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Merits for Replacing Accounting Depreciation with IRS' MACRS Methodology: Single Methodology Creating Economic and Financial Value without Deferred Tax Accounting.

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ABSTRACT

Current dual-methodology for calculating Depreciation Expense adds non-essential, non-economic value added accounting burden on Businesses competing to remain 'on going concerns', adds no economic and financial value, while denying income tax deduction for depreciation expense calculated under Generally Accepted Accounting Principles (GAAP). The two methodologies for Depreciation Accounting currently used are: 1) under Generally Accepted Accounting Principles (G.A.A.P.) and 2) under US Treasury's Modified Accelerated Cost Recovery System (MACRS**),** administered by Internal Revenue Service (I.R.S.).

Merits of replacing Accounting Depreciation under GAAP would create multiple benefits for Businesses competing to remain 'on going concerns'. By using single methodology the businesses would calculate depreciation expense once that would satisfy both the financial accounting reporting requirement under GAAP and meet IRS's tax deductibility requirements. The benefits would be to improve cash flow thru tax deduction of depreciation expense and to eliminate the need for Deferred Tax Accounting arising from timing issues created by the two methods of depreciation expensing. Using MACRS the entity would increase economic value by recognizing early recovery (and reemployment) of invested capital in plant, property and equipment and by immediately deducting accounting estimated salvage value instead of deferring the capture until the end of useful life of the asset.

In summary, the business entity would reduce overall cost of implementing financial accounting and reporting, increase cash-flow because of accelerate depreciation, and, reduce cost of financing new projects by reemploying accelerated recaptured capital and earning interest on invested capital in property, plant, and equipment.

Keywords: Depreciation Accounting Methodology, MACRS, Depreciation Expense Deduction, Salvage Value, Property, Plant, and Equipment**.**