



Highlights of [GAO-08-731](#), a report to the Committee on Finance, U.S. Senate

Why GAO Did This Study

Indians lag behind other Americans on many key economic indicators, such as median household income. To improve such conditions, Congress in 1993 created Indian reservation depreciation (IRD), a tax expenditure offering accelerated depreciation for property invested on Indian reservations.

GAO was asked to (1) describe which taxpayers claimed IRD, (2) analyze the effect of IRD on the economic development of reservations, and (3) describe the tax benefits offered by IRD. GAO used the Internal Revenue Service's (IRS) Statistics of Income data to try to identify IRD users and measure IRD's effects; however, the data were unreliable for those purposes. GAO also calculated examples of potential IRD tax benefits for different property classes.

What GAO Recommends

Congress should consider requiring IRS to compile in a database information identifying which taxpayers use IRD and require taxpayers to report the reservation and/or address where they have placed the property into service. Additionally, GAO recommends that the Commissioner of Internal Revenue clarify instructions and revise forms, if needed, to ensure taxpayers separately report IRD from other kinds of depreciation. IRS generally agreed with the report and said that it would look at its instructions and publications on depreciation to determine where additional information on IRD might be beneficial.

To view the full product, including the scope and methodology, click on [GAO-08-731](#). For more information, contact Michael Brostek at (202) 512-9110 or brostekm@gao.gov.

TAX EXPENDITURES

Available Data Are Insufficient to Determine the Use and Impact of Indian Reservation Depreciation

What GAO Found

Available data are insufficient to identify users of the Indian reservation depreciation (IRD) provision. Although IRD is to be calculated using unique recovery periods, this and other information that taxpayers report are not sufficient to infer from the tax returns which taxpayers are using IRD, in part because taxpayers appear to have reported IRD in combination with other depreciation on their tax forms. In some instances, taxpayers also appear to have made mistakes filling out Form 4562, listing recovery periods inconsistent with IRD when the deduction and basis amounts they reported suggest IRD was in fact used.

Data are also insufficient to determine whether IRD increases economic development on Indian reservations. Taxpayers are not required to identify the reservation on which the depreciated property is located. This location data is critical for determining the effects of IRD on the economic development of reservations. Such a determination requires linking IRD investment to economic indicators on specific reservations and controlling for the influence of other economic trends, such as the growth of gaming facilities on these reservations. The lack of data on IRD also may affect how well the Internal Revenue Service (IRS) enforces IRD compliance with the tax law. IRS does not track compliance issues related to IRD and could fail to detect taxpayers who claim IRD deductions but do not in fact have property on a reservation. IRS officials said getting additional information could be costly to obtain, but auditors told us it would be useful. In fact, IRS collects data on some other tax expenditures that allow closer examination of compliance and use. For example, the low-income housing tax credit requires taxpayers to list the address for the property they are claiming, and New Markets Tax Credits users report identifying information for the Department of the Treasury.

Tax benefits can accrue to taxpayers who use the IRD schedule because they can achieve higher depreciation deductions, in present value terms, than a taxpayer who claims a depreciation deduction under the usual schedule for the same type of property over the entire life of the property. For example, on a \$50,000 property, the savings range from about 1 percent savings over the normal schedule to 22 percent savings, depending on the type of property depreciated. The greatest potential tax savings come from IRD claimed for property with the longest recovery periods. Additional bonus depreciation, when available, however, may decrease the incentive to use IRD.