Tax Forum

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DEPRECIATION GUIDELINES AND RULES

The publication of the new depreciation guidelines and rules issued by the Internal Revenue Service on July 11, 1962, Revenue Procedure 62-21, had been eagerly anticipated. The new Guidelines replace Bulletin F, published in 1942, as a guide to lives of depreciable property and also establish objective tests for measuring the reasonableness of a taxpayer's deduction. There has been a great deal of publicity in connection with the effect of the new rules but there are still a number of unanswered questions and in many instances the depreciation indicated by the new Guidelines is less than taxpayers have been claiming.

The depreciation claimed by taxpayers will be tested by special tables prepared by the Internal Revenue Service which provide what the Service considers to be acceptable ranges of the ratios of depreciation reserves to the cost of depreciable assets. Similar ratios are computed from the taxpayer's records and compared to the tables. If the taxpayer's ratios do not compare favorably with the tables, it will be necessary to justify the depreciation deduction by surrounding facts and circumstances. However, for a three-year period, all taxpayers will be permitted to use lives equal to or longer than the guidelines without being concerned about reserve ratios and even shorter lives may be used during this period under a transitional rule based on the reserve ratio tests.

The new rules may indicate the areas of possible question by the Internal Revenue Service in reviewing depreciation deductions. Thus taxpayers will have an opportunity to recognize future problems and develop evidence of the facts and circumstances which have prompted the use of lives which do not meet the tests set forth in the Guidelines. In all events, depreciation deductions should be reviewed in the light of the new Guidelines—either to take advantage of the additional deduction if available or to prepare to justify the deduction claimed. In so doing, a considerable amount of detailed accounting analysis may be required.

Taxpayers whose fiscal years end in 1962 who claim depreciation deductions based on the new Guidelines have been advised by the Service in Technical Information Release No. 393 to attach a new schedule showing the information required by the new procedures in lieu of completing the depreciation schedule printed on the 1961 forms. The depreciation schedule to be attached to the return should show the following information:

Column 1—Group and Guideline Class

Column 2—Class Life Used (Explain if less than Guideline Class Life)

Column 3—Total cost or other basis of assets at beginning of year

Column 4—Asset additions during year

Column 5—Asset retirements during year

Column 6—Depreciation for prior years

Column 7—Depreciation claimed for this year

Column 8—Method of computing depreciation (Explain if changed from prior year, e.g., change from unit of production to straight line pursuant to authority in Rev. Proc. 62-21.)

RANDOM REMINDERS:

All too often a tax practitioner wonders, when it is too late, if he or she shouldn't have exerted more pressure on a client to do some advance planning. Such a problem has been bothering me this morning when I learned of the sudden death of a client. As long ago as two or three years, his attorney and I had been urging him to review his estate and, if advisable, make revisions in his will and, perhaps in his partnership agreement; also consider making some gifts he had in mind; and take other steps to put his affairs in order. Almost every time he came into the office, I would suggest that it would be advisable for him to give these matters some consideration and he was always "going to do something about it." Now it's too late. I don't know whether he has taken the best advantage of the marital deduction, whether the partnership buy-sell agreement is a good one, whether it would have been wise for him to have made gifts to his children or grandchildren. Maybe I should have exerted more pressure.

Another thought that comes to mind is the desirability of reminding clients of the $3,000 annual gifts tax exclusion. So many taxpayers seem to be unaware that they may make a gift of $3,000 or less to each of one or more individuals in any one year without incurring any gift tax liability or that the exclusion can amount to $6,000 per year if the husband and wife consent to treat the gifts as having been made one half by each. The gifts must be those of a present interest, of course, and this occasionally presents some problems in gifts to minors but such problems may be overcome rather easily. Taxpayers frequently are unaware that the $3,000 annual exclusion does not reduce the lifetime exemption of $30,000 (or $60,000 in the case of a husband and wife). Making such nontaxable gifts during life is the best way of saving estate taxes and perhaps practitioners should call this to taxpayers' attention more frequently.

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numerous diagrams which depict the interrelationship of time and cost factors.

Other applications of CPM include manpower leveling, that is, the acquiring or releasing of employees may be greatly lessened. This is accomplished through advance planning which allows one activity to be completed before another is started, and prevents peak periods when many activities are being performed concurrently. By scheduling activities as late as possible, carrying charges for investment funds may be reduced. Thus cash flow and investment minimization are other areas where CPM data may serve to reduce costs.

To date CPM has been most widely used in the construction industry. As research continues along these lines, undoubtedly its use will be increased and broadened. The author concludes with this statement—"By whatever means CPM finds its way into individual firms, most executives will welcome the tools, for they are truly a basis for management by exception."

THE MYSTERIOUS WORLD OF THE FED—by D. C. Hastings and R. M. Robertson. Business Horizons, Spring, 1962—Vol. 5, No. 1. P. 97-104.

Granting that the Federal Reserve System deserves its lofty reputation for the way in which it has performed its service functions, the authors feel "it is by no means certain that the Fed has managed the money supply better than the money supply would have managed itself, nor is it clear that Federal Reserve influence on growth, stability, and price levels has been as beneficial as the Fed's reputation would suggest."

Describing (1) the nodes of power which exist, and (2) the lines of communication that carry power impulses from one node to another, the writers feel the System has not developed along the lines intended by the original Federal Reserve Act. The degree of power concentrated in the chairman of the board is cited as one example. While other board members exercise authority in varying degrees, the chairman has the final word on appointments and serves as the System spokesman in negotiations with other government officials, as well as with foreign governments.

Since members of the Federal Open Market Committee perform the important function of passing on the purchases and sales of government securities, this is another area of great power concentration. The trading desk which carries out the directives of the above committee is operated by the Federal Reserve Bank of New York. Because of this important responsibility, the president of the New York bank has continued to exercise great authority. This is contrary to the gradual decrease in the responsibilities assigned to other member banks.

The authors state there is only one instrument of monetary control—the extension and absorption of central-bank credit. They deprecate the importance of changes in reserve requirements, along with changing the discount rate, and feel the true control is through open market operations. The chairman then exercises his most powerful influence when he casts the deciding vote in the actions taken by the Federal Open Market Committee. While it is the custom for each member of the committee (the seven governors and five of the twelve bank presidents) to express his opinion, it is the chairman who speaks last; he either summarizes the consensus of the opinions previously expressed, or lacking agreement among the members, states his own individual opinion. His expression provides the basis for the action taken, and rarely are recommendations voted upon.

While the writers emphasize the competence and integrity of the men who exercise such centralized control, they feel definite advantages would follow a return to the regional system with greater authority actually being exercised at that level.