Here are the New Business Tax Changes

The New Tax Reform Bill Passed by Congress Was Indeed Largely Business Oriented Reform

Here is a brief summary of the changes in business taxes that Congress recently passed.

**DEPRECIATION:** Repeals accelerated depreciation on new investments scheduled to go into effect in 1985 and 1986. This will raise $1.5 billion in 1985, increasing to $9.9 billion in 1986 and $18.4 billion in 1987.

The value of the investment tax credit will be reduced. For example, companies eligible for a 10 percent investment credit under current law have to either (1) reduce depreciation from 100 percent of the cost of the asset to 95 percent, or (2) reduce the value of the credit to 8 percent. In addition, companies will be allowed to use investment tax credits to eliminate up to 85 percent of tax liabilities instead of the current maximum of 90 percent.

**CORPORATE TAX LEASING:** Safe-harbor leasing—the sale of corporate tax credits and depreciation—is repealed effective Jan. 1, 1984. Rules governing traditional leasing are liberalized.

**CORPORATE TAX PREFERENCES:** Six corporate tax preferences are cut by 15 percent, including those resulting from Domestic International Sales Corporations, coal and iron depletion, bad debt reserves in excess of past needs, and interest on financing the debt to buy tax-exempt obligations. Breaks for mineral exploration and development and intangible drilling costs are reduced.

**MERGERS AND ACQUISITIONS:** Some of the tax incentives resulting from mergers and acquisitions are reduced or eliminated. These changes reduce tax avoidance tactics using stock redemptions and partial liquidations.

**CONSTRUCTION:** Corporations will have to amortize interest and taxes on nonresidential construction over 10 years, instead of taking immediate deductions.

Tax deferrals currently available under completed contract type of accounting, particularly those in the defense and aerospace industries, will be cut back severely. All contractors with 3-year average annual volume of under $25 million or whose jobs last less than three years will be exempted.

**LIFE INSURANCE:** The use of subsidiaries and other related corporations by life insurance companies to shelter income from certain high tax rates is eliminated.

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