# Proposed legislation aims to simplify depreciation

On April 26, U.S. Senator Ron Wyden (D-OR), a ranking member of the Senate Finance Committee, introduced a discussion draft of legislation, dubbed the "Cost Recovery Reform and Simplification Act of 2016." The legislation seeks to reform the current cost recovery system (MACRS and ADS) and replace it with a simplified Accelerated Mass Asset Cost Recovery and Reinvestment System (A-MACRRS).


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Under the current MACRS, a taxpayer may be required to calculate depreciation on the same asset three different ways every year. In all, there are more than 100 depreciation schedules, and any single asset may be depreciated multiple ways depending on its use and the taxpayer's trade or business. Sen. Wyden's proposal replaces the MACRS and ADS systems with a pooled depreciation system for personal property—replacing the more than 100 depreciation schedules with only six pools based on current accelerated depreciation schedules. Under this legislation, taxpayers would calculate depreciation, earnings and profits, and Alternative Minimum Tax (AMT) adjustments only once under a unified schedule.

In the case of pooled property, costs would be recovered by multiplying the applicable recovery rate for each pool by the associated pool balance at year-end. Under the new depreciation method, there would be six pools based on current accelerated depreciation schedules (3-, 5-, 7-, 10-, 15-, and 20-year property classes), and taxpayers would be able to compute depreciation with only six calculations for their entire business under a single method. The applicable recovery rates for the pools would be: 49%; 34%; 25%; 18%; 11%; and 8%. The proposal would provide special rules for negative pool balances at year-end, a pool with no assets remaining at year-end, and de minimis pool balances. Finally, special rules would also be provided for leasebacks, dispositions to related parties and tax shelters.

In the case of straight line property, costs would be recovered over the applicable period (25, 27.5, 39, or 50 years), beginning with the midpoint of the month in which the asset is placed in service.

Currently businesses with a large fleet of assets must decide whether to pay additional tax under a simplified depreciation method or incur compliance costs for tax savings. Under the proposal, this same business can benefit from the new pooling system which expands the simplified version of mass-asset accounting to all assets while also easing tax consequences. The legislation repeals the half-year and midmonth convention rules for machinery and equipment which limits first year depreciation deductions. The legislation intends to expand tax-free reinvestment benefits similar to those under like-kind exchanges to all same-pool machinery and equipment, without the current complex rules.

Finally, the legislation aims to bring the depreciation rules into the 21st century and to account for our ever expanding new technologies. The current inequalities of the tax code's bias between investments in different industries can be viewed as holding back innovation in an era of evolving technology. For example as outlined in the one page summary of the legislation discussion draft, the Congressional Budget Office estimates that the effective marginal tax rate on computer and software investments is nearly 40% while the rate on railroad and mining investments is approximately 15 percent. These inequalities made sense nearly 30 years ago when the depreciation rules were last updated but they clearly do not make sense today. The proposed legislation would apply to tax years beginning after Dec. 31, 2016.

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