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**Tax Committee Comments and Recommendations, No. 6:
Comments on Proposed Regulations Under Section 48 of the
Internal Revenue Code Relating to the Increase in Rental
Deduction Resulting from Early Disposition of Leased Section 38
Property Occurring Prior to January 1, 1964, Submitted to the IRS -
Jan. 18, 1965**

American Institute of Certified Public Accountants. Committee on Federal Taxation

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TAX COMMITTEE COMMENTS AND RECOMMENDATIONS

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COMMITTEE ON FEDERAL TAXATION

of the

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

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48 of the Internal Revenue Code Relating
to the Increase in Rental Deduction Resulting from
Early Disposition of Leased Section 38 Property
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Section

1.

1.48-4(k)(3)(iii) and (iv)

The proposed regulations provide that if after the event which caused Section 47(a)(1), (2), or (3) to apply, the lessee continues the use of the property in a trade or business or in the production of income, the increases in rental deductions described in Subdivision (i) are to be taken into account ratably over the remaining portion of the useful life of the property which was used in making the decrease in rental deductions with respect to the property. Present regulations provide that if in any taxable year of a lessee beginning before January 1, 1964 an event occurs which caused Section 47 to apply because of an early disposition etc. of the leased property which is subject to a valid election under Section 48 and if the lessee's tax for the taxable year is increased or a credit carryback or carry-over is adjusted then an appropriate increase in the lessee's deduction otherwise allowable under Section 162 for such taxable year with respect to the leased property shall be made.

The proposed regulations seek to apply the rule provided for increased rental deduction in regard to property subject to lease for the first taxable year after December 31, 1963 by requiring the spread over the remaining portion of the useful life used in making the decrease in rental deduction. (See Senate Committee Reports

Section 203 Revenue Act of 1964).
Present Regulations Section 1.48-4(k)(3)
is in accordance with the statutory
requirements dealing with any early
disposition under Section 47 with respect
to leased property in a year beginning
prior to January 1, 1964. Since the tax
has been recaptured or a carryback or
carryover adjusted as a result of such
early disposition; failure to allow
the increased rental deduction in the
year of recapture of tax under all
circumstances of leased property would
be tantamount to treating the rental
expense adjustment as a capital item
and leaving the taxpayer in a position
more detrimental than if he had not claimed
the investment credit in the first in-
stance.