

Cost Recovery and Accounting Tax Reform Discussion Draft

Chairman Max Baucus
U.S. Senate Committee on Finance

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As part of his work towards tax reform, Chairman Max Baucus is releasing a staff discussion draft today of proposed reforms to the cost recovery and tax accounting rules. These rules, which determine when businesses can deduct the cost of investments and how they account for their income, were created in 1986 before technologies like cell phones and the internet existed. They are outdated, overly complex, reward specific industries to the detriment of others, and make it difficult for businesses to plan for the future through temporary, and sometimes retroactive, provisions.

To address these issues, the staff discussion draft proposes a modernized set of cost recovery and accounting rules that is simpler, fairer, more accurately measures business income, and lessens tax burdens on small businesses. These reforms would also raise enough revenue from corporations in the long-term to finance a significant reduction in the corporate tax rate. The staff discussion draft extensively draws from proposals of a number of Senators, including Committee members Brown, Cardin, Casey, Menendez, Nelson, Portman, Rockefeller, Schumer, and Wyden. It does not address a number of other important areas of business tax reform, such as incentives for innovation, manufacturing and energy production, which may need to be adjusted in light of these proposals. Some of the significant proposals in the staff discussion draft include:

Depreciation of Tangible Assets.

- Replace the current rules with a system that better approximates economic depreciation based on estimates from the Congressional Budget Office.
- Reduce the number of major depreciation rates from more than 40 to 5.
- Eliminate the need for businesses to calculate depreciation separately for each of their assets, other than real property.

Amortization of Intangible Assets.

- Require businesses to deduct the cost of R&D, natural resource extraction, and 50% of advertising expenses over 5 years.

Tax Accounting. Repeal LIFO accounting and the like-kind exchange rules.

Simplify and Reduce Tax Burdens for Small Businesses.

- Permanently increase Section 179 expensing to \$1 million and expand the definition of qualifying expenses.
- Allow all companies with gross receipts under \$10 million to use cash accounting and expense inventory costs.