

106TH CONGRESS  
2D SESSION

# H. R. 4184

To amend the Internal Revenue Code of 1986 to implement the recommendation of the National Taxpayer Advocate that the depreciable life of computer software correspond to its actual useful life.

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## IN THE HOUSE OF REPRESENTATIVES

APRIL 5, 2000

Mr. COX (for himself, Mr. DREIER, Mr. DAVIS of Virginia, and Mr. SAM JOHNSON of Texas) introduced the following bill; which was referred to the Committee on Ways and Means

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## A BILL

To amend the Internal Revenue Code of 1986 to implement the recommendation of the National Taxpayer Advocate that the depreciable life of computer software correspond to its actual useful life.

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 “Fairness in Amortiza-  
5       tion of Software Tax Act of 2000”.

6       **SEC. 2. FINDINGS AND PURPOSE.**

7       (a) FINDINGS.—The Congress finds that:

1           (1) Current tax law requires off-the-shelf or  
2           downloaded computer software to be depreciated  
3           over 3 years, and all other software to be amortized  
4           over 15 years; but in reality software must be up-  
5           graded constantly.

6           (2) The current tax policy discourages busi-  
7           nesses from making necessary upgrades to computer  
8           software and inhibits their competing effectively in  
9           the new economy.

10          (3) The National Taxpayer Advocate's Annual  
11          Report to Congress for 1999 recommends amending  
12          section 179 of the tax code to allow taxpayers to de-  
13          duct software purchases in the year in which the  
14          software is placed in service.

15          (4) Allowing taxpayers engaged in a trade or  
16          business to expense software will significantly ease  
17          the administrative burdens that the current law im-  
18          poses, since records of software purchases and their  
19          depreciable lives will correspond to the software's ac-  
20          tual useful life.

21          (5) The National Taxpayer Advocate has re-  
22          ported to Congress that as a result of the complexity  
23          of existing tax law, the existing 3-year depreciation  
24          period is overlooked by many taxpayers. Simplifying

1 deductions for business software would also have the  
 2 beneficial effect of increasing taxpayer compliance.

3 (b) PURPOSE.—It is the purpose of this Act to—

4 (1) provide immediate expensing of software, up  
 5 to the \$20,000 limit now provided in section 179 of  
 6 the tax code, and

7 (2) provide a 3-year depreciation period for all  
 8 other software, down from the current 15 years.

9 **SEC. 3. ALL COMPUTER SOFTWARE ELIGIBLE FOR EXPENS-**  
 10 **ING.**

11 (a) IN GENERAL.—The heading and first sentence of  
 12 paragraph (1) of section 179(d) of the Internal Revenue  
 13 Code of 1986 (relating to section 179 property) are  
 14 amended to read as follows:

15 “(1) SECTION 179 PROPERTY.—For purposes of  
 16 this section, the term ‘section 179 property’ means  
 17 property—

18 “(A) which is—

19 “(i) tangible property (to which sec-  
 20 tion 168 applies), or

21 “(ii) computer software (as defined in  
 22 section 197(e)(3)(B)) to which section 167  
 23 applies,

24 “(B) which is section 1245 property (as  
 25 defined in section 1245(a)(3)), and

1                   “(C) which is acquired by purchase for use  
2                   in the active conduct of a trade or business.”.

3           (b) NO COMPUTER SOFTWARE INCLUDED AS SEC-  
4   TION 197 INTANGIBLE.—

5           (1) IN GENERAL.—Subparagraph (A) of section  
6           197(e)(3) of such Code is amended to read as fol-  
7           lows:

8                   “(A) IN GENERAL.—Any computer soft-  
9                   ware.”

10           (2) CONFORMING AMENDMENT.—Subparagraph  
11           (B) of section 167(f)(1) of such Code is amended by  
12           striking “; except that such term shall not include  
13           any such software which is an amortizable section  
14           197 intangible”.

15           (c) EFFECTIVE DATE.—The amendments made by  
16           this section shall apply to property placed in service after  
17           December 31, 2000.

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