vegetable oil.....	.5	1.1	1.5	1.8	1.9	2.1	2.1	2.2	2.2	2.3
Prepared food.....	.3	.6	1.0	1.3	1.3	1.5	1.5	1.4	1.4	1.3
Tobacco.....	.2	2.9	3.0	3.0	2.9	2.9	2.7	2.6	2.5	2.4
Knitted goods.....	.3	.4	1.0	1.5	1.5	1.6	1.5	1.5	1.5	1.5
Yarn, thread, woven fabrics.....	.6	1.7	2.1	2.3	2.1	2.3	2.2	2.1	1.9	1.8
Carpets, dyeing.....	.1	1.4	1.6	1.8	1.5	1.4	1.2	1.1	1.2	1.0
Textured yarns.....	.3	.9	1.4	1.8	1.9	1.9	1.7	1.7	1.7	1.7
Nonwoven fabrics.....	.2	.4	1.0	1.4	1.5	1.6	1.5	1.5	1.4	1.5
Apparel.....	1.7	1.1	.9	.9	.6	.6	.5	.5	.6	.6
Logging.....	.9	1.3	1.4	1.0	.5	.4	.3	.2	.4	(*)
Sawmills.....	.6	.8	.9	.7	.4	.4	.4	.4	.4	.2
Wood products and furniture.....	1.9	1.5	1.3	1.0	.8	.8	.9	.9	.8	.9
Pulp and paper.....	1.1	2.4	2.6	2.8	2.6	2.8	2.7	2.7	2.5	2.4
Converted paper.....	.5	1.4	1.5	1.7	1.6	1.6	1.5	1.3	1.3	1.2
Printing and publishing.....	1.9	1.5	1.6	1.7	1.6	1.7	1.7	1.6	1.5	1.4
Chemicals.....	(*)	1.1	1.5	1.8	1.3	1.4	1.3	1.2	1.3	1.2
Petroleum refining.....	.4	2.3	2.7	2.8	3.1	3.2	3.2	3.2	3.1	3.1
Oil and gas production.....	1.9	2.7	2.8	2.8	2.9	3.0	2.9	2.8	2.7	2.5
Petroleum marketing.....	2.7	2.9	1.9	1.4	1.1	1.0	.8	.8	.7	.7
Oil and gas drilling.....	1.2	2.2	2.6	2.8	2.5	2.4	2.1	1.8	2.0	1.7

Rubber.....	.9	1.7	1.6	1.7	1.6	1.6	1.7	1.7	1.7	1.7
Plastic.....	.7	1.1	1.1	1.2	1.1	1.2	1.2	1.2	1.2	1.2
Leather.....	.7	1.3	1.3	1.2	1.3	1.3	1.2	1.2	1.1	1.1
Glass.....	.9	1.4	1.7	1.9	2.0	2.2	2.2	2.3	2.3	2.4
Cement.....	1.0	1.8	1.9	1.9	2.1	2.2	2.3	2.5	2.5	2.7
Stone and clay.....	1.0	1.4	1.6	1.6	1.6	1.7	1.8	1.9	1.9	2.0
Ferrous metal.....	.8	1.2	1.1	1.2	1.1	1.2	1.2	1.2	1.2	1.1
Nonferrous metal.....	.7	.8	.8	.9	.8	.8	.8	.8	.7	.7
Fabricated metal.....	1.5	.8	1.0	1.1	1.4	1.5	1.7	1.7	1.7	1.8
Machinery.....	.6	.9	1.1	1.3	1.3	1.3	1.3	1.3	1.2	1.2
Electronics.....	.2	.9	.9	1.0	.7	.6	.4	.3	.4	.3
Motor vehicle production.....	-.1	.9	1.9	2.9	3.6	4.2	4.1	3.9	3.9	3.4
Aerospace.....	.4	1.5	1.5	1.6	1.4	1.4	1.3	1.3	1.3	1.2
Shipbuilding.....	.7	1.4	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.5
Locomotives and railroad cars.....	.7	2.1	2.0	1.9	1.8	1.8	1.7	1.6	1.5	1.7
Railroad transportation.....	1.7	3.0	3.1	3.2	3.1	3.3	3.3	3.3	3.1	3.0
Land passenger transportation.....	4.4	-.7	(*)	.6	1.1	1.5	1.5	1.5	1.6	1.5
Land freight transportation.....	6.2	4.1	2.9	1.1	.8	.6	.7	.8	1.0	.7
Water transportation.....	.8	1.4	1.5	1.6	2.0	2.1	2.2	2.4	2.3	2.6
Airlines.....	.7	1.6	1.8	2.0	2.4	2.5	2.4	2.3	2.1	1.9
Oil and gas pipelines.....	.1	.1	.1	.1	.2	.2	.3	.3	.3	.4
Telecommunications.....	-.3	.3	.6	.7	.5	.6	.5	.5	.5	.5
Radio and TV.....	1.7	11.2	8.6	7.2	6.2	4.9	3.4	2.5	2.5	2.1
Cable TV.....	1.7	3.2	3.2	3.3	2.7	2.7	2.3	1.8	1.5	1.3
Electric utilities.....	(*)	.1	.3	.2	.3	.4	.4	.5	.5	.6
Gas utilities.....	-.1	.1	.2	.2	.2	.3	.3	.4	.4	.5
Trade.....	2.0	.7	.4	.3	.4	.5	.6	.6	.7	.8
Amusements.....	2.3	1.3	.9	.8	.8	.8	.7	.7	.7	.6
Finance, insurance and real estate.....	.1	.1	.1	.1	.2	.2	.3	.4	.4	.6
Personal and professional services.....	.5	.3	.4	.4	.5	.5	.5	.6	.6	.7
<b>Grand total.....</b>	<b>1.0</b>									

\*Less than 0.5.

<sup>1</sup>This distribution does not include the effect of residential real estate provisions.