TITLE __—BUSINESS PROVISIONS

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Subtitle A—Rules Relating to Deductions for Capital Expenditures

PART I—EXPENSING

SEC. 01. MODIFICATION AND PERMANENT EXTENSION OF SECTION 179 RULES.

(a) Extension and Increase.—

(1) Extension for 2014.—

(A) In general.—Section 179(b) is amended—

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

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

(B) Treatment of computer software.—Section 179(d)(1)(A)(ii) is amended by striking “2014” and inserting “2015”.

(2) Increase after 2014.—

(A) Dollar limitation.—Section 179(b)(1), as amended by paragraph (1), is amended by striking “shall not exceed” and all that follows and inserting “shall not exceed $1,000,000.”.
(B) REDUCTION IN LIMITATION.—Section 179(b)(2), as amended by paragraph (1), is amended by striking “exceeds—” and all that follows and inserting “exceeds $2,000,000.”.

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

“(6) INFLATION ADJUSTMENT.—

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

“(i) such dollar amount, multiplied by

“(ii) the cost-of-living adjustment determined under section 1(f)(3) for the calendar year in which the taxable year begins, by substituting ‘2014’ for ‘1992’ in subparagraph (B) thereof.

“(B) ROUNDING.—The amount of any increase under subparagraph (A) shall be rounded to the nearest multiple of $100,000.”.

(b) PERMANENT EXTENSION OF ELECTION.—Section 179(e)(2) is amended by striking “and before 2014”.

(c) EXPANSION TO INCLUDE CERTAIN AMORTIZED EXPENDITURES AND OTHER PROPERTY.—
1 (1) IN GENERAL.—Subsection (a) of section 179 is amended to read as follows:

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

3 "(1) in the case of any section 179 expenditure which is for section 179 property, in the taxable year in which the section 179 property is placed in service, and

4 "(2) in the case of any other section 179 expenditure, in the taxable year in which such expenditure is paid or incurred.”.

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

6 "(1) SECTION 179 EXPENDITURE.—

7 "(A) IN GENERAL.—For purposes of this section, the term ‘section 179 expenditure’ means—

8 "(i) the cost of any section 179 property,

9 "(ii) research and experimental expenditures (within the meaning of section 174),
“(iii) advertising expenditures (as defined in section 177), but only to the extent that a deduction is not allowed for such expenses under section 177(b), and “(iv) qualified extraction expenditures (as defined in section 193).
“(B) SECTION 179 PROPERTY.—The term ‘section 179 property’ means property—“(i) which is—“(I) tangible property (to which section 168 applies), or “(II) computer software described in section 168(b)(2)(B), “(ii) which is section 1245 property (as defined in section 1245(a)(3)), and “(iii) which is acquired by purchase for use in the active conduct of a trade or business.”.
(3) COORDINATION WITH AMORTIZATION RULES.—Section 179(d) is amended by adding on at the end the following new paragraph: “(11) COORDINATION WITH CERTAIN AMORTIZATION PROVISIONS.—The amount taken into account under sections 174, 177(e), and 193 with respect to any expenditure for which an election is
made under this section shall be reduced by the amount taken into account under subsection (a) with respect to such expenditure.”.

(4) CONFORMING AMENDMENTS.—

(A) Section 179(b)(2) is amended by striking “the cost of section 179 property placed in service during the taxable year” and inserting “the amount of section 179 expenditures which would be taken into account under subsection (a) for such taxable year but for this paragraph”.

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

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

(d) REPEAL OF TREATMENT OF QUALIFIED DISASTER ASSISTANCE PROPERTY AND QUALIFIED REAL PROPERTY.—Section 179 is amended by striking subsections (e) and (f).

(e) EFFECTIVE DATES.—

(1) IN GENERAL.—Except as provided in paragraph (2), the amendments made by this section
shall apply to taxable years beginning after December 31, 2014.

(2) 2013 EXTENSION.—The amendments made by subsections (a)(1), (b), and (d) shall apply to taxable years beginning after December 31, 2013.

SEC. 02. REPEAL OF CERTAIN SPECIALIZED EXPENSING PROVISIONS.

(a) IN GENERAL.—Part VI of subchapter B of chapter 1 is amended by striking the following sections:

(1) 179A.

(2) 179B.

(3) 179C.

(4) 179D.

(5) 179E.

(b) CONFORMING AMENDMENTS.—

(1) Section 30C(e) is amended to read as follows:

“(e) QUALIFIED ALTERNATIVE FUEL VEHICLE REFUELING PROPERTY.—

“(1) IN GENERAL.—For purposes of this section, the term ‘qualified alternative fuel vehicle refueling property’ means any property (not including a building and its structural components) if—

“(A) such property—
“(i) is of a character subject to the allowance for depreciation, and
“(ii) is not installed on property which is used as the principal residence (within the meaning of section 121) of the taxpayer,
“(B) the original use of such property begins with the taxpayer, and
“(C) such property is—
“(i) for the storage or dispensing of a clean-burning fuel into the fuel tank of a motor vehicle propelled by such fuel, but only if the storage or dispensing of the fuel is at the point where such fuel is delivered into the fuel tank of the motor vehicle, or
“(ii) for the recharging of motor vehicles propelled by electricity, but only if the property is located at the point where the motor vehicles are recharged.
“(2) CLEAN BURNING FUEL.—For purposes of paragraph (1), the term ‘clean-burning fuel’ means any of the following:
“(A) Any fuel at least 85 percent of the volume of which consists of one or more of the following: ethanol, natural gas, compressed nat-
ural gas, liquified natural gas, liquefied petroleum gas, or hydrogen.

“(B) Any mixture—

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

“(ii) at least 20 percent of the volume of which consists of biodiesel (as so defined) determined without regard to any kerosene in such mixture.

“(C) Electricity.

“(3) MOTOR VEHICLE.—For purposes of paragraph (1), the term ‘motor vehicle’ means any vehicle which is manufactured primarily for use on public streets, roads, and highways (not including a vehicle operated exclusively on a rail or rails) and which has at least 4 wheels.”.

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

(3) Section 62(a) is amended by striking paragraph (14).

(4) Section 263(a)(1) is amended by inserting “and” at the end of subparagraph (F), by striking the comma at the end of subparagraph (G) and in-
serting a period, and by striking subparagraphs (H) through (L).

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

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

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

(c) EFFECTIVE DATES.—

(1) IN GENERAL.—Except as provided in paragraphs (2) and (3), the amendments made by this section shall apply to property placed in service after December 31, 2013.

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

(3) DEDUCTION FOR COSTS TO COMPLY WITH SULFUR REGULATIONS.—The amendment made by subsection (a)(2), and the related amendments made by paragraphs (2), (4), (5), and (6) of subsection (b), shall apply to expenses paid or incurred after the date of the enactment of this Act.
SEC. 03. REPEAL OF CERTAIN OTHER DEDUCTIONS.

(a) Repeal of Deduction for Expenditures by Farmers for Fertilizer, etc.—

(1) In general.—Part VI of subchapter B of chapter 1 is amended by striking section 180.

(2) Conforming amendments.—

(A) Section 263(a)(1), as amended by section __02(b)(4), is amended by striking subparagraph (D) and by redesignating subparagraphs (E), (F), and (G) as subparagraphs (D), (E), and (F), respectively.

(B) The table of sections for part VI of subchapter B of chapter 1 is amended by striking the item relating to section 180.

(b) Repeal of Treatment of Certain Qualified Film and Television Productions.—

(1) In general.—Part VI of subchapter B of chapter 1 is amended by striking section 181.

(2) Conforming amendment.—The table of sections for part VI of subchapter B of chapter 1 is amended by striking the item relating to section 181.

(c) Repeal of Deduction for Expenditures to Remove Architectural and Transportation Barriers to the Handicapped and Elderly.—
(1) IN GENERAL.—Part VI of subchapter B of chapter 1 is amended by striking section 190.

(2) CONFORMING AMENDMENTS.—

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

“(d) IMPAIRMENT-RELATED WORK EXPENSES.—

“(1) IN GENERAL.—For purposes of this section, the term ‘impairment-related work expenses’ means expenses—

“(A) of a handicapped individual for attendant care services at the individual’s place of employment and other expenses in connection with such place of employment which are necessary for such individual to be able to work, and

“(B) with respect to which a deduction is allowable under section 162 (determined without regard to this section).

“(2) HANDICAPPED INDIVIDUAL.—For purposes of paragraph (1)(A), the term ‘handicapped individual’ means any individual who has a physical or mental disability (including, but not limited to, blindness or deafness) which for such individual constitutes or results in a functional limitation to employment, or who has any physical or mental impair-
ment (including, but not limited to, a sight or hearing impairment) which substantially limits one or more major life activities of such individual.’’.

(B) Section 263(a)(1), as amended by section __02(b)(4) and subsection (a)(2)(A), is amended by striking subparagraph (D) and by redesignating subparagraphs (E) and (F) as subparagraphs (D) and (E), respectively.

(C) The table of sections for part VI of subchapter B of chapter 1 is amended by striking the item relating to section 190.

(d) **Repeal of Certain Deductions With Respect to Reforestation Expenditures.**—

(1) **In General.**—Part VI of subchapter B of chapter 1 is amended by striking section 194.

(2) **Conforming Amendments.**—

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

(B) Section 1245(b) is amended by striking paragraph (7) and by redesignating paragraph (8) as paragraph (7).

(C) The table of sections for part VI of subchapter B of chapter 1 is amended by striking the item relating to section 194.

(e) **Effective Date.**—
(1) IN GENERAL.—Except as provided in paragraph (2), the amendments made by this subsection shall apply to expenditures paid or incurred in taxable years beginning after December 31, 2014.

(2) QUALIFIED FILM AND TELEVISION PRODUCTIONS.—The amendments made by subsection (b) shall apply to productions commencing after December 31, 2013.

PART II—DEPRECIATION

SEC. 11. POOLED ASSET COST RECOVERY SYSTEM AND DEPRECIATION OF REAL PROPERTY.

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

“SEC. 168. DEPRECIATION FOR TANGIBLE PROPERTY.

“(a) GENERAL RULE.—Except as otherwise provided in this section, the depreciation deduction provided by section 167(a) for any section 168 property shall be determined—

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

“(2) in the case of straight-line property, as provided in subsection (g).
“(b) SECTION 168 PROPERTY.—For purposes of this section—

“(1) SECTION 168 property.—

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

“(i) pooled property, and

“(ii) straight line property.

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

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

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

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

“(A) any tangible property (other than any personal use passenger automobile) which is classified under subsection (e) as pooled prop-
“(B) any computer software (as defined in section 197(e)(3)(B)) that is not an amortizable section 197 intangible.

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

“(A) any tangible property which is classified under subsection (c) as real property, and

“(B) any personal use passenger automobile.

“(c) CLASSIFICATION AND ASSIGNMENT OF TANGIBLE PROPERTY.—

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

“(2) ASSIGNMENT OF POOLED PROPERTY.—

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

“(i) Pool 1.

“(ii) Pool 2.

“(iii) Pool 3.


“(B) SPECIAL RULE FOR ASSETS USED OUTSIDE THE UNITED STATES.—For purposes of subsection (a)(1), pooled property which is
used predominantly outside the United States shall be treated as assigned to a pool described in subparagraph (A) which is separate from the pool to which property not used predominantly outside the United States is assigned.

“(3) ASSIGNMENT AND CLASSIFICATION.—

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

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

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

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

“(iii) for purposes of making any re-classification or reassignment under clauses (i) or (ii), modify asset classes described in Revenue Procedure 87-56 or create new asset classes.
“(C) CRITERIA FOR MODIFICATION.—Any reclassification or reassignment under subparagraph (B) shall be made—

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

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

“(D) PUBLICATION AND NOTIFICATION.—In any case in which the Secretary makes a reclassification or reassignment of property pursuant to subparagraph (B), the Secretary shall publish a schedule reflecting the appropriate classification and assignment of all section 168 property.

“(E) TREATMENT UNDER CONGRESSIONAL REVIEW ACT.—For purposes of applying chapter 8 of title 5, United States Code, any reclassification or reassignment under subparagraph (B) shall be treated as a major rule.

“(F) STUDY.—

“(i) IN GENERAL.—The Secretary, in consultation with the Secretary of Commerce, shall conduct an on-going study
analyzing the number of asset pools, the
appropriate applicable rate for asset pools,
the assignment of pooled assets to asset
pools, and the method and recovery period
for assets classified as real property under
paragraph (1).

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

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

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

“(i) Any asset treated under Revenue
Procedure 87-56 as belonging to one of the
following asset classes: 00.12, 00.13,
00.22, or 49.121.
“(ii) Any asset which is computer software described in subsection (b)(2)(B).

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

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

“(ii) Any asset which—

“(I) is treated as belonging to asset class 22.3 under Revenue Procedure 87-56, and

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

“(iii) Any qualified rent-to-own property (as defined in section 168(i)(14), as in effect for taxable years beginning in 2014).
“(iv) Any tree or vine bearing fruit or nuts (within the meaning of section 168(e)(3)(D)(ii), as in effect for taxable years beginning in 2014).

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

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

“(ii) Any asset which—

“(I) is treated as belonging to asset class 22.3 under Revenue Procedure 87-56, and

“(II) is used in the manufacture of carpets.
“(iii) Any personal property not assigned a class life under Revenue Procedure 87-56.

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

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

“(ii) Any real property that is section 1245 property (as defined under section 1245, as in effect for taxable years beginning in 2014) and that is not otherwise assigned a class life under Revenue Procedure 87-56.

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

“(E) REAL PROPERTY.—The following assets shall be classified as real property:
“(i) Any asset treated under Revenue Procedure 87-56 as belonging to one of the following asset classes: 01.3, 01.4, 40.2, 48.11, 49.11, 49.12, 49.13, 49.15, 49.221, 49.222, 49.223, 49.23, 49.25, 49.5, or 50.0.

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

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

“(iv) Any qualified second generation biofuel plant property (as defined in section 168(l)(2), as in effect for taxable years beginning in 2014).

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

“(d) APPLICABLE RATE.—For purposes of subsection (a)(1)—

“(1) IN GENERAL.—Except as provided in paragraphs (2) and (3), the applicable rate is—
“(A) in the case of assets in pool 1, 38 percent, 
“(B) in the case of assets in pool 2, 18 percent, 
“(C) in the case of assets in pool 3, 12 percent, and 
“(D) in the case of assets in pool 4, 5 percent.

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

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

“(e) DETERMINATION OF ASSET POOL BALANCES.—

“(1) IN GENERAL.—The balance of any asset pool for any taxable year shall be the adjusted balance of such asset pool as of the close of the preceding taxable year (as determined under paragraph (2))—
“(A) increased as provided in paragraph (3), and
“(B) decreased as provided in paragraph (4).

“(2) ADJUSTED BALANCE.—For purposes of paragraph (1), the adjusted balance of any asset pool as of the close of any preceding taxable year shall be the balance of such pool for such taxable year (determined without regard to this paragraph)—

“(A) decreased by the amount of any deduction allowed under subsection (a)(1) with respect to such pool for the taxable year, and
“(B) increased as provided in subsection (f)(3).

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

“(A) in the case of the first taxable year beginning after December 31, 2014, the adjusted basis of any pooled property—
“(i) held by the taxpayer on the first day of such taxable year, and
“(ii) assigned to such asset pool,
“(B) except as provided in subparagraph (C), the adjusted basis of any pooled property placed in service by the taxpayer during the taxable year and assigned to such asset pool, and

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

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

“(ii) chargeable to capital account, and

“(iii) placed in service during the taxable year.

“(4) SUBTRACTIONS FROM BALANCE.—

“(A) IN GENERAL.—The balance with respect to any asset pool shall be reduced by—

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

“(ii) except as provided in subparagraph (B), the gross proceeds from the disposition or transfer during the taxable year of any asset assigned to such pool.
“(B) Special rule for leasebacks and dispositions to related parties and tax shelters.—

“(i) In general.—In the case of any specified property—

“(I) the amount of the reduction under subparagraph (A)(ii) shall not exceed the recomputed basis with respect to such asset, and

“(II) the excess of the fair market value of such asset over the recomputed basis shall be treated as gain from section 1245 property which is pooled property for purposes of section 1245.

“(ii) Recomputed basis.—For purposes of clause (i), the recomputed basis with respect to any asset is the excess of—

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

over

“(II) the amount of deductions which would have been allowed with
respect to such asset (including additions and improvements) under this section before the date of the disposition or transfer determined as if such asset were the only property assigned to its asset pool.

“(iii) SPECIFIED PROPERTY.—For purposes of this paragraph, the term ‘specified property’ means—

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

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

“(iv) RELATED PERSON.—For purposes of this subparagraph—

“(I) IN GENERAL.—A person (hereinafter in this clause referred to as the ‘related person’) is related to any person if the related person bears a relationship to such person described in section 267(b) or 707(b)(1) or the related person and such persons are engaged in a trade or busi-
ness under common control (within the meaning of subparagraphs (A) and (B) of section 41(f)(1)). A person shall be treated as related to another person if such relationship exists immediately before or immediately after the acquisition of the property involved.

“(II) Exception.—Notwithstanding subclause (I), a corporation shall not be treated as related to any person if such corporation files a consolidated return under section 1502 with such person.

“(v) Tax shelter.—The term ‘tax shelter’ has the meaning given such term under section 461(i)(3).

“(f) Treatment of Asset Pools With Negative Balances.—In the case of any asset pool with a balance of less than zero as of the close of any taxable year—

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

“(2) the amount of such balance which is less than zero shall be treated as gain from section 1245
property which is pooled property for purposes of section 1245, and

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

“(g) DEPRECIATION FOR STRAIGHT LINE PROPERTY.—

“(1) IN GENERAL.—Except as provided in paragraph (5), in the case of straight line property, the depreciation deduction determined under this section shall be the amount determined by using—

“(A) the straight line method (without regard to salvage value),

“(B) the mid-month convention, and

“(C) the applicable recovery period determined under paragraph (3).

“(2) MID-MONTH CONVENTION.—For purposes of paragraph (1)(B), the mid-month convention is a convention which treats all property placed in service during any month (or disposed of during any month) as placed in service (or disposed of) on the mid-point of such month.
“(3) APPLICABLE RECOVERY PERIOD.—For purposes of paragraph (1)(C), the applicable recovery period is—

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

“(B) in the case of any personal use passenger automobile, 5 years.

“(4) TREATMENTS OF ADDITIONS OR IMPROVEMENTS TO PROPERTY.—In the case of any addition to (or improvement of) any property to which this subsection applies—

“(A) any deduction under subsection (a) for such addition or improvement shall be computed in the same manner as the deduction for such property would be computed if such property had been placed in service at the same time as such addition or improvement, and

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

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

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

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

“(1) PERSONAL USE PASSENGER AUTOMO-
BILE.—

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

“(B) PASSENGER AUTOMOBILE.—
“(i) IN GENERAL.—The term ‘passenger automobile’ means any 4-wheeled vehicle—

“(I) which is manufactured primarily for use on public streets, roads, and highways, and

“(II) which is rated at 6,000 pounds unloaded gross vehicle weight or less.

In the case of a truck or van, subclause (II) shall be applied by substituting ‘gross vehicle weight’ for ‘unloaded gross vehicle weight’.

“(ii) EXCEPTION FOR CERTAIN VEHICLES.—The term ‘passenger automobile’ shall not include—

“(I) any ambulance, hearse, or combination ambulance-hearse used by the taxpayer directly in a trade or business,

“(II) any vehicle used by the taxpayer directly in the trade or business of transporting persons or property for compensation or hire, and
“(III) under regulations, any
truck or van.

“(2) CONVERSION OF PROPERTY TO PERSONAL
USE.—

“(A) IN GENERAL.—In the case of any
property which is converted to property the
business use percentage of which is less than 50
percent, such property shall be treated as dis-
posed of by the taxpayer at the fair market
value of such property on the day of such con-
version.

“(B) EXCEPTION FOR CONVERSION TO
PRINCIPAL RESIDENCE.—This subparagraph
shall not apply to so much of the portion of any
property which is converted to use as a prin-
cipal residence.

“(3) BUSINESS USE PERCENTAGE.—

“(A) IN GENERAL.—The term ‘business
use percentage’ means the percentage of the
use of any property during any taxable year
which is a qualified business use.

“(B) QUALIFIED BUSINESS USE.—Except
as provided in subparagraph (C), the term
‘qualified business use’ means any use in a
trade or business of the taxpayer.
“(C) Exception for certain use by 5-percent owners and related persons.—
The term ‘qualified business use’ shall not include—

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

“(ii) use of property provided as compensation for the performance of services by a 5-percent owner or related person, or

“(iii) use of property provided as compensation for the performance of services by any person not described in clause (ii) unless an amount is included in the gross income of such person with respect to such use, and, where required, there was withholding under chapter 24.

“(D) Definitions.—For purposes of this paragraph—

“(i) 5-percent owner.—The term ‘5-percent owner’ means any person who is a 5-percent owner with respect to the taxpayer (as defined in section 416(i)(1)(B)(i)).

“(ii) Related person.—For purposes of this paragraph, rules similar to
the rules of subsection (e)(4)(B)(iv) shall apply.

“(4) TREATMENT OF CERTAIN TRANSFERREES.—

“(A) IN GENERAL.—In the case of any asset transferred in a transaction described in subparagraph (B), the transferee shall be treated as the transferor for purposes of computing the depreciation deduction determined under this section with respect to—

“(i) in the case of straight line property, so much of the adjusted basis of the asset in the hands of the transferee as does not exceed the adjusted basis in the hands of the transferor, and

“(ii) in the case of pooled property, so much of the balance of the asset pool to which the asset is assigned as is determined by the Secretary under regulations.

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

“(i) any transaction described in section 332, 351, 361, 721, or 731, and
“(ii) any transaction between members of the same affiliated group during any taxable year for which a consolidated return is made by such group.

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

“(5) Treatment of Leasehold Improvements.—

“(A) In General.—In the case of any building erected (or additions or improvements made) on leased property, if such building or improvement is property to which this section applies, the depreciation deduction shall be determined under the provisions of this section.

“(B) Cross Reference.—For treatment of qualified long-term real property constructed or improved in connection with cash or rent reduction from lessor to lessee, see section 110(b).”.

(b) Technical Amendments Relating to Implementation of Pooled Asset Cost Recovery System.—

(1) Treatment of Computer Software.—

Section 167(f) is amended by striking paragraph (1)
and redesignating paragraphs (2) and (3) as paragraphs (1) and (2), respectively.

(2) Charitable contributions of pooled property.—Section 170(e) is amended by adding at the end the following new paragraph:

“(8) Determination of basis in pooled property.—In any case in which a determination under this subsection requires a calculation of basis with respect to pooled property (as defined in section 168(b)(2)), the adjusted basis of such property shall be determined by using the recomputed basis for such property (determined as provided in section 168(e)(4)(B)(ii)).”.

(3) Treatment of assets after discharge of indebtedness.—

(A) In general.—Subparagraph (E) of section 108(b)(2) is amended to read as follows:

“(E) Basis and asset pool reductions.—

“(i) Basis reduction.—The basis of the property of the taxpayer (other than property assigned to an asset pool under section 168).

“(ii) Asset pool reduction.—The balance of any asset pool of the taxpayer
to which an asset is assigned under section 168.

“(iii) CROSS REFERENCE.—For provisions for making the reductions described in clauses (i) and (ii), see section 1017.”.

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

(i) by inserting “or, in the case of an asset assigned to an asset pool under section 168, the balance of such asset pool” in subparagraph (A) after “of the taxpayer”, and

(ii) by striking “the aggregate adjusted bases of the depreciable property of the taxpayer” in subparagraph (B) and inserting “the sum of the aggregate balances of the asset pools of the taxpayer under section 168 and the aggregate adjusted bases of the depreciable property of the taxpayer not assigned to such pools”.

(C) QUALIFIED REAL PROPERTY BUSINESS INDEBTEDNESS.—Subparagraph (A) of section 108(c)(1) is amended by striking “the basis of the depreciable property of the taxpayer” and inserting “the balance of any asset pool of the
taxpayer to which an asset is assigned under section 168 and the basis of any depreciable property of the taxpayer not assigned to such a pool”.

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

(i) in subsection (a)—

(I) by striking “basis” in paragraph (2) and inserting “the basis of any property or the balance of any asset pool under section 168”, and

(II) by striking “in reduction of” and all that follows in the matter following paragraph (2) and inserting “in reduction of the basis of property held by the taxpayer at the beginning of the taxable year following the taxable year in which the discharge occurs and the reduction of the asset pool balances of the taxpayer in such year”, and

(ii) in subsection (b)—

(I) by inserting “the particular asset pools which are to be reduced,”
after “subsection (a)),” in paragraph (1),

(II) by adding at the end of paragraph (1) the following new sentence: “Such regulations shall provide that the amount of reductions applied to any asset pool of the taxpayer shall be the amount that bears the same ratio to the total amount of reductions under subsection (a) as the balance of such asset pool bears to the sum of the balance of all of the asset pools of the taxpayer and the bases of all property of the taxpayer which is not held in an asset pool and to which bases reductions apply under this section.”,

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

(IV) by inserting “the sum of the balance of the asset pools of the taxpayer (determined as if the taxable year ended immediately after the discharge) and” before “the aggregate” in paragraph (2)(A),
(V) by inserting “in property which is not pooled property (as defined in section 168(b)(2))” after “to reduce basis” in paragraph (3)(A), and

(VI) by striking paragraph (4).

(4) DETERMINATION OF EARNING AND PROFITS.—Subsection (k) of section 312 is amended to read as follows:

“(k) RULES RELATING TO EFFECT OF DEPRECIATION ON EARNINGS AND PROFITS.—

“(1) TREATMENT OF AMOUNTS DEDUCTIBLE UNDER SECTION 179.—For purposes of computing the earnings and profits of a corporation, any amount deductible under section 179 shall be allowed as a deduction ratably over a period of 5 taxable years (beginning with the taxable year for which such amount is deductible under section 179).

“(2) BASIS ADJUSTMENT NOT TAKEN INTO ACCOUNT.—In computing earnings and profits of a corporation for any taxable year, the allowance for depreciation (and amortization, if any) shall be computed without regard to any basis adjustment under section 50(c).”.

(5) INVOLUNTARY CONVERSIONS.—
(A) IN GENERAL.—Section 1033 is amend-
ed—

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

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

“(f) SPECIAL RULE FOR POOLED PROPERTY.—

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

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

“(B) if an asset pool of the taxpayer under
section 168 would not have a balance of less
than zero but for the compulsory or involuntary
conversion (as a result of its destruction in
whole or in part, theft, seizure, or requisition or
condemnation or threat or imminence thereof)
of an asset assigned to such asset pool, then, at
the election of the taxpayer, no gain shall be
recognized with respect to such asset pool be-
fore the date described in subsection (a)(2)(B).
“(2) Transition rule for certain assets converted prior to 2015.—

“(A) In general.—If—

“(i) any pooled property (as so defined) was compulsorily or involuntarily converted into money or into property not similar or related in service or use in a taxable year beginning before January 1, 2015,

“(ii) the period described in subsection (a)(2)(B) with respect to such converted property has not expired before the last day of the taxpayer’s last taxable year beginning before January 1, 2015, and

“(iii) the taxpayer has not purchased other property similar or related in service or use to the property so converted, or purchased stock in the acquisition of control of a corporation owning such other property, on or before such last day,

then the balance of the asset pool to which such converted property would be assigned shall be decreased by the amount of money or the basis of the other property on the first day of the taxpayer’s first taxable year beginning on or
after January 1, 2015, and paragraph (1)(B) shall apply as if such decrease in balance were due to the compulsory or involuntary conversion of an asset assigned to such pool.

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

(B) MODIFICATION TO RULES RELATING TO DISASTERS.—Subsection (c) of section 1033, as redesignated by subparagraph (A), is amended by striking paragraph (2) and by redesignating paragraphs (3) and (4) as paragraphs (2) and (3), respectively.

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

(e) CONFORMING AMENDMENTS.—

(1) Section 43(c)(5) is amended—

(A) by striking “(as defined in section 168(i)(16) (determined without regard to subparagraph (B) thereof)” in subparagraph (A), and

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

“(C) ALASKA NATURAL GAS PIPELINE.—

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

(2) Section 45A(e)(7) is amended to read as follows:

“(7) INDIAN RESERVATION DEFINED.—The term ‘Indian reservation’ means a reservation, as defined in—

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


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

(3) Section 47(c)(2) is amended—
(A) by striking clause (i) of subparagraph (A) and inserting the following:

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

(B) in subparagraph (B)—

(i) by striking clause (i) and redesignating clauses (ii) through (vi) as clauses (i) through (v), respectively,

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

(iii) by striking “the recovery period determined under section 168(e)” in clause (v) (as redesignated by clause (i)) and inserting “43 years”, and

(C) by striking subparagraph (D).

(4)(A) Section 50(b)(1)(B) is amended by inserting “(as in effect on the day before the date of the enactment of the ___ Act)” after “168(g)(4)”.

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

(i) by striking “168(h)(2)(C)” and inserting “470(f)(2)(C)”,

(ii) by striking “168(h)(2)(A)(iii)” and inserting “470(f)(2)(A)(iii)”, and
(iii) by striking “168(h)(2)(B)” and inserting “470(f)(2)(B)”.

(C) Section 50(b) is amended—

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

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

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

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

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

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

“(I) which is part of the same transaction (or series of related transactions) which includes the lease, and

“(II) which is with respect to the property subject to the lease or substantially similar property, and

“(iii) 2 or more successive leases which are part of the same transaction (or
a series of related transactions) with respect to the same or substantially similar property shall be treated as 1 lease.

“(B) Special rule for fair rental options on nonresidential real property or residential rental property.—For purposes of clause (i) of subparagraph (A), in the case of nonresidential real property or residential rental property, there shall not be taken into account any option to renew at fair market value, determined at the time of renewal.

“(C) Residential rental property; nonresidential real property.—For purposes of subparagraph (B)—

“(i) Residential rental property.—The term ‘residential rental property’ means any property which is classified as real property under section 168(c) if 80 percent or more of the gross rental income from such real property for the taxable year is rental income from dwelling units.

“(ii) Nonresidential real property.—The term ‘nonresidential real
property’ means section 1250 property which is not residential rental property.

“(iii) Definitions.—For purposes of clause (i)—

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

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

(D) Section 50(b)(4)(D) is amended by inserting “(as in effect on the day before the date of the enactment of the ___ Act)” after “168(h)”.

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

(5) Section 56 is amended—

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

(B) by striking subsection (g)(4)(A).
(6) Section 110 is amended—

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

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

(7) Section 142 is amended—

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

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

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

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

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

(11) Section 197(f)(10) is amended—

(A) by striking “subsection (h) of section
168” and inserting “subsection (f) of section
470 (determined as if rules similar to the rules
of section 168(h)(5) (as in effect for taxable
years beginning in 2014) applied”, and
B) by striking “168(i)(3)” and inserting “50(b)(5)”.

(12) Section 199(c) is amended—

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

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

(13) Section 263A is amended—

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

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

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

“(ii) property classified as real property under section 168(e)(1).”.

(14) Section 404(a)(1)(C) is amended by striking “services described in section 168(i)(10)(C)” and inserting “telephone services (or other communication services if furnished or sold by the Communications Satellite Corporation for purposes authorized by the Communications Satellite Act of 1962 (47 U.S.C. 701))”.

(15) Section 460 is amended—

A) by striking subsection (e)(6), and
(B) by striking “168(h)(2)(D)” in subsection (d)(2) and inserting “470(f)(2)(D)”.

(16) Section 467 is amended—

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

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

<table>
<thead>
<tr>
<th>“In the case of:”</th>
<th>The statutory recovery period is:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property assigned to pool 1 or personal use passenger automobiles</td>
<td>3 years</td>
</tr>
<tr>
<td>Property assigned to pool 2</td>
<td>7 years</td>
</tr>
<tr>
<td>Property assigned to pool 3</td>
<td>11 years</td>
</tr>
<tr>
<td>Property assigned to pool 4 or property classified as real property under section 168(c)(1)</td>
<td>20 years.</td>
</tr>
</tbody>
</table>

(17)(A) Section 470 is amended—

(i) by striking subsection (c) and inserting the following:

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

“(1) the sum of—

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

“(B) the aggregate deductions for interest properly allocable to such property, exceed
“(2) the aggregate income from such property.”,

(ii) by redesignating subsections (f) and (g) as subsections (g) and (h), respectively, and

(iii) by inserting after subsection (e) the following new subsection:

“(f) Tax-exempt Use Property.—

“(1) In general.—For purposes of this section—

“(A) Property other than nonresidential real property.—Except as otherwise provided in this subsection, the term ‘tax-exempt use property’ means that portion of any specified property (other than nonresidential real property) leased to a tax-exempt entity.

“(B) Nonresidential real property.—

“(i) In general.—In the case of nonresidential real property, the term ‘tax-exempt use property’ means that portion of the property leased to a tax-exempt entity in a disqualified lease.

“(ii) Disqualified lease.—For purposes of this subparagraph, the term ‘disqualified lease’ means any lease of the
property to a tax-exempt entity, but only if—

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

“(II) under such lease there is a fixed or determinable purchase price or sale option which involves such entity (or a related entity) or there is the equivalent of such an option,

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

“(IV) such lease occurs after a sale (or other transfer) of the property by, or lease of the property from, such entity (or a related entity) and such property has been used by such entity (or a related entity) before such sale (or other transfer) or lease.

“(iii) 35-PERCENT THRESHOLD TEST.—Clause (i) shall apply to any property only if the portion of such property
leased to tax-exempt entities in disqualified leases is more than 35 percent of the property.

“(iv) TREATMENT OF IMPROVEMENTS.—For purposes of this subparagraph, improvements to a property (other than land) shall not be treated as a separate property.

“(v) LEASEBACKS DURING 1ST 3 MONTHS OF USE NOT TAKEN INTO ACCOUNT.—Subclause (IV) of clause (ii) shall not apply to any property which is leased within 3 months after the date such property is first used by the tax-exempt entity (or a related entity).

“(C) SPECIFIED PROPERTY.—For purposes of subparagraph (A), the term ‘specified property’ means—

“(i) any tangible property,

“(ii) any section 197 intangible property (as defined in section 197),

“(iii) any property described in section 167(f), and

“(iv) any property described in section 168(b)(2)(B).
“(D) Exception where property used in unrelated trade or business.—The term ‘tax-exempt use property’ shall not include any portion of a property if such portion is predominantly used by the tax-exempt entity (directly or through a partnership of which such entity is a partner) in an unrelated trade or business the income of which is subject to tax under section 511. For purposes of subparagraph (B)(iii), any portion of a property so used shall not be treated as leased to a tax-exempt entity in a disqualified lease.

“(E) Nonresidential real property defined.—For purposes of this paragraph, the term ‘nonresidential real property’ has the meaning given such term under section 50(b)(5)(C)(ii), except that such term shall include residential rental property (as defined under section 50(b)(5)(C)(i)).

“(2) Tax-exempt entity.—

“(A) In general.—For purposes of this subsection, the term ‘tax-exempt entity’ means—

“(i) the United States, any State or political subdivision thereof, any possession
of the United States, or any agency or instrumentality of any of the foregoing,

“(ii) an organization (other than a cooperative described in section 521) which is exempt from tax imposed by this chapter,

“(iii) any foreign person or entity, and

“(iv) any Indian tribal government described in section 7701(a)(40).

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

“(B) Exception for Certain Property Subject to United States Tax and Used by Foreign Person or Entity.—Clause (iii) of subparagraph (A) shall not apply with respect to any property if more than 50 percent of the gross income for the taxable year derived by the foreign person or entity from the use of such property is—

“(i) subject to tax under this chapter,

or

“(ii) included under section 951 in the gross income of a United States share-
holder for the taxable year with or within which ends the taxable year of the controlled foreign corporation in which such income was derived.

For purposes of the preceding sentence, any exclusion or exemption shall not apply for purposes of determining the amount of the gross income so derived, but shall apply for purposes of determining the portion of such gross income subject to tax under this chapter.

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

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

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

Such term does not include any foreign partnership or other foreign pass-thru entity.

“(D) TREATMENT OF CERTAIN TAXABLE INSTRUMENTALITIES.—For purposes of this subsection, a corporation shall not be treated as
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an instrumentality of the United States or of any State or political subdivision thereof if—

“(i) all of the activities of such corporation are subject to tax under this chapter, and

“(ii) a majority of the board of directors of such corporation is not selected by the United States or any State or political subdivision thereof.

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

“(i) IN GENERAL.—For purposes of this subsection, an organization shall be treated as an organization described in subparagraph (A)(ii) with respect to any property (other than property held by such organization) if such organization was an organization (other than a cooperative described in section 521) exempt from tax imposed by this chapter at any time during the 5-year period ending on the date such property was first used by such organization. The preceding sentence and subparagraph (D)(ii) shall not apply to the Federal Home Loan Mortgage Corporation.
“(ii) ELECTION NOT TO HAVE CLAUSE

(I) APPLY. —

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

“(II) TAX-EXEMPT USE PERIOD. — For purposes of subclause (I),
the term ‘tax-exempt use period’
means the period beginning with the
taxable year in which the property de-
dcribed in subclause (I) is first used
by the organization and ending with
the close of the 15th taxable year fol-
lowing the last taxable year of the ap-
plicable recovery period of such prop-
erty.
“(III) ELECTION.—Any election under subclause (I), once made, shall be irrevocable.

“(iii) TREATMENT OF SUCCESSOR ORGANIZATIONS.—Any organization which is engaged in activities substantially similar to those engaged in by a predecessor organization shall succeed to the treatment under this subparagraph of such predecessor organization.

“(iv) FIRST USED.—For purposes of this subparagraph, property shall be treated as first used by the organization—

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

“(II) in the case of property leased to (or held by) a partnership (or other pass-thru entity) in which the organization is a member, the later of when such property is first used by such partnership or pass-thru entity or when such organization is first a member of such partnership or pass-thru entity.
“(3) RELATED ENTITIES.—For purposes of this subsection—

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

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

“(B) Any entity not described in subparagraph (A)(i) is related to any other entity if the 2 entities have—

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

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

“(C)(i) An entity is related to another entity if either entity owns (directly or through 1 or more entities) a 50 percent or greater interest in the capital or profits of the other entity.
“(ii) For purposes of clause (i), entities treated as related under subparagraph (A) or (B) shall be treated as 1 entity.

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

“(4) Tax-exempt use of property leased to partnerships, etc., determined at partner level.—For purposes of this subsection—

“(A) In general.—In the case of any property which is leased to a partnership, the determination of whether any portion of such property is tax-exempt use property shall be made by treating each tax-exempt entity partner’s proportionate share of such property as being leased to such partner.

“(B) Other pass-thru entities; tiered entities.—Rules similar to the rules of subparagraph (A) shall also apply in the case of any pass-thru entity other than a partnership and in the case of tiered partnerships and other entities.

“(C) Presumption with respect to foreign entities.—Unless it is otherwise es-
established to the satisfaction of the Secretary, it shall be presumed that the partners of a foreign partnership (and the beneficiaries of any other foreign pass-thru entity) are persons who are not United States persons.

“(D) Determination of proportionate share.—

“(i) In general.—For purposes of subparagraph (A), a tax-exempt entity’s proportionate share of any property owned by a partnership shall be determined on the basis of such entity’s share of partnership items of income or gain (excluding gain allocated under section 704(c)), whichever results in the largest proportionate share.

“(ii) Determination where allocations vary.—For purposes of clause (i), if a tax-exempt entity’s share of partnership items of income or gain (excluding gain allocated under section 704(c)) may vary during the period such entity is a partner in the partnership, such share shall be the highest share such entity may receive.
“(E) TREATMENT OF CERTAIN TAXABLE ENTITIES.—

“(i) IN GENERAL.—For purposes of this paragraph, except as otherwise provided in this subparagraph, any tax-exempt controlled entity shall be treated as a tax-exempt entity.

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

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

“(II) any gain recognized by a tax-exempt entity on any disposition of an interest in such entity (and any dividend or interest received or accrued by a tax-exempt entity from such tax-exempt controlled entity) shall be treated as unrelated business taxable income for purposes of section 511.

Any such election shall be irrevocable and shall bind all tax-exempt entities holding interests in such tax-exempt controlled en-
tity. For purposes of subclause (II), there shall only be taken into account dividends which are properly allocable to income of the tax-exempt controlled entity which was not subject to tax under this chapter.

“(iii) Tax-exempt controlled entity.—

“(I) In general.—The term ‘tax-exempt controlled entity’ means any corporation (which is not a tax-exempt entity determined without regard to this subparagraph and paragraph (2)(E)) if 50 percent or more (in value) of the stock in such corporation is held by 1 or more tax-exempt entities (other than a foreign person or entity).

“(II) Only 5-percent shareholders taken into account in case of publicly traded stock.—For purposes of subclause (I), in the case of a corporation the stock of which is publicly traded on an established securities market, stock held by a tax-exempt entity shall not be taken
into account unless such entity holds at least 5 percent (in value) of the stock in such corporation. For purposes of this subclause, related entities (within the meaning of paragraph (3)) shall be treated as 1 entity.

“(III) SECTION 318 TO APPLY.—For purposes of this clause, a tax-exempt entity shall be treated as holding stock which it holds through application of section 318 (determined without regard to the 50-percent limitation contained in subsection (a)(2)(C) thereof).

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

“(A) IN GENERAL.—The term ‘lease’ includes any grant of a right to use property.

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

“(6) REGULATIONS.—The Secretary shall prescribe such regulations as may be necessary or appropriate to carry out the purposes of this subsection.”.

(B) Section 470(d)(4) is amended—
(i) by striking subparagraph (A) and inserting the following:

“(A) of section 168 property other than—

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

“(ii) any personal use passenger automobile (as defined in section 168(h)(1)), and”, and

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

(C) Section 470(g)(2), as redesignated by subparagraph (A)(ii), is amended by striking “168(i)(3)” and inserting “50(b)(5)”.


(19) Section 514(c)(9) is amended—

(A) in subparagraph (B)(vi)—

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

(ii) by striking “subparagraph (E)” in subclause (III) and inserting “subparagraph (F)”, and
(B) by redesignating subparagraphs (E) through (H) as subparagraphs (F) through (I), respectively, and by inserting after subparagraph (D) the following new subparagraph:

"(E) QUALIFIED ALLOCATION.—

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

“(I) is consistent with such entity’s being allocated the same distributive share of each item of income, gain, loss, deduction, credit, and basis and such share remains the same during the entire period the entity is a partner in the partnership, and

“(II) has substantial economic effect within the meaning of section 704(b)(2).

For purposes of this clause, items allocated under section 704(e) shall not be taken into account."
“(ii) REGULATIONS.—For purposes of determining whether there is a qualified allocation under clause (i), the Secretary—

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

“(II) may prescribe regulations that provide for the exclusion or segregation of items.”.

(20) Section 527(i)(3)(D) is amended by striking “168(h)(4)” and inserting “470(f)(3)”.

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

(22) Section 865(c)(3)(B) is amended by inserting “(as in effect on the day before the date of the enactment of the ____ Act)” after “168(g)(4)”.

(23) Section 936(i)(4)(B) is amended—

(A) by striking “which is 3-year or 5-year property” in clause (ii) and inserting “which is assigned to pool 1 or which is a personal use passenger automobile”, and
(B) by striking “which is 7-year or 10-year property” in clause (iii) and inserting “which is assigned to pool 2”.

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

(25) Section 1397C(d)(2)(A) is amended by inserting “(as in effect on the day before the date of the enactment of the ____ Act)” after “168(e)(2)”.

(26) Section 1397D(a)(1) is amended by inserting “(as such sections were in effect on the day before the date of the enactment of the ____ Act)” after “179)”.

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

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

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

(28) Section 1400J(b)(1) is amended by inserting “(as such sections were in effect on the day before the date of the enactment of the ____ Act)” after “179)”.

(29) Section 1400N is amended—
(A) in subsection (a)(4)(B)(ii), by inserting
“(as in effect on the day before the date of the
enactment of the ____ Act)” after
“168(i)(10)”, and

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

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

(30) Section 1400U-3(e) is amended—

(A) in paragraph (1), by inserting “(as
such sections were in effect on the day before
the date of the enactment of the ____ Act)”
after “179)”, and

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

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

(32) Section 6050V(d)(3)(B) is amended by
striking “168(h)(2)(A)(iv)” and inserting
“470(f)(2)(A)(iv)”.
(33) Section 7701(e)(4)(A) is amended by striking “168(h)” in the last sentence thereof and inserting “470(f)”.

(34) Section 7871(f)(3)(B) is amended by striking “168(j)(6)” and inserting “45A(c)(7)”.

(35) The table of sections for part VI of subchapter B of chapter 1 is amended by striking the item relating to section 168 and inserting the following:

“Sec. 168. Depreciation for tangible property.”

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

SEC. 12. RULES RELATED TO TREATMENT OF GAINS FROM DEPRECIABLE PROPERTY.

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

“(a) GENERAL RULE.—

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

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

“(i) the depreciation adjustments in respect of such property (as defined in section 1250(b)), or

“(ii) the excess (if any) of—

“(I) the amount realized (in the case of a sale, exchange, or involuntary conversion) or the fair market value of such property (in the case of any other disposition), over

“(II) the adjusted basis of such property,

shall be treated as gain which is ordinary income.

“(B) PERSONAL USE PASSENGER AUTOMOBILES.—If any section 1245 property which is a personal use passenger automobile is disposed of, the amount described in subparagraph (A)(ii) shall be treated as gain which is ordinary income.

“(C) RECOGNITION.—Any amount treated as ordinary income under subparagraph (A) or
(B) shall be recognized notwithstanding any other provision of this subtitle.

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

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

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

(b) REAL PROPERTY.—

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

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

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

“(2) the excess (if any) of—

“(A) the amount realized (in the case of a sale, exchange, or involuntary conversion) or
the fair market value of such property (in the case of any other disposition), over

“(B) the adjusted basis of such property, shall be treated as gain which is ordinary income. Such gain shall be recognized notwithstanding any other provision of this subtitle.

“(b) DEPRECIATION ADJUSTMENTS.—For purposes of this section, the term ‘depreciation adjustments’ means, in respect of any property, all adjustments reflected in the adjusted basis of such property on account of deductions (whether in respect of the same or other property) allowed or allowable to the taxpayer or to any other person for exhaustion, wear and tear, obsolescence, or amortization. For purposes of the preceding sentence, if the taxpayer can establish by adequate records or other sufficient evidence that the amount allowed as a deduction for any period was less than the amount allowable, the amount taken into account for such period shall be the amount allowed.

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

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

(A) Subparagraph (E) of 1250(d)(4) is amended—
(i) by striking “additional depreciation” and inserting “depreciation adjustments”, and

(ii) by striking “ADDITIONAL DEPRECIATION” in the heading and inserting “DEPRECIATION ADJUSTMENTS”.

(B) Paragraph (5) of section 1250(d) is amended by striking subparagraph (B) and inserting the following:

“(B) ADJUSTMENTS ADDED BACK.—In respect of any property described in subparagraph (A), the depreciation adjustments attributable to periods before the distribution by the partnership shall be—

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

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

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

(D) Section 1250 is amended by striking subsections (e) and (f) and by redesignating
subsections (g) and (h) as subsections (e) and (f), respectively.

(c) CONFORMING AMENDMENTS.—

(1) Section 1(h) is amended—

(A) in paragraph (1), by inserting “and” and the end of subparagraph (D), by striking subparagraph (E), and by redesignating subparagraph (F) as subparagraph (E),

(B) by striking “reduced” and all that follows in paragraph (3)(A) and inserting “reduced (but not below zero) by 28-percent rate gain, plus”, and

(C) by striking paragraph (6).

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

“(4) RECAPTURE OF REDUCTIONS.—For purposes of section 1245(a)(2) and 1250, any reduction under this section shall be treated as a deduction for depreciation.”.

(3) Section 55(b)(3) is amended—

(A) by striking “the lesser” and all that follows in subparagraph (A) and inserting “the net capital gain (or, if less, the adjusted net capital gain), plus”,
(B) by striking “, plus” at the end of sub-
paragraph (D) and inserting a period, and
(C) by striking subparagraph (E).

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

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

(6) Section 291 is amended—
(A) in subsection (a), by striking para-
graph (1),
(B) by striking subsection (d), and
(C) by striking subsection (e)(2).

(7) Section 512(b)(3)(A) is amended—
(A) by striking “(including property de-
scribed in section 1245(a)(3)(C))” in clause (i),
and
(B) by inserting “as in effect on the day
before the date of the enactment of the Act” after “section 1245(a)(3)(B)” in clause
(ii).
(8) Clause (iii) of section 911(f)(2)(A) is amended by striking “, unrecaptured section 1250 gain,”.

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

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

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

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

(10) Paragraph (3) of section 1400B(e) is amended by striking “if section 1250 applied to all depreciation rather than the additional depreciation”.

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

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2014.
SEC. 13. LIMITATION ON DEPRECIATION OF PERSONAL
USE PASSENGER AUTOMOBILES.

(a) In General.—Section 280F is amended to read as follows:

"SEC. 280F. LIMITATION ON DEPRECIATION FOR PERSONAL
USE PASSENGER AUTOMOBILES.

"(a) In General.—The amount of the depreciation deduction for any personal use passenger automobile (as defined in section 168(h)(1)) with respect to any taxpayer for any taxable year shall not exceed $45,000 reduced by the amount of depreciation deduction taken into account by such taxpayer with respect to such personal use passenger automobile in all preceding taxable years.

"(b) Related Persons.—For purposes of this section, all persons who are related persons (as defined in section 168(e)(4)(B)(iv)) shall be treated as one taxpayer.

"(c) Coordination With Section 179.—Any deduction allowable under section 179 with respect to any personal use passenger automobile shall be subject to the limitation of subsection (a)."

(b) Effective Date.—The amendments made by this section shall apply to taxable years beginning after December 31, 2014.
SEC. 14. LIMITATION ON DEPRECIATION TO PROPERTY PREDOMINANTLY USED IN A TRADE OR BUSINESS.

(a) In General.—Section 167 is amended by redesignating subsection (i) as subsection (j) and by inserting after subsection (h) the following new subsection:

“(i) Mixed-use Property.—

“(1) In General.—For purposes of subsection (a)—

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

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

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

“(ii) the percentage of the use of such property which is not in a trade or business.

“(2) Business Use Percentage.—The term ‘business use percentage’ has the meaning given such term under section 168(h)(3).
“(3) Deductions of Employee.—

“(A) In General.—Any employee use of listed property shall not be treated as use in a trade or business for purposes of determining the amount of any depreciation deduction allowable to the employee (or the amount of any deduction allowable to the employee for rentals or other payments under a lease of listed property) unless such use is for the convenience of the employer and required as a condition of employment.

“(B) Employee Use.—For purposes of subparagraph (A), the term ‘employee use’ means any use in connection with the performance of services as an employee.

“(C) Listed Property.—

“(i) In General.—Except as provided in clause (ii), the term ‘listed property’ means—

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

“(II) any other property used as a means of transportation,
“(III) any property of a type generally used for purposes of entertainment, recreation, or amusement,

“(IV) any computer or peripheral equipment, and

“(V) any other property of a type specified by the Secretary by regulations.

“(ii) Exception for certain computers.—The term ‘listed property’ shall not include any computer or peripheral equipment used exclusively in the taxpayer’s trade or business and owned or leased by the person operating such trade or business. For purposes of the preceding sentence, a computer used in a dwelling unit shall not be treated as used exclusively in a taxpayer’s trade or business unless the requirements of section 280A(c)(1) are met with respect to the portion of such dwelling unit in which the computer is located.

“(iii) Exception for property used in business of transporting persons or property.—Except to the
extent provided in regulations, subclause (II) of clause (i) shall not apply to any property substantially all of the use of which is in a trade or business of providing to unrelated persons services consisting of the transportation of persons or property for compensation or hire.

"(D) COMPUTER OR PERIPHERAL EQUIPMENT DEFINED.—For purposes of this paragraph—

"(i) IN GENERAL.—The term 'computer or peripheral equipment' means—

"(I) any computer, and

"(II) any related peripheral equipment.

"(ii) COMPUTER.—The term ‘computer’ means a programmable electronically activated device which—

"(I) is capable of accepting information, applying prescribed processes to the information, and supplying the results of these processes with or without human intervention, and

"(II) consists of a central processing unit containing extensive stor-
age, logic, arithmetic, and control capabilities.

“(iii) Related peripheral equipment.—The term ‘related peripheral equipment’ means any auxiliary machine (whether on-line or off-line) which is designed to be placed under the control of the central processing unit of a computer.

“(iv) Exceptions.—The term ‘computer or peripheral equipment’ shall not include—

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

“(II) typewriters, calculators, adding and accounting machines, copiers, duplicating equipment, and similar equipment, and

“(III) equipment of a kind used primarily for amusement or entertainment of the user.

“(4) Regulations.—The Secretary shall prescribe such regulations as necessary to carry out the purposes of this subsection, including rules relating to property which is not consistently treated as used
in a trade or business under paragraph (1) over a period of 2 or more taxable years.”.

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

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

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

(3) The table of sections for part IX of subchapter B of chapter 1 is amended by striking the item relating to section 280F and inserting the following:

“Sec. 280F. Limitation on depreciation for personal use passenger automobiles.”.

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

SEC. _15. REPEAL OF LIKE-KIND EXCHANGES.

(a) IN GENERAL.—Part III of subchapter O of chapter 1 is amended by striking section 1031.

(b) CONFORMING AMENDMENTS.—

(1) Section 83(g) is amended by striking “(or so much of section 1031 that relates to section 1036)”.
(2) Section 121(d) is amended by striking paragraph (10).

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

(4) Section 453(f)(6) is amended—

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

(B) by striking “section 1031(b)” in subparagraph (B) and inserting “section 356(a)”,

(C) by striking the last sentence, and

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

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

(6) Section 470(e)(4) is amended—

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

(B) by striking “exchanged or” in subparagraph (A)(i),
(C) by striking “section 1031 or 1033” in subparagraph (B) and inserting “section 1033”, and

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

(7) Section 501(c)(12)(G) is amended by striking “section 1031 or 1033” and inserting “section 1033”.

(8) Section 704(c) is amended—

(A) by striking paragraph (2) and redesignating paragraph (3) as paragraph (2), and

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

(9) Section 857(e)(2) is amended by striking subparagraph (B) and by redesignating subparagraphs (C) and (D) as subparagraphs (B) and (C), respectively.

(10) Section 1035(d) is amended to read as follows:

“(d) OTHER RULES.—

“(1) GAIN FROM EXCHANGES NOT SOLELY IN KIND.—If an exchange would be within the provisions of subsection (a), of section 1036(a), or of section 1037(a), if it were not for the fact that the
property received in exchange consists not only of property permitted by such provisions to be received without the recognition of gain, but also of other property or money, then the gain, if any, to the recipient shall be recognized, but in an amount not in excess of the sum of such money and the fair market value of such other property.

“(2) Loss from exchanges not solely in kind.—If an exchange would be within the provisions of subsection (a), of section 1036(a), or of section 1037(a), if it were not for the fact that the property received in exchange consists not only of property permitted by such provisions to be received without the recognition of gain or loss, but also of other property or money, then no loss from the exchange shall be recognized.

“(3) Basis.—If property was acquired in an exchange described in this section, section 1036(a), or section 1037(a), then the basis shall be the same as that of the property exchanged, decreased in the amount of any money received by the taxpayer and increased in the amount of gain or decreased in the amount of loss to the taxpayer that was recognized on such exchange. If the property so acquired consisted in part of the type of property permitted by
this section, section 1036(a), or section 1037(a), to be received without the recognition of gain or loss, and in part of other property, the basis provided in this subsection shall be allocated between the properties (other than money) received, and for the purpose of the allocation there shall be assigned to such other property an amount equivalent to its fair market value at the date of the exchange. For purposes of this section and section 1036(a), where as part of the consideration to the taxpayer another party to the exchange assumed (as determined under section 357(d)) a liability of the taxpayer, such assumption shall be considered as money received by the taxpayer on the exchange.”.

(11) Section 1036(c) is amended—

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

and

(B) by striking “subsection (d) of section 1031” in paragraph (2) and inserting “paragraph (3) of section 1035”.

(12) Section 1037 is amended—

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

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

(D) by striking “subsection (d) of section 1031” in subsection (c)(2) and inserting “paragraph (3) of section 1035”.

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

(14) Section 1245(b)(4) is amended—

(A) by striking “1031 or”, and

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

(15) Section 1250(d)(4) is amended—

(A) by striking “1031 or” each place it appears in subparagraphs (A) and (E), and

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

(16) Section 2032A(e)(14) is amended—
(A) by inserting “as in effect on the day before the enactment of the ___ Act” after “1031” each place it appears in subparagraph (C)(i) and (C)(ii), and

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

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

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

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

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

SEC. 16. ELECTION TO USE FINANCIAL STATEMENT PLACED IN SERVICE DATE.

(a) In General.—Section 7701 is amended by redesignating subsection (p) as subsection (q) and by inserting after subsection (o) the following new subsection:

“(p) PLACED IN SERVICE DATE.—

“(1) In General.—At the election of the taxpayer, property shall be treated as placed in service
on the date such property is considered placed in
service for purposes of an audited financial state-
ment of the taxpayer which—

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

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

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

“(ii) for credit purposes.

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

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

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

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

(b) CONFORMING AMENDMENTS RELATED TO POL-
lution Control Facilities.—
(1) Section 56(a) is amended by striking paragraph (5).

(2) Section 291, as amended by section 12(c)(6), is amended by striking subsections (a)(4) and (e).

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

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

PART III—AMORTIZATION AND DEPLETION

SEC. 21. INTANGIBLE PROPERTY.

(a) SECTION 197 INTANGIBLES.—

(1) INCREASE IN AMORTIZATION PERIOD.—

(A) IN GENERAL.—Section 197(a) is amended by striking “15-year period” and inserting “20-year period”.

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

(2) INCLUSION OF MORTGAGE SERVING RIGHTS.—

(A) IN GENERAL.—Section 197(d)(1) is amended by striking “and” at the end of sub-
paragraph (E), by striking the period at the end of subparagraph (F) and inserting “; and”, and by adding at the end the following new sub-
paragraph:

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

(B) Conforming amendments.—

(i) Section 197(e) is amended by striking paragraph (6) and by redesig-
nating paragraph (7) as paragraph (6).

(ii) Section 167(f), as amended by section prev.(b)(1), is amended to read as follows:

“(f) Certain interests or rights acquired separately.—If a depreciation deduction is allowable under subsection (a) with respect to any property de-
scribed in subparagraph (B), (C), or (D) of section 197(e)(4), such deduction shall be computed in accordance with regulations prescribed by the Secretary. If such prop-
erty would be tax-exempt use property as defined in sub-
section (f) of section 470 if such section applied to such property, the useful life under such regulations shall not be less than 125 percent of the lease term (within the meaning of section 50(b)(4)).”.

(3) Repeal of anti-churning rules.—
(A) **IN GENERAL.**—Section 197(f) is amended by striking paragraph (9) and redesignating paragraph (10) as paragraph (9).

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

“(1) **RELATED PARTIES.**—

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

“(B) **RELATED PARTY.**—For purposes of subparagraph (A), a person (hereinafter in this subparagraph referred to as the ‘related person’) is related to any person if—

“(i) the related person bears a relationship to such person specified in section 267(b) or 707(b)(1), or

“(ii) the related person and such person are engaged in trades or businesses under common control (within the meaning of subparagraphs (A) and (B) of section 41(f)(1)).

For purposes of clause (i), in applying section 267(b) or 707(b)(1), ‘20 percent’ shall be substituted for ‘50 percent’.”.

(4) **TRANSITION RULE.**—In the case of any section 197 intangible (as defined in section 197(d) of
the Internal Revenue Code of 1986) acquired before January 1, 2015, the deduction allowed under section 197 of such Code for any taxable year beginning after December 31, 2014, shall be determined by amortizing the adjusted basis of such intangible over a period equal to—

(A) 20 years, reduced by

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

(b) Other Intangibles.—

(1) Modifications to income forecasting method.—

(A) Period taken into account.—Section 167(g) is amended by striking “10th taxable year” and inserting “15th taxable year” each place it appears in the following paragraphs:

(i) Paragraph (1)(A).

(ii) Paragraph (1)(C).

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

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

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

(vi) Paragraph (7)(A).
(B) RECOMPUTATION YEAR.—Paragraph (4) of section 167(g) is amended—

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

(ii) by striking “such 3d or 10th taxable year” and inserting “such 5th, 10th, or 15th taxable year”.

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

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

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

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

“(2) shall apply to amounts paid to facilitate an acquisition of a trade or business, a change in the capital structure of a business entity, and other
transactions described in Treasury Regulation §1.263(a)—5.”.

(c) Effective Date.—

(1) In general.—Except as provided in paragraph (2), the amendments made by this section shall apply to taxable years beginning after December 31, 2014.

(2) Income forecasting modifications.—The amendments made by subsection (b)(1) shall apply to property placed in service after December 31, 2014.

SEC. 22. AMORTIZATION OF RESEARCH AND EXPERIMENTAL EXPENDITURES.

(a) In General.—Section 174 is amended by striking subsections (a) and (b) and inserting the following:

“(a) Allowance of Deduction.—

“(1) In general.—Any research and experimental expenditures paid or incurred by the taxpayer during the taxable year in connection with a trade or business shall be chargeable to capital account and shall be deductible ratably over a 5-year period, determined as if such expenditures were made at the mid-point of the taxable year.

“(2) Inclusion of certain expenditures.—For purposes of this section, the term ‘research and
experimental expenditures’ includes expenditures for
the development of computer software.

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

(b) CONFORMING AMENDMENTS.—

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

(2) Section 56(b)(2) is amended—

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

“(A) IN GENERAL.—The amount allowable
as a deduction under section 173 in computing
the regular tax for amounts paid or incurred
after December 31, 1986, shall be capitalized
and shall be amortized ratably over the 3-year
period beginning with the taxable year in which
the expenditures were made.”,
   (B) by striking subparagraph (D), and
   (C) by striking “AND RESEARCH AND EX-
PERIMENTAL EXPENDITURES” in the heading thereof.
   (3)(A) Section 59(e)(2) is amended by striking
subparagraph (B) and redesignating subparagraphs
(C) through (E) as subparagraphs (B) through (D),
respectively.
   (B) Section 263A(e), as amended by section
_02(b)(5), is amended—
(i) by striking paragraph (2) and redesig-
nating paragraphs (3) through (6) as para-
graphs (2) through (5), respectively, and
(ii) in paragraph (5) (as redesignated by
clause (i))—
   (I) by striking “Paragraphs (2) and
(3)” and inserting “Paragraph (2)”, and
   (II) by striking “(B),”.
   (4) Section 174 is amended by striking sub-
section (f).
   (5) The last sentence of section 864(g)(2) is
amended to read as follows: “Any qualified research
and experimental expenditures shall be taken into
account under this subsection for the taxable year for which such expenditures are allowed as a deduction under section 174.”.

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

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

SEC. 23. TREATMENT OF ADVERTISING EXPENDITURES.

(a) IN GENERAL.—Part VI of subchapter B of chapter 1 is amended by inserting after section 176 the following new section:

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SEC. 177. TREATMENT OF ADVERTISING EXPENDITURES.
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(a) IN GENERAL.—Except as otherwise provided under this title, advertising expenditures of the taxpayer shall be treated as chargeable to capital account and shall be deductible as provided in this section.
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(b) DEDUCTION IN YEAR PAID OR INCURRED.—There shall be allowed as a deduction an amount equal to 50 percent of the advertising expenditures paid or incurred by the taxpayer during the taxable year.
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(c) AMORTIZATION OF REMAINING AMOUNTS.—
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(1) IN GENERAL.—So much of advertising expenditures for which a deduction is not allowable under subsection (b) shall be allowed as an amorti-
zation deduction ratably over a 5-year period beginning with the taxable year in which such expenditures are paid or incurred.

“(2) Treatment of abandoned property.—If any property with respect to which advertising expenditures are paid or incurred is retired, abandoned, or otherwise disposed of during the 5-year period described in paragraph (1), no deduction shall be allowed on account of such retirement, abandonment, or disposition and the amortization deduction under this subsection shall continue with respect to such expenditure.

“(d) Advertising expenditures.—For purposes of this section—

“(1) In general.—The term ‘advertising expenditures’ means any expenditure (whether made internally or externally) paid or incurred for the development, creation, or placement of advertising, or for any similar activity with respect to advertising.

“(2) Exclusion.—The term ‘advertising expenditures’ shall not include—

“(A) any amount paid or incurred with respect to—

“(i) section 168 property (as defined in section 168(b)), or
“(ii) any intangible asset the costs of which are deductible under any provision of this chapter over a period of 5 years or more,

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

“(C) any purchase price adjustments, including discounts, promotional pricing, and rebates, and

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

“(3) ADVERTISING.—The term ‘advertising’ means any message or other programming material which is broadcast or otherwise transmitted, published, displayed, or distributed, and which promotes or markets any trade or business, service, facility, or product. Such term includes messages containing qualitative or comparative language, price information (or other indications of savings or value), an endorsement, or an inducement to purchase, sell, or use any company, service, facility, or product. A single message that contains both advertising and an acknowledgment or other message is advertising.”.
(b) CLERICAL AMENDMENT.—The table of sections for part VI of subchapter B of chapter 1 is amended by inserting after the item relating to section 176 the following new item:

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

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

SEC. 24. AMORTIZATION OF CERTAIN OIL, GAS, AND MINING EXPENDITURES.

(a) AMORTIZATION OF OTHER OIL, GAS, AND MINING EXPENDITURES.—Section 193 is amended to read as follows:

"SEC. 193. CERTAIN OIL, GAS, AND MINING EXPENDITURES.

"(a) IN GENERAL.—Any qualified extraction expenditures paid or incurred by the taxpayer during the taxable year in connection with a trade or business shall be chargeable to capital account and shall be deductible ratably over a 5-year period, determined as if such expenditures were made at the mid-point of the taxable year.

"(b) QUALIFIED EXTRACTION EXPENDITURES.—For purposes of this section—

"(1) IN GENERAL.—The term ‘qualified extraction expenditures’ means—

"(A) qualified tertiary injectant expenses,
“(B) any geological and geophysical expenses paid or incurred in connection with the exploration for, or development of, oil or gas,

“(C) any intangible drilling and development costs described in paragraph (3),

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

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

“(2) QUALIFIED TERTIARY INJECTANT EXPENDITURES.—For purposes of this section—

“(A) IN GENERAL.—The term ‘qualified tertiary injectant expenses’ means any cost paid or incurred for any tertiary injectant (other than a hydrocarbon injectant which is recoverable) which is used as a part of a tertiary recovery method.

“(B) HYDROCARBON INJECTANT.—The term ‘hydrocarbon injectant’ includes natural gas, crude oil, and any other injectant which is comprised of more than an insignificant amount of natural gas or crude oil. The term does not include any tertiary injectant which is hydrocarbon-based, or a hydrocarbon-derivative, and which is comprised of no more than an insig-
significant amount of natural gas or crude oil. For purposes of this subparagraph, that portion of a hydrocarbon injectant which is not a hydrocarbon shall not be treated as a hydrocarbon injectant.

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

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

or

“(ii) any other method to provide tertiary enhanced recovery which is approved by the Secretary for purposes of this section.

“(3) INTANGIBLE DRILLING AND DEVELOPMENT COSTS.—Intangible drilling and development costs described in this paragraph are costs described in regulations prescribed by the Secretary under this subtitle corresponding to the regulations which granted the option to deduct as expenses intangible drilling and development costs in the case of oil and gas wells and which were recognized and approved
by the Congress in House Concurrent Resolution 50, Seventy-ninth Congress. Such regulations shall in-
clude intangible drilling and development costs in the case of wells drilled for any geothermal deposit (as defined in section 613(e)(2)).

“(c) Treatment of Abandoned Property.—If any property with respect to which qualified extraction ex-
penditures are paid or incurred is retired, abandoned, or otherwise disposed of during the 5-year period described in subsection (a), no deduction shall be allowed on account of such retirement, abandonment, or disposition and the amortization deduction under this section shall continue with respect to such payment.”.

(b) Repeal of Deduction for Intangible Drilling and Development Costs.—

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

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

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

“(ii) any expenditures paid or in-
curred during the taxable year which are described in section 193(b)(3).”.
(c) TERMINATION OF DEDUCTION FOR DEVELOPMENT EXPENDITURES.—Section 616 is amended by adding at the end the following new subsection:

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

(d) TERMINATION OF DEDUCTION FOR EXPLORATION EXPENDITURES.—Section 617 is amended by adding at the end the following new subsection:

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

(e) GAIN FROM DISPOSITION OF QUALIFIED EXTRACTION EXPENDITURES.—Section 1254(a) is amended by striking “section 263” and inserting “section 193”.

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

(1) IN GENERAL.—Section 59, as amended by section 22(b)(3), is amended by striking subsection (e) and by redesignating subsections (f) through (j) as subsections (e) through (i), respectively.

(2) CONFORMING AMENDMENTS.—

(A) Section 173 is amended—

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

(ii) by striking subsection (b).
(B) Section 263A(c), as amended by section __22(b)(3)(B), is amended by striking paragraph (5).

(C) Section 1016(a) is amended by striking paragraph (20).

(g) CONFORMING AMENDMENTS.—

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

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

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

(4) Section 56 is amended—

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

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

(5)(A) Section 167, as amended by sections __14(a) and __21(b)(1), is amended by striking subsection (h) and by redesignating subsections (i), (j), and (k) as subsection (h), (i), and (j), respectively.

(B) Section 263A(c)(2), as amended by section __02(b)(5) and section __22(b)(3), is amended by striking “167(h),”.
(C) Section 274(d)(4), as amended by section 14(b)(2), is amended by striking “167(i)(3)(C)” and inserting “167(h)(3)(C)”.

(6) Section 263(a)(1)(D), as redesignated by sections 102(b)(4), 103(a)(2)(A), and 103(c)(2)(B), is amended to read as follows:

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

(7) Section 263A(c)(2), as amended by paragraph (5)(B), section 102(b)(5), and section 22(b)(3), is amended by striking “263(c),”

(8) Section 291, as amended by section 12(c)(6) and section 16(b)(2), is amended to read as follows:

“(a) IN GENERAL.—For purposes of this subtitle, in the case of a corporation, the amount allowable as a deduction under this chapter (determined without regard to this section) with respect to any financial institution preference item shall be reduced by 20 percent.

“(b) FINANCIAL INSTITUTION PREFERENCE ITEM.—

“(1) IN GENERAL.—For purposes of this section, the term ‘financial institution preference item’ includes any amount described in paragraph (2).
“(2) Interest on debt to carry tax-exempt obligations acquired after December 31, 1982, and before August 8, 1986.—

“(A) In general.—In the case of a financial institution which is a bank (as defined in section 585(a)(2)), the amount of interest on indebtedness incurred or continued to purchase or carry obligations acquired after December 31, 1982, and before August 8, 1986, the interest on which is exempt from taxes for the taxable year, to the extent that a deduction would (but for this paragraph or section 265(b)) be allowable with respect to such interest for such taxable year.

“(B) Determination of interest allocable to indebtedness on tax-exempt obligations.—Unless the taxpayer (under regulations prescribed by the Secretary) establishes otherwise, the amount determined under subparagraph (A) shall be an amount which bears the same ratio to the aggregate amount allowable (determined without regard to this section and section 265(b)) to the taxpayer as a deduction for interest for the taxable year as—
“(i) the taxpayer’s average adjusted basis (within the meaning of section 1016) of obligations described in subparagraph (A), bears to

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

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

“(D) Application of Subparagraph to Certain Obligations Issued After August 7, 1986.—For application of this paragraph to certain obligations issued after August 7, 1986, see section 265(b)(3). That portion of any obligation not taken into account under paragraph (2)(A) of section 265(b) by reason of paragraph (7) of such section shall be treated for purposes of this section as having been acquired on August 7, 1986.”.

(9)(A) Section 312(n) is amended by striking paragraph (2) and by redesignating paragraphs (3) through (8) as paragraphs (2) through (7), respectively.
(B) Section 312(n)(7), as redesignated by subparagraph (A), is amended—
(i) by striking “paragraphs (4) and (6)” in subparagraph (A) and inserting “paragraph (3) and (5)”, and
(ii) by striking “paragraph (5)” in subparagraph (B) and inserting “paragraph (4)”.
(C) Sections 301(e)(3) and 1503(e)(2)(C) are each amended—
(i) by striking “paragraph (7)” and inserting “paragraph (6)”, and
(ii) by striking “312(n)(7)” in the heading and inserting “312(n)(6)”.
(D) Sections 952(c)(3) and 1293(e)(3) are each amended by striking “paragraphs (4), (5), and (6)” and inserting “paragraphs (3), (4), and (5).”

(10) The table of sections for part IV of subchapter B of chapter 1 is amended by striking the item relating to section 193 and inserting the following:
“Sec. 193. Certain oil, gas, and mining expenditures.”.

(h) Effective Date.—The amendments made by this section shall apply to expenditures paid or incurred in taxable years beginning after December 31, 2014.
SEC. 25. TERMINATION OF PERCENTAGE DEPLETION.

(a) In General.—Section 613 is amended by adding at the end the following new subsection:

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

(b) Oil and Gas Wells.—Section 613A is amended by adding at the end the following new subsection:

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

SEC. 26. AMORTIZATION OF SOIL AND WATER CONSERVATION EXPENDITURES AND ENDANGERED SPECIES RECOVERY EXPENDITURES.

(a) In General.—Subsection (a) of section 175 is amended to read as follows:

“(a) Allowance of Deduction.—In the case of a taxpayer engaged in the business of farming, expenditures paid or incurred by the taxpayer during the taxable year for the purpose of soil or water conservation in respect of land used in farming, or for the prevention of erosion of land used in farming, or for endangered species recovery, shall be chargeable to capital account and shall be deductible ratably over a 28-year period, determined as if such expenditures were made at the mid-point of the taxable year.”.
(b) CONFORMING AMENDMENTS.—

(1) Section 175 is amended—

(A) by striking subsection (b),

(B) by redesignating subsection (c) as subsection (b), and

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

(2) Section 263(a)(1), as amended by sections 102(b)(4), 103(a)(2)(A), 103(c)(2)(B), and 1024(g)(6), is amended by striking subparagraph (C) and by redesignating subparagraphs (D) and (E) as subparagraph (C) and (D), respectively.

(3) Section 1252(a) is amended—

(A) by striking paragraph (1) and inserting the following:

“(1) ORDINARY INCOME.—If farm land is disposed of by the taxpayer, the lower of—

“(A) the aggregate of the deductions allowed under sections 175 (relating to soil and water conservation expenditures) for expenditures made by the taxpayer with respect to the farm land, or

“(B) the excess of—

“(i) the amount realized (in the case of a sale, exchange, or involuntary conver-
sion), or the fair market value of the farm land (in the case of any other disposition), over

“(ii) the adjusted basis of such land,
shall be treated as ordinary income. Such gain shall be recognized notwithstanding any other provision of this subtitle.”,

(B) by striking “or 182 (relating to expenditures by farmers for clearing land)” in paragraph (2), and

(C) by striking paragraph (3).

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

Subtitle B—Accounting Provisions

SEC. 51. LIMITATION ON USE OF CASH METHOD OF ACCOUNTING.

(a) IN GENERAL.—Section 448 is amended to read as follows:

“SEC. 448. LIMITATION ON USE OF CASH METHOD OF ACCOUNTING.

“(a) IN GENERAL.—The cash receipts and disbursements method of accounting may only be used by a taxpayer which meets the gross receipts test of subsection (b)
for the taxable year. Such method may not be used by a tax shelter.

“(b) GROSS RECEIPTS TEST.—For purposes of this section—

“(1) IN GENERAL.—A taxpayer meets the gross receipts test of this subsection for any taxable year if the average annual gross receipts of such taxpayer for the 3-taxable-year period ending with the taxable year which precedes such taxable year does not exceed the applicable dollar amount.

“(2) AGGREGATION RULES.—All persons treated as a single employer under subsection (a) or (b) of section 52 or subsection (m) or (o) of section 414 shall be treated as one person for purposes of paragraph (1).

“(3) SPECIAL RULES FOR COMPUTING GROSS RECEIPTS.—For purposes of this subsection—

“(A) NOT IN EXISTENCE FOR ENTIRE 3-YEAR PERIOD.—If the taxpayer was not in existence for the entire 3-year period referred to in paragraph (1), such paragraph shall be applied on the basis of the period during which such taxpayer (or trade or business) was in existence.
“(B) SHORT TAXABLE YEARS.—Gross receipts for any taxable year of less than 12 months shall be annualized by multiplying the gross receipts for the short period by 12 and dividing the result by the number of months in the short period.

“(C) GROSS RECEIPTS.—Gross receipts for any taxable year shall be reduced by returns and allowances made during such year.

“(D) TREATMENT OF PREDECESSORS.—Any reference in this subsection to a taxpayer shall include a reference to any predecessor of such taxpayer.

“(4) PASS-THRU ENTITIES.—In the case of a partnership, S corporation, trust, estate, or other pass-thru entity, the gross receipts test under paragraph (1) shall apply both at the entity level and at the partner, shareholder, beneficiary, or similar level.

“(5) LIMITATION ON REELECTION OF CASH METHOD.—If a taxpayer is required to change its method of accounting for any taxable year from the cash receipts and disbursements method of accounting by reason of failing to meet the gross receipts test of this subsection, then, notwithstanding whether the gross receipts test is subsequently met, the
taxpayer may not elect to change its method of accounting back to the cash receipts and disbursements method of accounting for any of the 4 taxable years immediately following the taxable year for which such change was first required.

“(6) APPLICABLE DOLLAR AMOUNT.—For purposes of paragraph (1)—

“(A) IN GENERAL.—The applicable dollar amount is $10,000,000.

“(B) INFLATION ADJUSTMENT.—

“(i) IN GENERAL.—In the case of any taxable year beginning after 2015, the dollar amount in subparagraph (A) shall be increased by an amount equal to—

“(I) such dollar amount, multiplied by

“(II) the cost-of-living adjustment determined under section 1(f)(3) for the calendar year in which the taxable year begins, by substituting ‘2014’ for ‘1992’ in subparagraph (B) thereof.

“(ii) ROUN Diagnosis.—The amount of any increase under subparagraph (A) shall be
rounded to the next lowest multiple of $1,000,000.

“(c) Tax Shelter Defined.—For purposes of this section, the term ‘tax shelter’ has the meaning given such term by section 461(i)(3) (determined after application of paragraph (4) thereof). An S corporation shall not be treated as a tax shelter for purposes of this section merely by reason of being required to file a notice of exemption from registration with a State agency described in section 461(i)(3)(A), but only if there is a requirement applicable to all corporations offering securities for sale in the State that to be exempt from such registration the corporation must file such a notice.

“(d) Special Rules.—For purposes of this section—

“(1) Coordination with Section 481.—In the case of any taxpayer required by this section to change its method of accounting for any taxable year—

“(A) such change shall be treated as initiated by the taxpayer, and

“(B) such change shall be treated as made with the consent of the Secretary.

“(2) Use of Related Parties, etc.—The Secretary shall prescribe such regulations as may be
necessary to prevent the use of related parties, pass-
thru entities, or intermediaries to avoid the applica-
tion of this section.”.

(b) EXEMPTION FROM INVENTORY REQUIREMENT.—
Section 471 is amended by redesignating subsection (c)
as subsection (d) and by inserting after subsection (b) the
following new subsection:

“(c) SECTION NOT TO APPLY TO CERTAIN CASH
METHOD TAXPAYERS.—If a taxpayer—

“(1) would otherwise be required to use inven-
tories under this section for any taxable year, but

“(2) the taxpayer meets the gross receipts test
of section 448(b) for the taxable year and is eligible
and elects to use the cash receipts and disburse-
ments method of accounting for the taxable year,

then the requirement to use inventories shall not apply
to the taxpayer for the taxable year.”.

(c) CONFORMING AMENDMENTS.—

(1) Section 11(b)(2) is amended to read as fol-
lows:

“(2) CERTAIN PERSONAL SERVICE CORPORA-
TIONS NOT ELIGIBLE FOR GRADUATED RATES.—

“(A) IN GENERAL.—Notwithstanding para-
graph (1), the amount of the tax imposed by
subsection (a) on the taxable income of a quali-
fied personal service corporation shall be equal
to 35 percent of the taxable income.

“(B) QUALIFIED PERSONAL SERVICE COR-
PORATION.—The term ‘qualified personal serv-
ice corporation’ means any corporation—

“(i) substantially all of the activities
of which involve the performance of serv-
ices in the fields of health, law, engineer-
ing, architecture, accounting, actuarial
science, performing arts, or consulting, and

“(ii) substantially all of the stock of
which (by value) is held directly (or indi-
directly through 1 or more partnerships or S
corporations) by—

“(I) employees performing serv-
ices for such corporation in connection
with the activities involving a field re-
f erred to in clause (i),

“(II) retired employees who had
performed such services for such cor-
poration,

“(III) the estate of any individual
described in subclause (I) or (II), or

“(IV) any other person who ac-
quired such stock by reason of the
death of an individual described in subclause (I) or (II) (but only for the 2-year period beginning on the date of the death of such individual).

To the extent provided in regulations prescribed by the Secretary, indirect holdings through a trust shall be taken into account under clause (ii).

“(C) SPECIAL RULES FOR APPLICATION OF SUBPARAGRAPH (B).—For purposes of subparagraph (B)—

“(i) community property laws shall be disregarded,

“(ii) stock held by a plan described in section 401(a) which is exempt from tax under section 501(a) shall be treated as held by an employee described in subparagraph (B)(ii)(II), and

“(iii) at the election of the common parent of an affiliated group (within the meaning of section 1504(a)), all members of such group may be treated as 1 taxpayer for purposes of subparagraph (B)(ii) if 90 percent or more of the activities of such group involve the performance of
services in the same field described in sub-
paragraph (B)(i).”.

(2) Each of the following provisions are amend-
ed by striking “448(c)” and inserting “448(b)”:

(A) Section 38(c)(5)(C).

(B) Section 45M(e)(4).

(C) Section 55(e)(1)(D).

(D) Section 172(b)(1)(F)(iii).

(E) Section 420(c)(3)(E)(ii)(II).

(F) Section 6721(d)(2)(B).

(3) Paragraphs (1)(B) and (3)(B) of section
263A(d) are each amended—

(A) by striking “448(a)(3)” and inserting
“448(a)”, and

(B) by striking “corporation, partnership,
or tax shelter” each place it appears and insert-
ing “taxpayer”.

(4) Section 446(c)(1) is amended by inserting
“to the extent provided in section 448,” before “the
cash receipts”.

(5) Section 451 is amended by adding at the
end the following new subsection:

“(j) SPECIAL RULE FOR CERTAIN SERVICE PRO-
VIDERS ON ACCRUAL METHOD OF ACCOUNTING.—
“(1) IN GENERAL.—In the case of any person using an accrual method of accounting for any taxable year with respect to amounts to be received for the performance of services by such person, such person shall not be required to accrue any portion of such amounts which (on the basis of such person’s experience) will not be collected if—

“(A) such services are in the fields of health, law, engineering, architecture, accounting, actuarial science, performing arts, or consulting, or

“(B) such person meets the gross receipts test of section 448(b) with respect to such taxable year.

“(2) EXCEPTION.—Paragraph (1) shall not apply to any amount if interest is required to be paid on such amount or there is any penalty for failure to timely pay such amount.

“(3) REGULATIONS.—The Secretary shall prescribe regulations to permit taxpayers to determine amounts referred to in paragraph (1) using computations or formulas which, based on experience, accurately reflect the amount of income that will not be collected by such person. A taxpayer may adopt, or request consent of the Secretary to change to, a
computation or formula that clearly reflects the taxpayer’s experience. A request under the preceding sentence shall be approved if such computation or formula clearly reflects the taxpayer’s experience.”.

(6) Subsection (b)(3) of sections 5731 and 5801 are each amended by striking “448(c)(3)” and inserting “448(b)(3)”.

(7) Section 352 of the Revenue Act of 1978 is repealed.

(d) EFFECTIVE DATE.—

(1) IN GENERAL.—The amendments and repeal made by this section shall apply to taxable years beginning after December 31, 2014.

(2) CHANGE IN METHOD OF ACCOUNTING.—In the case of any change in method of accounting for the taxpayer’s first taxable year beginning after December 31, 2014, which—

(A) is required by the amendments made by this section, or

(B) which was prohibited under the Internal Revenue Code of 1986 prior to such amendments and is permitted under such section after such amendments,
such change shall be treated as initiated by the taxpayer and made with the consent of the Secretary of the Treasury.

SEC. 52. REPEAL OF SPECIAL RULES FOR METHOD OF ACCOUNTING FOR CORPORATIONS ENGAGED IN FARMING.

(a) IN GENERAL.—Part II of subchapter E of chapter 1 is amended by striking section 447 (and by striking the item relating to such section in the table of sections for such part).

(b) CONFORMING AMENDMENTS.—

(1) Paragraphs (1)(B) and (3)(B) of section 263A(d), as amended by section 51, are each amended by striking “447 or”.

(2) Section 354(a)(2) is amended by striking subparagraph (C) and by inserting the following new subparagraphs:

“(C) NONQUALIFIED PREFERRED STOCK.—Nonqualified preferred stock (as defined in section 351(g)(2)) received in exchange for stock other than nonqualified preferred stock (as so defined) shall not be treated as stock or securities.

“(D) RECAPITALIZATIONS OF FAMILY-OWNED CORPORATIONS.—
“(i) In general.—Subparagraph (C) shall not apply in the case of a recapitalization under section 368(a)(1)(E) of a family-owned corporation.

“(ii) Family-owned corporation.—For purposes of this subparagraph, except as provided in regulations, the term ‘family-owned corporation’ means any corporation which is described in clause (iv) throughout the 8-year period beginning on the date which is 5 years before the date of the recapitalization. For purposes of the preceding sentence, stock shall not be treated as owned by a family member during any period described in section 355(d)(6)(B).

“(iii) Extension of statute of limitations.—The statutory period for the assessment of any deficiency attributable to a corporation failing to be a family-owned corporation shall not expire before the expiration of 3 years after the date the Secretary is notified by the corporation (in such manner as the Secretary may prescribe) of such failure, and such
deficiency may be assessed before the expiration of such 3-year period notwithstanding the provisions of any other law or rule of law which would otherwise prevent such assessment.

“(iv) Corporation described.—A corporation is described in this clause if at least 50 percent of the total combined voting power of all classes of stock entitled to vote, and at least 50 percent of all other classes of stock of the corporation, are owned by members of the same family.

“(v) Members of the same family.—For purposes of this subparagraph—

“(I) the members of the same family are an individual, such individual’s brothers and sisters, the brothers and sisters of such individual’s parents and grandparents, the ancestors and lineal descendants of any of the foregoing, a spouse of any of the foregoing, and the estate of any of the foregoing,
“(II) stock owned, directly or indirectly, by or for a partnership or trust shall be treated as owned proportionately by its partners or beneficiaries, and

“(III) if 50 percent or more in value of the stock in a corporation (hereinafter in this paragraph referred to as ‘first corporation’) is owned, directly or through subclause (II), by or for members of the same family, such members shall be considered as owning each class of stock in a second corporation (or a wholly owned subsidiary of such second corporation) owned, directly or indirectly, by or for the first corporation, in that proportion which the value of the stock in the first corporation which such members so own bears to the value of all the stock in the first corporation.

For purposes of subclause (I), individuals related by the half blood or by legal adoption shall be treated as if they were related by the whole blood.”.
(3) Section 4972(c)(6) is amended by striking “section 447(e)(1)” and inserting “section 354(a)(2)(D)(v)(I)”.

(c) EFFECTIVE DATE.—

(1) IN GENERAL.—The amendments made by this section shall apply to taxable years beginning after December 31, 2014.

(2) CHANGE IN METHOD OF ACCOUNTING.—In the case of any change in method of accounting for the taxpayer’s first taxable year beginning after December 31, 2014, which—

(A) is required by the amendments made by this section, or

(B) which was prohibited under the Internal Revenue Code of 1986 prior to such amendments and is permitted under such section after such amendments,

such change shall be treated as initiated by the taxpayer and made with the consent of the Secretary of the Treasury.

SEC. 53. MODIFICATION OF RULES FOR CAPITALIZATION AND INCLUSION IN INVENTORY COSTS OF CERTAIN EXPENSES.

(a) GROSS RECEIPTS EXCEPTION TO APPLY TO ALL PROPERTY PRODUCED OR ACQUIRED BY RESALE BY THE
TAXPAYER.—Section 263A(b) is amended by striking all that follows paragraph (1) and inserting the following new paragraphs:

“(2) PROPERTY ACQUIRED FOR RESALE.—Real or personal property described in section 1221(a)(1) which is acquired by the taxpayer for resale.

“(3) EXCEPTION FOR TAXPAYER WITH GROSS RECEIPTS LESS THAN APPLICABLE AMOUNT.—If the average annual gross receipts of the taxpayer for the 3-taxable year period ending with the taxable year preceding the taxable year referred to in subparagraph (A) or (B) (as the case may be) do not exceed the applicable dollar amount in effect under section 448(b) for the taxable year—

“(A) paragraph (1) shall not apply to any property produced by the taxpayer during the taxable year, and

“(B) paragraph (2) shall not apply to any property acquired during the taxable year by the taxpayer for resale.

For purposes of this paragraph, rules similar to the rules of paragraphs (2), (3), and (4) of section 448(b) shall apply.

“(4) FILMS, SOUND RECORDINGS, BOOKS, etc.—For purposes of this subsection, the term
‘tangible personal property’ shall include a film, sound recording, video tape, book, or similar property.”.

(b) Effective Date.—

(1) In General.—The amendments made by this section shall apply to taxable years beginning after December 31, 2014.

(2) Change in Method of Accounting.—In the case of any taxpayer required by the amendments made by this section to change its method of accounting for its first taxable year beginning after December 31, 2014—

(A) such change shall be treated as initiated by the taxpayer, and

(B) such change shall be treated as made with the consent of the Secretary of the Treasury.

SEC. 54. UNIFICATION OF DEDUCTION FOR START-UP AND ORGANIZATIONAL EXPENDITURES.

(a) In General.—Subsections (a) and (b) of section 195 are each amended by inserting “and organizational” after “start-up” each place it appears.

(b) Organizational Expenditures.—Subsection (c) of section 195 is amended by adding at the end the following new paragraph:
“(3) ORGANIZATIONAL EXPENDITURES.—The term ‘organizational expenditures’ means any expenditure which—

“(A) is incident to the creation of a corporation or a partnership,

“(B) is chargeable to capital account, and

“(C) is of a character which, if expended incident to the creation of a corporation or a partnership having an ascertainable life, would be amortizable over such life.”.

(c) DOLLAR AMOUNTS.—Clause (ii) of section 195(b)(1)(A) is amended—

(1) by striking “$5,000” and inserting “$10,000”, and

(2) by striking “$50,000” and inserting “$60,000”.

(d) AMORTIZATION OF REMAINDER OF START-UP AND ORGANIZATIONAL EXPENDITURES.—Subparagraph (B) of section 195(b)(1), as amended by subsection (a), is amended to read as follows:

“(B) the remainder of such start-up and organizational expenditures shall be charged to capital account and allowed as an amortization deduction determined by amortizing such expenditures ratably over the 20-year period be-
ginning with the midpoint of the taxable year in which the active trade or business begins.”.

(e) CONFORMING AMENDMENTS.—

(1) Section 195(b)(1) is amended—

(A) by inserting “(or, in the case of a partnership, the partnership elects)” after “If a taxpayer elects”, and

(B) by inserting “(or the partnership, as the case may be)” after “the taxpayer” in subparagraph (A).

(2) Section 195(b)(2) is amended—

(A) by striking “AMORTIZATION PERIOD.—In any case” and inserting the following: “AMORTIZATION PERIOD.—

“(A) IN GENERAL.—In any case”, and

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

“(B) SPECIAL PARTNERSHIP RULE.—In the case of a partnership, subparagraph (A) shall be applied at the partnership level.”.

(3) Section 195(b) is amended by striking paragraph (3).

(4)(A) The heading for section 195 is amended by inserting “AND ORGANIZATIONAL” after “START-UP”.
(B) The item relating to section 195 in the table of sections for part VI of subchapter B of chapter 1 is amended by inserting “and organizational” after “start-up”.

(5)(A) Part VIII of subchapter B of chapter 1 is amended by striking section 248 (and by striking the item relating to such section in the table of sections for such part).

(B) Section 170(b)(2)(C)(ii) is amended by striking “(except section 248)”.

(C) Sections 56(g)(4)(D)(ii) and 312(n)(2) (as redesignated by section __24(e)(5)) are each amended by striking “Sections 173 and 248” and inserting “Section 173”.

(D) Section 535(b)(3) is amended by striking “(except section 248)”.

(E) Section 545(b)(3) is amended by striking “(except section 248)”.

(F) Section 834(c)(7) is amended by striking “(except section 248)”.

(G) Section 852(b)(2)(C) is amended by striking “(except section 248)”.

(H) Section 857(b)(2)(A) is amended by striking “(except section 248)”.


(I) Section 1363(b) is amended by inserting “and” at the end of paragraph (2), by striking paragraph (3), and by redesignating paragraph (4) as paragraph (3).

(J) Section 1375(b)(1)(B)(i) is amended by striking “(other than the deduction allowed by section 248, relating to organization expenditures)”.

(6) Part I of subchapter K of chapter 1 is amended by striking section 709 (and by striking the item relating to such section in the table of sections for such part).

(f) EFFECTIVE DATE.—The amendments made by this section shall apply to expenditures paid or incurred after December 31, 2014.

SEC. 55. CERTAIN METHODS OF DETERMINING INVENTORIES NOT TREATED AS CLEARLY REFLECTING INCOME.

(a) IN GENERAL.—Section 471, as amended by this subtitle, is amended by redesignating subsection (d) as subsection (e) and by inserting after subsection (e) the following new subsection:

“(c) CERTAIN METHODS OF DETERMINING INVENTORIES NOT TREATED AS CLEARLY REFLECTING INCOME.—The following methods of determining inventories shall not be treated as clearly reflecting income:
“(1) The last-in, first-out method.

“(2) The lower of cost or market method.

“(3) Any method valuing inventory at a bona
fide selling price.”.

(b) Conforming Amendments.—

(1) Subpart D of part II of subchapter E of
chapter 1 is amended by striking sections 472, 473,
and 474 (and by striking the items relating to such
sections in the table of sections for such subpart).

(2)(A) Section 312(n), as amended by section
_24(e)(5), is amended by striking paragraphs (3)
and (7) and by redesignating paragraphs (4)
through (6) as paragraphs (3) through (5), respec-
tively.

(B) Section 56(g)(4)(D) is amended by striking
clause (iii) and by redesignating clause (iv) as clause
(iii).

(C) Sections 301(e)(3) and 1503(e)(2)(C), as
amended by section _24(e)(5), are each amended—

(i) by striking “paragraph (6)” and insert-
ing “paragraph (5)”, and

(ii) by striking “312(n)(6)” in the heading
and inserting “312(n)(5)”.

(D) Sections 952(e)(3) and 1293(e)(3), as
amended by section _24(e)(5), are each amended
by striking “paragraphs (3), (4), and (5)” and inserting “paragraphs (3) and (4)”.

(3) Section 1363 is amended by striking subsection (d).

(c) Effective Date.—

(1) In General.—The amendments made by this section shall apply to taxable years beginning after December 31, 2014.

(2) Change in Method of Accounting.—In the case of any taxpayer required by the amendments made by this section to change its method of accounting for its first taxable year beginning after December 31, 2014—

(A) such change shall be treated as initiated by the taxpayer,

(B) such change shall be treated as made with the consent of the Secretary of the Treasury, and

(C) if the net amount of the adjustments required to be taken into account by the taxpayer under section 481 of the Internal Revenue Code of 1986 is positive, such amount shall be taken into account over a period of 8 years beginning with such first taxable year.
SEC. 56. APPLICATION OF PERCENTAGE OF COMPLETION METHOD TO CERTAIN LONG-TERM CONTRACTS.

(a) REPEAL OF SPECIAL TREATMENT FOR HOME CONSTRUCTION CONTRACTS.—

(1) IN GENERAL.—Paragraph (1) of section 460(e) is amended to read as follows:

“(1) IN GENERAL.—Subsections (a), (b), and (c)(1) and (2) shall not apply to any construction contract entered into by a taxpayer—

“(A) who estimates (at the time such contract is entered into) that such contract will be completed within the 2-year period beginning on the contract commencement date of such contract, and

“(B) whose average annual gross receipts for the 3 taxable years preceding the taxable year in which such contract is entered into do not exceed the applicable dollar amount in effect under section 448(b) for the taxable year.

For purposes of subparagraph (B), rules similar to the rules of paragraphs (2), (3), and (4) of section 448(b) shall apply.”.

(2) CONFORMING AMENDMENTS.—

(A) Section 460(b)(3) is amended by striking “rules of subsections (e)(2) and” and in-
serting “rules of paragraphs (2), (3), and (4) of section 448(b) and subsection”.

(B) Section 460(e) is amended by striking paragraphs (2), (3), (5), and (6) and by redesignating paragraph (4) as paragraph (2).

(C) Section 56(a) is amended by striking paragraph (3).

(b) Repeal of Exceptions for Certain Ship Contracts.—

(1) In general.—Sections 10203(b)(2)(B) of the Revenue Act of 1987 (Public Law 100–203), 5041(e)(1)(C) of the Technical and Miscellaneous Revenue Act of 1988 (Public Law 100–647), and 7621(d)(3) of the Omnibus Budget Reconciliation Act of 1989 (Public Law 101–239) are repealed.

(2) Application to Naval Ship Contracts.—Section 708 of the American Jobs Creation Act of 2004 (Public Law 108–357) is repealed.

(c) Effective Date.—The amendments made by this section shall apply to contracts entered into after December 31, 2014.