Accounting for the investment credit; Exposure draft (American Institute of Certified Public Accountants), 1962, Nov. 1

American Institute of Certified Public Accountants. Accounting Principles Board

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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 increas­
ing 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 acqui­
sition. 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.