

1953

Summary of the President's 1954
Budget

Summary of the Budget of the National
Government of Canada for the Fiscal
Year Ending March 31, 1954

Preliminary Digest of Suggestions
for Internal Revenue Revision
Submitted to the Joint Committee
on Internal Revenue Taxation

Federal Excise-Tax and Collection Data

Estimates of Federal Receipts for
Fiscal Years 1953 and 1954

Digest of Testimony Presented Before
the Ways and Means Committee Relative
to the President's Recommendations
to Extend for Six Months the Excess-
Profits Tax

Excess Profits Tax

Excise Tax on Admissions

Examples Illustrating the Application
of Section 206 of H. R. 6426

Hearing - Reorganization of the Bureau
of Internal Revenue - September 25, 1953

1954

Summary of the President's 1955 Budget

Summary of Committee on Finance Hearings
on H. R. 8224, a Bill to Reduce Excise
Taxes, and for Other Purposes

Present Law Individual Income, Estate,
Gift, and Excise Tax Rates

Historical Data Pertaining to the
Individual Income Tax 1913-54

Comparison of Tax Burdens and Rates
on a Single Person, a Head of Household,
and a Married Couple

1955

The Internal Revenue Service - Its
Reorganization and Administration

Federal Excise-Tax Data

Summary of the President's 1956 Budget

Data on Sections 462 and 452 of the
Internal Revenue Code of 1954

Renegotiation Act of 1951 as Amended
Through August 3, 1955

Cross-Reference Within the Internal
Revenue Code of 1954 as of January 1,
1956

Alternative Plans for Reducing the
Individual Income Tax Burden

1956

Report to the Subcommittee on Excise
Tax Technical and Administrative
Problems

Data on Minor Tax Bills Pending Before
the Committee on Finance on January 6,
1956

Report of the Joint Committee on
Internal Revenue Taxation Relating to
Renegotiation

Terminology of the Internal Revenue
Code of 1954

Application of the Tax on Transportation
of Persons to Foreign Travel Under
Present Law, H. R. 5265, as Passed by
the House of Representatives, and
H. R. 5265, as Passed by the Senate

Estimates of Federal Receipts for
Fiscal Years 1956 and 1957

Summary of the Senate Amendments to
Title II of H. R. 10660, the Highway
Revenue Act of 1956

Data on Title II of H. R. 10660, the
Highway Revenue Act of 1956

Renegotiation Act of 1951 Amended

STAFF DATA

EXAMPLES ILLUSTRATING THE
APPLICATION OF
SECTION 206 OF H. R. 6426

PREPARED BY THE

STAFF OF THE
JOINT COMMITTEE ON INTERNAL
REVENUE TAXATION

FOR USE OF THE

COMMITTEE ON FINANCE



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EXAMPLES ILLUSTRATING THE APPLICATION OF SECTION 206 OF H. R. 6426 !

1. Taxpayer A is a farmer. On February 1, 1953, he began construction of a cornerib to store corn to be grown on his farm. The crib was completed March 20, 1953, and the cost was \$6,000. He is on the calendar-year basis and, in his return for 1953, filed in March 1954, he elected the 60-month amortization (one-sixtieth of \$6,000 or \$100 each month) beginning with April 1953. The amortization deductions, as compared with ordinary depreciation on the basis of the normal 30-year life, are as follows:

Periods	Amortiza- tion	Deprecia- tion
9 months of 1953.....	\$900	\$150
1954.....	1,200	200
1955.....	1,200	200
1956.....	1,200	200
1957.....	1,200	200
1958.....	300	200
1959.....	0	200
1960-82.....	0	4,600
1983.....	0	50
Total.....	6,000	6,000

2. Taxpayer A may decide that, overall, his tax liability would be less if he deducted the 60-month amortization for a while and then deducted the balance over a long period through ordinary depreciation. He may elect, as before, to use the 60-month amortization and then, say in December 1955, give notice to the Commissioner that such amortization will be discontinued beginning with January 1956. His amortization deductions will be \$900 for 1953 and \$1,200 for 1954 and 1955. As of January 1, 1956, he will have deducted \$3,300, leaving \$2,700 to be deducted through ordinary depreciation. Since the normal useful life of a cornerib is about 30 years, and since nearly 3 years had elapsed as of January 1, 1956, the subsequent deductions would be one twenty-seventh of \$2,700 or \$100 each year until 1983.

3. Taxpayer B began on January 2, 1954, the construction of an elevator-type warehouse, intended to be used by the public for the storage of grain. It was completed on June 20, 1954, and cost \$300,000. In his return for the calendar year 1954, filed in March 1955, B elected to deduct 60-month amortization (one sixtieth of \$300,000 or \$5,000 per month) beginning with July 1954. In 1956 B enlarged the structure and altered the handling facilities so as to increase the capacity of the elevator. The cost of these changes was \$48,000 and they were completed in June. In his return for 1956, filed in 1957, B elected 60-month amortization of this addi-

tional expenditure (one-sixtieth of \$48,000 or \$800 per month), beginning with July 1956. Such a grain elevator normally has a useful life of about 50 years. The allowable deductions, as compared with ordinary depreciation, are as follows:

Periods	Amortization		Depreciation
6 months of 1954.....	\$30,000		\$3,000
1955.....	60,000		6,000
1956.....	60,000	\$4,800	6,500
1957.....	60,000	9,600	7,000
1958.....	60,000	9,600	7,000
1959.....	30,000	9,600	7,000
1960.....		9,600	7,000
1961.....		4,800	7,000
1962-2003.....			294,000
2004.....			3,500
	300,000	48,000	348,000