

108TH CONGRESS  
1ST SESSION

# H. R. 1339

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

MARCH 18, 2003

Mr. SMITH of Michigan 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 2003”.

6 **SEC. 2. NEUTRAL COST RECOVERY DEPRECIATION ADJUST-**  
7 **MENT FOR CERTAIN PROPERTY PLACED IN**  
8 **SERVICE AFTER DECEMBER 31, 2003.**

9 (a) IN GENERAL.—Section 168 of the Internal Rev-  
10 enue Code of 1986 (relating to accelerated cost recovery

1 system) is amended by adding at the end thereof the fol-  
2 lowing new subsection:

3 “(k) DEDUCTION ADJUSTMENT TO ALLOW EQUIVA-  
4 LENT OF EXPENSING FOR CERTAIN PROPERTY PLACED  
5 IN SERVICE AFTER DECEMBER 31, 2003.—

6 “(1) IN GENERAL.—In the case of tangible  
7 property placed in service after December 31, 2003,  
8 the deduction under this section with respect to such  
9 property—

10 “(A) shall be determined by substituting  
11 ‘150 percent’ for ‘200 percent’ in subsection  
12 (b)(1) in the case of property to which the 200  
13 percent declining balance method would other-  
14 wise apply, and

15 “(B) for any taxable year after the taxable  
16 year during which the property is placed in  
17 service shall be—

18 “(i) the amount determined under this  
19 section for such taxable year without re-  
20 gard to this subparagraph, multiplied by

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

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

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

4           “(i) dividing—

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

11                 “(II) the gross domestic product  
12 deflator for the calendar quarter dur-  
13 ing which the property was placed in  
14 service by the taxpayer, and

15           “(ii) then multiplying the number de-  
16 termined under clause (i) by the number  
17 equal to  $1.035$  to the  $n$ th power where ‘ $n$ ’  
18 is the number of full years in the period  
19 beginning on the 1st day of the calendar  
20 quarter during which the property was  
21 placed in service by the taxpayer and end-  
22 ing on the day before the beginning of the  
23 corresponding calendar quarter ending  
24 during such taxable year.

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

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

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

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

22          “(5) CHURNING TRANSACTIONS.—This sub-  
23          section shall not apply to any property if this section  
24          would not apply to such property were subsection

1 (f)(5)(A)(ii) applied by substituting ‘2004’ for  
2 ‘1981’ and ‘2003’ for ‘1980’.

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

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

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

16 “(i) a regulated investment company,

17 “(ii) a real estate investment trust,

18 “(iii) an S corporation,

19 “(iv) a partnership,

20 “(v) an estate or trust, and

21 “(vi) a common trust fund.”

22 (b) MINIMUM TAX TREATMENT.—

23 (1) Paragraph (1) of section 56(a) of such Code  
24 is amended by adding at the end thereof the fol-  
25 lowing new subparagraph:

1           “(E) USE OF NEUTRAL COST RECOVERY  
2           RATIO.—In the case of property to which sec-  
3           tion 168(k) applies and which is placed in serv-  
4           ice after December 31, 2003, the deduction al-  
5           lowable under this paragraph with respect to  
6           such property for any taxable year (after the  
7           taxable year during which the property is  
8           placed in service) shall be—

9                   “(i) the amount so allowable for such  
10                   taxable year without regard to this sub-  
11                   paragraph, multiplied by

12                   “(ii) the applicable neutral cost recov-  
13                   ery ratio for such taxable year (as deter-  
14                   mined under section 168(k)).

15           This subparagraph shall not apply to any prop-  
16           erty with respect to which there is an election  
17           in effect not to have section 168(k) apply.”

18           (2) Subparagraph (C) of section 56(g)(4) of  
19           such Code is amended by adding at the end the fol-  
20           lowing new clause:

21                   “(v) NEUTRAL COST RECOVERY DE-  
22                   DUCTION.—Clause (i) shall not apply to  
23                   the additional deduction allowable by rea-  
24                   son of section 168(k).”

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

11           (d) EFFECTIVE DATE.—The amendments made by  
12 this section shall apply to taxable years ending after De-  
13 cember 31, 2003.

○