

107TH CONGRESS
1ST SESSION

H. R. 3042

To amend the Internal Revenue Code of 1986 to provide that the deduction for depreciation shall be computed on a neutral cost recovery basis.

IN THE HOUSE OF REPRESENTATIVES

OCTOBER 4, 2001

Mr. SMITH of Michigan (for himself, Mr. ARMEY, Mr. DELAY, Mr. SENSENBRENNER, Mrs. KELLY, and Mr. GOODE) introduced the following bill; which was referred to the Committee on Ways and Means

A BILL

To amend the Internal Revenue Code of 1986 to provide that the deduction for depreciation shall be computed on a neutral cost recovery basis.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “Neutral Cost Recovery
5 Act of 2001”.

1 **SEC. 2. NEUTRAL COST RECOVERY DEPRECIATION ADJUST-**
 2 **MENT FOR CERTAIN PROPERTY PLACED IN**
 3 **SERVICE AFTER DECEMBER 31, 2001.**

4 (a) IN GENERAL.—Section 168 of the Internal Rev-
 5 enue Code of 1986 (relating to accelerated cost recovery
 6 system) is amended by adding at the end thereof the fol-
 7 lowing new subsection:

8 “(k) DEDUCTION ADJUSTMENT TO ALLOW EQUIVA-
 9 LENT OF EXPENSING FOR CERTAIN PROPERTY PLACED
 10 IN SERVICE AFTER DECEMBER 31, 2001.—

11 “(1) IN GENERAL.—In the case of tangible
 12 property placed in service after December 31, 2001,
 13 the deduction under this section with respect to such
 14 property—

15 “(A) shall be determined by substituting
 16 ‘150 percent’ for ‘200 percent’ in subsection
 17 (b)(1) in the case of property to which the 200
 18 percent declining balance method would other-
 19 wise apply, and

20 “(B) for any taxable year after the taxable
 21 year during which the property is placed in
 22 service shall be—

23 “(i) the amount determined under this
 24 section for such taxable year without re-
 25 gard to this subparagraph, multiplied by

1 “(ii) the applicable neutral cost recov-
2 ery ratio for such taxable year.

3 “(2) APPLICABLE NEUTRAL COST RECOVERY
4 RATIO.—For purposes of paragraph (1)—

5 “(A) IN GENERAL.—The applicable neutral
6 cost recovery ratio for the property for any tax-
7 able year is the number determined by—

8 “(i) dividing—

9 “(I) the gross domestic product
10 deflator for the calendar quarter end-
11 ing in such taxable year which cor-
12 responds to the calendar quarter dur-
13 ing which the property was placed in
14 service by the taxpayer, by

15 “(II) the gross domestic product
16 deflator for the calendar quarter dur-
17 ing which the property was placed in
18 service by the taxpayer, and

19 “(ii) then multiplying the number de-
20 termined under clause (i) by the number
21 equal to 1.035 to the nth power where ‘n’
22 is the number of full years in the period
23 beginning on the 1st day of the calendar
24 quarter during which the property was
25 placed in service by the taxpayer and end-

1 ing on the day before the beginning of the
2 corresponding calendar quarter ending
3 during such taxable year.

4 The applicable neutral cost recovery ratio shall
5 never be less than 1. The applicable neutral
6 cost recovery ratio shall be rounded to the near-
7 est $\frac{1}{1000}$.

8 “(B) SPECIAL RULE FOR CERTAIN PROP-
9 PERTY.—In the case of property described in
10 paragraph (2) or (3) of subsection (b) or in
11 subsection (g), the applicable neutral cost recov-
12 ery ratio shall be determined without regard to
13 subparagraph (A)(ii).

14 “(3) GROSS DOMESTIC PRODUCT DEFLATOR.—
15 For purposes of paragraph (2), the gross domestic
16 product deflator for any calendar quarter is the im-
17 plicit price deflator for the gross domestic product
18 for such quarter (as shown in the first revision
19 thereof).

20 “(4) ELECTION NOT TO HAVE SUBSECTION
21 APPLY.—This subsection shall not apply to any
22 property if the taxpayer elects not to have this sub-
23 section apply to such property. Such an election,
24 once made, shall be irrevocable.

1 “(5) CHURNING TRANSACTIONS.—This sub-
 2 section shall not apply to any property if this section
 3 would not apply to such property were subsection
 4 (f)(5)(A)(ii) applied by substituting ‘2002’ for
 5 ‘1981’ and ‘2001’ for ‘1980’.

6 “(6) ADDITIONAL DEDUCTION NOT TO AFFECT
 7 BASIS OR RECAPTURE.—

8 “(A) IN GENERAL.—The additional
 9 amount determined under this section by reason
 10 of this subsection shall not be taken into ac-
 11 count in determining the adjusted basis of any
 12 property or of any interest in a pass-thru entity
 13 which holds such property and shall not be
 14 treated as a deduction for depreciation for pur-
 15 poses of sections 1245 and 1250.

16 “(B) PASS-THRU ENTITY DEFINED.—For
 17 purposes of subparagraph (A), the term ‘pass-
 18 thru entity’ means—

- 19 “(i) a regulated investment company,
- 20 “(ii) a real estate investment trust,
- 21 “(iii) an S corporation,
- 22 “(iv) a partnership,
- 23 “(v) an estate or trust, and
- 24 “(vi) a common trust fund.”

25 (b) MINIMUM TAX TREATMENT.—

(1) Paragraph (1) of section 56(a) of such Code is amended by adding at the end thereof the following new subparagraph:

“(E) USE OF NEUTRAL COST RECOVERY RATIO.—In the case of property to which section 168(k) applies and which is placed in service after December 31, 2001, the deduction allowable under this paragraph with respect to such property for any taxable year (after the taxable year during which the property is placed in service) shall be—

“(i) the amount so allowable for such taxable year without regard to this subparagraph, multiplied by

“(ii) the applicable neutral cost recovery ratio for such taxable year (as determined under section 168(k)).

This subparagraph shall not apply to any property with respect to which there is an election in effect not to have section 168(k) apply.”

(2) Subparagraph (C) of section 56(g)(4) of such Code is amended by adding at the end the following new clause:

“(v) NEUTRAL COST RECOVERY DEDUCTION.—Clause (i) shall not apply to

1 the additional deduction allowable by rea-
2 son of section 168(k).”

3 (c) COORDINATION WITH DEPRECIATION LIMITA-
4 TION ON CERTAIN AUTOMOBILES.—Clause (i) of section
5 280F(a)(1)(B) of such Code is amended by adding at the
6 end the following new sentence: “For purposes of this
7 clause, the unrecovered basis of any passenger automobile
8 shall be treated as including the additional amount deter-
9 mined under section 168 by reason of subsection (k) there-
10 of to the extent not allowed as a deduction by reason of
11 this paragraph for any taxable year in the recovery pe-
12 riod.”

13 (d) EFFECTIVE DATE.—The amendments made by
14 this section shall apply to taxable years ending after De-
15 cember 31, 2001.

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