

1                                   **TITLE \_\_—BUSINESS**  
2                                   **PROVISIONS**

TITLE \_\_—BUSINESS PROVISIONS

Subtitle A—Rules Relating to Deductions for Capital Expenditures

PART I—EXPENSING

- Sec. \_\_01. Modification and permanent extension of section 179 rules.
- Sec. \_\_02. Repeal of certain specialized expensing provisions.
- Sec. \_\_03. Repeal of certain other deductions.

PART II—DEPRECIATION

- Sec. \_\_11. Pooled asset cost recovery system and depreciation of real property.
- Sec. \_\_12. Rules related to treatment of gains from depreciable property.
- Sec. \_\_13. Limitation on depreciation of personal use passenger automobiles.
- Sec. \_\_14. Limitation on depreciation to property predominantly used in a trade or business.
- Sec. \_\_15. Repeal of like-kind exchanges.
- Sec. \_\_16. Election to use financial statement placed in service date.
- Sec. \_\_17. Repeal of special amortization rules for pollution control facilities.

PART III—AMORTIZATION AND DEPLETION

- Sec. \_\_21. Intangible property.
- Sec. \_\_22. Amortization of research and experimental expenditures.
- Sec. \_\_23. Treatment of advertising expenditures.
- Sec. \_\_24. Amortization of certain oil, gas, and mining expenditures.
- Sec. \_\_25. Termination of percentage depletion.
- Sec. \_\_26. Amortization of soil and water conservation expenditures and endangered species recovery expenditures.

Subtitle B—Accounting Provisions

- Sec. \_\_51. Limitation on use of cash method of accounting.
- Sec. \_\_52. Repeal of special rules for method of accounting for corporations engaged in farming.
- Sec. \_\_53. Modification of rules for capitalization and inclusion in inventory costs of certain expenses.
- Sec. \_\_54. Unification of deduction for start-up and organizational expenditures.
- Sec. \_\_55. Certain methods of determining inventories not treated as clearly reflecting income.
- Sec. \_\_56. Application of percentage of completion method to certain long-term contracts.

1 **Subtitle A—Rules Relating to De-**  
2 **ductions for Capital Expendi-**  
3 **tures**

4 **PART I—EXPENSING**

5 **SEC. \_\_01. MODIFICATION AND PERMANENT EXTENSION OF**  
6 **SECTION 179 RULES.**

7 (a) **EXTENSION AND INCREASE.—**

8 (1) **EXTENSION FOR 2014.—**

9 (A) **IN GENERAL.—**Section 179(b) is  
10 amended—

11 (i) by striking “or 2013” each place it  
12 appears in paragraphs (1)(B) and (2)(B)  
13 and inserting “2013, or 2014”, and

14 (ii) by striking “2013” each place it  
15 appears in paragraph (1)(C) and (2)(C)  
16 and inserting “2014”.

17 (B) **TREATMENT OF COMPUTER SOFT-**  
18 **WARE.—**Section 179(d)(1)(A)(ii) is amended by  
19 striking “2014” and inserting “2015”.

20 (2) **INCREASE AFTER 2014.—**

21 (A) **DOLLAR LIMITATION.—**Section  
22 179(b)(1), as amended by paragraph (1), is  
23 amended by striking “shall not exceed” and all  
24 that follows and inserting “shall not exceed  
25 \$1,000,000.”.

1 (B) REDUCTION IN LIMITATION.—Section  
2 179(b)(2), as amended by paragraph (1), is  
3 amended by striking “exceeds—” and all that  
4 follows and inserting “exceeds \$2,000,000.”.

5 (C) INFLATION ADJUSTMENT.—Subsection  
6 (b) of section 179 is amended by adding at the  
7 end the following new paragraph:

8 “(6) INFLATION ADJUSTMENT.—

9 “(A) IN GENERAL.—In the case of any  
10 taxable year beginning after 2015, the dollar  
11 amounts in paragraphs (1) and (2) shall each  
12 be increased by an amount equal to—

13 “(i) such dollar amount, multiplied by

14 “(ii) the cost-of-living adjustment de-  
15 termined under section 1(f)(3) for the cal-  
16 endar year in which the taxable year be-  
17 gins, by substituting ‘2014’ for ‘1992’ in  
18 subparagraph (B) thereof.

19 “(B) ROUNDING.—The amount of any in-  
20 crease under subparagraph (A) shall be round-  
21 ed to the nearest multiple of \$100,000.”.

22 (b) PERMANENT EXTENSION OF ELECTION.—Sec-  
23 tion 179(c)(2) is amended by striking “and before 2014”.

24 (c) EXPANSION TO INCLUDE CERTAIN AMORTIZED  
25 EXPENDITURES AND OTHER PROPERTY.—

1           (1) IN GENERAL.—Subsection (a) of section  
2           179 is amended to read as follows:

3           “(a) TREATMENT AS EXPENSES.—A taxpayer may  
4           elect to treat any section 179 expenditure as an expense  
5           which is not chargeable to capital account. Any cost so  
6           treated shall be allowed as a deduction—

7           “(1) in the case of any section 179 expenditure  
8           which is for section 179 property, in the taxable year  
9           in which the section 179 property is placed in serv-  
10          ice, and

11          “(2) in the case of any other section 179 ex-  
12          penditure, in the taxable year in which such expendi-  
13          ture is paid or incurred.”.

14          (2) SECTION 179 EXPENDITURE DEFINED.—  
15          Paragraph (1) of section 179(d) is amended to read  
16          as follows:

17          “(1) SECTION 179 EXPENDITURE.—

18                 “(A) IN GENERAL.—For purposes of this  
19                 section, the term ‘section 179 expenditure’  
20                 means—

21                         “(i) the cost of any section 179 prop-  
22                         erty,

23                         “(ii) research and experimental ex-  
24                         penditures (within the meaning of section  
25                         174),

1                   “(iii) advertising expenditures (as de-  
2                   fined in section 177), but only to the ex-  
3                   tent that a deduction is not allowed for  
4                   such expenses under section 177(b), and

5                   “(iv) qualified extraction expenditures  
6                   (as defined in section 193).

7                   “(B) SECTION 179 PROPERTY.—The term  
8                   ‘section 179 property’ means property—

9                   “(i) which is—

10                   “(I) tangible property (to which  
11                   section 168 applies), or

12                   “(II) computer software de-  
13                   scribed in section 168(b)(2)(B),

14                   “(ii) which is section 1245 property  
15                   (as defined in section 1245(a)(3)), and

16                   “(iii) which is acquired by purchase  
17                   for use in the active conduct of a trade or  
18                   business.”.

19                   (3) COORDINATION WITH AMORTIZATION  
20                   RULES.—Section 179(d) is amended by adding on at  
21                   the end the following new paragraph:

22                   “(11) COORDINATION WITH CERTAIN AMORTI-  
23                   ZATION PROVISIONS.—The amount taken into ac-  
24                   count under sections 174, 177(c), and 193 with re-  
25                   spect to any expenditure for which an election is

1       made under this section shall be reduced by the  
2       amount taken into account under subsection (a) with  
3       respect to such expenditure.”.

4           (4) CONFORMING AMENDMENTS.—

5           (A) Section 179(b)(2) is amended by strik-  
6       ing “the cost of section 179 property placed in  
7       service during the taxable year” and inserting  
8       “the amount of section 179 expenditures which  
9       would be taken into account under subsection  
10      (a) for such taxable year but for this para-  
11      graph”.

12          (B) Subparagraph (A) of section 179(c)(1)  
13      is amended to read as follows:

14           “(A) specify the section 179 expenditures  
15      to which the election applies and the portion of  
16      the expenditures taken into account for each  
17      item under subsection (a), and”.

18      (d) REPEAL OF TREATMENT OF QUALIFIED DIS-  
19      ASTER ASSISTANCE PROPERTY AND QUALIFIED REAL  
20      PROPERTY.—Section 179 is amended by striking sub-  
21      sections (e) and (f).

22      (e) EFFECTIVE DATES.—

23           (1) IN GENERAL.—Except as provided in para-  
24      graph (2), the amendments made by this section

1 shall apply to taxable years beginning after Decem-  
2 ber 31, 2014.

3 (2) 2013 EXTENSION.—The amendments made  
4 by subsections (a)(1), (b), and (d) shall apply to tax-  
5 able years beginning after December 31, 2013.

6 **SEC. \_02. REPEAL OF CERTAIN SPECIALIZED EXPENSING**  
7 **PROVISIONS.**

8 (a) IN GENERAL.—Part VI of subchapter B of chap-  
9 ter 1 is amended by striking the following sections:

10 (1) 179A.

11 (2) 179B.

12 (3) 179C.

13 (4) 179D.

14 (5) 179E.

15 (b) CONFORMING AMENDMENTS.—

16 (1) Section 30C(c) is amended to read as fol-  
17 lows:

18 “(c) QUALIFIED ALTERNATIVE FUEL VEHICLE RE-  
19 FUELING PROPERTY.—

20 “(1) IN GENERAL.—For purposes of this sec-  
21 tion, the term ‘qualified alternative fuel vehicle re-  
22 fueling property’ means any property (not including  
23 a building and its structural components) if—

24 “(A) such property—

1                   “(i) is of a character subject to the al-  
2                   lowance for depreciation, and

3                   “(ii) is not installed on property which  
4                   is used as the principal residence (within  
5                   the meaning of section 121) of the tax-  
6                   payer,

7                   “(B) the original use of such property be-  
8                   gins with the taxpayer, and

9                   “(C) such property is—

10                   “(i) for the storage or dispensing of a  
11                   clean-burning fuel into the fuel tank of a  
12                   motor vehicle propelled by such fuel, but  
13                   only if the storage or dispensing of the fuel  
14                   is at the point where such fuel is delivered  
15                   into the fuel tank of the motor vehicle, or

16                   “(ii) for the recharging of motor vehi-  
17                   cles propelled by electricity, but only if the  
18                   property is located at the point where the  
19                   motor vehicles are recharged.

20                   “(2) CLEAN BURNING FUEL.—For purposes of  
21                   paragraph (1), the term ‘clean-burning fuel’ means  
22                   any of the following:

23                   “(A) Any fuel at least 85 percent of the  
24                   volume of which consists of one or more of the  
25                   following: ethanol, natural gas, compressed nat-



1           ural gas, liquified natural gas, liquefied petro-  
2           leum gas, or hydrogen.

3           “(B) Any mixture—

4                   “(i) which consists of two or more of  
5                   the following: biodiesel (as defined in sec-  
6                   tion 40A(d)(1)), diesel fuel (as defined in  
7                   section 4083(a)(3)), or kerosene, and

8                   “(ii) at least 20 percent of the volume  
9                   of which consists of biodiesel (as so de-  
10                  fined) determined without regard to any  
11                  kerosene in such mixture.

12          “(C) Electricity.

13          “(3) MOTOR VEHICLE.—For purposes of para-  
14          graph (1), the term ‘motor vehicle’ means any vehi-  
15          cle which is manufactured primarily for use on pub-  
16          lic streets, roads, and highways (not including a ve-  
17          hicle operated exclusively on a rail or rails) and  
18          which has at least 4 wheels.”.

19          (2) Section 45H(d) is amended by striking  
20          “and section 179B(b)”.

21          (3) Section 62(a) is amended by striking para-  
22          graph (14).

23          (4) Section 263(a)(1) is amended by inserting  
24          “and” at the end of subparagraph (F), by striking  
25          the comma at the end of subparagraph (G) and in-

1       serting a period, and by striking subparagraphs (H)  
2       through (L).

3           (5) Section 263A(c)(3) is amended by striking  
4       “179B,”.

5           (6) Section 1016(a) is amended by striking  
6       paragraphs (24), (30), and (31).

7           (7) The table of sections for part VI of sub-  
8       chapter B of chapter 1 is amended by striking the  
9       items relating to sections 179A, 179B, 179C, 179D,  
10       and 179E.

11       (c) EFFECTIVE DATES.—

12           (1) IN GENERAL.—Except as provided in para-  
13       graphs (2) and (3), the amendments made by this  
14       section shall apply to property placed in service after  
15       December 31, 2013.

16           (2) CLEAN-FUEL VEHICLES AND REFUELING  
17       PROPERTY.—The amendments made by subsection  
18       (a)(1) and (b)(1) shall take effect on the date of the  
19       enactment of this Act.

20           (3) DEDUCTION FOR COSTS TO COMPLY WITH  
21       SULFUR REGULATIONS.—The amendment made by  
22       subsection (a)(2), and the related amendments made  
23       by paragraphs (2), (4), (5), and (6) of subsection  
24       (b), shall apply to expenses paid or incurred after  
25       the date of the enactment of this Act.

1 **SEC. \_\_03. REPEAL OF CERTAIN OTHER DEDUCTIONS.**

2 (a) REPEAL OF DEDUCTION FOR EXPENDITURES BY  
3 FARMERS FOR FERTILIZER, ETC.—

4 (1) IN GENERAL.—Part VI of subchapter B of  
5 chapter 1 is amended by striking section 180.

6 (2) CONFORMING AMENDMENTS.—

7 (A) Section 263(a)(1), as amended by sec-  
8 tion \_\_02(b)(4), is amended by striking sub-  
9 paragraph (D) and by redesignating subpara-  
10 graphs (E), (F), and (G) as subparagraphs (D),  
11 (E), and (F), respectively.

12 (B) The table of sections for part VI of  
13 subchapter B of chapter 1 is amended by strik-  
14 ing the item relating to section 180.

15 (b) REPEAL OF TREATMENT OF CERTAIN QUALIFIED  
16 FILM AND TELEVISION PRODUCTIONS.—

17 (1) IN GENERAL.—Part VI of subchapter B of  
18 chapter 1 is amended by striking section 181.

19 (2) CONFORMING AMENDMENT.—The table of  
20 sections for part VI of subchapter B of chapter 1 is  
21 amended by striking the item relating to section  
22 181.

23 (c) REPEAL OF DEDUCTION FOR EXPENDITURES TO  
24 REMOVE ARCHITECTURAL AND TRANSPORTATION BAR-  
25 RIERS TO THE HANDICAPPED AND ELDERLY.—

1           (1) IN GENERAL.—Part VI of subchapter B of  
2 chapter 1 is amended by striking section 190.

3           (2) CONFORMING AMENDMENTS.—

4           (A) Section 67(d) is amended to read as  
5 follows:

6           “(d) IMPAIRMENT-RELATED WORK EXPENSES.—

7           “(1) IN GENERAL.—For purposes of this sec-  
8 tion, the term ‘impairment-related work expenses’  
9 means expenses—

10           “(A) of a handicapped individual for at-  
11 tendant care services at the individual’s place of  
12 employment and other expenses in connection  
13 with such place of employment which are nec-  
14 essary for such individual to be able to work,  
15 and

16           “(B) with respect to which a deduction is  
17 allowable under section 162 (determined with-  
18 out regard to this section).

19           “(2) HANDICAPPED INDIVIDUAL.—For pur-  
20 poses of paragraph (1)(A), the term ‘handicapped  
21 individual’ means any individual who has a physical  
22 or mental disability (including, but not limited to,  
23 blindness or deafness) which for such individual con-  
24 stitutes or results in a functional limitation to em-  
25 ployment, or who has any physical or mental impair-

1       ment (including, but not limited to, a sight or hear-  
2       ing impairment) which substantially limits one or  
3       more major life activities of such individual.”.

4               (B) Section 263(a)(1), as amended by sec-  
5       tion \_\_02(b)(4) and subsection (a)(2)(A), is  
6       amended by striking subparagraph (D) and by  
7       redesignating subparagraphs (E) and (F) as  
8       subparagraphs (D) and (E), respectively.

9               (C) The table of sections for part VI of  
10       subchapter B of chapter 1 is amended by strik-  
11       ing the item relating to section 190.

12       (d) REPEAL OF CERTAIN DEDUCTIONS WITH RE-  
13       SPECT TO REFORESTATION EXPENDITURES.—

14               (1) IN GENERAL.—Part VI of subchapter B of  
15       chapter 1 is amended by striking section 194.

16               (2) CONFORMING AMENDMENTS.—

17               (A) Section 62(a) is amended by striking  
18       paragraph (11).

19               (B) Section 1245(b) is amended by strik-  
20       ing paragraph (7) and by redesignating para-  
21       graph (8) as paragraph (7).

22               (C) The table of sections for part VI of  
23       subchapter B of chapter 1 is amended by strik-  
24       ing the item relating to section 194.

25       (e) EFFECTIVE DATE.—

1 (1) IN GENERAL.—Except as provided in para-  
2 graph (2), the amendments made by this subsection  
3 shall apply to expenditures paid or incurred in tax-  
4 able years beginning after December 31, 2014.

5 (2) QUALIFIED FILM AND TELEVISION PRODUC-  
6 TIONS.—The amendments made by subsection (b)  
7 shall apply to productions commencing after Decem-  
8 ber 31, 2013.

## 9 PART II—DEPRECIATION

### 10 SEC. \_\_11. POOLED ASSET COST RECOVERY SYSTEM AND 11 DEPRECIATION OF REAL PROPERTY.

12 (a) IN GENERAL.—Section 168 is amended to read  
13 as follows:

#### 14 “SEC. 168. DEPRECIATION FOR TANGIBLE PROPERTY.

15 “(a) GENERAL RULE.—Except as otherwise provided  
16 in this section, the depreciation deduction provided by sec-  
17 tion 167(a) for any section 168 property shall be deter-  
18 mined—

19 “(1) in the case of pooled property, by applying  
20 the applicable rate to the balance of each asset pool  
21 of the taxpayer as of the close of the taxable year,  
22 and

23 “(2) in the case of straight-line property, as  
24 provided in subsection (g).

1           “(b) SECTION 168 PROPERTY.—For purposes of this  
2 section—

3           “(1) SECTION 168 PROPERTY.—

4                   “(A) IN GENERAL.—The term ‘section 168  
5 property’ means—

6                           “(i) pooled property, and

7                           “(ii) straight line property.

8                   “(B) EXCEPTIONS.—Such term shall not  
9 include any of the following:

10                           “(i) FILMS AND VIDEO TAPE.—Any  
11 motion picture film or video tape.

12                           “(ii) SOUND RECORDINGS.—Any  
13 works which result from the fixation of a  
14 series of musical, spoken, or other sounds,  
15 regardless of the nature of the material  
16 (such as discs, tapes, or other  
17 phonorecordings) in which such sounds are  
18 embodied.

19           “(2) POOLED PROPERTY.—The term ‘pooled  
20 property’ means—

21                   “(A) any tangible property (other than any  
22 personal use passenger automobile) which is  
23 classified under subsection (c) as pooled prop-  
24 erty, and

1           “(B) any computer software (as defined in  
2           section 197(e)(3)(B)) that is not an amortizable  
3           section 197 intangible.

4           “(3) STRAIGHT LINE PROPERTY.—The term  
5           ‘straight line property’ means—

6           “(A) any tangible property which is classi-  
7           fied under subsection (c) as real property, and

8           “(B) any personal use passenger auto-  
9           mobile.

10          “(c) CLASSIFICATION AND ASSIGNMENT OF TAN-  
11          GIBLE PROPERTY.—

12          “(1) IN GENERAL.—All tangible property (other  
13          than any personal use passenger automobile) shall  
14          be classified as pooled property or real property.

15          “(2) ASSIGNMENT OF POOLED PROPERTY.—

16          “(A) IN GENERAL.—All pooled property  
17          shall be assigned to one of the following asset  
18          pools:

19                  “(i) Pool 1.

20                  “(ii) Pool 2.

21                  “(iii) Pool 3.

22                  “(iv) Pool 4.

23          “(B) SPECIAL RULE FOR ASSETS USED  
24          OUTSIDE THE UNITED STATES.—For purposes  
25          of subsection (a)(1), pooled property which is



1 used predominantly outside the United States  
2 shall be treated as assigned to a pool described  
3 in subparagraph (A) which is separate from the  
4 pool to which property not used predominantly  
5 outside the United States is assigned.

6 “(3) ASSIGNMENT AND CLASSIFICATION.—

7 “(A) INITIAL ASSIGNMENT.—Except as  
8 provided in subparagraph (B), the classification  
9 and assignment of property under paragraphs  
10 (1) and (2) shall be as provided in paragraph  
11 (4).

12 “(B) MODIFICATIONS.—The Secretary, in  
13 consultation with the Secretary of Commerce,  
14 may, by regulations—

15 “(i) reclassify property described in  
16 paragraph (4) as real property or pooled  
17 property,

18 “(ii) in the case of pooled property,  
19 reassign such property to a pool other than  
20 as provided in paragraph (4), and

21 “(iii) for purposes of making any re-  
22 classification or reassignment under  
23 clauses (i) or (ii), modify asset classes de-  
24 scribed in Revenue Procedure 87-56 or  
25 create new asset classes.

1           “(C) CRITERIA FOR MODIFICATION.—Any  
2 reclassification or reassignment under subpara-  
3 graph (B) shall be made—

4           “(i) based on the anticipated useful  
5 life and the anticipated decline in value  
6 over time of the asset, and

7           “(ii) after taking into account when  
8 the asset is technologically or functionally  
9 obsolete.

10           “(D) PUBLICATION AND NOTIFICATION.—  
11 In any case in which the Secretary makes a re-  
12 classification or reassignment of property pur-  
13 suant to subparagraph (B), the Secretary shall  
14 publish a schedule reflecting the appropriate  
15 classification and assignment of all section 168  
16 property.

17           “(E) TREATMENT UNDER CONGRESSIONAL  
18 REVIEW ACT.—For purposes of applying chap-  
19 ter 8 of title 5, United States Code, any reclas-  
20 sification or reassignment under subparagraph  
21 (B) shall be treated as a major rule.

22           “(F) STUDY.—

23           “(i) IN GENERAL.—The Secretary, in  
24 consultation with the Secretary of Com-  
25 merce, shall conduct an on-going study

1 analyzing the number of asset pools, the  
2 appropriate applicable rate for asset pools,  
3 the assignment of pooled assets to asset  
4 pools, and the method and recovery period  
5 for assets classified as real property under  
6 paragraph (1).

7 “(ii) REPORT.—Not later than the  
8 date that is 10 years after the date of the  
9 enactment of the \_\_\_\_ Act, and not less  
10 frequently than every 10 years after such  
11 date, the Secretary shall submit a report to  
12 Congress on recommendations for changes  
13 in law relating to the study conducted  
14 under clause (i).

15 “(4) INITIAL CLASSIFICATION OF PROPERTY.—  
16 For purposes of paragraph (3), section 168 property  
17 shall be treated as follows:

18 “(A) POOL 1.—The following assets shall  
19 be classified as pooled property and assigned to  
20 pool 1:

21 “(i) Any asset treated under Revenue  
22 Procedure 87-56 as belonging to one of the  
23 following asset classes: 00.12, 00.13,  
24 00.22, or 49.121.

1                   “(ii) Any asset which is computer  
2                   software described in subsection (b)(2)(B).

3                   “(B) POOL 2.—The following assets shall  
4                   be classified as pooled property and assigned to  
5                   pool 2:

6                   “(i) Any asset treated under Revenue  
7                   Procedure 87-56 as belonging to one of the  
8                   following asset classes: 00.23, 00.241,  
9                   00.242, 00.26, 00.27, 01.1, 01.11, 01.21,  
10                  01.221, 01.222, 01.223, 01.224, 01.225,  
11                  01.23, 01.24, 15.0, 24.1, 24.2, 24.3, 24.4,  
12                  30.1, 30.2, 36.0 , 36.1, 37.11, 40.1, 41.0,  
13                  42.0, 48.12, 48.121, 48.13, 48.2, 48.32,  
14                  48.34, 48.35, 48.37, 48.38, 48.39, 57.0, or  
15                  79.0.

16                  “(ii) Any asset which—

17                               “(I) is treated as belonging to  
18                               asset class 22.3 under Revenue Proce-  
19                               dure 87-56, and

20                               “(II) is used in the manufacture  
21                               of medical and dental supplies.

22                               “(iii) Any qualified rent-to-own prop-  
23                               erty (as defined in section 168(i)(14), as in  
24                               effect for taxable years beginning in 2014).

1                   “(iv) Any tree or vine bearing fruit or  
2                   nuts (within the meaning of section  
3                   168(e)(3)(D)(ii), as in effect for taxable  
4                   years beginning in 2014).

5                   “(C) POOL 3.—The following assets shall  
6                   be classified as pooled property and assigned to  
7                   pool 3:

8                   “(i) Any asset treated under Revenue  
9                   Procedure 87-56 as belonging to one of the  
10                  following asset classes: 00.11, 00.21,  
11                  00.28, 10.0, 13.0, 13.1, 13.2, 13.3, 20.1,  
12                  20.2, 20.3, 20.4, 20.5, 21.0, 22.1, 22.2,  
13                  22.4, 22.5, 23.0, 26.1, 26.2, 27.0, 28.0,  
14                  30.11, 30.21, 31.0, 32.1, 32.11, 32.2,  
15                  32.3, 33.2, 33.21, 33.3, 33.4, 34.0, 34.01,  
16                  35.0, 37.12, 37.2, 37.31, 37.33, 37.41,  
17                  37.42, 39.0, 45.0, 45.1, 48.43, 48.44, or  
18                  48.45.

19                  “(ii) Any asset which—

20                         “(I) is treated as belonging to  
21                         asset class 22.3 under Revenue Proce-  
22                         dure 87-56, and

23                         “(II) is used in the manufacture  
24                         of carpets.

1                   “(iii) Any personal property not as-  
2                   signed a class life under Revenue Proce-  
3                   dure 87-56.

4                   “(D) POOL 4.—The following assets shall  
5                   be classified as pooled property and assigned to  
6                   pool 4:

7                   “(i) Any asset treated under Revenue  
8                   Procedure 87-56 as belonging to one of the  
9                   following asset classes: 00.25, 00.3, 00.4,  
10                  37.32, 40.3, 40.4, 40.51, 40.52, 40.53,  
11                  40.54, 44.0, 46.0, 48.14, 48.31, 48.33,  
12                  48.36, 48.41, 48.42, 49.14, 49.21, 49.24,  
13                  49.3, 49.4, 51.0, 57.1, or 80.0.

14                  “(ii) Any real property that is section  
15                  1245 property (as defined under section  
16                  1245, as in effect for taxable years begin-  
17                  ning in 2014) and that is not otherwise as-  
18                  signed a class life under Revenue Proce-  
19                  dure 87-56.

20                  “(iii) Any asset described in section  
21                  168(e)(3)(B)(vi) (as in effect for taxable  
22                  years beginning in 2014).

23                  “(E) REAL PROPERTY.—The following as-  
24                  sets shall be classified as real property:

1                   “(i) Any asset treated under Revenue  
2                   Procedure 87-56 as belonging to one of the  
3                   following asset classes: 01.3, 01.4, 40.2,  
4                   48.11, 49.11, 49.12, 49.13, 49.15, 49.221,  
5                   49.222, 49.223, 49.23, 49.25, 49.5, or  
6                   50.0.

7                   “(ii) Any residential rental property  
8                   (as defined in section 168(e)(2)(A), as in  
9                   effect for taxable years beginning in 2014).

10                   “(iii) Any nonresidential real property  
11                   (as defined in section 168(e)(2)(B), as in  
12                   effect for taxable years beginning in 2014).

13                   “(iv) Any qualified second generation  
14                   biofuel plant property (as defined in sec-  
15                   tion 168(l)(2), as in effect for taxable  
16                   years beginning in 2014).

17                   “(5) REVENUE PROCEDURE 87-56.—For pur-  
18                   poses of this subsection, any reference to Revenue  
19                   Procedure 87-56 shall include any amendment to  
20                   such revenue procedure made before January 1,  
21                   2015.

22                   “(d) APPLICABLE RATE.—For purposes of sub-  
23                   section (a)(1)—

24                   “(1) IN GENERAL.—Except as provided in para-  
25                   graphs (2) and (3), the applicable rate is—

1           “(A) in the case of assets in pool 1, 38  
2           percent,

3           “(B) in the case of assets in pool 2, 18  
4           percent,

5           “(C) in the case of assets in pool 3, 12  
6           percent, and

7           “(D) in the case of assets in pool 4, 5 per-  
8           cent.

9           “(2) 100 PERCENT RATE FOR DE MINIMIS BAL-  
10          ANCES.—At the election of the taxpayer, in the case  
11          of any asset pool that has a balance of \$1,000 or  
12          less as of the close of the taxable year, the applicable  
13          rate for the taxable year shall be 100 percent.

14          “(3) TERMINAL LOSSES.—In the case of any  
15          asset pool in which the taxpayer has a balance of  
16          greater than zero as of the close of the taxable year  
17          but does not own any assets assigned to such pool,  
18          the applicable rate for the taxable year shall be 100  
19          percent.

20          “(e) DETERMINATION OF ASSET POOL BALANCES.—

21                 “(1) IN GENERAL.—The balance of any asset  
22          pool for any taxable year shall be the adjusted bal-  
23          ance of such asset pool as of the close of the pre-  
24          ceding taxable year (as determined under paragraph  
25          (2))—



1           “(A) increased as provided in paragraph  
2           (3), and

3           “(B) decreased as provided in paragraph  
4           (4).

5           “(2) ADJUSTED BALANCE.—For purposes of  
6           paragraph (1), the adjusted balance of any asset  
7           pool as of the close of any preceding taxable year  
8           shall be the balance of such pool for such taxable  
9           year (determined without regard to this para-  
10          graph)—

11           “(A) decreased by the amount of any de-  
12          duction allowed under subsection (a)(1) with re-  
13          spect to such pool for the taxable year, and

14           “(B) increased as provided in subsection  
15          (f)(3).

16           “(3) ADDITIONS TO BALANCE.—The balance  
17          with respect to any asset pool shall be increased  
18          by—

19           “(A) in the case of the first taxable year  
20          beginning after December 31, 2014, the ad-  
21          justed basis of any pooled property—

22           “(i) held by the taxpayer on the first  
23          day of such taxable year, and

24           “(ii) assigned to such asset pool,

1           “(B) except as provided in subparagraph  
2 (C), the adjusted basis of any pooled property  
3 placed in service by the taxpayer during the  
4 taxable year and assigned to such asset pool,  
5 and

6           “(C) the adjusted basis of any addition or  
7 improvement which is—

8                   “(i) made to pooled property held by  
9 the taxpayer and assigned to such asset  
10 pool,

11                   “(ii) chargeable to capital account,  
12 and

13                   “(iii) placed in service during the tax-  
14 able year.

15           “(4) SUBTRACTIONS FROM BALANCE.—

16                   “(A) IN GENERAL.—The balance with re-  
17 spect to any asset pool shall be reduced by—

18                           “(i) the amount of any reduction with  
19 respect to such pool for such taxable year  
20 pursuant to subsection (b)(2)(E), (b)(5),  
21 or (c)(1) of section 108, and

22                           “(ii) except as provided in subpara-  
23 graph (B), the gross proceeds from the dis-  
24 position or transfer during the taxable year  
25 of any asset assigned to such pool.

1                   “(B) SPECIAL RULE FOR LEASEBACKS AND  
2                   DISPOSITIONS TO RELATED PARTIES AND TAX  
3                   SHELTERS.—

4                   “(i) IN GENERAL.—In the case of any  
5                   specified property—

6                   “(I) the amount of the reduction  
7                   under subparagraph (A)(ii) shall not  
8                   exceed the recomputed basis with re-  
9                   spect to such asset, and

10                  “(II) the excess of the fair mar-  
11                  ket value of such asset over the re-  
12                  computed basis shall be treated as  
13                  gain from section 1245 property  
14                  which is pooled property for purposes  
15                  of section 1245.

16                  “(ii) RECOMPUTED BASIS.—For pur-  
17                  poses of clause (i), the recomputed basis  
18                  with respect to any asset is the excess of—

19                  “(I) the increases to an asset  
20                  pool under paragraph (3) on account  
21                  of such asset (including any additions  
22                  or improvements made to such asset),  
23                  over

24                  “(II) the amount of deductions  
25                  which would have been allowed with

1                    respect to such asset (including addi-  
2                    tions and improvements) under this  
3                    section before the date of the dispo-  
4                    sition or transfer

5                    determined as if such asset were the only  
6                    property assigned to its asset pool.

7                    “(iii) SPECIFIED PROPERTY.—For  
8                    purposes of this paragraph, the term ‘spec-  
9                    ified property’ means—

10                    “(I) any pooled property disposed  
11                    of or transferred to a related person  
12                    or a tax shelter, or

13                    “(II) any other pooled property  
14                    which the taxpayer continues to use  
15                    after its disposition or transfer.

16                    “(iv) RELATED PERSON.—For pur-  
17                    poses of this subparagraph—

18                    “(I) IN GENERAL.—A person  
19                    (hereinafter in this clause referred to  
20                    as the ‘related person’) is related to  
21                    any person if the related person bears  
22                    a relationship to such person de-  
23                    scribed in section 267(b) or 707(b)(1)  
24                    or the related person and such per-  
25                    sons are engaged in a trade or busi-

1                   ness under common control (within  
2                   the meaning of subparagraphs (A)  
3                   and (B) of section 41(f)(1)). A person  
4                   shall be treated as related to another  
5                   person if such relationship exists im-  
6                   mediately before or immediately after  
7                   the acquisition of the property in-  
8                   volved.

9                   “(II)       EXCEPTION.—Notwith-  
10                  standing subclause (I), a corporation  
11                  shall not be treated as related to any  
12                  person if such corporation files a con-  
13                  solidated return under section 1502  
14                  with such person.

15                  “(v) TAX SHELTER.—The term ‘tax  
16                  shelter’ has the meaning given such term  
17                  under section 461(i)(3).

18                  “(f) TREATMENT OF ASSET POOLS WITH NEGATIVE  
19                  BALANCES.—In the case of any asset pool with a balance  
20                  of less than zero as of the close of any taxable year—

21                       “(1) subsection (a) shall not apply to such asset  
22                  pool,

23                       “(2) the amount of such balance which is less  
24                  than zero shall be treated as gain from section 1245

1 property which is pooled property for purposes of  
2 section 1245, and

3 “(3) an amount equal to the amount treated as  
4 gain under paragraph (2) shall be added to the bal-  
5 ance of such pool for purposes of determining the  
6 adjusted balance of such pool under subsection  
7 (e)(2)(B).

8 “(g) DEPRECIATION FOR STRAIGHT LINE PROP-  
9 erty.—

10 “(1) IN GENERAL.—Except as provided in para-  
11 graph (5), in the case of straight line property, the  
12 depreciation deduction determined under this section  
13 shall be the amount determined by using—

14 “(A) the straight line method (without re-  
15 gard to salvage value),

16 “(B) the mid-month convention, and

17 “(C) the applicable recovery period deter-  
18 mined under paragraph (3).

19 “(2) MID-MONTH CONVENTION.—For purposes  
20 of paragraph (1)(B), the mid-month convention is a  
21 convention which treats all property placed in service  
22 during any month (or disposed of during any month)  
23 as placed in service (or disposed of) on the mid-point  
24 of such month.

1           “(3) APPLICABLE RECOVERY PERIOD.—For  
2 purposes of paragraph (1)(C), the applicable recovery  
3 period is—

4           “(A) in the case of property classified  
5 under subsection (c) as real property, 43 years,  
6 and

7           “(B) in the case of any personal use pas-  
8 senger automobile, 5 years.

9           “(4) TREATMENTS OF ADDITIONS OR IMPROVE-  
10 MENTS TO PROPERTY.—In the case of any addition  
11 to (or improvement of) any property to which this  
12 subsection applies—

13           “(A) any deduction under subsection (a)  
14 for such addition or improvement shall be com-  
15 puted in the same manner as the deduction for  
16 such property would be computed if such prop-  
17 erty had been placed in service at the same  
18 time as such addition or improvement, and

19           “(B) the applicable recovery period for  
20 such addition or improvement shall begin on the  
21 later of—

22           “(i) the date on which such addition  
23 (or improvement) is placed in service, or

1                   “(ii) the date on which the property  
2                   with respect to which such addition (or im-  
3                   provement) was made is placed in service.

4                   “(5) TRANSITION RULE.—In the case of any  
5                   straight line property placed in service in a taxable  
6                   year beginning before January 1, 2015, the deduc-  
7                   tion allowed under this section for any taxable year  
8                   beginning after December 31, 2014, shall be deter-  
9                   mined by applying the straight line method (without  
10                  regard to salvage value) to the adjusted basis of  
11                  such property using the recovery period determined  
12                  under paragraph (3) reduced by the number of tax-  
13                  able years beginning before January 1, 2015, for  
14                  which the taxpayer had taken any deduction under  
15                  this section.

16                  “(h) DEFINITIONS AND SPECIAL RULES.—For pur-  
17                  poses of this section—

18                  “(1) PERSONAL USE PASSENGER AUTO-  
19                  MOBILE.—

20                  “(A) IN GENERAL.—Except as provided in  
21                  subparagraph (B), the term ‘personal use pas-  
22                  senger automobile’ means any passenger auto-  
23                  mobile the business use percentage of which is  
24                  less than 100 percent.

25                  “(B) PASSENGER AUTOMOBILE.—







1           “(C) EXCEPTION FOR CERTAIN USE BY 5-  
2 PERCENT OWNERS AND RELATED PERSONS.—  
3 The term ‘qualified business use’ shall not in-  
4 clude—

5                   “(i) leasing property to any 5-percent  
6 owner or related person,

7                   “(ii) use of property provided as com-  
8 pensation for the performance of services  
9 by a 5-percent owner or related person, or

10                   “(iii) use of property provided as com-  
11 pensation for the performance of services  
12 by any person not described in clause (ii)  
13 unless an amount is included in the gross  
14 income of such person with respect to such  
15 use, and, where required, there was with-  
16 holding under chapter 24.

17           “(D) DEFINITIONS.—For purposes of this  
18 paragraph—

19                   “(i) 5-PERCENT OWNER.—The term  
20 ‘5-percent owner’ means any person who is  
21 a 5-percent owner with respect to the tax-  
22 payer (as defined in section  
23 416(i)(1)(B)(i)).

24                   “(ii) RELATED PERSON.—For pur-  
25 poses of this paragraph, rules similar to

1 the rules of subsection (e)(4)(B)(iv) shall  
2 apply.

3 “(4) TREATMENT OF CERTAIN TRANS-  
4 FEREES.—

5 “(A) IN GENERAL.—In the case of any  
6 asset transferred in a transaction described in  
7 subparagraph (B), the transferee shall be treat-  
8 ed as the transferor for purposes of computing  
9 the depreciation deduction determined under  
10 this section with respect to—

11 “(i) in the case of straight line prop-  
12 erty, so much of the adjusted basis of the  
13 asset in the hands of the transferee as  
14 does not exceed the adjusted basis in the  
15 hands of the transferor, and

16 “(ii) in the case of pooled property, so  
17 much of the balance of the asset pool to  
18 which the asset is assigned as is deter-  
19 mined by the Secretary under regulations.

20 “(B) TRANSACTIONS COVERED.—The  
21 transactions described in this subparagraph  
22 are—

23 “(i) any transaction described in sec-  
24 tion 332, 351, 361, 721, or 731, and

1                   “(ii) any transaction between mem-  
2                   bers of the same affiliated group during  
3                   any taxable year for which a consolidated  
4                   return is made by such group.

5                   Subparagraph (A) shall not apply in the case of  
6                   a termination of a partnership under section  
7                   708(b)(1)(B).

8                   “(5) TREATMENT OF LEASEHOLD IMPROVE-  
9                   MENTS.—

10                   “(A) IN GENERAL.—In the case of any  
11                   building erected (or additions or improvements  
12                   made) on leased property, if such building or  
13                   improvement is property to which this section  
14                   applies, the depreciation deduction shall be de-  
15                   termined under the provisions of this section.

16                   “(B) CROSS REFERENCE.—For treatment  
17                   of qualified long-term real property constructed  
18                   or improved in connection with cash or rent re-  
19                   duction from lessor to lessee, see section  
20                   110(b).”.

21                   (b) TECHNICAL AMENDMENTS RELATING TO IMPLE-  
22                   MENTATION OF POOLED ASSET COST RECOVERY SYS-  
23                   TEM.—

24                   (1) TREATMENT OF COMPUTER SOFTWARE.—

25                   Section 167(f) is amended by striking paragraph (1)

1 and redesignating paragraphs (2) and (3) as para-  
2 graphs (1) and (2), respectively.

3 (2) CHARITABLE CONTRIBUTIONS OF POOLED  
4 PROPERTY.—Section 170(e) is amended by adding  
5 at the end the following new paragraph:

6 “(8) DETERMINATION OF BASIS IN POOLED  
7 PROPERTY.—In any case in which a determination  
8 under this subsection requires a calculation of basis  
9 with respect to pooled property (as defined in section  
10 168(b)(2)), the adjusted basis of such property shall  
11 be determined by using the recomputed basis for  
12 such property (determined as provided in section  
13 168(e)(4)(B)(ii)).”.

14 (3) TREATMENT OF ASSETS AFTER DISCHARGE  
15 OF INDEBTEDNESS.—

16 (A) IN GENERAL.—Subparagraph (E) of  
17 section 108(b)(2) is amended to read as follows:

18 “(E) BASIS AND ASSET POOL REDUC-  
19 TIONS.—

20 “(i) BASIS REDUCTION.—The basis of  
21 the property of the taxpayer (other than  
22 property assigned to an asset pool under  
23 section 168).

24 “(ii) ASSET POOL REDUCTION.—The  
25 balance of any asset pool of the taxpayer

1 to which an asset is assigned under section  
2 168.

3 “(iii) CROSS REFERENCE.—For provi-  
4 sions for making the reductions described  
5 in clauses (i) and (ii), see section 1017.”.

6 (B) ELECTION.—Paragraph (5) of section  
7 108(b) is amended—

8 (i) by inserting “or, in the case of an  
9 asset assigned to an asset pool under sec-  
10 tion 168, the balance of such asset pool”  
11 in subparagraph (A) after “of the tax-  
12 payer”, and

13 (ii) by striking “the aggregate ad-  
14 justed bases of the depreciable property of  
15 the taxpayer” in subparagraph (B) and in-  
16 serting “the sum of the aggregate balances  
17 of the asset pools of the taxpayer under  
18 section 168 and the aggregate adjusted  
19 bases of the depreciable property of the  
20 taxpayer not assigned to such pools”.

21 (C) QUALIFIED REAL PROPERTY BUSINESS  
22 INDEBTEDNESS.—Subparagraph (A) of section  
23 108(c)(1) is amended by striking “the basis of  
24 the depreciable property of the taxpayer” and  
25 inserting “the balance of any asset pool of the

1 taxpayer to which an asset is assigned under  
2 section 168 and the basis of any depreciable  
3 property of the taxpayer not assigned to such a  
4 pool”.

5 (D) RULES FOR ADJUSTMENT OF ASSET  
6 POOLS.—Section 1017 is amended—

7 (i) in subsection (a)—

8 (I) by striking “basis” in para-  
9 graph (2) and inserting “the basis of  
10 any property or the balance of any  
11 asset pool under section 168”, and

12 (II) by striking “in reduction of”  
13 and all that follows in the matter fol-  
14 lowing paragraph (2) and inserting  
15 “in reduction of the basis of property  
16 held by the taxpayer at the beginning  
17 of the taxable year following the tax-  
18 able year in which the discharge oc-  
19 curs and the reduction of the asset  
20 pool balances of the taxpayer in such  
21 year”, and

22 (ii) in subsection (b)—

23 (I) by inserting “the particular  
24 asset pools which are to be reduced,”



1 after “subsection (a)),” in paragraph  
2 (1),

3 (II) by adding at the end of  
4 paragraph (1) the following new sen-  
5 tence: “Such regulations shall provide  
6 that the amount of reductions applied  
7 to any asset pool of the taxpayer shall  
8 be the amount that bears the same  
9 ratio to the total amount of reductions  
10 under subsection (a) as the balance of  
11 such asset pool bears to the sum of  
12 the balance of all of the asset pools of  
13 the taxpayer and the bases of all  
14 property of the taxpayer which is not  
15 held in an asset pool and to which  
16 bases reductions apply under this sec-  
17 tion.”,

18 (III) by striking “in basis” each  
19 place it appears in paragraph (2),

20 (IV) by inserting “the sum of the  
21 balance of the asset pools of the tax-  
22 payer (determined as if the taxable  
23 year ended immediately after the dis-  
24 charge) and” before “the aggregate”  
25 in paragraph (2)(A),

1 (V) by inserting “in property  
2 which is not pooled property (as de-  
3 fined in section 168(b)(2))” after “to  
4 reduce basis” in paragraph (3)(A),  
5 and

6 (VI) by striking paragraph (4).

7 (4) DETERMINATION OF EARNING AND PROF-  
8 ITS.—Subsection (k) of section 312 is amended to  
9 read as follows:

10 “(k) RULES RELATING TO EFFECT OF DEPRECIA-  
11 TION ON EARNINGS AND PROFITS.—

12 “(1) TREATMENT OF AMOUNTS DEDUCTIBLE  
13 UNDER SECTION 179.—For purposes of computing  
14 the earnings and profits of a corporation, any  
15 amount deductible under section 179 shall be al-  
16 lowed as a deduction ratably over a period of 5 tax-  
17 able years (beginning with the taxable year for which  
18 such amount is deductible under section 179).

19 “(2) BASIS ADJUSTMENT NOT TAKEN INTO AC-  
20 COUNT.—In computing earnings and profits of a  
21 corporation for any taxable year, the allowance for  
22 depreciation (and amortization, if any) shall be com-  
23 puted without regard to any basis adjustment under  
24 section 50(c).”.

25 (5) INVOLUNTARY CONVERSIONS.—

1 (A) IN GENERAL.—Section 1033 is amend-  
2 ed—

3 (i) by striking subsections (c), (d), (e),  
4 (f), (g), and (j), and by redesignating sub-  
5 sections (h), (i), (k), and (l) as subsections  
6 (c), (d), (e), and (f), respectively, and

7 (ii) by redesignating subsection (f), as  
8 redesignated under clause (i), as sub-  
9 section (g) and by inserting after sub-  
10 section (e) the following new subsection:

11 “(f) SPECIAL RULE FOR POOLED PROPERTY.—

12 “(1) IN GENERAL.—In the case of any pooled  
13 property (as defined in section 168(b)(2))—

14 “(A) subsection (a) shall not apply, and

15 “(B) if an asset pool of the taxpayer under  
16 section 168 would not have a balance of less  
17 than zero but for the compulsory or involuntary  
18 conversion (as a result of its destruction in  
19 whole or in part, theft, seizure, or requisition or  
20 condemnation or threat or imminence thereof)  
21 of an asset assigned to such asset pool, then, at  
22 the election of the taxpayer, no gain shall be  
23 recognized with respect to such asset pool be-  
24 fore the date described in subsection (a)(2)(B).

1           “(2) TRANSITION RULE FOR CERTAIN ASSETS  
2           CONVERTED PRIOR TO 2015.—

3           “(A) IN GENERAL.—If—

4                   “(i) any pooled property (as so de-  
5                   fined) was compulsorily or involuntarily  
6                   converted into money or into property not  
7                   similar or related in service or use in a  
8                   taxable year beginning before January 1,  
9                   2015,

10                   “(ii) the period described in sub-  
11                   section (a)(2)(B) with respect to such con-  
12                   verted property has not expired before the  
13                   last day of the taxpayer's last taxable year  
14                   beginning before January 1, 2015, and

15                   “(iii) the taxpayer has not purchased  
16                   other property similar or related in service  
17                   or use to the property so converted, or pur-  
18                   chased stock in the acquisition of control  
19                   of a corporation owning such other prop-  
20                   erty, on or before such last day,

21           then the balance of the asset pool to which such  
22           converted property would be assigned shall be  
23           decreased by the amount of money or the basis  
24           of the other property on the first day of the  
25           taxpayer's first taxable year beginning on or

1 after January 1, 2015, and paragraph (1)(B)  
2 shall apply as if such decrease in balance were  
3 due to the compulsory or involuntary conversion  
4 of an asset assigned to such pool.

5 “(3) APPLICATION OF CERTAIN RULES.—Rules  
6 similar to the rules of subsection (a)(2)(C) shall  
7 apply for purposes of this subsection.”.

8 (B) MODIFICATION TO RULES RELATING  
9 TO DISASTERS.—Subsection (c) of section 1033,  
10 as redesignated by subparagraph (A), is amend-  
11 ed by striking paragraph (2) and by redesign-  
12 ating paragraphs (3) and (4) as paragraphs  
13 (2) and (3), respectively.

14 (C) CONFORMING AMENDMENT.—Section  
15 451(e) is amended by striking paragraph (3).

16 (c) CONFORMING AMENDMENTS.—

17 (1) Section 43(c)(5) is amended—

18 (A) by striking “(as defined in section  
19 168(i)(16) (determined without regard to sub-  
20 paragraph (B) thereof)” in subparagraph (A),  
21 and

22 (B) by adding at the end the following new  
23 subparagraph:

24 “(C) ALASKA NATURAL GAS PIPELINE.—  
25 The term ‘Alaska natural gas pipeline’ means

1 the natural gas pipeline system located in the  
2 State of Alaska which has a capacity of more  
3 than 500,000,000,000 Btu of natural gas per  
4 day. Such term includes the pipe, trunk lines,  
5 related equipment, and appurtenances used to  
6 carry natural gas, but does not include any gas  
7 processing plant.”.

8 (2) Section 45A(c)(7) is amended to read as  
9 follows:

10 “(7) INDIAN RESERVATION DEFINED.—The  
11 term ‘Indian reservation’ means a reservation, as de-  
12 fined in—

13 “(A) section 3(d) of the Indian Financing  
14 Act of 1974 (25 U.S.C. 1452(d)), or

15 “(B) section 4(10) of the Indian Child  
16 Welfare Act of 1978 (25 U.S.C. 1903(10)).

17 For purposes of the preceding sentence, such section  
18 3(d) shall be applied by treating the term ‘former  
19 Indian reservations in Oklahoma’ as including only  
20 lands which are within the jurisdictional area of an  
21 Oklahoma Indian tribe (as determined by the Sec-  
22 retary of the Interior) and are recognized by such  
23 Secretary as eligible for trust land status under 25  
24 CFR Part 151 (as in effect on August 5, 1997).”.

25 (3) Section 47(c)(2) is amended—

1 (A) by striking clause (i) of subparagraph  
2 (A) and inserting the following:

3 “(i) which is described in section  
4 168(b)(3)(A), and”,

5 (B) in subparagraph (B)—

6 (i) by striking clause (i) and redesignig-  
7 nating clauses (ii) through (vi) as clauses  
8 (i) through (v), respectively,

9 (ii) by striking “168(h)” in clause  
10 (iv)(I) (as redesignated by clause (i)) and  
11 inserting “470(f)”, and

12 (iii) by striking “the recovery period  
13 determined under section 168(c)” in clause  
14 (v) (as redesignated by clause (i)) and in-  
15 serting “43 years”, and

16 (C) by striking subparagraph (D).

17 (4)(A) Section 50(b)(1)(B) is amended by in-  
18 serting “(as in effect on the day before the date of  
19 the enactment of the \_\_\_\_\_ Act)” after “168(g)(4)”.

20 (B) Section 50(b)(4)(A)(ii) is amended—

21 (i) by striking “168(h)(2)(C)” and insert-  
22 ing “470(f)(2)(C)”,

23 (ii) by striking “168(h)(2)(A)(iii)” and in-  
24 serting “470(f)(2)(A)(iii)”, and

1 (iii) by striking “168(h)(2)(B)” and insert-  
2 ing “470(f)(2)(B)”.

3 (C) Section 50(b) is amended—

4 (i) by striking “(determined under section  
5 168(i)(3))” in paragraph (4)(B), and

6 (ii) by adding at the end the following new  
7 paragraph:

8 “(5) LEASE TERM.—For purposes of paragraph  
9 (4)(B)—

10 “(A) IN GENERAL.—In determining a lease  
11 term—

12 “(i) there shall be taken into account  
13 options to renew,

14 “(ii) the term of a lease shall include  
15 the term of any service contract or similar  
16 arrangement (whether or not treated as a  
17 lease under section 7701(e))—

18 “(I) which is part of the same  
19 transaction (or series of related trans-  
20 actions) which includes the lease, and

21 “(II) which is with respect to the  
22 property subject to the lease or sub-  
23 stantially similar property, and

24 “(iii) 2 or more successive leases  
25 which are part of the same transaction (or



1 a series of related transactions) with re-  
2 spect to the same or substantially similar  
3 property shall be treated as 1 lease.

4 “(B) SPECIAL RULE FOR FAIR RENTAL OP-  
5 TIONS ON NONRESIDENTIAL REAL PROPERTY  
6 OR RESIDENTIAL RENTAL PROPERTY.—For  
7 purposes of clause (i) of subparagraph (A), in  
8 the case of nonresidential real property or resi-  
9 dential rental property, there shall not be taken  
10 into account any option to renew at fair market  
11 value, determined at the time of renewal.

12 “(C) RESIDENTIAL RENTAL PROPERTY;  
13 NONRESIDENTIAL REAL PROPERTY.—For pur-  
14 poses of subparagraph (B)—

15 “(i) RESIDENTIAL RENTAL PROP-  
16 erty.—The term ‘residential rental prop-  
17 erty’ means any property which is classi-  
18 fied as real property under section 168(c)  
19 if 80 percent or more of the gross rental  
20 income from such real property for the  
21 taxable year is rental income from dwelling  
22 units.

23 “(ii) NONRESIDENTIAL REAL PROP-  
24 erty.—The term ‘nonresidential real

1 property' means section 1250 property  
2 which is not residential rental property.

3 “(iii) DEFINITIONS.—For purposes of  
4 clause (i)—

5 “(I) the term ‘dwelling unit’  
6 means a house or apartment used to  
7 provide living accommodations on real  
8 property, but does not include a unit  
9 in a hotel, motel, or other establish-  
10 ment more than one-half of the units  
11 in which are used on a transient  
12 basis, and

13 “(II) if any portion of the real  
14 property is occupied by the taxpayer,  
15 the gross rental income from such real  
16 property shall include the rental value  
17 of the portion so occupied.”.

18 (D) Section 50(b)(4)(D) is amended by insert-  
19 ing “(as in effect on the day before the date of the  
20 enactment of the \_\_\_\_ Act)” after “168(h)”.

21 (E) Section 50(b)(4) is amended by striking  
22 subparagraph (E).

23 (5) Section 56 is amended—

24 (A) by striking subsection (a)(1), and

25 (B) by striking subsection (g)(4)(A).

1 (6) Section 110 is amended—

2 (A) by striking “(including for purposes of  
3 section 168(i)(8)(B))” in subsection (b), and

4 (B) by striking “168(i)(3)” in subsection  
5 (c)(2) and inserting “50(b)(5)”.

6 (7) Section 142 is amended—

7 (A) in subsection (b)(1)(B)(ii), by striking  
8 “168(i)(3)” and inserting “50(b)(5)”, and

9 (B) in subsection (k)(3)(C), by inserting  
10 “(other than property described in section  
11 168(b)(2)(B))” after “but for section 179”.

12 (8) Section 167(g)(6)(A) is amended by striking  
13 “paragraph (3) or (4) of section 168(f)” and insert-  
14 ing “clauses (i) or (ii) of section 168(b)(1)(B)”.

15 (9) Section 170(e)(6)(F)(i) is amended by strik-  
16 ing “section 168(i)(2)(B)” and inserting  
17 “167(h)(3)(D)”.

18 (10) Section 181(d)(2)(A) is amended by strik-  
19 ing “168(f)(3)” and inserting “168(b)(1)(B)(i)”.

20 (11) Section 197(f)(10) is amended—

21 (A) by striking “subsection (h) of section  
22 168” and inserting “subsection (f) of section  
23 470 (determined as if rules similar to the rules  
24 of section 168(h)(5) (as in effect for taxable  
25 years beginning in 2014) applied”, and

1 (B) by striking “168(i)(3)” and inserting  
2 “50(b)(5)”.

3 (12) Section 199(c) is amended—

4 (A) by striking “168(f)(4)” in paragraph  
5 (5)(C) and inserting “168(b)(1)(B)(ii)”, and

6 (B) by striking “168(f)(3)” in paragraph  
7 (6) and inserting “168(b)(1)(B)(i)”.

8 (13) Section 263A is amended—

9 (A) by striking paragraph (2) of subsection  
10 (e), and

11 (B) in subsection (f)(4)(A), by striking  
12 clauses (i) and (ii) and inserting the following:

13 “(i) property which is assigned to pool  
14 4, or

15 “(ii) property classified as real prop-  
16 erty under section 168(c)(1).”.

17 (14) Section 404(a)(1)(C) is amended by strik-  
18 ing “services described in section 168(i)(10)(C)” and  
19 inserting “telephone services (or other communica-  
20 tion services if furnished or sold by the Communica-  
21 tions Satellite Corporation for purposes authorized  
22 by the Communications Satellite Act of 1962 (47  
23 U.S.C. 701))”.

24 (15) Section 460 is amended—

25 (A) by striking subsection (c)(6), and

1 (B) by striking “168(h)(2)(D)” in sub-  
 2 section (d)(2) and inserting “470(f)(2)(D)”.

3 (16) Section 467 is amended—

4 (A) in section (b)(4)(A), by striking “75  
 5 percent of”, and

6 (B) by striking the table in subsection  
 7 (e)(3)(A) and inserting the following:

“In the case of:	The statu- tory recov- ery period is:
Property assigned to pool 1 or personal use passenger auto- mobiles .....	3 years
Property assigned to pool 2 .....	7 years
Property assigned to pool 3 .....	11 years
Property assigned to pool 4 or property classified as real property under section 168(e)(1) .....	20 years.”.

8 (17)(A) Section 470 is amended—

9 (i) by striking subsection (e) and inserting  
 10 the following:

11 “(c) TAX-EXEMPT USE LOSS.—The term ‘tax-exempt  
 12 use loss’ means, with respect to any taxable year, the  
 13 amount (if any) by which—

14 “(1) the sum of—

15 “(A) the aggregate deductions (other than  
 16 interest) directly allocable to a tax-exempt use  
 17 property, plus

18 “(B) the aggregate deductions for interest  
 19 properly allocable to such property, exceed



1 property to a tax-exempt entity, but only  
2 if—

3 “(I) part or all of the property  
4 was financed (directly or indirectly)  
5 by an obligation the interest on which  
6 is exempt from tax under section  
7 103(a) and such entity (or a related  
8 entity) participated in such financing,

9 “(II) under such lease there is a  
10 fixed or determinable purchase price  
11 or sale option which involves such en-  
12 tity (or a related entity) or there is  
13 the equivalent of such an option,

14 “(III) such lease has a lease term  
15 in excess of 20 years, or

16 “(IV) such lease occurs after a  
17 sale (or other transfer) of the prop-  
18 erty by, or lease of the property from,  
19 such entity (or a related entity) and  
20 such property has been used by such  
21 entity (or a related entity) before such  
22 sale (or other transfer) or lease.

23 “(iii) 35-PERCENT THRESHOLD  
24 TEST.—Clause (i) shall apply to any prop-  
25 erty only if the portion of such property

1 leased to tax-exempt entities in disqualified  
2 leases is more than 35 percent of the prop-  
3 erty.

4 “(iv) TREATMENT OF IMPROVE-  
5 MENTS.—For purposes of this subpara-  
6 graph, improvements to a property (other  
7 than land) shall not be treated as a sepa-  
8 rate property.

9 “(v) LEASEBACKS DURING 1ST 3  
10 MONTHS OF USE NOT TAKEN INTO AC-  
11 COUNT.—Subclause (IV) of clause (ii) shall  
12 not apply to any property which is leased  
13 within 3 months after the date such prop-  
14 erty is first used by the tax-exempt entity  
15 (or a related entity).

16 “(C) SPECIFIED PROPERTY.—For pur-  
17 poses of subparagraph (A), the term ‘specified  
18 property’ means—

19 “(i) any tangible property,

20 “(ii) any section 197 intangible prop-  
21 erty (as defined in section 197),

22 “(iii) any property described in sec-  
23 tion 167(f), and

24 “(iv) any property described in section  
25 168(b)(2)(B).



1           “(D) EXCEPTION WHERE PROPERTY USED  
2           IN UNRELATED TRADE OR BUSINESS.—The  
3           term ‘tax-exempt use property’ shall not include  
4           any portion of a property if such portion is pre-  
5           dominantly used by the tax-exempt entity (di-  
6           rectly or through a partnership of which such  
7           entity is a partner) in an unrelated trade or  
8           business the income of which is subject to tax  
9           under section 511. For purposes of subpara-  
10          graph (B)(iii), any portion of a property so  
11          used shall not be treated as leased to a tax-ex-  
12          empt entity in a disqualified lease.

13          “(E) NONRESIDENTIAL REAL PROPERTY  
14          DEFINED.—For purposes of this paragraph, the  
15          term ‘nonresidential real property’ has the  
16          meaning given such term under section  
17          50(b)(5)(C)(ii), except that such term shall in-  
18          clude residential rental property (as defined  
19          under section 50(b)(5)(C)(i)).

20          “(2) TAX-EXEMPT ENTITY.—

21                 “(A) IN GENERAL.—For purposes of this  
22                 subsection, the term ‘tax-exempt entity’  
23                 means—

24                         “(i) the United States, any State or  
25                         political subdivision thereof, any possession

1 of the United States, or any agency or in-  
2 strumentality of any of the foregoing,

3 “(ii) an organization (other than a co-  
4 operative described in section 521) which  
5 is exempt from tax imposed by this chap-  
6 ter,

7 “(iii) any foreign person or entity, and

8 “(iv) any Indian tribal government de-  
9 scribed in section 7701(a)(40).

10 For purposes of applying this subsection, any  
11 Indian tribal government referred to in clause  
12 (iv) shall be treated in the same manner as a  
13 State.

14 “(B) EXCEPTION FOR CERTAIN PROPERTY  
15 SUBJECT TO UNITED STATES TAX AND USED BY  
16 FOREIGN PERSON OR ENTITY.—Clause (iii) of  
17 subparagraph (A) shall not apply with respect  
18 to any property if more than 50 percent of the  
19 gross income for the taxable year derived by the  
20 foreign person or entity from the use of such  
21 property is—

22 “(i) subject to tax under this chapter,

23 or

24 “(ii) included under section 951 in the  
25 gross income of a United States share-

1 holder for the taxable year with or within  
2 which ends the taxable year of the con-  
3 trolled foreign corporation in which such  
4 income was derived.

5 For purposes of the preceding sentence, any ex-  
6 clusion or exemption shall not apply for pur-  
7 poses of determining the amount of the gross  
8 income so derived, but shall apply for purposes  
9 of determining the portion of such gross income  
10 subject to tax under this chapter.

11 “(C) FOREIGN PERSON OR ENTITY.—For  
12 purposes of this paragraph, the term ‘foreign  
13 person or entity’ means—

14 “(i) any foreign government, any  
15 international organization, or any agency  
16 or instrumentality of any of the foregoing,  
17 and

18 “(ii) any person who is not a United  
19 States person.

20 Such term does not include any foreign partner-  
21 ship or other foreign pass-thru entity.

22 “(D) TREATMENT OF CERTAIN TAXABLE  
23 INSTRUMENTALITIES.—For purposes of this  
24 subsection, a corporation shall not be treated as

1 an instrumentality of the United States or of  
2 any State or political subdivision thereof if—

3 “(i) all of the activities of such cor-  
4 poration are subject to tax under this  
5 chapter, and

6 “(ii) a majority of the board of direc-  
7 tors of such corporation is not selected by  
8 the United States or any State or political  
9 subdivision thereof.

10 “(E) CERTAIN PREVIOUSLY TAX-EXEMPT  
11 ORGANIZATIONS.—

12 “(i) IN GENERAL.—For purposes of  
13 this subsection, an organization shall be  
14 treated as an organization described in  
15 subparagraph (A)(ii) with respect to any  
16 property (other than property held by such  
17 organization) if such organization was an  
18 organization (other than a cooperative de-  
19 scribed in section 521) exempt from tax  
20 imposed by this chapter at any time during  
21 the 5-year period ending on the date such  
22 property was first used by such organiza-  
23 tion. The preceding sentence and subpara-  
24 graph (D)(ii) shall not apply to the Fed-  
25 eral Home Loan Mortgage Corporation.

1                   “(ii) ELECTION NOT TO HAVE CLAUSE

2                   (I) APPLY.—

3                   “(I) IN GENERAL.—In the case  
4                   of an organization formerly exempt  
5                   from tax under section 501(a) as an  
6                   organization described in section  
7                   501(c)(12), clause (i) shall not apply  
8                   to such organization with respect to  
9                   any property if such organization  
10                  elects not to be exempt from tax  
11                  under section 501(a) during the tax-  
12                  exempt use period with respect to  
13                  such property.

14                  “(II) TAX-EXEMPT USE PE-  
15                  RIOD.—For purposes of subclause (I),  
16                  the term ‘tax-exempt use period’  
17                  means the period beginning with the  
18                  taxable year in which the property de-  
19                  scribed in subclause (I) is first used  
20                  by the organization and ending with  
21                  the close of the 15th taxable year fol-  
22                  lowing the last taxable year of the ap-  
23                  plicable recovery period of such prop-  
24                  erty.

1                   “(III) ELECTION.—Any election  
2                   under subclause (I), once made, shall  
3                   be irrevocable.

4                   “(iii) TREATMENT OF SUCCESSOR OR-  
5                   GANIZATIONS.—Any organization which is  
6                   engaged in activities substantially similar  
7                   to those engaged in by a predecessor orga-  
8                   nization shall succeed to the treatment  
9                   under this subparagraph of such prede-  
10                  cessor organization.

11                  “(iv) FIRST USED.—For purposes of  
12                  this subparagraph, property shall be treat-  
13                  ed as first used by the organization—

14                         “(I) when the property is first  
15                         placed in service under a lease to such  
16                         organization, or

17                         “(II) in the case of property  
18                         leased to (or held by) a partnership  
19                         (or other pass-thru entity) in which  
20                         the organization is a member, the  
21                         later of when such property is first  
22                         used by such partnership or pass-thru  
23                         entity or when such organization is  
24                         first a member of such partnership or  
25                         pass-thru entity.

1           “(3) RELATED ENTITIES.—For purposes of this  
2 subsection—

3           “(A)(i) Each governmental unit and each  
4 agency or instrumentality of a governmental  
5 unit is related to each other such unit, agency,  
6 or instrumentality which directly or indirectly  
7 derives its powers, rights, and duties in whole  
8 or in part from the same sovereign authority.

9           “(ii) For purposes of clause (i), the United  
10 States, each State, and each possession of the  
11 United States shall be treated as a separate  
12 sovereign authority.

13           “(B) Any entity not described in subpara-  
14 graph (A)(i) is related to any other entity if the  
15 2 entities have—

16           “(i) significant common purposes and  
17 substantial common membership, or

18           “(ii) directly or indirectly substantial  
19 common direction or control.

20           “(C)(i) An entity is related to another enti-  
21 ty if either entity owns (directly or through 1  
22 or more entities) a 50 percent or greater inter-  
23 est in the capital or profits of the other entity.

1           “(ii) For purposes of clause (i), entities  
2 treated as related under subparagraph (A) or  
3 (B) shall be treated as 1 entity.

4           “(D) An entity is related to another entity  
5 with respect to a transaction if such transaction  
6 is part of an attempt by such entities to avoid  
7 the application of this subsection.

8           “(4) TAX-EXEMPT USE OF PROPERTY LEASED  
9 TO PARTNERSHIPS, ETC., DETERMINED AT PARTNER  
10 LEVEL.—For purposes of this subsection—

11           “(A) IN GENERAL.—In the case of any  
12 property which is leased to a partnership, the  
13 determination of whether any portion of such  
14 property is tax-exempt use property shall be  
15 made by treating each tax-exempt entity part-  
16 ner's proportionate share of such property as  
17 being leased to such partner.

18           “(B) OTHER PASS-THRU ENTITIES;  
19 TIERED ENTITIES.—Rules similar to the rules  
20 of subparagraph (A) shall also apply in the case  
21 of any pass-thru entity other than a partnership  
22 and in the case of tiered partnerships and other  
23 entities.

24           “(C) PRESUMPTION WITH RESPECT TO  
25 FOREIGN ENTITIES.—Unless it is otherwise es-



1            established to the satisfaction of the Secretary, it  
2            shall be presumed that the partners of a foreign  
3            partnership (and the beneficiaries of any other  
4            foreign pass-thru entity) are persons who are  
5            not United States persons.

6            “(D) DETERMINATION OF PROPORTIONATE  
7            SHARE.—

8            “(i) IN GENERAL.—For purposes of  
9            subparagraph (A), a tax-exempt entity’s  
10           proportionate share of any property owned  
11           by a partnership shall be determined on  
12           the basis of such entity’s share of partner-  
13           ship items of income or gain (excluding  
14           gain allocated under section 704(c)),  
15           whichever results in the largest propor-  
16           tionate share.

17           “(ii) DETERMINATION WHERE ALLO-  
18           CATIONS VARY.—For purposes of clause  
19           (i), if a tax-exempt entity’s share of part-  
20           nership items of income or gain (excluding  
21           gain allocated under section 704(c)) may  
22           vary during the period such entity is a  
23           partner in the partnership, such share  
24           shall be the highest share such entity may  
25           receive.

1           “(E) TREATMENT OF CERTAIN TAXABLE  
2 ENTITIES.—

3           “(i) IN GENERAL.—For purposes of  
4 this paragraph, except as otherwise pro-  
5 vided in this subparagraph, any tax-exempt  
6 controlled entity shall be treated as a tax-  
7 exempt entity.

8           “(ii) ELECTION.—If a tax-exempt  
9 controlled entity makes an election under  
10 this clause—

11           “(I) such entity shall not be  
12 treated as a tax-exempt entity for  
13 purposes of this paragraph, and

14           “(II) any gain recognized by a  
15 tax-exempt entity on any disposition  
16 of an interest in such entity (and any  
17 dividend or interest received or ac-  
18 crued by a tax-exempt entity from  
19 such tax-exempt controlled entity)  
20 shall be treated as unrelated business  
21 taxable income for purposes of section  
22 511.

23           Any such election shall be irrevocable and  
24 shall bind all tax-exempt entities holding  
25 interests in such tax-exempt controlled en-

1                   tity. For purposes of subclause (II), there  
2                   shall only be taken into account dividends  
3                   which are properly allocable to income of  
4                   the tax-exempt controlled entity which was  
5                   not subject to tax under this chapter.

6                   “(iii) TAX-EXEMPT CONTROLLED EN-  
7                   TITY.—

8                   “(I) IN GENERAL.—The term  
9                   ‘tax-exempt controlled entity’ means  
10                  any corporation (which is not a tax-  
11                  exempt entity determined without re-  
12                  gard to this subparagraph and para-  
13                  graph (2)(E)) if 50 percent or more  
14                  (in value) of the stock in such cor-  
15                  poration is held by 1 or more tax-ex-  
16                  empt entities (other than a foreign  
17                  person or entity).

18                  “(II) ONLY 5-PERCENT SHARE-  
19                  HOLDERS TAKEN INTO ACCOUNT IN  
20                  CASE OF PUBLICLY TRADED STOCK.—  
21                  For purposes of subclause (I), in the  
22                  case of a corporation the stock of  
23                  which is publicly traded on an estab-  
24                  lished securities market, stock held by  
25                  a tax-exempt entity shall not be taken

1 into account unless such entity holds  
2 at least 5 percent (in value) of the  
3 stock in such corporation. For pur-  
4 poses of this subclause, related enti-  
5 ties (within the meaning of paragraph  
6 (3)) shall be treated as 1 entity.

7 “(III) SECTION 318 TO APPLY.—  
8 For purposes of this clause, a tax-ex-  
9 empt entity shall be treated as holding  
10 stock which it holds through applica-  
11 tion of section 318 (determined with-  
12 out regard to the 50-percent limita-  
13 tion contained in subsection (a)(2)(C)  
14 thereof).

15 “(5) LEASE; LEASE TERM.—For purposes of  
16 this subsection—

17 “(A) IN GENERAL.—The term ‘lease’ in-  
18 cludes any grant of a right to use property.

19 “(B) LEASE TERM.—The term of any lease  
20 shall be determined under section 50(b)(5).

21 “(6) REGULATIONS.—The Secretary shall pre-  
22 scribe such regulations as may be necessary or ap-  
23 propriate to carry out the purposes of this sub-  
24 section.”.

25 (B) Section 470(d)(4) is amended—

1 (i) by striking subparagraph (A) and in-  
2 serting the following:

3 “(A) of section 168 property other than—

4 “(i) an asset assigned to pool 1 or  
5 pool 2, or

6 “(ii) any personal use passenger auto-  
7 mobile (as defined in section 168(h)(1)),  
8 and”, and

9 (ii) by striking “MORE THAN 7-YEAR CLASS  
10 LIFE” in the heading and inserting “A SLOW  
11 RATE OF DEPRECIATION”.

12 (C) Section 470(g)(2), as redesignated by sub-  
13 paragraph (A)(ii), is amended by striking  
14 “168(i)(3)” and inserting “50(b)(5)”.

15 (18) Section 512(b)(17)(B)(ii)(I) is amended by  
16 striking “168(h)(4)(B)” and inserting  
17 “470(f)(3)(B)”.

18 (19) Section 514(c)(9) is amended—

19 (A) in subparagraph (B)(vi)—

20 (i) by striking “within the meaning of  
21 section 168(h)(6)” in subclause (II), and

22 (ii) by striking “subparagraph (E)” in  
23 subclause (III) and inserting “subpara-  
24 graph (F)”, and

1 (B) by redesignating subparagraphs (E)  
2 through (H) as subparagraphs (F) through (I),  
3 respectively, and by inserting after subpara-  
4 graph (D) the following new subparagraph:

5 “(E) QUALIFIED ALLOCATION.—

6 “(i) IN GENERAL.—For purposes of  
7 subparagraph (B)(vi)(II), the term ‘quali-  
8 fied allocation’ means any allocation to a  
9 tax-exempt entity (as defined in section  
10 470(f)) which—

11 “(I) is consistent with such enti-  
12 ty’s being allocated the same distribu-  
13 tive share of each item of income,  
14 gain, loss, deduction, credit, and basis  
15 and such share remains the same dur-  
16 ing the entire period the entity is a  
17 partner in the partnership, and

18 “(II) has substantial economic ef-  
19 fect within the meaning of section  
20 704(b)(2).

21 For purposes of this clause, items allocated  
22 under section 704(c) shall not be taken  
23 into account.

1                   “(ii) REGULATIONS.—For purposes of  
2                   determining whether there is a qualified al-  
3                   location under clause (i), the Secretary—

4                   “(I) shall prescribe regulations  
5                   that set forth the proper treatment  
6                   for partnership guaranteed payments,  
7                   and

8                   “(II) may prescribe regulations  
9                   that provide for the exclusion or seg-  
10                  regation of items.”.

11                  (20) Section 527(i)(3)(D) is amended by strik-  
12                  ing “168(h)(4)” and inserting “470(f)(3)”.

13                  (21) Section 860E(e)(5) is amended by striking  
14                  “168(h)(2)(D)” in the last sentence thereof and in-  
15                  serting “470(f)(2)(D)”.

16                  (22) Section 865(c)(3)(B) is amended by insert-  
17                  ing “(as in effect on the day before the date of the  
18                  enactment of the \_\_\_\_ Act)” after “168(g)(4)”.

19                  (23) Section 936(i)(4)(B) is amended—

20                  (A) by striking “which is 3-year or 5-year  
21                  property” in clause (ii) and inserting “which is  
22                  assigned to pool 1 or which is a personal use  
23                  passenger automobile”, and

1 (B) by striking “which is 7-year or 10-year  
2 property” in clause (iii) and inserting “which is  
3 assigned to pool 2”.

4 (24) Section 1393(a)(4)(B) is amended by  
5 striking “168(j)(6)” and inserting “45A(e)(7)”.

6 (25) Section 1397C(d)(2)(A) is amended by in-  
7 serting “(as in effect on the day before the date of  
8 the enactment of the \_\_\_\_ Act)” after “168(e)(2)”.

9 (26) Section 1397D(a)(1) is amended by insert-  
10 ing “(as such sections were in effect on the day be-  
11 fore the date of the enactment of the \_\_\_\_ Act)”  
12 after “179”.

13 (27) Section 1400I(b)(2)(A) is amended—

14 (A) by inserting “(as in effect on the day  
15 before the date of the enactment of the \_\_\_\_  
16 Act)” after “under section 168”, and

17 (B) by inserting “(as in effect on the day  
18 before the date of the enactment of the \_\_\_\_  
19 Act)” after “168(e)” in clause (i).

20 (28) Section 1400J(b)(1) is amended by insert-  
21 ing “(as such sections were in effect on the day be-  
22 fore the date of the enactment of the \_\_\_\_ Act)”  
23 after “179”.

24 (29) Section 1400N is amended—



1 (A) in subsection (a)(4)(B)(ii), by inserting  
2 “(as in effect on the day before the date of the  
3 enactment of the \_\_\_\_\_ Act)” after  
4 “168(i)(10)”, and

5 (B) in subsection (d), by adding at the end  
6 the following new paragraph:

7 “(7) REFERENCES.—Any reference in this sub-  
8 section to section 168(k) is a reference to such sec-  
9 tion as in effect on the day before the date of the  
10 enactment of the \_\_\_\_\_ Act.”.

11 (30) Section 1400U-3(e) is amended—

12 (A) in paragraph (1), by inserting “(as  
13 such sections were in effect on the day before  
14 the date of the enactment of the \_\_\_\_\_ Act)”  
15 after “179)”, and

16 (B) in paragraph (2)(A), by inserting “(as  
17 in effect on the day before the date of the en-  
18 actment of the \_\_\_\_\_ Act)” after “168(e)(2)”.

19 (31) Section 4052(e) is amended by striking  
20 “168(i)(3)(A)” and inserting “50(b)(5)(A)”.

21 (32) Section 6050V(d)(3)(B) is amended by  
22 striking “168(h)(2)(A)(iv)” and inserting  
23 “470(f)(2)(A)(iv)”.

1           (33) Section 7701(e)(4)(A) is amended by  
2 striking “168(h)” in the last sentence thereof and  
3 inserting “470(f)”.

4           (34) Section 7871(f)(3)(B) is amended by strik-  
5 ing “168(j)(6)” and inserting “45A(c)(7)”.

6           (35) The table of sections for part VI of sub-  
7 chapter B of chapter 1 is amended by striking the  
8 item relating to section 168 and inserting the fol-  
9 lowing:

“Sec. 168. Depreciation for tangible property.”.

10          (d) **EFFECTIVE DATE.**—The amendments made by  
11 this section shall apply to taxable years beginning after  
12 December 31, 2014.

13 **SEC. \_12. RULES RELATED TO TREATMENT OF GAINS**  
14 **FROM DEPRECIABLE PROPERTY.**

15          (a) **PERSONAL PROPERTY.**—Subsection (a) of section  
16 1245 is amended to read as follows:

17          “(a) **GENERAL RULE.**—

18               “(1) **POOLED SECTION 1245 PROPERTY.**—In the  
19 case of any amount which, under subsection  
20 (e)(2)(B) or (f) of section 168, is treated as gain  
21 from section 1245 property which is pooled property,  
22 such amount shall be treated as ordinary income.  
23 Such gain shall be recognized notwithstanding any  
24 other provision of this subtitle.

25               “(2) **OTHER SECTION 1245 PROPERTY.**—

1           “(A) IN GENERAL.—Except as provided in  
2 subparagraph (B), if any section 1245 property  
3 which is not pooled property is disposed of, the  
4 amount by which the lower of—

5                   “(i) the depreciation adjustments in  
6 respect of such property (as defined in sec-  
7 tion 1250(b)), or

8                   “(ii) the excess (if any) of—

9                           “(I) the amount realized (in the  
10 case of a sale, exchange, or involun-  
11 tary conversion) or the fair market  
12 value of such property (in the case of  
13 any other disposition), over

14                           “(II) the adjusted basis of such  
15 property,

16 shall be treated as gain which is ordinary in-  
17 come.

18           “(B) PERSONAL USE PASSENGER AUTO-  
19 MOBILES.—If any section 1245 property which  
20 is a personal use passenger automobile is dis-  
21 posed of, the amount described in subparagraph  
22 (A)(ii) shall be treated as gain which is ordi-  
23 nary income.

24           “(C) RECOGNITION.—Any amount treated  
25 as ordinary income under subparagraph (A) or

1 (B) shall be recognized notwithstanding any  
2 other provision of this subtitle.

3 “(3) SECTION 1245 PROPERTY; POOLED PROP-  
4 ERTY.—For purposes of this section—

5 “(A) SECTION 1245 PROPERTY.—The term  
6 ‘section 1245 property’ means any property  
7 which is or has been subject to the allowance  
8 for depreciation under section 167 other than  
9 property which is classified under section  
10 168(c) as real property.

11 “(B) POOLED PROPERTY.—The term  
12 ‘pooled property’ has the meaning given such  
13 term under section 168(b)(2).”.

14 (b) REAL PROPERTY.—

15 (1) IN GENERAL.—Section 1250 is amended by  
16 striking subsections (a), (b), and (c) and inserting  
17 the following:

18 “(a) GENERAL RULE.—Except as otherwise provided  
19 in this section, if section 1250 property is disposed of, the  
20 lower of—

21 “(1) the depreciation adjustments in respect of  
22 such property, or

23 “(2) the excess (if any)of—

24 “(A) the amount realized (in the case of a  
25 sale, exchange, or involuntary conversion) or

1           the fair market value of such property (in the  
2           case of any other disposition), over

3                   “(B) the adjusted basis of such property,  
4 shall be treated as gain which is ordinary income. Such  
5 gain shall be recognized notwithstanding any other provi-  
6 sion of this subtitle.

7           “(b) DEPRECIATION ADJUSTMENTS.—For purposes  
8 of this section, the term ‘depreciation adjustments’ means,  
9 in respect of any property, all adjustments reflected in the  
10 adjusted basis of such property on account of deductions  
11 (whether in respect of the same or other property) allowed  
12 or allowable to the taxpayer or to any other person for  
13 exhaustion, wear and tear, obsolescence, or amortization.  
14 For purposes of the preceding sentence, if the taxpayer  
15 can establish by adequate records or other sufficient evi-  
16 dence that the amount allowed as a deduction for any pe-  
17 riod was less than the amount allowable, the amount taken  
18 into account for such period shall be the amount allowed.

19           “(c) SECTION 1250 PROPERTY.—The term ‘section  
20 1250 property’ means any property which is classified  
21 under section 168(c) as real property.”.

22                   (2) TECHNICAL AMENDMENTS RELATING TO  
23 SECTION 1250 PROPERTY.—

24                           (A) Subparagraph (E) of 1250(d)(4) is  
25 amended—

1 (i) by striking “additional deprecia-  
2 tion” and inserting “depreciation adjust-  
3 ments”, and

4 (ii) by striking “ADDITIONAL DEPRE-  
5 CIATION” in the heading and inserting  
6 “DEPRECIATION ADJUSTMENTS”.

7 (B) Paragraph (5) of section 1250(d) is  
8 amended by striking subparagraph (B) and in-  
9 serting the following:

10 “(B) ADJUSTMENTS ADDED BACK.—In re-  
11 spect of any property described in subpara-  
12 graph (A), the depreciation adjustments attrib-  
13 utable to periods before the distribution by the  
14 partnership shall be—

15 “(i) the amount of the gain to which  
16 subsection (a) would have applied if such  
17 property had been sold by the partnership  
18 immediately before the distribution at its  
19 fair market value at such time, reduced by

20 “(ii) the amount of such gain to which  
21 section 751 applied.”.

22 (C) Subsection (d) of section 1250 is  
23 amended by striking paragraph (7).

24 (D) Section 1250 is amended by striking  
25 subsections (e) and (f) and by redesignating

1 subsections (g) and (h) as subsections (e) and  
2 (f), respectively.

3 (c) CONFORMING AMENDMENTS.—

4 (1) Section 1(h) is amended—

5 (A) in paragraph (1), by inserting “and”  
6 and the end of subparagraph (D), by striking  
7 subparagraph (E), and by redesignating sub-  
8 paragraph (F) as subparagraph (E),

9 (B) by striking “reduced” and all that fol-  
10 lows in paragraph (3)(A) and inserting “re-  
11 duced (but not below zero) by 28-percent rate  
12 gain, plus”, and

13 (C) by striking paragraph (6).

14 (2) Paragraph (4) of section 50(c) is amended  
15 to read as follows:

16 “(4) RECAPTURE OF REDUCTIONS.—For pur-  
17 poses of section 1245(a)(2) and 1250, any reduction  
18 under this section shall be treated as a deduction for  
19 depreciation.”.

20 (3) Section 55(b)(3) is amended—

21 (A) by striking “the lesser” and all that  
22 follows in subparagraph (A) and inserting “the  
23 net capital gain (or, if less, the adjusted net  
24 capital gain), plus”,

1 (B) by striking “, plus” at the end of sub-  
2 paragraph (D) and inserting a period, and

3 (C) by striking subparagraph (E).

4 (4) Paragraph (6) of section 121(d) is amended  
5 by striking “section 1250(b)(3)” and inserting “sec-  
6 tion 1250(b)”.

7 (5) Clause (i) of section 267(e)(5)(D) and sec-  
8 tion 7701(e)(5) are each amended by striking “sec-  
9 tion 1250(a)(1)(B)” and inserting “section  
10 1250(a)(1)(B) (as in effect on the day before its re-  
11 peal)”.

12 (6) Section 291 is amended—

13 (A) in subsection (a), by striking para-  
14 graph (1),

15 (B) by striking subsection (d), and

16 (C) by striking subsection (e)(2).

17 (7) Section 512(b)(3)(A) is amended—

18 (A) by striking “(including property de-  
19 scribed in section 1245(a)(3)(C))” in clause (i),  
20 and

21 (B) by inserting “as in effect on the day  
22 before the date of the enactment of the \_\_\_\_\_  
23 Act” after “section 1245(a)(3)(B)” in clause  
24 (ii).



1           (8) Clause (iii) of section 911(f)(2)(A) is  
2 amended by striking “, unrecaptured section 1250  
3 gain,”.

4           (9) Subsection (d) of section 1017 is amended  
5 to read as follows:

6           “(d) RECAPTURE OF REDUCTIONS.—For purposes of  
7 section 1245—

8           “(1) any property the basis of which is reduced  
9 under this section and which is not section 1245  
10 property shall be treated as section 1245 property  
11 which is not pooled property, and

12           “(2) any reduction under this section shall be  
13 treated as a deduction allowed for depreciation for  
14 purposes of section 1245(a)(2).”.

15           (10) Paragraph (3) of section 1400B(e) is  
16 amended by striking “if section 1250 applied to all  
17 depreciation rather than the additional deprecia-  
18 tion”.

19           (11) Paragraph (2) of section 1400I(f) is  
20 amended by striking the last sentence.

21           (d) EFFECTIVE DATE.—The amendments made by  
22 this section shall apply to taxable years beginning after  
23 December 31, 2014.

1 **SEC. 13. LIMITATION ON DEPRECIATION OF PERSONAL**  
2 **USE PASSENGER AUTOMOBILES.**

3 (a) IN GENERAL.—Section 280F is amended to read  
4 as follows:

5 **“SEC. 280F. LIMITATION ON DEPRECIATION FOR PERSONAL**  
6 **USE PASSENGER AUTOMOBILES.**

7 “(a) IN GENERAL.—The amount of the depreciation  
8 deduction for any personal use passenger automobile (as  
9 defined in section 168(h)(1)) with respect to any taxpayer  
10 for any taxable year shall not exceed \$45,000 reduced by  
11 the amount of depreciation deduction taken into account  
12 by such taxpayer with respect to such personal use pas-  
13 senger automobile in all preceding taxable years.

14 “(b) RELATED PERSONS.—For purposes of this sec-  
15 tion, all persons who are related persons (as defined in  
16 section 168(e)(4)(B)(iv)) shall be treated as one taxpayer.

17 “(c) COORDINATION WITH SECTION 179.—Any de-  
18 duction allowable under section 179 with respect to any  
19 personal use passenger automobile shall be subject to the  
20 limitation of subsection (a).”.

21 (b) EFFECTIVE DATE.—The amendments made by  
22 this section shall apply to taxable years beginning after  
23 December 31, 2014.

1 **SEC. 14. LIMITATION ON DEPRECIATION TO PROPERTY**  
2 **PREDOMINANTLY USED IN A TRADE OR BUSI-**  
3 **NESS.**

4 (a) IN GENERAL.—Section 167 is amended by redess-  
5 ignating subsection (i) as subsection (j) and by inserting  
6 after subsection (h) the following new subsection:

7 “(i) MIXED-USE PROPERTY.—

8 “(1) IN GENERAL.—For purposes of subsection  
9 (a)—

10 “(A) property shall not be considered to be  
11 used in a trade or business unless the business  
12 use percentage is 50 percent or more, and

13 “(B) in the case of property the business  
14 use percentage of which is less than 100 per-  
15 cent, the deduction allowed under this section,  
16 section 168, or section 179 shall be reduced by  
17 an amount equal to the product of—

18 “(i) the amount of the deduction  
19 which would be allowed without regard to  
20 this subparagraph, and

21 “(ii) the percentage of the use of such  
22 property which is not in a trade or busi-  
23 ness.

24 “(2) BUSINESS USE PERCENTAGE.—The term  
25 ‘business use percentage’ has the meaning given  
26 such term under section 168(h)(3).

1 “(3) DEDUCTIONS OF EMPLOYEE.—

2 “(A) IN GENERAL.—Any employee use of  
3 listed property shall not be treated as use in a  
4 trade or business for purposes of determining  
5 the amount of any depreciation deduction allow-  
6 able to the employee (or the amount of any de-  
7 duction allowable to the employee for rentals or  
8 other payments under a lease of listed property)  
9 unless such use is for the convenience of the  
10 employer and required as a condition of employ-  
11 ment.

12 “(B) EMPLOYEE USE.—For purposes of  
13 subparagraph (A), the term ‘employee use’  
14 means any use in connection with the perform-  
15 ance of services as an employee.

16 “(C) LISTED PROPERTY.—

17 “(i) IN GENERAL.—Excepts as pro-  
18 vided in clause (ii), the term ‘listed prop-  
19 erty’ means—

20 “(I) any passenger automobile  
21 (as defined in section 168(h)(1)(B)),

22 “(II) any other property used as  
23 a means of transportation,

1                   “(III) any property of a type  
2                   generally used for purposes of enter-  
3                   tainment, recreation, or amusement,

4                   “(IV) any computer or peripheral  
5                   equipment, and

6                   “(V) any other property of a type  
7                   specified by the Secretary by regula-  
8                   tions.

9                   “(ii) EXCEPTION FOR CERTAIN COM-  
10                  PUTERS.—The term ‘listed property’ shall  
11                  not include any computer or peripheral  
12                  equipment used exclusively in the tax-  
13                  payer’s trade or business and owned or  
14                  leased by the person operating such trade  
15                  or business. For purposes of the preceding  
16                  sentence, a computer used in a dwelling  
17                  unit shall not be treated as used exclu-  
18                  sively in a taxpayer’s trade or business un-  
19                  less the requirements of section 280A(e)(1)  
20                  are met with respect to the portion of such  
21                  dwelling unit in which the computer is lo-  
22                  cated.

23                  “(iii) EXCEPTION FOR PROPERTY  
24                  USED IN BUSINESS OF TRANSPORTING  
25                  PERSONS OR PROPERTY.—Except to the

1 extent provided in regulations, subclause  
2 (II) of clause (i) shall not apply to any  
3 property substantially all of the use of  
4 which is in a trade or business of providing  
5 to unrelated persons services consisting of  
6 the transportation of persons or property  
7 for compensation or hire.

8 “(D) COMPUTER OR PERIPHERAL EQUIP-  
9 MENT DEFINED.—For purposes of this para-  
10 graph—

11 “(i) IN GENERAL.—The term ‘com-  
12 puter or peripheral equipment’ means—

13 “(I) any computer, and

14 “(II) any related peripheral  
15 equipment.

16 “(ii) COMPUTER.—The term ‘com-  
17 puter’ means a programmable electroni-  
18 cally activated device which—

19 “(I) is capable of accepting infor-  
20 mation, applying prescribed processes  
21 to the information, and supplying the  
22 results of these processes with or  
23 without human intervention, and

24 “(II) consists of a central proc-  
25 essing unit containing extensive stor-

1                   age, logic, arithmetic, and control ca-  
2                   pabilities.

3                   “(iii) RELATED PERIPHERAL EQUIP-  
4                   MENT.—The term ‘related peripheral  
5                   equipment’ means any auxiliary machine  
6                   (whether on-line or off-line) which is de-  
7                   signed to be placed under the control of  
8                   the central processing unit of a computer.

9                   “(iv) EXCEPTIONS.—The term ‘com-  
10                  puter or peripheral equipment’ shall not  
11                  include—

12                   “(I) any equipment which is an  
13                   integral part of other property which  
14                   is not a computer,

15                   “(II) typewriters, calculators,  
16                   adding and accounting machines,  
17                   copiers, duplicating equipment, and  
18                   similar equipment, and

19                   “(III) equipment of a kind used  
20                   primarily for amusement or entertain-  
21                   ment of the user.

22                   “(4) REGULATIONS.—The Secretary shall pre-  
23                   scribe such regulations as necessary to carry out the  
24                   purposes of this subsection, including rules relating  
25                   to property which is not consistently treated as used

1 in a trade or business under paragraph (1) over a  
2 period of 2 or more taxable years.”.

3 (b) CONFORMING AMENDMENTS RELATED TO  
4 CHANGES IN LISTED PROPERTY RULES.—

5 (1) Section 179(b), as amended by section  
6 \_\_01(a)(3), is amended by striking paragraph (5)  
7 and redesignating paragraph (6) as paragraph (5).

8 (2) Section 274(d)(4) is amended by striking  
9 “280F(d)(4)” and inserting “167(i)(3)(C)”.

10 (3) The table of sections for part IX of sub-  
11 chapter B of chapter 1 is amended by striking the  
12 item relating to section 280F and inserting the fol-  
13 lowing:

“Sec. 280F. Limitation on depreciation for personal use passenger auto-  
mobiles.”.

14 (c) EFFECTIVE DATE.—The amendments made by  
15 this section shall apply to taxable years beginning after  
16 December 31, 2014.

17 **SEC. \_\_15. REPEAL OF LIKE-KIND EXCHANGES.**

18 (a) IN GENERAL.—Part III of subchapter O of chap-  
19 ter 1 is amended by striking section 1031.

20 (b) CONFORMING AMENDMENTS.—

21 (1) Section 83(g) is amended by striking “(or  
22 so much of section 1031 that relates to section  
23 1036)”.



1           (2) Section 121(d) is amended by striking para-  
2 graph (10).

3           (3) Subsections (b) and (c)(1)(B) of section  
4 424 are each amended by striking “(or so much of  
5 section 1031 that relates to section 1036)”.

6           (4) Section 453(f)(6) is amended—

7                 (A) by striking “section 1031(b)” in the  
8 matter before subparagraph (A) and inserting  
9 “section 356(a) and which is not treated as a  
10 dividend”,

11                (B) by striking “section 1031(b)” in sub-  
12 paragraph (B) and inserting “section 356(a)”,

13                (C) by striking the last sentence, and

14                (D) by striking “LIKE-KIND EXCHANGES”  
15 in the heading and inserting “CERTAIN NON-  
16 RECOGNITION TRANSACTIONS”.

17           (5) Section 454(e)(2) is amended by striking  
18 “(or so much of section 1031 that relates to section  
19 1037)”.

20           (6) Section 470(e)(4) is amended—

21                 (A) by striking “Sections 1031(a) and  
22 1033(a)” in subparagraph (A) and inserting  
23 “Section 1033(a)”,

24                 (B) by striking “exchanged or” in subpara-  
25 graph (A)(i),

1 (C) by striking “section 1031 or 1033” in  
2 subparagraph (B) and inserting “section  
3 1033”, and

4 (D) by striking “SECTIONS 1031 AND  
5 1033” in the heading and inserting “SECTION  
6 1033”.

7 (7) Section 501(c)(12)(G) is amended by strik-  
8 ing “section 1031 or 1033” and inserting “section  
9 1033”.

10 (8) Section 704(c) is amended—

11 (A) by striking paragraph (2) and redesign-  
12 ating paragraph (3) as paragraph (2), and

13 (B) by striking “or (2)” in paragraph (2),  
14 as redesignated by subparagraph (A).

15 (9) Section 857(e)(2) is amended by striking  
16 subparagraph (B) and by redesignating subpara-  
17 graphs (C) and (D) as subparagraphs (B) and (C),  
18 respectively.

19 (10) Section 1035(d) is amended to read as fol-  
20 lows:

21 “(d) OTHER RULES.—

22 “(1) GAIN FROM EXCHANGES NOT SOLELY IN  
23 KIND.—If an exchange would be within the provi-  
24 sions of subsection (a), of section 1036(a), or of sec-  
25 tion 1037(a), if it were not for the fact that the

1 property received in exchange consists not only of  
2 property permitted by such provisions to be received  
3 without the recognition of gain, but also of other  
4 property or money, then the gain, if any, to the re-  
5 cipient shall be recognized, but in an amount not in  
6 excess of the sum of such money and the fair market  
7 value of such other property.

8 “(2) LOSS FROM EXCHANGES NOT SOLELY IN  
9 KIND.—If an exchange would be within the provi-  
10 sions of subsection (a), of section 1036(a), or of sec-  
11 tion 1037(a), if it were not for the fact that the  
12 property received in exchange consists not only of  
13 property permitted by such provisions to be received  
14 without the recognition of gain or loss, but also of  
15 other property or money, then no loss from the ex-  
16 change shall be recognized.

17 “(3) BASIS.—If property was acquired in an ex-  
18 change described in this section, section 1036(a), or  
19 section 1037(a), then the basis shall be the same as  
20 that of the property exchanged, decreased in the  
21 amount of any money received by the taxpayer and  
22 increased in the amount of gain or decreased in the  
23 amount of loss to the taxpayer that was recognized  
24 on such exchange. If the property so acquired con-  
25 sisted in part of the type of property permitted by

1 this section, section 1036(a), or section 1037(a), to  
2 be received without the recognition of gain or loss,  
3 and in part of other property, the basis provided in  
4 this subsection shall be allocated between the prop-  
5 erties (other than money) received, and for the pur-  
6 pose of the allocation there shall be assigned to such  
7 other property an amount equivalent to its fair mar-  
8 ket value at the date of the exchange. For purposes  
9 of this section and section 1036(a), where as part of  
10 the consideration to the taxpayer another party to  
11 the exchange assumed (as determined under section  
12 357(d)) a liability of the taxpayer, such assumption  
13 shall be considered as money received by the tax-  
14 payer on the exchange.”.

15 (11) Section 1036(c) is amended—

16 (A) by striking “subsections (b) and (c) of  
17 section 1031” in paragraph (1) and inserting  
18 “paragraphs (1) and (2) of section 1035(d)”,  
19 and

20 (B) by striking “subsection (d) of section  
21 1031” in paragraph (2) and inserting “para-  
22 graph (3) of section 1035”.

23 (12) Section 1037 is amended—

24 (A) by striking “1031(b)” in subsection  
25 (b)(1) and inserting “1035(d)(1)”,

1 (B) by striking “section 1031(b) or (c)” in  
2 subsection (b)(2) and inserting “1035(d)(1) or  
3 (2)”,

4 (C) by striking “subsections (b) and (c) of  
5 section 1031” in subsection (c)(1) and inserting  
6 “paragraphs (1) and (2) of section 1035(d)”,  
7 and

8 (D) by striking “subsection (d) of section  
9 1031” in subsection (c)(2) and inserting “para-  
10 graph (3) of section 1035”.

11 (13) Section 1060(c) is amended by striking the  
12 last sentence thereof.

13 (14) Section 1245(b)(4) is amended—

14 (A) by striking “1031 or”, and

15 (B) by striking “LIKE KIND EXCHANGES;  
16 INVOLUNTARY” in the heading and inserting  
17 “INVOLUNTARY”.

18 (15) Section 1250(d)(4) is amended—

19 (A) by striking “1031 or” each place it ap-  
20 pears in subparagraphs (A) and (E), and

21 (B) by striking “LIKE KIND EXCHANGES;  
22 INVOLUNTARY” in the heading and inserting  
23 “INVOLUNTARY”.

24 (16) Section 2032A(e)(14) is amended—

1 (A) by inserting “as in effect on the day  
2 before the enactment of the \_\_\_\_ Act” after  
3 “1031” each place it appears in subparagraph  
4 (C)(i) and (C)(ii), and

5 (B) by striking “SECTION 1031 OR 1033”  
6 in the heading and inserting “CERTAIN NON-  
7 RECOGNITION TRANSACTIONS”.

8 (17) Section 2032A(i) is amended by striking  
9 subsection (i).

10 (18) Section 4940(c)(4) is amended by striking  
11 subparagraph (D).

12 (19) The table of sections for part III of sub-  
13 chapter O of chapter 1 is amended by striking the  
14 item relating to section 1031.

15 (c) EFFECTIVE DATE.—The amendments made by  
16 this section shall apply to exchanges made in taxable years  
17 beginning after December 31, 2014.

18 **SEC. \_16. ELECTION TO USE FINANCIAL STATEMENT**

19 **PLACED IN SERVICE DATE.**

20 (a) IN GENERAL.—Section 7701 is amended by re-  
21 designating subsection (p) as subsection (q) and by insert-  
22 ing after subsection (o) the following new subsection:

23 “(p) PLACED IN SERVICE DATE.—

24 “(1) IN GENERAL.—At the election of the tax-  
25 payer, property shall be treated as placed in service

1 on the date such property is considered placed in  
2 service for purposes of an audited financial state-  
3 ment of the taxpayer which—

4 “(A) is certified as being prepared in ac-  
5 cordance with generally accepted accounting  
6 principles, and

7 “(B) is used for the purposes of a state-  
8 ment or report—

9 “(i) to shareholders, partners, or  
10 other proprietors, or to beneficiaries, or

11 “(ii) for credit purposes.

12 “(2) ELECTION.—An election made under this  
13 subsection shall specify the property to which it ap-  
14 plies and shall be made at such time and in such  
15 manner as specified by the Secretary. Such election,  
16 once made, shall be irrevocable.”.

17 (b) EFFECTIVE DATE.—The amendments made by  
18 this section shall apply to property placed in service in  
19 taxable years beginning after December 31, 2014.

20 **SEC. 17. REPEAL OF SPECIAL AMORTIZATION RULES FOR**  
21 **POLLUTION CONTROL FACILITIES.**

22 (a) IN GENERAL.—Part VI of subchapter B of chap-  
23 ter 1 is amended by striking section 169.

24 (b) CONFORMING AMENDMENTS RELATED TO POL-  
25 LUTION CONTROL FACILITIES.—

1 (1) Section 56(a) is amended by striking para-  
2 graph (5).

3 (2) Section 291, as amended by section  
4 \_\_12(c)(6), is amended by striking subsections  
5 (a)(4) and (c).

6 (3) The table of sections for part VI of sub-  
7 chapter B of chapter 1 is amended by striking the  
8 item relating to section 169.

9 (c) EFFECTIVE DATE.—The amendments made by  
10 this section shall apply to property placed in service after  
11 December 31, 2014.

## 12 **PART III—AMORTIZATION AND DEPLETION**

### 13 **SEC. \_\_21. INTANGIBLE PROPERTY.**

14 (a) SECTION 197 INTANGIBLES.—

15 (1) INCREASE IN AMORTIZATION PERIOD.—

16 (A) IN GENERAL.—Section 197(a) is  
17 amended by striking “15-year period” and in-  
18 sserting “20-year period”.

19 (B) CONFORMING AMENDMENT.—Section  
20 197(e)(4)(D)(i) is amended by striking “15  
21 years” and inserting “20 years”.

22 (2) INCLUSION OF MORTGAGE SERVICING  
23 RIGHTS.—

24 (A) IN GENERAL.—Section 197(d)(1) is  
25 amended by striking “and” at the end of sub-



1 paragraph (E), by striking the period at the  
2 end of subparagraph (F) and inserting “, and”,  
3 and by adding at the end the following new sub-  
4 paragraph:

5 “(G) any right to service indebtedness  
6 which is secured by residential real property.”.

7 (B) CONFORMING AMENDMENTS.—

8 (i) Section 197(e) is amended by  
9 striking paragraph (6) and by redesignig-  
10 nating paragraph (7) as paragraph (6).

11 (ii) Section 167(f), as amended by  
12 section \_\_11(b)(1), is amended to read as  
13 follows:

14 “(f) CERTAIN INTERESTS OR RIGHTS ACQUIRED  
15 SEPARATELY.—If a depreciation deduction is allowable  
16 under subsection (a) with respect to any property de-  
17 scribed in subparagraph (B), (C), or (D) of section  
18 197(e)(4), such deduction shall be computed in accordance  
19 with regulations prescribed by the Secretary. If such prop-  
20 erty would be tax-exempt use property as defined in sub-  
21 section (f) of section 470 if such section applied to such  
22 property, the useful life under such regulations shall not  
23 be less than 125 percent of the lease term (within the  
24 meaning of section 50(b)(4)).”.

25 (3) REPEAL OF ANTI-CHURNING RULES.—

1 (A) IN GENERAL.—Section 197(f) is  
2 amended by striking paragraph (9) and redesignig-  
3 nating paragraph (10) as paragraph (9).

4 (B) CONFORMING AMENDMENT.—Section  
5 470(f)(1) is amended to read as follows:

6 “(1) RELATED PARTIES.—

7 “(A) IN GENERAL.—The terms ‘lessor’,  
8 ‘lessee’, and ‘lender’ include any related person.

9 “(B) RELATED PARTY.—For purposes of  
10 subparagraph (A), a person (hereinafter in this  
11 subparagraph referred to as the ‘related per-  
12 son’) is related to any person if—

13 “(i) the related person bears a rela-  
14 tionship to such person specified in section  
15 267(b) or section 707(b)(1), or

16 “(ii) the related person and such per-  
17 son are engaged in trades or businesses  
18 under common control (within the meaning  
19 of subparagraphs (A) and (B) of section  
20 41(f)(1)).

21 For purposes of clause (i), in applying section  
22 267(b) or 707(b)(1), ‘20 percent’ shall be sub-  
23 stituted for ‘50 percent’.”.

24 (4) TRANSITION RULE.—In the case of any sec-  
25 tion 197 intangible (as defined in section 197(d) of

1 the Internal Revenue Code of 1986) acquired before  
2 January 1, 2015, the deduction allowed under sec-  
3 tion 197 of such Code for any taxable year begin-  
4 ning after December 31, 2014, shall be determined  
5 by amortizing the adjusted basis of such intangible  
6 over a period equal to—

7 (A) 20 years, reduced by

8 (B) the number of taxable years beginning  
9 before January 1, 2015, for which the taxpayer  
10 had taken any deduction for such property  
11 under section 197 of such Code.

12 (b) OTHER INTANGIBLES.—

13 (1) MODIFICATIONS TO INCOME FORECASTING  
14 METHOD.—

15 (A) PERIOD TAKEN INTO ACCOUNT.—Sec-  
16 tion 167(g) is amended by striking “10th tax-  
17 able year” and inserting “15th taxable year”  
18 each place it appears in the following para-  
19 graphs:

20 (i) Paragraph (1)(A).

21 (ii) Paragraph (1)(C).

22 (iii) Paragraph (2)(A)(ii).

23 (iv) Paragraph (5)(A)(i).

24 (v) Paragraph (5)(A)(ii).

25 (vi) Paragraph (7)(A).

## 100

1 (B) RECOMPUTATION YEAR.—Paragraph  
2 (4) of section 167(g) is amended—

3 (i) by striking “the 3d and 10th tax-  
4 able years” and inserting “the 5th, 10th,  
5 and 15th taxable years”, and

6 (ii) by striking “such 3d or 10th tax-  
7 able year” and inserting “such 5th, 10th,  
8 or 15th taxable year”.

9 (C) REMOVAL OF DEADWOOD.—Section  
10 167(g) is amended by striking paragraph (8).

11 (2) SAFE HARBOR PERIOD FOR CERTAIN OTHER  
12 INTANGIBLES.—Section 167, as amended by section  
13 \_\_14(a), is amended by redesignating subsection (j)  
14 as subsection (k) and by inserting after subsection  
15 (i) the following new subsection:

16 “(j) SAFE HARBORS.—Notwithstanding Treasury  
17 Regulation §1.167(a)—3, any safe-harbor for determining  
18 the useful life of certain intangible assets provided under  
19 regulations established by the Secretary—

20 “(1) may not treat an intangible asset as hav-  
21 ing a useful life of less than 20 years, and

22 “(2) shall apply to amounts paid to facilitate an  
23 acquisition of a trade or business, a change in the  
24 capital structure of a business entity, and other

1 transactions described in Treasury Regulation  
2 §1.263(a)—5.”.

3 (c) EFFECTIVE DATE.—

4 (1) IN GENERAL.—Except as provided in para-  
5 graph (2), the amendments made by this section  
6 shall apply to taxable years beginning after Decem-  
7 ber 31, 2014.

8 (2) INCOME FORECASTING MODIFICATIONS.—  
9 The amendments made by subsection (b)(1) shall  
10 apply to property placed in service after December  
11 31, 2014.

12 **SEC. 22. AMORTIZATION OF RESEARCH AND EXPERI-**  
13 **MENTAL EXPENDITURES.**

14 (a) IN GENERAL.—Section 174 is amended by strik-  
15 ing subsections (a) and (b) and inserting the following:

16 “(a) ALLOWANCE OF DEDUCTION.—

17 “(1) IN GENERAL.—Any research and experi-  
18 mental expenditures paid or incurred by the tax-  
19 payer during the taxable year in connection with a  
20 trade or business shall be chargeable to capital ac-  
21 count and shall be deductible ratably over a 5-year  
22 period, determined as if such expenditures were  
23 made at the mid-point of the taxable year.

24 “(2) INCLUSION OF CERTAIN EXPENDITURES.—

25 For purposes of this section, the term ‘research and

1 experimental expenditures' includes expenditures for  
2 the development of computer software.

3 “(b) TREATMENT OF ABANDONED PROPERTY.—If  
4 any property with respect to which research and experi-  
5 mental expenditures are paid or incurred is retired, aban-  
6 doned, or otherwise disposed of during the 5-year period  
7 described in subsection (a), no deduction shall be allowed  
8 on account of such retirement, abandonment, or disposi-  
9 tion and the amortization deduction under this section  
10 shall continue with respect to such expenditure.”.

11 (b) CONFORMING AMENDMENTS.—

12 (1) Section 41(d)(1)(A) is amended by striking  
13 “expenditures may be treated as expenses under sec-  
14 tion 174” and inserting “a deduction is allowed  
15 under section 174 for expenditures in connection  
16 with such research”.

17 (2) Section 56(b)(2) is amended—

18 (A) by striking subparagraph (A) and in-  
19 serting the following:

20 “(A) IN GENERAL.—The amount allowable  
21 as a deduction under section 173 in computing  
22 the regular tax for amounts paid or incurred  
23 after December 31, 1986, shall be capitalized  
24 and shall be amortized ratably over the 3-year

1 period beginning with the taxable year in which  
2 the expenditures were made.”,

3 (B) by striking subparagraph (D), and

4 (C) by striking “AND RESEARCH AND EX-  
5 PERIMENTAL EXPENDITURES” in the heading  
6 thereof.

7 (3)(A) Section 59(e)(2) is amended by striking  
8 subparagraph (B) and redesignating subparagraphs  
9 (C) through (E) as subparagraphs (B) through (D),  
10 respectively.

11 (B) Section 263A(e), as amended by section  
12 \_\_02(b)(5), is amended—

13 (i) by striking paragraph (2) and redesignating  
14 paragraphs (3) through (6) as paragraphs  
15 (2) through (5), respectively, and

16 (ii) in paragraph (5) (as redesignated by  
17 clause (i))—

18 (I) by striking “Paragraphs (2) and  
19 (3)” and inserting “Paragraph (2)”, and

20 (II) by striking “(B),”.

21 (4) Section 174 is amended by striking sub-  
22 section (f).

23 (5) The last sentence of section 864(g)(2) is  
24 amended to read as follows: “Any qualified research  
25 and experimental expenditures shall be taken into

1 account under this subsection for the taxable year  
2 for which such expenditures are allowed as a deduc-  
3 tion under section 174.”.

4 (6) Section 1016(a) is amended by striking  
5 paragraph (14).

6 (c) EFFECTIVE DATE.—The amendments made by  
7 this section shall apply to expenditures paid or incurred  
8 in taxable years beginning after December 31, 2014.

9 **SEC. 23. TREATMENT OF ADVERTISING EXPENDITURES.**

10 (a) IN GENERAL.—Part VI of subchapter B of chap-  
11 ter 1 is amended by inserting after section 176 the fol-  
12 lowing new section:

13 **“SEC. 177. TREATMENT OF ADVERTISING EXPENDITURES.**

14 “(a) IN GENERAL.—Except as otherwise provided  
15 under this title, advertising expenditures of the taxpayer  
16 shall be treated as chargeable to capital account and shall  
17 be deductible as provided in this section.

18 “(b) DEDUCTION IN YEAR PAID OR INCURRED.—  
19 There shall be allowed as a deduction an amount equal  
20 to 50 percent of the advertising expenditures paid or in-  
21 curred by the taxpayer during the taxable year.

22 “(c) AMORTIZATION OF REMAINING AMOUNTS.—

23 “(1) IN GENERAL.—So much of advertising ex-  
24 penditures for which a deduction is not allowable  
25 under subsection (b) shall be allowed as an amorti-



1 zation deduction ratably over a 5-year period begin-  
2 ning with the taxable year in which such expendi-  
3 tures are paid or incurred.

4 “(2) TREATMENT OF ABANDONED PROP-  
5 ERTY.—If any property with respect to which adver-  
6 tising expenditures are paid or incurred is retired,  
7 abandoned, or otherwise disposed of during the 5-  
8 year period described in paragraph (1), no deduction  
9 shall be allowed on account of such retirement,  
10 abandonment, or disposition and the amortization  
11 deduction under this subsection shall continue with  
12 respect to such expenditure.

13 “(d) ADVERTISING EXPENDITURES.—For purposes  
14 of this section—

15 “(1) IN GENERAL.—The term ‘advertising ex-  
16 penditures’ means any expenditure (whether made  
17 internally or externally) paid or incurred for the de-  
18 velopment, creation, or placement of advertising, or  
19 for any similar activity with respect to advertising.

20 “(2) EXCLUSION.—The term ‘advertising ex-  
21 penditures’ shall not include—

22 “(A) any amount paid or incurred with re-  
23 spect to—

24 “(i) section 168 property (as defined  
25 in section 168(b)), or

1                   “(ii) any intangible asset the costs of  
2                   which are deductible under any provision  
3                   of this chapter over a period of 5 years or  
4                   more,

5                   “(B) any amounts paid to employees and  
6                   contractors for performing sales functions,

7                   “(C) any purchase price adjustments, in-  
8                   cluding discounts, promotional pricing, and re-  
9                   bates, and

10                  “(D) any goods sold or otherwise disposed  
11                  of by the taxpayer in the ordinary course of  
12                  business, including any sample-sized goods.

13                  “(3) ADVERTISING.—The term ‘advertising’  
14                  means any message or other programming material  
15                  which is broadcast or otherwise transmitted, pub-  
16                  lished, displayed, or distributed, and which promotes  
17                  or markets any trade or business, service, facility, or  
18                  product. Such term includes messages containing  
19                  qualitative or comparative language, price informa-  
20                  tion (or other indications of savings or value), an en-  
21                  dorsement, or an inducement to purchase, sell, or  
22                  use any company, service, facility, or product. A sin-  
23                  gle message that contains both advertising and an  
24                  acknowledgment or other message is advertising.”.

1 (b) CLERICAL AMENDMENT.—The table of sections  
2 for part VI of subchapter B of chapter 1 is amended by  
3 inserting after the item relating to section 176 the fol-  
4 lowing new item:

“Sec. 177. Treatment of advertising expenditures.”.

5 (c) EFFECTIVE DATE.—The amendments made by  
6 this section shall apply to expenditures paid or incurred  
7 in taxable years beginning after December 31, 2014.

8 **SEC. 24. AMORTIZATION OF CERTAIN OIL, GAS, AND MIN-**  
9 **ING EXPENDITURES.**

10 (a) AMORTIZATION OF OTHER OIL, GAS, AND MIN-  
11 ING EXPENDITURES.—Section 193 is amended to read as  
12 follows:

13 **“SEC. 193. CERTAIN OIL, GAS, AND MINING EXPENDITURES.**

14 “(a) IN GENERAL.—Any qualified extraction expendi-  
15 tures paid or incurred by the taxpayer during the taxable  
16 year in connection with a trade or business shall be  
17 chargeable to capital account and shall be deductible rat-  
18 ably over a 5-year period, determined as if such expendi-  
19 tures were made at the mid-point of the taxable year.

20 “(b) QUALIFIED EXTRACTION EXPENDITURES.—For  
21 purposes of this section—

22 “(1) IN GENERAL.—The term ‘qualified extrac-  
23 tion expenditures’ means—

24 “(A) qualified tertiary injectant expenses,

1           “(B) any geological and geophysical ex-  
2           penses paid or incurred in connection with the  
3           exploration for, or development of, oil or gas,

4           “(C) any intangible drilling and develop-  
5           ment costs described in paragraph (3),

6           “(D) any expenditures described in section  
7           616(a), and

8           “(E) any expenditures described in section  
9           617(a).

10          “(2) QUALIFIED TERTIARY INJECTANT EX-  
11          PENDITURES.—For purposes of this section—

12           “(A) IN GENERAL.—The term ‘qualified  
13           tertiary injectant expenses’ means any cost paid  
14           or incurred for any tertiary injectant (other  
15           than a hydrocarbon injectant which is recover-  
16           able) which is used as a part of a tertiary recov-  
17           ery method.

18           “(B) HYDROCARBON INJECTANT.—The  
19           term ‘hydrocarbon injectant’ includes natural  
20           gas, crude oil, and any other injectant which is  
21           comprised of more than an insignificant amount  
22           of natural gas or crude oil. The term does not  
23           include any tertiary injectant which is hydro-  
24           carbon-based, or a hydrocarbon-derivative, and  
25           which is comprised of no more than an insig-

1           nificant amount of natural gas or crude oil. For  
2           purposes of this subparagraph, that portion of  
3           a hydrocarbon injectant which is not a hydro-  
4           carbon shall not be treated as a hydrocarbon  
5           injectant.

6           “(C) TERTIARY RECOVERY METHOD.—The  
7           term ‘tertiary recovery method’ means—

8                   “(i) any method which is described in  
9                   subparagraphs (1) through (9) of section  
10                  212.78(c) of the June 1979 energy regula-  
11                  tions (as defined by section 4996(b)(8)(C)  
12                  as in effect on the day before its repeal),  
13                  or

14                   “(ii) any other method to provide ter-  
15                   tiary enhanced recovery which is approved  
16                   by the Secretary for purposes of this sec-  
17                   tion.

18           “(3) INTANGIBLE DRILLING AND DEVELOP-  
19           MENT COSTS.—Intangible drilling and development  
20           costs described in this paragraph are costs described  
21           in regulations prescribed by the Secretary under this  
22           subtitle corresponding to the regulations which  
23           granted the option to deduct as expenses intangible  
24           drilling and development costs in the case of oil and  
25           gas wells and which were recognized and approved

1 by the Congress in House Concurrent Resolution 50,  
2 Seventy-ninth Congress. Such regulations shall in-  
3 clude intangible drilling and development costs in  
4 the case of wells drilled for any geothermal deposit  
5 (as defined in section 613(e)(2)).

6 “(c) TREATMENT OF ABANDONED PROPERTY.—If  
7 any property with respect to which qualified extraction ex-  
8 penditures are paid or incurred is retired, abandoned, or  
9 otherwise disposed of during the 5-year period described  
10 in subsection (a), no deduction shall be allowed on account  
11 of such retirement, abandonment, or disposition and the  
12 amortization deduction under this section shall continue  
13 with respect to such payment.”.

14 (b) REPEAL OF DEDUCTION FOR INTANGIBLE  
15 DRILLING AND DEVELOPMENT COSTS.—

16 (1) Section 263 is amended by striking sub-  
17 section (c).

18 (2) Section 57(a) is amended by striking para-  
19 graph (2).

20 (3) Clause (ii) of section 43(c)(1)(B) is amend-  
21 ed to read as follows:

22 “(ii) any expenditures paid or in-  
23 curred during the taxable year which are  
24 described in section 193(b)(3).”.

1 (c) TERMINATION OF DEDUCTION FOR DEVELOP-  
2 MENT EXPENDITURES.—Section 616 is amended by add-  
3 ing at the end the following new subsection:

4 “(f) TERMINATION.—This section shall not apply to  
5 expenditures made after December 31, 2014.”.

6 (d) TERMINATION OF DEDUCTION FOR EXPLO-  
7 RATION EXPENDITURES.—Section 617 is amended by  
8 adding at the end the following new subsection:

9 “(j) TERMINATION.—This section shall not apply to  
10 expenditures made after December 31, 2014.”.

11 (e) GAIN FROM DISPOSITION OF QUALIFIED EX-  
12 TRACTION EXPENDITURES.—Section 1254(a) is amended  
13 by striking “section 263” and inserting “section 193”.

14 (f) REPEAL OF OPTIONAL 10-YEAR WRITEOFF OF  
15 CERTAIN TAX PREFERENCES.—

16 (1) IN GENERAL.—Section 59, as amended by  
17 section \_\_22(b)(3), is amended by striking sub-  
18 section (e) and by redesignating subsections (f)  
19 through (j) as subsections (e) through (i), respec-  
20 tively.

21 (2) CONFORMING AMENDMENTS.—

22 (A) Section 173 is amended—

23 (i) by striking “(a) GENERAL  
24 RULE.—”, and

25 (ii) by striking subsection (b).

1 (B) Section 263A(c), as amended by sec-  
2 tion \_\_22(b)(3)(B), is amended by striking  
3 paragraph (5).

4 (C) Section 1016(a) is amended by strik-  
5 ing paragraph (20).

6 (g) CONFORMING AMENDMENTS.—

7 (1) Section 43(c)(1)(C) is amended by striking  
8 “193(b)” and inserting “193(b)(2)”.

9 (2) Paragraphs (2) and (4) of section 43(c) are  
10 each amended by striking “193(b)(3)” and inserting  
11 “193(b)(2)(C)”.

12 (3) Section 45Q(d)(3) is amended by striking  
13 “193(b)(1)” and inserting “193(b)(2)(A)”.

14 (4) Section 56 is amended—

15 (A) by striking subsection (a)(2), and

16 (B) by striking subsection (g)(4)(D)(i).

17 (5)(A) Section 167, as amended by sections  
18 \_\_14(a) and \_\_21(b)(1), is amended by striking sub-  
19 section (h) and by redesignating subsections (i), (j),  
20 and (k) as subsection (h), (i), and (j), respectively.

21 (B) Section 263A(c)(2), as amended by section  
22 \_\_02(b)(5) and section \_\_22(b)(3), is amended by  
23 striking “167(h),”.



1 (C) Section 274(d)(4), as amended by section  
2 \_\_14(b)(2), is amended by striking “167(i)(3)(C)”  
3 and inserting “167(h)(3)(C)”.

4 (6) Section 263(a)(1)(D), as redesignated by  
5 sections \_\_02(b)(4), \_\_03(a)(2)(A), and  
6 \_\_03(c)(2)(B), is amended to read as follows:

7 “(D) expenditures for which a deduction is  
8 allowed under section 193, and”.

9 (7) Section 263A(c)(2), as amended by para-  
10 graph (5)(B), section \_\_02(b)(5), and section  
11 \_\_22(b)(3), is amended by striking “263(c),”

12 (8) Section 291, as amended by section  
13 \_\_12(c)(6) and section \_\_16(b)(2), is amended to  
14 read as follows:

15 “(a) IN GENERAL.—For purposes of this subtitle, in  
16 the case of a corporation, the amount allowable as a de-  
17 duction under this chapter (determined without regard to  
18 this section) with respect to any financial institution pref-  
19 erence item shall be reduced by 20 percent.

20 “(b) FINANCIAL INSTITUTION PREFERENCE ITEM.—

21 “(1) IN GENERAL.—For purposes of this sec-  
22 tion, the term ‘financial institution preference item’  
23 includes any amount described in paragraph (2).

1           “(2) INTEREST ON DEBT TO CARRY TAX-EX-  
2           EMPT OBLIGATIONS ACQUIRED AFTER DECEMBER 31,  
3           1982, AND BEFORE AUGUST 8, 1986.—

4                   “(A) IN GENERAL.—In the case of a finan-  
5                   cial institution which is a bank (as defined in  
6                   section 585(a)(2)), the amount of interest on  
7                   indebtedness incurred or continued to purchase  
8                   or carry obligations acquired after December  
9                   31, 1982, and before August 8, 1986, the inter-  
10                  est on which is exempt from taxes for the tax-  
11                  able year, to the extent that a deduction would  
12                  (but for this paragraph or section 265(b)) be  
13                  allowable with respect to such interest for such  
14                  taxable year.

15                   “(B) DETERMINATION OF INTEREST ALLO-  
16                   CABLE TO INDEBTEDNESS ON TAX-EXEMPT OB-  
17                   LIGATIONS.—Unless the taxpayer (under regu-  
18                   lations prescribed by the Secretary) establishes  
19                   otherwise, the amount determined under sub-  
20                   paragraph (A) shall be an amount which bears  
21                   the same ratio to the aggregate amount allow-  
22                   able (determined without regard to this section  
23                   and section 265(b)) to the taxpayer as a deduc-  
24                   tion for interest for the taxable year as—

1                   “(i) the taxpayer’s average adjusted  
2                   basis (within the meaning of section 1016)  
3                   of obligations described in subparagraph  
4                   (A), bears to

5                   “(ii) such average adjusted basis for  
6                   all assets of the taxpayer.

7                   “(C) INTEREST.—For purposes of this  
8                   paragraph, the term ‘interest’ includes amounts  
9                   (whether or not designated as interest) paid in  
10                  respect of deposits, investment certificates, or  
11                  withdrawable or repurchasable shares.

12                  “(D) APPLICATION OF SUBPARAGRAPH TO  
13                  CERTAIN OBLIGATIONS ISSUED AFTER AUGUST  
14                  7, 1986.—For application of this paragraph to  
15                  certain obligations issued after August 7, 1986,  
16                  see section 265(b)(3). That portion of any obli-  
17                  gation not taken into account under paragraph  
18                  (2)(A) of section 265(b) by reason of paragraph  
19                  (7) of such section shall be treated for purposes  
20                  of this section as having been acquired on Au-  
21                  gust 7, 1986.”.

22                  (9)(A) Section 312(n) is amended by striking  
23                  paragraph (2) and by redesignating paragraphs (3)  
24                  through (8) as paragraphs (2) through (7), respec-  
25                  tively.

1 (B) Section 312(n)(7), as redesignated by sub-  
2 paragraph (A), is amended—

3 (i) by striking “paragraphs (4) and (6)” in  
4 subparagraph (A) and inserting “paragraph (3)  
5 and (5)”, and

6 (ii) by striking “paragraph (5)” in sub-  
7 paragraph (B) and inserting “paragraph (4)”.

8 (C) Sections 301(e)(3) and 1503(e)(2)(C) are  
9 each amended—

10 (i) by striking “paragraph (7)” and insert-  
11 ing “paragraph (6)”, and

12 (ii) by striking “312(n)(7)” in the heading  
13 and inserting “312(n)(6)”.

14 (D) Sections 952(c)(3) and 1293(e)(3) are each  
15 amended by striking “paragraphs (4), (5), and (6)”  
16 and inserting “paragraphs (3), (4), and (5).”

17 (10) The table of sections for part IV of sub-  
18 chapter B of chapter 1 is amended by striking the  
19 item relating to section 193 and inserting the fol-  
20 lowing:

“Sec. 193. Certain oil, gas, and mining expenditures.”.

21 (h) **EFFECTIVE DATE.**—The amendments made by  
22 this section shall apply to expenditures paid or incurred  
23 in taxable years beginning after December 31, 2014.

1 **SEC. 25. TERMINATION OF PERCENTAGE DEPLETION.**

2 (a) IN GENERAL.—Section 613 is amended by adding  
3 at the end the following new subsection:

4 “(f) TERMINATION.—This subsection shall not apply  
5 to mines, wells, and natural deposits placed in service after  
6 December 31, 2014.”.

7 (b) OIL AND GAS WELLS.—Section 613A is amended  
8 by adding at the end the following new subsection:

9 “(f) TERMINATION.—This subsection shall not apply  
10 to oil and gas wells placed in service after December 31,  
11 2014.”.

12 **SEC. 26. AMORTIZATION OF SOIL AND WATER CONSERVA-**  
13 **TION EXPENDITURES AND ENDANGERED**  
14 **SPECIES RECOVERY EXPENDITURES.**

15 (a) IN GENERAL.—Subsection (a) of section 175 is  
16 amended to read as follows:

17 “(a) ALLOWANCE OF DEDUCTION.—In the case of a  
18 taxpayer engaged in the business of farming, expenditures  
19 paid or incurred by the taxpayer during the taxable year  
20 for the purpose of soil or water conservation in respect  
21 of land used in farming, or for the prevention of erosion  
22 of land used in farming, or for endangered species recov-  
23 ery, shall be chargeable to capital account and shall be  
24 deductible ratably over a 28-year period, determined as  
25 if such expenditures were made at the mid-point of the  
26 taxable year.”.

1 (b) CONFORMING AMENDMENTS.—

2 (1) Section 175 is amended—

3 (A) by striking subsection (b),

4 (B) by redesignating subsection (c) as sub-  
5 section (b), and

6 (C) by striking subsections (d), (e), and  
7 (f).

8 (2) Section 263(a)(1), as amended by sections  
9 \_\_02(b)(4), \_\_03(a)(2)(A), \_\_03(c)(2)(B), and  
10 \_\_024(g)(6), is amended by striking subparagraph  
11 (C) and by redesignating subparagraphs (D) and  
12 (E) as subparagraph (C) and (D), respectively.

13 (3) Section 1252(a) is amended—

14 (A) by striking paragraph (1) and insert-  
15 ing the following:

16 “(1) ORDINARY INCOME.—If farm land is dis-  
17 posed of by the taxpayer, the lower of—

18 “(A) the aggregate of the deductions al-  
19 lowed under sections 175 (relating to soil and  
20 water conservation expenditures) for expendi-  
21 tures made by the taxpayer with respect to the  
22 farm land, or

23 “(B) the excess of—

24 “(i) the amount realized (in the case  
25 of a sale, exchange, or involuntary conver-

1 sion), or the fair market value of the farm  
2 land (in the case of any other disposition),  
3 over

4 “(ii) the adjusted basis of such land,  
5 shall be treated as ordinary income. Such gain shall  
6 be recognized notwithstanding any other provision of  
7 this subtitle.”,

8 (B) by striking “or 182 (relating to ex-  
9 penditures by farmers for clearing land)” in  
10 paragraph (2), and

11 (C) by striking paragraph (3).

12 (c) EFFECTIVE DATE.—The amendments made by  
13 this section shall apply to expenditures paid or incurred  
14 in taxable years beginning after December 31, 2014.

## 15 **Subtitle B—Accounting Provisions**

### 16 **SEC. 51. LIMITATION ON USE OF CASH METHOD OF AC-** 17 **COUNTING.**

18 (a) IN GENERAL.—Section 448 is amended to read  
19 as follows:

### 20 **“SEC. 448. LIMITATION ON USE OF CASH METHOD OF AC-** 21 **COUNTING.**

22 “(a) IN GENERAL.—The cash receipts and disburse-  
23 ments method of accounting may only be used by a tax-  
24 payer which meets the gross receipts test of subsection (b)

1 for the taxable year. Such method may not be used by  
2 a tax shelter.

3 “(b) GROSS RECEIPTS TEST.—For purposes of this  
4 section—

5 “(1) IN GENERAL.—A taxpayer meets the gross  
6 receipts test of this subsection for any taxable year  
7 if the average annual gross receipts of such taxpayer  
8 for the 3-taxable-year period ending with the taxable  
9 year which precedes such taxable year does not ex-  
10 ceed the applicable dollar amount.

11 “(2) AGGREGATION RULES.—All persons treat-  
12 ed as a single employer under subsection (a) or (b)  
13 of section 52 or subsection (m) or (o) of section 414  
14 shall be treated as one person for purposes of para-  
15 graph (1).

16 “(3) SPECIAL RULES FOR COMPUTING GROSS  
17 RECEIPTS.—For purposes of this subsection—

18 “(A) NOT IN EXISTENCE FOR ENTIRE 3-  
19 YEAR PERIOD.—If the taxpayer was not in ex-  
20 istence for the entire 3-year period referred to  
21 in paragraph (1), such paragraph shall be ap-  
22 plied on the basis of the period during which  
23 such taxpayer (or trade or business) was in ex-  
24 istence.



1           “(B) SHORT TAXABLE YEARS.—Gross re-  
2 receipts for any taxable year of less than 12  
3 months shall be annualized by multiplying the  
4 gross receipts for the short period by 12 and di-  
5 viding the result by the number of months in  
6 the short period.

7           “(C) GROSS RECEIPTS.—Gross receipts for  
8 any taxable year shall be reduced by returns  
9 and allowances made during such year.

10           “(D) TREATMENT OF PREDECESSORS.—  
11 Any reference in this subsection to a taxpayer  
12 shall include a reference to any predecessor of  
13 such taxpayer.

14           “(4) PASS-THRU ENTITIES.—In the case of a  
15 partnership, S corporation, trust, estate, or other  
16 pass-thru entity, the gross receipts test under para-  
17 graph (1) shall apply both at the entity level and at  
18 the partner, shareholder, beneficiary, or similar level.

19           “(5) LIMITATION ON REELECTION OF CASH  
20 METHOD.—If a taxpayer is required to change its  
21 method of accounting for any taxable year from the  
22 cash receipts and disbursements method of account-  
23 ing by reason of failing to meet the gross receipts  
24 test of this subsection, then, notwithstanding wheth-  
25 er the gross receipts test is subsequently met, the

1 taxpayer may not elect to change its method of ac-  
2 counting back to the cash receipts and disburse-  
3 ments method of accounting for any of the 4 taxable  
4 years immediately following the taxable year for  
5 which such change was first required.

6 “(6) APPLICABLE DOLLAR AMOUNT.—For pur-  
7 poses of paragraph (1)—

8 “(A) IN GENERAL.—The applicable dollar  
9 amount is \$10,000,000.

10 “(B) INFLATION ADJUSTMENT.—

11 “(i) IN GENERAL.—In the case of any  
12 taxable year beginning after 2015, the dol-  
13 lar amount in subparagraph (A) shall be  
14 increased by an amount equal to—

15 “(I) such dollar amount, multi-  
16 plied by

17 “(II) the cost-of-living adjust-  
18 ment determined under section 1(f)(3)  
19 for the calendar year in which the tax-  
20 able year begins, by substituting  
21 ‘2014’ for ‘1992’ in subparagraph (B)  
22 thereof.

23 “(ii) ROUNDING.—The amount of any  
24 increase under subparagraph (A) shall be

1 rounded to the next lowest multiple of  
2 \$1,000,000.

3 “(c) TAX SHELTER DEFINED.—For purposes of this  
4 section, the term ‘tax shelter’ has the meaning given such  
5 term by section 461(i)(3) (determined after application of  
6 paragraph (4) thereof). An S corporation shall not be  
7 treated as a tax shelter for purposes of this section merely  
8 by reason of being required to file a notice of exemption  
9 from registration with a State agency described in section  
10 461(i)(3)(A), but only if there is a requirement applicable  
11 to all corporations offering securities for sale in the State  
12 that to be exempt from such registration the corporation  
13 must file such a notice.

14 “(d) SPECIAL RULES.—For purposes of this sec-  
15 tion—

16 “(1) COORDINATION WITH SECTION 481.—In  
17 the case of any taxpayer required by this section to  
18 change its method of accounting for any taxable  
19 year—

20 “(A) such change shall be treated as initi-  
21 ated by the taxpayer, and

22 “(B) such change shall be treated as made  
23 with the consent of the Secretary.

24 “(2) USE OF RELATED PARTIES, ETC.—The  
25 Secretary shall prescribe such regulations as may be

1 necessary to prevent the use of related parties, pass-  
2 thru entities, or intermediaries to avoid the applica-  
3 tion of this section.”.

4 (b) EXEMPTION FROM INVENTORY REQUIREMENT.—

5 Section 471 is amended by redesignating subsection (c)  
6 as subsection (d) and by inserting after subsection (b) the  
7 following new subsection:

8 “(c) SECTION NOT TO APPLY TO CERTAIN CASH  
9 METHOD TAXPAYERS.—If a taxpayer—

10 “(1) would otherwise be required to use inven-  
11 tories under this section for any taxable year, but

12 “(2) the taxpayer meets the gross receipts test  
13 of section 448(b) for the taxable year and is eligible  
14 and elects to use the cash receipts and disburse-  
15 ments method of accounting for the taxable year,

16 then the requirement to use inventories shall not apply  
17 to the taxpayer for the taxable year.”.

18 (c) CONFORMING AMENDMENTS.—

19 (1) Section 11(b)(2) is amended to read as fol-  
20 lows:

21 “(2) CERTAIN PERSONAL SERVICE CORPORA-  
22 TIONS NOT ELIGIBLE FOR GRADUATED RATES.—

23 “(A) IN GENERAL.—Notwithstanding para-  
24 graph (1), the amount of the tax imposed by  
25 subsection (a) on the taxable income of a quali-



1 death of an individual described in  
2 subclause (I) or (II) (but only for the  
3 2-year period beginning on the date of  
4 the death of such individual).

5 To the extent provided in regulations prescribed  
6 by the Secretary, indirect holdings through a  
7 trust shall be taken into account under clause  
8 (ii).

9 “(C) SPECIAL RULES FOR APPLICATION OF  
10 SUBPARAGRAPH (B).—For purposes of subpara-  
11 graph (B)—

12 “(i) community property laws shall be  
13 disregarded,

14 “(ii) stock held by a plan described in  
15 section 401(a) which is exempt from tax  
16 under section 501(a) shall be treated as  
17 held by an employee described in subpara-  
18 graph (B)(ii)(II), and

19 “(iii) at the election of the common  
20 parent of an affiliated group (within the  
21 meaning of section 1504(a)), all members  
22 of such group may be treated as 1 tax-  
23 payer for purposes of subparagraph (B)(ii)  
24 if 90 percent or more of the activities of  
25 such group involve the performance of

1 services in the same field described in sub-  
2 paragraph (B)(i).”.

3 (2) Each of the following provisions are amend-  
4 ed by striking “448(c)” and inserting “448(b)”:

5 (A) Section 38(c)(5)(C).

6 (B) Section 45M(e)(4).

7 (C) Section 55(e)(1)(D).

8 (D) Section 172(b)(1)(F)(iii).

9 (E) Section 420(c)(3)(E)(ii)(II).

10 (F) Section 6721(d)(2)(B).

11 (3) Paragraphs (1)(B) and (3)(B) of section  
12 263A(d) are each amended—

13 (A) by striking “448(a)(3)” and inserting  
14 “448(a)”, and

15 (B) by striking “corporation, partnership,  
16 or tax shelter” each place it appears and insert-  
17 ing “taxpayer”.

18 (4) Section 446(c)(1) is amended by inserting  
19 “to the extent provided in section 448,” before “the  
20 cash receipts”.

21 (5) Section 451 is amended by adding at the  
22 end the following new subsection:

23 “(j) SPECIAL RULE FOR CERTAIN SERVICE PRO-  
24 VIDERS ON ACCRUAL METHOD OF ACCOUNTING.—

1           “(1) IN GENERAL.—In the case of any person  
2           using an accrual method of accounting for any tax-  
3           able year with respect to amounts to be received for  
4           the performance of services by such person, such  
5           person shall not be required to accrue any portion  
6           of such amounts which (on the basis of such per-  
7           son’s experience) will not be collected if—

8                   “(A) such services are in the fields of  
9                   health, law, engineering, architecture, account-  
10                  ing, actuarial science, performing arts, or con-  
11                  sulting, or

12                   “(B) such person meets the gross receipts  
13                  test of section 448(b) with respect to such tax-  
14                  able year.

15           “(2) EXCEPTION.—Paragraph (1) shall not  
16           apply to any amount if interest is required to be  
17           paid on such amount or there is any penalty for fail-  
18           ure to timely pay such amount.

19           “(3) REGULATIONS.—The Secretary shall pre-  
20           scribe regulations to permit taxpayers to determine  
21           amounts referred to in paragraph (1) using com-  
22           putations or formulas which, based on experience,  
23           accurately reflect the amount of income that will not  
24           be collected by such person. A taxpayer may adopt,  
25           or request consent of the Secretary to change to, a



1 computation or formula that clearly reflects the tax-  
2 payer's experience. A request under the preceding  
3 sentence shall be approved if such computation or  
4 formula clearly reflects the taxpayer's experience.”.

5 (6) Subsection (b)(3) of sections 5731 and  
6 5801 are each amended by striking “448(c)(3)” and  
7 inserting “448(b)(3)”.

8 (7) Section 352 of the Revenue Act of 1978 is  
9 repealed.

10 (d) EFFECTIVE DATE.—

11 (1) IN GENERAL.—The amendments and repeal  
12 made by this section shall apply to taxable years be-  
13 ginning after December 31, 2014.

14 (2) CHANGE IN METHOD OF ACCOUNTING.—In  
15 the case of any change in method of accounting for  
16 the taxpayer's first taxable year beginning after De-  
17 cember 31, 2014, which—

18 (A) is required by the amendments made  
19 by this section, or

20 (B) which was prohibited under the Inter-  
21 nal Revenue Code of 1986 prior to such amend-  
22 ments and is permitted under such section after  
23 such amendments,

1 such change shall be treated as initiated by the tax-  
2 payer and made with the consent of the Secretary of  
3 the Treasury.

4 **SEC. \_\_52. REPEAL OF SPECIAL RULES FOR METHOD OF AC-**  
5 **COUNTING FOR CORPORATIONS ENGAGED IN**  
6 **FARMING.**

7 (a) IN GENERAL.—Part II of subchapter E of chap-  
8 ter 1 is amended by striking section 447 (and by striking  
9 the item relating to such section in the table of sections  
10 for such part).

11 (b) CONFORMING AMENDMENTS.—

12 (1) Paragraphs (1)(B) and (3)(B) of section  
13 263A(d), as amended by section \_\_51, are each  
14 amended by striking “447 or”.

15 (2) Section 354(a)(2) is amended by striking  
16 subparagraph (C) and by inserting the following new  
17 subparagraphs:

18 “(C) NONQUALIFIED PREFERRED  
19 STOCK.—Nonqualified preferred stock (as de-  
20 fined in section 351(g)(2)) received in exchange  
21 for stock other than nonqualified preferred  
22 stock (as so defined) shall not be treated as  
23 stock or securities.

24 “(D) RECAPITALIZATIONS OF FAMILY-  
25 OWNED CORPORATIONS.—



1           deficiency may be assessed before the expi-  
2           ration of such 3-year period notwith-  
3           standing the provisions of any other law or  
4           rule of law which would otherwise prevent  
5           such assessment.

6           “(iv) CORPORATION DESCRIBED.—A  
7           corporation is described in this clause if at  
8           least 50 percent of the total combined vot-  
9           ing power of all classes of stock entitled to  
10          vote, and at least 50 percent of all other  
11          classes of stock of the corporation, are  
12          owned by members of the same family.

13          “(v) MEMBERS OF THE SAME FAM-  
14          ILY.—For purposes of this subpara-  
15          graph—

16                 “(I) the members of the same  
17                 family are an individual, such individ-  
18                 ual’s brothers and sisters, the broth-  
19                 ers and sisters of such individual’s  
20                 parents and grandparents, the ances-  
21                 tors and lineal descendants of any of  
22                 the foregoing, a spouse of any of the  
23                 foregoing, and the estate of any of the  
24                 foregoing,

1                   “(II) stock owned, directly or in-  
2                   directly, by or for a partnership or  
3                   trust shall be treated as owned pro-  
4                   portionately by its partners or bene-  
5                   ficiaries, and

6                   “(III) if 50 percent or more in  
7                   value of the stock in a corporation  
8                   (hereinafter in this paragraph referred  
9                   to as ‘first corporation’) is owned, di-  
10                  rectly or through subclause (II), by or  
11                  for members of the same family, such  
12                  members shall be considered as own-  
13                  ing each class of stock in a second  
14                  corporation (or a wholly owned sub-  
15                  sidiary of such second corporation)  
16                  owned, directly or indirectly, by or for  
17                  the first corporation, in that propor-  
18                  tion which the value of the stock in  
19                  the first corporation which such mem-  
20                  bers so own bears to the value of all  
21                  the stock in the first corporation.

22                  For purposes of subclause (I), individuals  
23                  related by the half blood or by legal adop-  
24                  tion shall be treated as if they were related  
25                  by the whole blood.”.

1 (3) Section 4972(c)(6) is amended by striking  
2 “section 447(e)(1)” and inserting “section  
3 354(a)(2)(D)(v)(I)”.

4 (c) EFFECTIVE DATE.—

5 (1) IN GENERAL.—The amendments made by  
6 this section shall apply to taxable years beginning  
7 after December 31, 2014.

8 (2) CHANGE IN METHOD OF ACCOUNTING.—In  
9 the case of any change in method of accounting for  
10 the taxpayer's first taxable year beginning after De-  
11 cember 31, 2014, which—

12 (A) is required by the amendments made  
13 by this section, or

14 (B) which was prohibited under the Inter-  
15 nal Revenue Code of 1986 prior to such amend-  
16 ments and is permitted under such section after  
17 such amendments,

18 such change shall be treated as initiated by the tax-  
19 payer and made with the consent of the Secretary of  
20 the Treasury.

21 **SEC. 53. MODIFICATION OF RULES FOR CAPITALIZATION**  
22 **AND INCLUSION IN INVENTORY COSTS OF**  
23 **CERTAIN EXPENSES.**

24 (a) GROSS RECEIPTS EXCEPTION TO APPLY TO ALL  
25 PROPERTY PRODUCED OR ACQUIRED BY RESALE BY THE

1 TAXPAYER.—Section 263A(b) is amended by striking all  
2 that follows paragraph (1) and inserting the following new  
3 paragraphs:

4           “(2) PROPERTY ACQUIRED FOR RESALE.—Real  
5 or personal property described in section 1221(a)(1)  
6 which is acquired by the taxpayer for resale.

7           “(3) EXCEPTION FOR TAXPAYER WITH GROSS  
8 RECEIPTS LESS THAN APPLICABLE AMOUNT.—If the  
9 average annual gross receipts of the taxpayer for the  
10 3-taxable year period ending with the taxable year  
11 preceding the taxable year referred to in subpara-  
12 graph (A) or (B) (as the case may be) do not exceed  
13 the applicable dollar amount in effect under section  
14 448(b) for the taxable year—

15           “(A) paragraph (1) shall not apply to any  
16 property produced by the taxpayer during the  
17 taxable year, and

18           “(B) paragraph (2) shall not apply to any  
19 property acquired during the taxable year by  
20 the taxpayer for resale.

21 For purposes of this paragraph, rules similar to the  
22 rules of paragraphs (2), (3), and (4) of section  
23 448(b) shall apply.

24           “(4) FILMS, SOUND RECORDINGS, BOOKS,  
25 ETC.—For purposes of this subsection, the term

1 'tangible personal property' shall include a film,  
2 sound recording, video tape, book, or similar prop-  
3 erty.'".

4 (b) EFFECTIVE DATE.—

5 (1) IN GENERAL.—The amendments made by  
6 this section shall apply to taxable years beginning  
7 after December 31, 2014.

8 (2) CHANGE IN METHOD OF ACCOUNTING.—In  
9 the case of any taxpayer required by the amend-  
10 ments made by this section to change its method of  
11 accounting for its first taxable year beginning after  
12 December 31, 2014—

13 (A) such change shall be treated as initi-  
14 ated by the taxpayer, and

15 (B) such change shall be treated as made  
16 with the consent of the Secretary of the Treas-  
17 ury.

18 **SEC. 54. UNIFICATION OF DEDUCTION FOR START-UP**

19 **AND ORGANIZATIONAL EXPENDITURES.**

20 (a) IN GENERAL.—Subsections (a) and (b) of section  
21 195 are each amended by inserting “and organizational”  
22 after “start-up” each place it appears.

23 (b) ORGANIZATIONAL EXPENDITURES.—Subsection  
24 (c) of section 195 is amended by adding at the end the  
25 following new paragraph:



1           “(3) ORGANIZATIONAL EXPENDITURES.—The  
2 term ‘organizational expenditures’ means any ex-  
3 penditure which—

4                   “(A) is incident to the creation of a cor-  
5 poration or a partnership,

6                   “(B) is chargeable to capital account, and

7                   “(C) is of a character which, if expended  
8 incident to the creation of a corporation or a  
9 partnership having an ascertainable life, would  
10 be amortizable over such life.”.

11       (c) DOLLAR AMOUNTS.—Clause (ii) of section  
12 195(b)(1)(A) is amended—

13           (1) by striking “\$5,000” and inserting  
14 “\$10,000”, and

15           (2) by striking “\$50,000” and inserting  
16 “\$60,000”.

17       (d) AMORTIZATION OF REMAINDER OF START-UP  
18 AND ORGANIZATIONAL EXPENDITURES.—Subparagraph  
19 (B) of section 195(b)(1), as amended by subsection (a),  
20 is amended to read as follows:

21                   “(B) the remainder of such start-up and  
22 organizational expenditures shall be charged to  
23 capital account and allowed as an amortization  
24 deduction determined by amortizing such ex-  
25 penditures ratably over the 20-year period be-

1           ginning with the midpoint of the taxable year in  
2           which the active trade or business begins.”.

3       (e) CONFORMING AMENDMENTS.—

4           (1) Section 195(b)(1) is amended—

5               (A) by inserting “(or, in the case of a part-  
6               nership, the partnership elects)” after “If a tax-  
7               payer elects”, and

8               (B) by inserting “(or the partnership, as  
9               the case may be)” after “the taxpayer” in sub-  
10              paragraph (A).

11          (2) Section 195(b)(2) is amended—

12               (A) by striking “AMORTIZATION PERIOD.—  
13               In any case” and inserting the following: “AM-  
14               ORTIZATION PERIOD.—

15               “(A) IN GENERAL.—In any case”, and

16               (B) by adding at the end the following new  
17              subparagraph:

18               “(B) SPECIAL PARTNERSHIP RULE.—In  
19               the case of a partnership, subparagraph (A)  
20               shall be applied at the partnership level.”.

21          (3) Section 195(b) is amended by striking para-  
22          graph (3).

23          (4)(A) The heading for section 195 is amended  
24          by inserting “**AND ORGANIZATIONAL**” after  
25          “**START-UP**”.

1 (B) The item relating to section 195 in the  
2 table of sections for part VI of subchapter B of  
3 chapter 1 is amended by inserting “and organiza-  
4 tional” after “start-up”.

5 (5)(A) Part VIII of subchapter B of chapter 1  
6 is amended by striking section 248 (and by striking  
7 the item relating to such section in the table of sec-  
8 tions for such part).

9 (B) Section 170(b)(2)(C)(ii) is amended by  
10 striking “(except section 248)”.

11 (C) Sections 56(g)(4)(D)(ii) and 312(n)(2) (as  
12 redesignated by section \_\_24(e)(5)) are each amend-  
13 ed by striking “Sections 173 and 248” and inserting  
14 “Section 173”.

15 (D) Section 535(b)(3) is amended by striking  
16 “(except section 248)”.

17 (E) Section 545(b)(3) is amended by striking  
18 “(except section 248)”.

19 (F) Section 834(c)(7) is amended by striking  
20 “(except section 248)”.

21 (G) Section 852(b)(2)(C) is amended by strik-  
22 ing “(except section 248)”.

23 (H) Section 857(b)(2)(A) is amended by strik-  
24 ing “(except section 248)”.

1 (I) Section 1363(b) is amended by inserting  
2 “and” at the end of paragraph (2), by striking para-  
3 graph (3), and by redesignating paragraph (4) as  
4 paragraph (3).

5 (J) Section 1375(b)(1)(B)(i) is amended by  
6 striking “(other than the deduction allowed by sec-  
7 tion 248, relating to organization expenditures)”.

8 (6) Part I of subchapter K of chapter 1 is  
9 amended by striking section 709 (and by striking  
10 the item relating to such section in the table of sec-  
11 tions for such part).

12 (f) EFFECTIVE DATE.—The amendments made by  
13 this section shall apply to expenditures paid or incurred  
14 after December 31, 2014.

15 **SEC. \_\_55. CERTAIN METHODS OF DETERMINING INVEN-**  
16 **TORIES NOT TREATED AS CLEARLY REFLECT-**  
17 **ING INCOME.**

18 (a) IN GENERAL.—Section 471, as amended by this  
19 subtitle, is amended by redesignating subsection (d) as  
20 subsection (e) and by inserting after subsection (c) the fol-  
21 lowing new subsection:

22 “(c) CERTAIN METHODS OF DETERMINING INVEN-  
23 TORIES NOT TREATED AS CLEARLY REFLECTING IN-  
24 COME.—The following methods of determining inventories  
25 shall not be treated as clearly reflecting income:

1           “(1) The last-in, first-out method.

2           “(2) The lower of cost or market method.

3           “(3) Any method valuing inventory at a bona  
4 fide selling price.”.

5           (b) CONFORMING AMENDMENTS.—

6           (1) Subpart D of part II of subchapter E of  
7 chapter 1 is amended by striking sections 472, 473,  
8 and 474 (and by striking the items relating to such  
9 sections in the table of sections for such subpart).

10           (2)(A) Section 312(n), as amended by section  
11 \_\_24(e)(5), is amended by striking paragraphs (3)  
12 and (7) and by redesignating paragraphs (4)  
13 through (6) as paragraphs (3) through (5), respec-  
14 tively.

15           (B) Section 56(g)(4)(D) is amended by striking  
16 clause (iii) and by redesignating clause (iv) as clause  
17 (iii).

18           (C) Sections 301(e)(3) and 1503(e)(2)(C), as  
19 amended by section \_\_24(e)(5), are each amended—

20           (i) by striking “paragraph (6)” and insert-  
21 ing “paragraph (5)”, and

22           (ii) by striking “312(n)(6)” in the heading  
23 and inserting “312(n)(5)”.

24           (D) Sections 952(c)(3) and 1293(e)(3), as  
25 amended by section \_\_24(e)(5), are each amended

1 by striking “paragraphs (3), (4), and (5)” and in-  
2 serting “paragraphs (3) and (4).”

3 (3) Section 1363 is amended by striking sub-  
4 section (d).

5 (c) EFFECTIVE DATE.—

6 (1) IN GENERAL.—The amendments made by  
7 this section shall apply to taxable years beginning  
8 after December 31, 2014.

9 (2) CHANGE IN METHOD OF ACCOUNTING.—In  
10 the case of any taxpayer required by the amend-  
11 ments made by this section to change its method of  
12 accounting for its first taxable year beginning after  
13 December 31, 2014—

14 (A) such change shall be treated as initi-  
15 ated by the taxpayer,

16 (B) such change shall be treated as made  
17 with the consent of the Secretary of the Treas-  
18 ury, and

19 (C) if the net amount of the adjustments  
20 required to be taken into account by the tax-  
21 payer under section 481 of the Internal Rev-  
22 enue Code of 1986 is positive, such amount  
23 shall be taken into account over a period of 8  
24 years beginning with such first taxable year.

1 **SEC. 56. APPLICATION OF PERCENTAGE OF COMPLETION**  
2 **METHOD TO CERTAIN LONG-TERM CON-**  
3 **TRACTS.**

4 (a) REPEAL OF SPECIAL TREATMENT FOR HOME  
5 CONSTRUCTION CONTRACTS.—

6 (1) IN GENERAL.—Paragraph (1) of section  
7 460(e) is amended to read as follows:

8 “(1) IN GENERAL.—Subsections (a), (b), and  
9 (c)(1) and (2) shall not apply to any construction  
10 contract entered into by a taxpayer—

11 “(A) who estimates (at the time such con-  
12 tract is entered into) that such contract will be  
13 completed within the 2-year period beginning on  
14 the contract commencement date of such con-  
15 tract, and

16 “(B) whose average annual gross receipts  
17 for the 3 taxable years preceding the taxable  
18 year in which such contract is entered into do  
19 not exceed the applicable dollar amount in ef-  
20 fect under section 448(b) for the taxable year.

21 For purposes of subparagraph (B), rules similar to  
22 the rules of paragraphs (2), (3), and (4) of section  
23 448(b) shall apply.”.

24 (2) CONFORMING AMENDMENTS.—

25 (A) Section 460(b)(3) is amended by strik-  
26 ing “rules of subsections (e)(2) and” and in-

1           serting “rules of paragraphs (2), (3), and (4) of  
2           section 448(b) and subsection”.

3           (B) Section 460(e) is amended by striking  
4           paragraphs (2), (3), (5), and (6) and by redesi-  
5           gnating paragraph (4) as paragraph (2).

6           (C) Section 56(a) is amended by striking  
7           paragraph (3).

8           (b) REPEAL OF EXCEPTIONS FOR CERTAIN SHIP  
9           CONTRACTS.—

10           (1) IN GENERAL.—Sections 10203(b)(2)(B) of  
11           the Revenue Act of 1987 (Public Law 100–203),  
12           5041(e)(1)(C) of the Technical and Miscellaneous  
13           Revenue Act of 1988 (Public Law 100–647), and  
14           7621(d)(3) of the Omnibus Budget Reconciliation  
15           Act of 1989 (Public Law 101–239) are repealed.

16           (2) APPLICATION TO NAVAL SHIP CON-  
17           TRACTS.—Section 708 of the American Jobs Cre-  
18           ation Act of 2004 (Public Law 108–357) is repealed.

19           (c) EFFECTIVE DATE.—The amendments made by  
20           this section shall apply to contracts entered into after De-  
21           cember 31, 2014.