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SUMMARY AND CONCLUSIONS

Our objective in this survey has been to discover and report the extent of use of the accelerated depreciation methods authorized by the Internal Revenue Code of 1954, and to examine the effects of using these methods on the amount of depreciation, tax liabilities, and capital outlays. In appraising these findings, one should keep in mind the fact that they are based on data pertaining to the first six or seven years of experience with these tax provisions, and that in the period since 1959 and 1960, patterns of taxpayer response different from those reported here may have developed.

In very broad terms, we find that in the period covered by this survey, the response of the business income taxpaying population to the availability of accelerated depreciation methods was substantial. A large proportion of the depreciable facilities acquired by corporations since 1953 and still on hand in 1959 was in accelerated method accounts. These methods generated a rapidly increasing proportion of total depreciation allowances in the years 1954-60. In 1959, use of accelerated depreciation resulted in a substantially larger amount of corporate depreciation allowances than would have been claimed had only the straight-line method been available.

More specifically, our major findings include the following.

1. A substantial proportion—about 45 per cent—of the depreciable property acquired by corporations after 1953 and on hand in 1959 was in accelerated depreciation method accounts in 1959. Since not all of the property acquired after 1953 was eligible for the use of these methods, it must be assumed that an even larger proportion of qualified facilities were held in declining-balance and SYD accounts in 1959. Facilities in accelerated method accounts were almost one-fourth of the total amount of corporate depreciable assets (including those acquired

before 1954) covered by depreciation schedules for the taxable year 1959.

2. Corporations with total assets of \$25 million or more (accounting in 1959 for about 56 per cent of all corporate depreciable facilities acquired since 1953) held close to 55 per cent of their post-1953 facilities in accelerated method accounts in 1959. For corporations with total assets under \$1 million, about 29 per cent of post-1953 facilities were in declining-balance and SYD accounts, and for companies with total assets greater than \$1 million but less than \$25 million, the proportion was 38 per cent.

3. Among manufacturing corporations of all sizes, accelerated depreciation methods were applied to about 57 per cent of the depreciable facilities acquired by these companies since 1953. In contrast, corporations in the trade and mining industrial divisions held only about 28 per cent of their post-1953 facilities in accelerated depreciation accounts. Manufacturing companies with total assets of \$25 million or more had two-thirds of their post-1953 facilities under the declining-balance and SYD methods.

4. The proportion of corporate facilities in accelerated method accounts in 1959 appears to have been more closely associated with company size than with any other characteristic, e.g., industrial division, type of asset, or service life.

5. Accelerated depreciation methods generated a rapidly increasing share of total allowances between 1954 and 1960. In the earlier year, only 7 per cent of total corporation allowances were computed under these methods. By 1960, corporations' accelerated depreciation allowances had increased to 39 per cent of the total. Between the taxable years 1954 and 1960, the increase in the ratio of accelerated to total corporate allowances was quite pronounced, and occurred in virtually every size class in every industry.

6. Corporations' accelerated depreciation allowances in 1959 were 52 per cent of their allowances on facilities acquired since 1953. These accelerated allowances were about 37 per cent of total allowances on all facilities on hand in 1959. For corporations with total assets of \$25 million or more, accelerated allowances were almost two-thirds of the total on post-1953 properties. Manufacturing corporations, which accounted for 43 per cent of all allowances on post-1953 facilities, used

the accelerated methods to compute about 63 per cent of these allowances. Half of the allowances on post-1953 acquisitions of public utility companies were under accelerated methods.

7. Among unincorporated businesses, the use of accelerated depreciation methods resulted in substantially smaller allowances relative to total depreciation in the taxable year 1959. Accelerated allowances were only 8 per cent of the total for sole proprietorships and 21 per cent for partnerships.

8. Use of accelerated depreciation methods by corporations resulted in substantially larger allowances in 1959 than would otherwise have been available. According to our estimates, total corporate depreciation allowances in that year would have been \$2.4 billion less than the \$20.5 billion actually shown in *Statistics of Income*, had straight-line depreciation been used in lieu of the accelerated methods. The \$2.4 billion of additional allowances is almost 50 per cent more than the allowances that would have been available under straight-line on facilities in accelerated method accounts. About two-thirds of this \$2.4 billion of additional depreciation was generated by the declining-balance method, and one-third by SYD. Close to two-thirds of the additional allowances were claimed by companies with total assets of \$25 million or more, and about 55 per cent were in the manufacturing industries. Almost three-fifths of the additional allowances were in manufacturing and public utility corporations with total assets of \$25 million or more; these companies held about 63 per cent of all corporate facilities that were acquired after 1953 and were in accelerated method accounts in 1959. For these companies, additional allowances were about 57 per cent greater than would have been allowed had the straight-line method been applied to the property in accelerated method accounts.

9. Additional depreciation allowances resulting from the use of accelerated methods instead of straight-line represented widely varying proportions of actual total allowances from industry to industry and size class to size class. Additional allowances were only 0.2 per cent of total allowances among construction corporations with total assets of \$25 million or more. For manufacturing corporations in that size class, the additional allowances were 16.7 per cent of the total. For companies with total assets of more than \$1 million but less than \$25 million in the finance, insurance, and real estate division, additional allowances were almost 18 per cent of total allowances.

10. Corporations' income tax liabilities in 1959 were \$1.265 billion lower than they would have been without the additional depreciation allowances generated by use of the accelerated methods. These tax savings were about 5.6 per cent of actual liabilities of \$22.525 billion in 1959. Use of accelerated methods had a widely varying impact on the tax bills of companies in the various size classes and industries. Taxes of service corporations with total assets less than \$1 million were reduced by an estimated 23.6 per cent, while those of construction companies with total assets of \$25 million or more were reduced by scarcely 0.1 per cent.

11. Use of accelerated depreciation methods had considerable effect on corporations' outlays for depreciable facilities in 1959. We estimate that the outlays were not less than \$1.3 billion, and may have been as much as \$5.7 billion, more than they would have been in the absence of accelerated depreciation.

12. There was a sharp increase between 1954 and 1960 in the number and proportion of corporations reporting the use of the declining-balance depreciation method but very little increase in the proportion of corporations using SYD. In the former year, only 7.6 per cent of corporate returns indicated use of declining-balance; by 1960, close to one-fourth showed this method. For SYD, on the other hand, the increase was only from 4.8 per cent to 5.9 per cent. The increase in the proportion of returns on which use of declining-balance was shown was greatest among the smallest corporations. The proportion of returns on which an accelerated method is indicated appears to have been associated with company size. In 1960, almost 47 per cent of the returns of companies with total assets of \$100 million or more show the declining-balance method and almost 35 per cent of such returns had SYD allowances. Of the companies with total assets less than \$100,000, on the other hand, only 16.6 per cent used declining-balance and 2.8 per cent used SYD. However, differences in industry characteristics do not appear to have been significant in this connection. Declining-balance depreciation appeared on 21.4 per cent of returns of corporations in trade and 29.9 per cent of those in manufacturing; for SYD, the proportion ranged only from a low of 4.4 per cent in finance to a high of 10.5 per cent in manufacturing.

13. While a substantial number of unincorporated businesses used the accelerated depreciation methods in 1959, these were a small pro-

portion of the unincorporated business population. Among sole proprietorships claiming depreciation deductions, about 5.5 per cent indicated use of declining-balance and less than 1 per cent showed SYD. Among partnerships, the corresponding proportions were 10.7 per cent and 2.0 per cent.

14. In 1959, four-fifths or more of the sole proprietorships with depreciation were using only the straight-line method. In that year, not less than two-thirds of the partnerships used the straight-line method exclusively. In 1960, at least 70 per cent of corporations relied solely on the straight-line methods. Among all three types of businesses, the proportion of companies using only straight-line decreases as company size increases. For example, in 1960 at least 80 per cent of the corporations with total assets under \$100,000 relied only on this method; for corporations with total assets of \$100 million or more, the corresponding proportion is 7.6 per cent.

The data we have examined afford evidence of a learning process which suggests that use of these methods may very well have become more extensive in the years following 1959 and 1960. In particular, the relatively rapid increase in the number of small corporations using the accelerated methods suggests that the tax savings therefrom may have been more widely enjoyed after 1959. Similarly, more widespread use of the accelerated methods after 1959 may have had a stimulating effect on capital formation for an increasing number of firms.