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NORMAN B. TURE

*ACCELERATED
DEPRECIATION IN THE
UNITED STATES
1954-60*



NATIONAL BUREAU OF ECONOMIC RESEARCH

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This report is one of a series of studies on tax structure and economic growth aided by grants from the Rockefeller Brothers Fund and the Life Insurance Association of America. These organizations, however, are not responsible for any of the statements made or views expressed.

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FOREWORD

To improve understanding of the influence of the federal tax structure on economic growth, the National Bureau of Economic Research has organized a series of studies supported by grants from the Rockefeller Brothers Fund and the Life Insurance Association of America. One set of studies, of which the present volume is part, is directed to the effects of the corporation income tax on business decisions affecting the growth of enterprise. Other studies concerned with business income taxation are being prepared by Challis A. Hall, Jr., Yale University, and Thomas M. Stanback, Jr., New York University. A second set of studies focuses on the personal income tax. These are under the direction of Daniel M. Holland, Massachusetts Institute of Technology; C. Harry Kahn, Rutgers University; Roger C. Miller, University of Wisconsin; and Wilbur Lewellen, Purdue University. In addition, the National Bureau, in cooperation with the Brookings Institution, has published the results of two conferences, one on *The Role of Direct and Indirect Taxes in the Federal Revenue System* and the other on *Foreign Tax Policies and Economic Growth*. Finally, a volume summarizing and integrating the findings of these and other research efforts is in preparation.

The treatment accorded recovery of investment in depreciable facilities is widely considered to be an important determinant of the profitability of investment and of a firm's ability to finance capital outlays. In the postwar period, there have been three major revisions of the tax rules governing depreciable assets: (1) the authorization of the use of the declining-balance method, at twice the straight-line rate, and the use of the sum-of-the-years-digits method in the Internal Revenue Code of 1954; (2) the shortening of authorized service lives (i.e., the period of time over which depreciation allowances must be spread) in Revenue Procedure 62-21 issued in July 1962; and (3) the investment tax credit included in the Revenue Act of 1962. Of the three, the first was in sev-

eral respects the most significant: it was the first, major, generally applicable liberalization of depreciation rules since the restrictive changes made by the Treasury in 1934; it increased the range of acceptable depreciation methods, allowing taxpayers to use not only the two new accelerated methods but also, within certain limits, depreciation systems of their own devising; and its potential effects on revenue were both relatively and absolutely larger than those of the other two. All three revisions, however, represented an explicit endorsement by the government of the desirability of encouraging business investment in depreciable assets.

The effectiveness of such measures in promoting private capital formation depends on several factors, including the impact on the volume of national saving and the conditions of demand for depreciable assets. Irrespective of these factors, however, the extent to which taxpayers do, in fact, change their depreciation practices when permitted to do so is, clearly, what initially delimits the effect on investment of changes in the tax rules. (In the case of the investment tax credit, the taxpayer is required to claim the credit in determining tax liability.)

One purpose of this survey has been to determine to what extent the accelerated methods authorized in the 1954 legislation were put to use during the 1954-60 period. Experience during this period should not, of course, be construed as a definitive measure of the success or failure of these measures. Taxpayers alter their practices over time as their circumstances change and as they become more familiar with the advantages and disadvantages of alternative ways of managing their affairs. But experience during these first seven years does indicate differences in the responses of various groups of taxpayers, and trends in their responses.

Another purpose has been to estimate the effect of the use of accelerated methods on the amount of corporate depreciation, income tax liabilities, and capital outlays. Unfortunately, we were able to prepare such estimates only for the taxable year 1959, and they cannot readily be projected for subsequent years.

The planning and preparation of this study and of the companion studies mentioned above have benefited greatly by the suggestions and criticisms of the Advisory Committee on the Study of Tax Policies for Economic Growth, whose members are separately listed.

At different stages in the preparation of this survey, I have had the

able research assistance of Katherine Dolfis Warden, Julia Clones, and Angeles Buenaventura. Helpful comments were received from my National Bureau colleagues Anna Schwartz, Thomas Stanback, Lawrence Seltzer, and Douglas Eldridge, and from other readers, including, in particular, Robert Bangs, Richard Pollack, and George Terborgh. I appreciate the helpful comments of the National Bureau's Directors' Reading Committee: Percival F. Brundage, C. H. Greenewalt, and Harold M. Groves. The assistance provided by the Statistics Division of the Internal Revenue Service is in evidence throughout the study, and I am deeply grateful to the members of that agency for their advice and continuing cooperation. In particular, I am in debt to the late Ernest J. Engquist, Jr., who was chief of the Statistics Division when most of the data upon which this study is based were assembled. My special thanks are due to Daphne Laird, whose patience in typing the manuscript survived repeated revisions of text and tables. Joan Tron's editing was not only capable and efficient but virtually painless to the author.

N. B. T.

