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Exposure Draft, November 1, 1962

ACCOUNTING FOR THE INVESTMENT CREDIT

Preliminary Note. The Accounting Principles Board, after considerable discussion of the various possibilities in accounting for the "investment credit," now has before it the following statement. Comments are solicited which will be considered by the Board in arriving at its conclusion as to the proper interpretation of the "investment credit" as an accounting problem.

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1. It is the opinion of the Board that the appropriate accounting for the "investment credit" rests upon a determination of the nature of the credit.

2. In general, the "investment credit" is an amount equal to a specified percentage of the cost of those depreciable assets (most types of machinery and equipment) acquired and placed in service during a taxable year which qualify for the credit. It is credited against the income tax computed for the year, in order to determine the amount payable, and is treated for income-tax purposes as a reduction in the basis of the property acquired. The amount of the "investment credit" applicable to the tax payable in any one year is subject to certain statutory limitations.

3. The Conference Committee Report relative to the "investment credit" provisions of the Revenue Act of 1962 states: "...the purpose of the credit for investment in certain depreciable property, in the case of both regulated and nonregulated industries, is to encourage modernization and expansion of the Nation's

productive facilities and to improve its economic potential by reducing the net cost of acquiring new equipment, thereby increasing the earnings of the new facilities over their productive lives." The credit is in the form of a reduction of taxes otherwise payable, and the legislative record makes it clear that its purpose and intended effect are to reduce the net cost of acquiring productive facilities and not to bring about an abatement of tax. The nature of the credit is evidenced further by the manner of its calculation since it is based on capital investment rather than on taxable income.

4. While in the development of accounting principles, we are not bound by statements in the legislative history of the Revenue Act of 1962, or required to accept a procedure prescribed for income-tax purposes, we believe that, in this instance, they are the best available evidence of the nature of the investment credit.

5. The Board therefore believes that the "investment credit" should be reflected in income over the productive life of the acquired facilities rather than in the year of their acquisition. Accordingly, the Board is of the opinion that the amount of the "investment credit" should be applied to reduce the recorded cost of the acquired facilities, either directly or by inclusion in an offsetting account which would be deducted from the cost of the facilities for purposes of both balance-sheet presentation and calculation of periodic depreciation.