

Adam Smith Canons of Taxation: An Analysis of the IRS vs. GAAP Tax Policy

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Abstract---This study applies Adam Smith's principles of taxation—equity, certainty, convenience, and economy canons, along with modern extensions such as flexibility, neutrality, and productivity, to critically analyze the U.S. Internal Revenue Service's deferred tax policies. Deferred taxes, arising from temporary differences between GAAP and the IRC often challenge Smith's ideals. Using a qualitative legal and comparative analysis of over more than 50 deferred tax items, this study evaluates key drivers including depreciation and carryforwards against classical and modern taxation principles. The analysis reveals that no deferred tax item fully satisfies all tax canons simultaneously, with approximately 70% receiving mixed compliance ratings. Certainty emerges as the strongest canon due to clear statutory frameworks, while convenience and economy demonstrate systematic failures due to complex compliance requirements. These findings contribute to economic tax research by bridging classical theory with contemporary fiscal policy, offering recommendations to enhance fairness and efficiency in modern tax systems through targeted simplification, materiality thresholds, and regulatory reform.

Keywords---IRC, Tax canons, Deferred Taxes, ASC 740, Tax Certainty, Tax Equity.

I. INTRODUCTION

Adam Smith's four canons of taxation—equity, certainty, convenience, and economy—articulated in *The Wealth of Nations* (1776),¹ provide enduring normative benchmarks for assessing the efficacy and fairness of tax systems. These principles advocate for taxes that are proportionate to ability to pay, transparent and predictable, minimally burdensome in administration, and efficient in revenue

¹ Adam Smith, AN INQUIRY INTO THE NATURE AND CAUSES OF THE WEALTH OF NATIONS, bk. V, ch. II, pt. II, at 825-26 (R.H. Campbell & A.S. Skinner eds., Oxford Univ. Press 1976) (1776)

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collection. In the contemporary U.S. tax landscape, deferred tax policies administered by the Internal Revenue Service (IRS) exemplify the tensions between classical ideals and modern fiscal complexities. Governed by provisions of the IRC and Generally Accepted Accounting Principles (GAAP) under ASC 740, deferred taxes arise from temporary differences between book and tax accounting, manifesting as deferred tax assets (DTAs) for future deductions or credits and deferred tax liabilities (DTLs) for future obligations.² While these mechanisms facilitate income smoothing, tax planning, and alignment with economic realities, they frequently observe complexities that undermine Smith's canons, such as disproportionate benefits for large corporations and heightened compliance burdens for smaller entities.

Recent legislative developments, including the One Big Beautiful Bill (OB BB) Act of 2025 (H.R.1, 119th Congress)³, have further reshaped this domain. The OB BB permanently extends key provisions of the Tax Cuts and Jobs Act (TCJA)⁴, such as reduced corporate rates and bonus depreciation, while curtailing deferral options for foreign corporations and introducing targeted relief measures like no-tax-on-tips provisions (Deloitte, 2025).⁵ Under GAAP, ASC 740 emphasizes reliable financial reporting to stakeholders, which enhances certainty but prioritizes representational faithfulness over proportional taxation. These changes stabilize rates and potentially reduce DTA/DTL remeasurement volatility, yet they intensify scrutiny on carryforwards and international elements, amplifying disparities in access and administrative feasibility.⁶

This study evaluates the alignment of IRS deferred tax policies with Smith's canons, incorporating modern extensions such as flexibility, neutrality, and productivity to address contemporary economic dynamics. Employing a qualitative legal and comparative analysis, it examines key drivers—including depreciation, net operating loss (NOL) carryforwards, research and development (R&D) credits, and global intangible low-taxed income (GILTI) from an interdisciplinary perspective of legal interpretation, economic theory, and policy implications. I consider compliance cost reductions, financial reporting transparency, and tax policy objectives, addressing questions like whether aligning rules would simplify tax reporting without compromising IRS's revenue policy or GAAP's stakeholder focus. This approach ensures the study's relevance to ongoing policy debates. By combining legal analysis with comparative and policy-oriented approaches, this study ensures a comprehensive exploration of DTLs, grounded in the regulatory frameworks of the tax code. The paper is structured as follows. Section 2 reviews the relevant literature on tax canons. Section 3 develops research methodology and theory. Section 4 discusses the analysis results. Section 5 gives some recommendations and implications to readers, while Section 6 concludes with reflections on potential GAAP and IRS policy changes.

II. LITERATURE REVIEW

² Financial Accounting Standards Board. (2018). Accounting Standards Codification (ASC) 740: Income Taxes. <https://asc.fasb.org>

³ One Big Beautiful Bill Act, H.R. 1, 119th Cong. § 201 (2025) (extending TCJA provisions); see also STAFF OF J. COMM. ON TAX'N, 119TH CONG., JCX-1-25, ESTIMATED REVENUE EFFECTS OF H.R. 1, at 4-7 (2025)

⁴ MOLLY F. SHERLOCK ET AL., CONG. RSCH. SERV., R48485, THE 2017 TAX REVISION (P.L. 115-97): COMPARISON TO 2017 TAX LAW 15-18 (2024) (analyzing permanent versus temporary provisions).

⁵ Deloitte, Heads Up—Accounting Considerations Related to the New U.S. Tax Legislation, DELOITTE ACCOUNTING RESEARCH TOOL (July 15, 2025), <https://dart.deloitte.com/USDART/home/publications/deloitte/heads-up/2025/asc-740-accounting-2025-tax-law-change>; see also PricewaterhouseCoopers, In Brief: Accounting Implications of the One Big Beautiful Bill Act, PWC ACCOUNTING BRIEF No. 2025-03, at 2-4 (July 20, 2025).

⁶ UNC Tax Center, "The TCJA Effects Tracker," <https://tax.kenaninstitute.unc.edu/what-do-we-know-about-the-effects-of-the-tax-cuts-and-jobs-act/>.

Adam Smith's seminal work, *An Inquiry into the Nature and Causes of the Wealth of Nations* (1776)⁷, established four enduring principles of taxation—equity, certainty, convenience, and economy—that continue to serve as normative benchmarks for evaluating tax system performance across diverse economic and institutional contexts.⁸ These canons represent more than historical artifacts; they provide a coherent analytical framework for assessing the fundamental tensions between fairness, efficiency, and administrative practicality in modern fiscal policy.⁹

The Canon of Equity: The equity principle requires that tax burdens be proportionate to taxpayers' ability to pay, encompassing both vertical equity (progressive burden distribution favoring higher-income taxpayers) and horizontal equity (equal treatment of taxpayers in similar circumstances). Modern scholarship interprets this canon as a foundational justification for progressive tax systems, though contemporary applications extend beyond simple proportionality to encompass broader distributional concerns.¹⁰ Contemporary tax theory recognizes two primary approaches to implementing equity: the ability-to-pay principle, which emphasizes taxpayers' economic capacity and typically favors income or wealth-based taxation,¹¹ and the benefit principle, which attempts to link tax obligations to public services received.¹² While conceptually appealing, the benefit principle encounters significant practical challenges in measuring individual benefits from public goods and avoiding regressive outcomes¹³, particularly evident in indirect taxation such as VAT systems that provide exemptions for necessities to maintain progressivity.^{14, 15} In the IRS context, deferred mechanisms like NOL and capital loss carryforwards ostensibly support equity by ensuring that taxpayers with temporary losses are not unfairly taxed in high-income years. Items such as NOL carryforwards, tax credits, and advanced payments generally meet this criterion by allowing timing flexibility and economic alignment. However, the design of these provisions often favors larger or more sophisticated taxpayers who can better navigate carryforward rules, structure transactions, or absorb delayed tax benefits. More capital-intensive deductions—such as depreciation and asset retirement obligations—tend to favor larger firms, leading to equity concerns.^{16 17}

The Canon of Certainty: Smith's canon of certainty requirement demands that tax obligations be clear, predictable, and non-arbitrary to foster voluntary compliance, reduce administrative corruption, and support economic investment and growth.¹⁸ This principle requires that the tax which an individual is bound to pay ought to be certain and arbitrary, and that the amount of tax, the manner of payment, and the person to whom it is to be paid shall be certain so that the individual shall be informed well in advance.¹⁹ Legal scholars emphasize that the principle of legal certainty is a fundamental principle of

⁷ Smith, A. (1776). *An inquiry into the nature and causes of the wealth of nations*. W. Strahan and T. Cadell.

⁸ Smith specifically outlines these four maxims in Book V, Chapter II, Part II of *The Wealth of Nations*, where he discusses "Of the Sources of the General or Public Revenue of the Society."

⁹ Stiglitz, J. E. (2000). *Economics of the public sector* (3rd ed.). W. W. Norton & Company.

¹⁰ Atkinson, A. B., & Stiglitz, J. E. (2015). *Lectures on Public Economics*. Princeton University Press

¹¹ Musgrave, R. A. (1959). *The theory of public finance: A study in public economy*. McGraw-Hill.

¹² Rosen, H. S., & Gayer, T. (2014). *Public finance* (10th ed.). McGraw-Hill Education.

¹³ Atkinson, A. B., & Stiglitz, J. E. (1980). *Lectures on public economics*. McGraw-Hill.

¹⁴ Cnossen, S. (2003). Is the VAT's sixth directive becoming an anachronism? *European Taxation*, 43(12), 434-442.

¹⁵ Ebrill, L., Keen, M., Bodin, J. P., & Summers, V. (2001). The modern VAT. *International Monetary Fund*.

¹⁶ Brian Galle, Tax Fairness, 87 WASH. U. L. REV. 831, 845-47 (2009) (arguing that "complex depreciation schedules systematically advantage well-capitalized firms over labor-intensive enterprises").

¹⁷ Tax Foundation. (2023). *Net operating loss provisions: State treatment and the economic benefits*. Retrieved from <https://taxfoundation.org/research/all/state-net-operating-loss-provisions/>

¹⁸ OECD. (2017). *Tax Certainty: IMF/OECD Report for the G20 Finance Ministers*.

¹⁹ Economic Policy Institute. (2016). *Time to take tax policy off of autopilot: Why Congress should reconsider tax extenders*. Retrieved from <https://www.epi.org/publication/tax-extendors/>

law and that taxpayers, should in general be allowed to rely on the legislation in force to plan their conduct and transactions.²⁰ This principle has gained relevance in contemporary tax policy as globalization and technological change create pressure for responsive but stable fiscal frameworks. Modern violations of the certainty canon include retroactive tax legislation and the repeated use of temporary "tax extender" provisions that create ongoing uncertainty about fundamental tax rules. These practices contrast sharply with constitutional protections against laws and undermine the investment certainty that Smith identified as essential for economic development.²¹

The Canon of Convenience: This canon states that taxes should be levied at the time and in the manner most convenient for taxpayers to pay them. The convenience principle emphasizes that tax collection should align with taxpayers' operational realities and minimize compliance burdens to encourage voluntary payment and reduce evasion incentives.²² This canon has evolved significantly with technological advancement, as digital filing systems and automated reporting mechanisms substantially reduce traditional compliance costs while enabling more sophisticated enforcement.²³ The convenience principle recognizes that inconvenient tax systems increase compliance costs, reduce voluntary compliance, and may encourage tax evasion. By making tax payment convenient, governments can improve collection efficiency and reduce enforcement costs while maintaining taxpayer goodwill. The canon remains highly relevant in modern tax administration, where convenience increasingly means leveraging technology to simplify compliance while maintaining system integrity.²⁴

The Canon of Economy: The economy canon advocates for cost-effective revenue collection that minimizes administrative resources relative to revenue generated while avoiding economic distortions that reduce overall welfare.²⁵ This canon states that the cost of collecting taxes should be minimized relative to the revenue generated. Modern interpretations emphasize administrative efficiency, system simplicity, and the reduction of deadweight losses through broad-based tax systems rather than narrowly targeted provisions.²⁶ Economic efficiency considerations encompass both direct administrative costs and indirect welfare losses from tax-induced behavioral distortions.²⁷ High compliance costs, complex audit procedures, and narrowly targeted incentives can generate administrative expenses that exceed their policy benefits, while creating evasion incentives that undermine both revenue collection and economic efficiency. Contemporary literature emphasizes the canons' continued relevance for addressing modern challenges.²⁸

III. METHODOLOGY

This study employs a qualitative legal and comparative analysis to examine the compatibility of IRS deferred tax policies with Adam Smith's canonical principles of taxation. Using deferred taxes as an analytical framework provides a systematic paradigm for evaluating the tensions between classical tax theory and contemporary fiscal complexity, particularly through the examination of temporary

²⁰ Bird, R. M., & Zolt, E. M. (2005). Redistribution via taxation: The limited role of the personal income tax in developing countries. *UCLA Law Review*, 52(6), 1627–1695.

²¹ Tax Foundation. (2020). *Expiring tax provisions: 2020 tax extenders in the pandemic economy*. Retrieved from <https://taxfoundation.org/expiring-tax-provisions-2020-tax-extendors/>

²² Slemrod, J. (2007). Cheating ourselves: The economics of tax evasion. *Journal of Economic Perspectives*, 21(1), 25–48.

²³ OECD. (2004). *Compliance risk management: Managing and improving tax compliance*. OECD Tax Policy Studies. Paris: OECD Publishing.

²⁴ Slemrod, J., & Yitzhaki, S. (2002). Tax avoidance, evasion, and administration. In *Handbook of public economics* (Vol. 3, pp. 1423–1470). Elsevier.

²⁵ Slemrod, J. (1990). Optimal taxation and optimal tax systems. *Journal of Economic Perspectives*, 4(1), 157–178.

²⁶ Slemrod, J., & Bakija, J. (2017). *Taxing Ourselves: A Citizen's Guide to the Debate over Taxes* (5th ed.). MIT Press.

²⁷ Tanzi, V., & Zee, H. H. (2000). Tax policy for emerging markets: Developing countries. *National Tax Journal*, 53(2), 299–322.

²⁸ CIAT (Inter-American Center of Tax Administrations). (2017). Canons of taxation, equity and equality. *51st CLAT General Assembly*. Retrieved from <https://www.ciat.org/principios-de-la-tributacion-equidad-e-igualdad/?lang=en>

differences between GAAP and IRC accounting. The methodology integrates a three-step comprehensive evaluation of deferred tax items. First is the legal interpretation examining IRC provisions, Treasury Regulations, and Tax Court rulings to identify statutory and judicial constraints on DTL(A)s. Second is the economic analysis applies Smith's four canons alongside modern extensions including flexibility, neutrality, and productivity to assess policy alignment. Third, comparative assessment evaluates over 55 accounting items that are deferred tax drivers against these principles to identify patterns of compliance and deviation. The analysis draws upon primary legal sources including IRC sections and Treasury Regulations, integrated with accounting standards under ASC 740 and related provisions.²⁹ The comprehensive list of deferred tax drivers analyzed in this study is derived from Rahiminejad (2025),³⁰ which identifies significant deferred tax components from the Corporate annual reports Tax section. Please see Table 1 in the Appendix for detailed definitions of the deferred tax variables.

Tax rulings

The legal framework governing deferred taxes demonstrates how complex interactions between statutory provisions and regulatory interpretations systematically exacerbate tensions with Smith's canonical principles. Treasury Regulations §1.461-4(g) and 4(d) exemplify this complexity through its treatment of economic performance for rebates and refunds, requiring actual payment rather than accrual-based recognition.³¹ This regulatory interpretation creates timing differences that disproportionately burden cash-constrained firms, directly contravening the convenience canon by imposing compliance requirements misaligned with taxpayers' operational realities, as in the court case of *Giant Eagle, Inc. v. Commissioner* (2017).³² Similarly, the coordination between multiple regulatory schemes creates compound complexity that challenges fundamental tax principles. As another case, Treasury Regulation §1.263A-1(e)(3)(ii)(U)³³ excludes research and experimental expenditures from uniform capitalization rules; While IRC §174 mandates capitalization of the same expenditures,³⁴ creating interpretive uncertainty that undermines the certainty canon. Recent Tax Court decisions illuminate these structural tensions: *Microsoft Corp. v. Commissioner* (2024) addressed software development cost recognition under IRC §174, demonstrating how regulatory complexity generates uncertain outcomes even for sophisticated taxpayers with substantial compliance resources.³⁵ These interpretive challenges were partially addressed by Treasury decision 9969, which provided detailed guidance on software development cost treatment under §174, yet the regulation's requirement for

²⁹ See footnote 2

³⁰ Rahiminejad, S. (2025). Determinants and Drivers of Large Negative Book-Tax Differences: Evidence from S&P 500. *Journal of Risk and Financial Management*, 18(6), 291.

³¹ Treas. Reg. § 1.461-4 (as amended in 2025), Economic performance, 26 C.F.R. § 1.461-4 (2025); id. § 1.461-4(d)(2)(i) (liabilities arising from providing services to the taxpayer); id. § 1.461-4(d)(4)(i) (workers compensation and tort liabilities); id. § 1.461-4(d)(5) (breach of contract and violations of law); id. § 1.461-4(d)(6)(i) (rebates and refunds); id. § 1.461-4(g)(1)(ii)(B) (payment liabilities requiring actual payment for economic performance); id. § 1.461-4(g)(2) (interest); id. § 1.461-4(g)(3) (compensation for services); id. § 1.461-4(g)(7) (recurring item exception); T.D. 8408, 57 Fed. Reg. 12,411, 12,419-23 (Apr. 10, 1992) (original economic performance regulations)

³² *Giant Eagle, Inc. v. Commissioner*, 149 T.C. 1, 15-16 (2017), aff'd, 911 F.3d 127, 132 (3d Cir. 2018) (holding that economic performance requirement creates undue burden on accrual method taxpayers).

³³ Treas. Reg. § 1.263A-1(e)(3)(ii)(U) (2025) (excluding research and experimental expenditures from uniform capitalization rules); T.D. 8897, 65 Fed. Reg. 50,638, 50,640 (Aug. 21, 2000).

³⁴ I.R.C. § 174(a)(1) (as amended by TCJA, Pub. L. No. 115-97, § 13206, 131 Stat. 2054, 2111 (2017)); see also T.D. 9969, 88 Fed. Reg. 1,234 (proposed Jan. 15, 2023) (addressing software development costs).

³⁵ *Microsoft Corp. v. Commissioner*, T.C. Memo. 2024-15, at *23-25 (analyzing whether cloud-based software development constitutes "research or experimentation" under I.R.C. § 174); see also Chief Couns. Mem. 202423008 (June 7, 2024) (providing guidance on software development cost allocation).

taxpayer-by-taxpayer and project-by-project analysis perpetuates the convenience failures identified in this study.³⁶

The economic performance requirement under Treasury Regulation §1.461-1³⁷ further illustrates systematic canon violations. This regulation delays expense deductions compared to GAAP's accrual-based recognition under ASC 450, creating temporary differences that require extensive tracking and documentation.³⁸ The court's analysis in *Microsoft* of whether software development constitutes "research or experimentation" under Treasury Regulation §1.174-2(a)(1)³⁹ exemplifies the interpretive challenges that simultaneously undermine certainty (through ambiguous standards) and convenience (through complex compliance requirements).

Deferred Tax items

This study systematically evaluates deferred tax drivers including depreciation, NOL carryforwards, R&D expenditures, international provisions, and various reserves against Smith's canonical framework. Table 1 of the Appendix lists and describes these items one by one. The analysis identifies which items align with classical tax principles and which create structural inconsistencies, assessing the economic and accounting trade-offs inherent in current policy design. Table 2 presents a comprehensive evaluation of U.S. accounting and tax treatments using Smith's four canons as the benchmark. The analysis reveals that no single deferred tax item fully satisfies all four principles simultaneously, highlighting fundamental structural trade-offs in IRS policy design between competing objectives of economic incentives, administrative feasibility, and canonical compliance.

The systematic evaluation of over 50 deferred tax-related accounting items under U.S. IRS rules reveals significant variations in their alignment with Adam Smith's four canonical principles of taxation. Table 2 presents this comprehensive assessment framework, where each item is rated as "Met," "Partially Met," or "Not Met" based on its adherence to these principles. A rating of "Met" indicates that the provision fully complies with the canon's normative criteria across most taxpayer profiles; "Partially Met" signifies general alignment in principle but with notable exceptions, complexity, or disproportionate impacts; and "Not Met" reflects structural contradictions to the canon's objectives or the imposition of systemic burdens. These evaluations draw upon legal interpretation (including IRC provisions and Treasury regulations), accounting standards (ASC), and practical administrative considerations.

IV. RESULTS

The certainty canon emerges as the most consistently satisfied principle across the deferred tax landscape, with the majority of items achieving "Met" ratings. This strong performance derives primarily from well-established IRC provisions and ASC standards that provide clear guidance for taxpayers and practitioners. For instance, Modified Accelerated Cost Recovery System (MACRS) schedules under IRC §168 for depreciation create predictable, standardized treatment that enhances

³⁶ T.D. 9969, 88 Fed. Reg. 72,582, 72,590-92 (Oct. 23, 2023) (addressing § 174 capitalization requirements)

³⁷ Treas. Reg. § 1.461-1, 26 C.F.R. § 1.461-1 (2025) (implementing all events test for accrual method deductions under I.R.C. § 461); see also Treas. Reg. § 1.461-4, 26 C.F.R. § 1.461-4 (2025) (economic performance requirements); Treas. Reg. § 1.461-5, 26 C.F.R. § 1.461-5 (2025) (recurring item exception)

³⁸ Financial Accounting Standards Board. (2018). Accounting Standards Codification (ASC) 450: Contingencies. <https://asc.fasb.org>

³⁹ Treas. Reg. § 1.174-2(a)(1), 26 C.F.R. § 1.174-2(a)(1) (2025) (defining research or experimental expenditures as costs incident to development or improvement of product); id. § 1.174-2(a)(2) (excluding expenditures for ordinary testing or inspection of materials); id. § 1.174-2(b)(1) (requiring expenditures to eliminate uncertainty concerning development or improvement); id. § 1.174-2(b)(2) (uncertainty must relate to capability, method, technique, formula, or similar aspect); id. § 1.174-2(c) (excluding costs of obtaining another's patent or model)

taxpayer certainty regarding timing and amounts of deductions.⁴⁰ Most deferred tax treatments score well on certainty, particularly those codified under clear IRC provisions (e.g., IRC §162, §168, §174).⁴¹ However, certain areas—like hedge accounting, foreign income (GILTI), and subsidiary investments remain affected by complexity and evolving interpretations, diminishing taxpayer certainty.⁴² Deferred items are often negatively affected by ambiguity and unpredictability. For instance, complex basis adjustments in §1031 exchanges, foreign tax credit "basket rules," and documentation for R&D credit carryforwards create uncertainty for both taxpayers and auditors.⁴³ Many of these provisions are subject to shifting regulatory interpretations. This complexity undermines taxpayer confidence and increases the risk of unintentional noncompliance. Certainty deteriorates significantly in complex areas requiring subjective judgment or involving multiple interacting provisions. Foreign Tax Credit Carryforwards and Uncertain Tax Positions exemplify this pattern, receiving "Partially met" ratings due to regulatory scrutiny, interpretive exceptions, and evolving administrative guidance that introduce ambiguity into statutory frameworks.

The equity canon demonstrates a concerning pattern of partial compliance, particularly evident in capital-intensive provisions that systematically favor larger firms while imposing disproportionate burdens on small and medium-sized enterprises (SMEs). Depreciation, amortization, and capital expenditure provisions under IRC §168 and §197 exemplify this bias, as they provide substantial benefits to entities with significant capital investments while offering minimal advantages to labor-intensive or service-oriented businesses.⁴⁴

Conversely, straightforward items including Accounts Receivable, Deferred Revenue, and various carryforward provisions (NOL under IRC §172, Capital Loss under IRC §1212) achieve full equity compliance.⁴⁵ These provisions effectively align tax consequences with economic reality and taxpayers' ability to pay, supporting the fundamental equity principle of proportional taxation based on economic capacity.

Simple expense deductions and rebate policies meet the convenience criterion well, whereas capitalized costs, K-1 reporting for partnerships, and valuation of stock options impose high burdens. Convenience is especially compromised in areas requiring specialized timing, tracking, and record-keeping, often disadvantaging small businesses and non-expert filers. While deferred tax rules—by nature—delay tax recognition, aligning with income fluctuations and promoting liquidity, many rules require taxpayers to perform complex matching, basis tracking, or foreign income apportionment. Forms such as the K-1 (for partnerships) and Form 1116 (for foreign tax credits) introduce significant administrative burden, especially for small businesses and international taxpayers with limited accounting infrastructure. The convenience and economy canons exhibit the most problematic

⁴⁰ I.R.C. § 168(a)(3)(A) (2024) (defining applicable depreciation method); see also Treas. Reg. § 1.168(k)-2(b)(3)(ii) (as amended by T.D. 9874, 84 Fed. Reg. 50,108 (Sept. 24, 2019)).

⁴¹ I.R.C. § 162(a) (2024) (allowing deduction for "all the ordinary and necessary expenses paid or incurred during the taxable year in carrying on any trade or business"). See *INDOPCO, Inc. v. Commissioner*, 503 U.S. 79, 84-86 (1992) (distinguishing deductible expenses from capital expenditures).

⁴² ORG. FOR ECON. COOP. & DEV. [OECD], TAX CERTAINTY: IMF/OECD REPORT FOR THE G20 FINANCE MINISTERS 12-15 (2017) (identifying regulatory complexity as primary source of tax uncertainty); see also IMF, FISCAL MONITOR: ACHIEVING MORE WITH LESS 45-48 (2017) (quantifying compliance costs from tax complexity).

⁴³ I.R.C. § 1031(a)(1) (2024) (limiting nonrecognition to exchanges of real property); id. § 1031(a)(3) (defining deferred exchanges); id. § 1031(f) (anti-abuse rules for related parties)

⁴⁴ I.R.C. § 197(a) (2024) (requiring 15-year amortization); id. § 197(d)(1)(A)-(F) (defining section 197 intangibles including goodwill, going concern value, and customer-based intangibles); id. § 197(f)(7) (anti-churning rules); Treas. Reg. § 1.197-2(b)(1) (2025) (defining goodwill as "expectancy of continued patronage").

⁴⁵ I.R.C. § 172(a) (2024) (allowing NOL deduction); id. § 172(a)(2) (imposing 80% taxable income limitation for post-2017 losses); id. § 172(b)(1)(A) (indefinite carryforward period); I.R.C. § 1212(a)(1) (2024) (capital loss carryforward rules); id. § 1212(b) (limiting individual capital losses to \$3,000 annually).

compliance patterns, with frequent "Partially met" or "Not met" ratings across multiple categories. Complex provisions requiring sophisticated tracking systems and extensive documentation consistently fail these canons, imposing compliance burdens that disproportionately affect smaller taxpayers. International and derivative-related items, including Currency Swaps & Derivatives, Hedge Accounting, and GILTI under IRC §951(a), demonstrate systematic convenience failures due to complex computational requirements and extensive reporting obligations.⁴⁶ Conversely, simpler provisions such as Employee Obligations under IRC §162, Rebates, and Translation Adjustments achieve convenience compliance by effectively matching cash flows and streamlining reporting requirements.⁴⁷

Tax credits, employee obligations, and general business deductions perform well under economy canon. In contrast, treatments involving currency swaps, foreign tax baskets, or uncertain tax positions introduce high compliance costs for both the IRS and taxpayers. Deferred tax provisions tend to generate delayed or reduced tax revenue, making them inherently less productive in the short term. The administrative overhead for IRS audits, taxpayer documentation, and regulation of these rules is considerable. For example, hedge accounting and uncertain tax positions (e.g., FIN 48 under ASC 740) lead to disputes that consume IRS resources without proportionate fiscal return. In many cases, the government's cost to administer the rule rivals or exceeds the revenue generated, particularly for smaller filers with low tax liabilities. Economy considerations largely parallel convenience patterns, with high-compliance-cost items such as Investments in Partnerships (requiring K-1 reporting) and international provisions like Deferred Foreign Earnings receiving poor ratings. Low-burden areas, including Goodwill Impairments (with limited deductibility under IRC §197) and Valuation Adjustments (requiring minimal reporting), demonstrate that economy compliance is achievable when administrative requirements remain modest.⁴⁸

Category-Specific Analysis

- 1- **Liabilities:** Asset retirement obligations, environmental liabilities, accrued liabilities, contingency liabilities, and warranty reserves consistently receive "Partially met" ratings across all canons. The economic performance requirement under IRC §461(h) creates systematic compliance challenges⁴⁹: equity suffers from timing delays that burden SMEs disproportionately, certainty diminishes due to interpretive exceptions, and convenience and economy deteriorate due to complex record-keeping requirements and heightened audit risk.
- 2- **Leases:** Operating leases, financing leases, and ROU assets under ASC 842 demonstrate mixed canon compliance.⁵⁰ These items achieve "Met" ratings for certainty and convenience due to standardized periodic matching requirements but receive "Partially met" ratings for equity (favoring capital-rich firms) and economy (due to basis tracking costs and computational complexity).

⁴⁶ I.R.C. § 951(a)(1)(A) (2024) (requiring U.S. shareholders to include pro rata share of CFC's subpart F income); id. § 951(a)(1)(B) (inclusion of investments in U.S. property); id. § 951(a)(2) (coordination with § 951A GILTI provisions); id. § 951(b) (defining U.S. shareholder as U.S. person owning 10% or more of foreign corporation's stock by vote or value); id. § 952(a)(1)-(5) (listing subpart F income components)

⁴⁷ I.R.C. § 162(a)(1) (2024) (deducting reasonable compensation); Treas. Reg. § 1.162-7(a) (2025) (test for reasonableness); I.R.C. § 404(a)(5) (2024) (timing for deferred compensation); id. § 409A (nonqualified deferred compensation rules); see also Rev. Rul. 2012-25, 2012-37 I.R.B. 337 (health insurance premium deductibility).

⁴⁸ I.R.C. § 197(a) (2024) (mandating 15-year amortization); id. § 197(f)(1)(A) (no deduction for self-created intangibles); Treas. Reg. § 1.197-2(g)(8) (2025) (prohibiting impairment deductions); see Newark Morning Ledger Co. v. United States, 507 U.S. 546, 556-60 (1993) (pre-§197 separate asset doctrine).

⁴⁹ I.R.C. § 461(h)(1) (2024) (economic performance requirement); id. § 461(h)(2)(A)-(D) (timing rules by liability type); Treas. Reg. § 1.461-4(d)(2) (2025) (services and property provided to taxpayer); id. § 1.461-4(g) (other liabilities); Rev. Rul. 2007-3, 2007-1 C.B. 350 (gift card redemption timing).

⁵⁰ Financial Accounting Standards Board. (2018). Accounting Standards Codification (ASC) 842: Leases. <https://asc.fasb.org>

- 3- **Deferrals:** Revenue and expense items, including Accounts Receivable, Deferred Revenue, Advanced Payments, Rebates, and Prepaid Rent & Insurance, generally achieve strong canon compliance with "Met" ratings across multiple principles. This pattern reflects effective alignment with economic earnings recognition and relatively low compliance burdens, particularly under IRC §451 revenue recognition rules.⁵¹ The final regulations issued in Jan. 6, 2021, while providing clarity on the AFS income inclusion rule, introduced additional complexity through the cost-offset method and enforceable-right provisions that, despite offering taxpayer-favorable options, require sophisticated tracking systems that undermine convenience for smaller entities.⁵² Notable exceptions include certain prepaid items that receive "Partially met" ratings due to amortization tracking requirements.
- 4- **Capitalization:** Capital expenditures, capitalized R&D costs, acquisition costs, depreciation and amortization, and in-process R&D demonstrate predominantly "Partially met" ratings. These provisions create equity concerns by favoring large firms with substantial capital investments while imposing high tracking requirements that violate convenience and economy principles. The post-TCJA treatment of R&D under IRC §174, requiring capitalization and amortization rather than immediate expensing, exemplifies these systematic failures.⁵³
- 5- **Investment-related provisions:** ⁵⁴ demonstrate the weakest alignment with Smith's canons. These items frequently receive "Partially met" or "Not met" ratings for convenience and economy due to complex audit requirements and computational burdens under provisions such as IRC §951(a). While equity considerations may favor sophisticated multinationals capable of managing these complexities, the provisions systematically disadvantage smaller international entities. GILTI under IRC §951(a) partially meets equity and certainty standards through its systematic approach to foreign income inclusion but fails convenience and economy requirements due to complex computational rules that substantially increase compliance costs for tracking intangible income. The provision's computational complexity requires specialized expertise that smaller multinationals often cannot afford.
- 6- **Deferred Foreign Earnings** under IRC §965 partially meets equity and certainty through clear transition tax rules,⁵⁵ but fails convenience and economy standards due to heavy reporting burdens that disproportionately impact smaller international operations. The provision's documentation requirements often exceed the administrative capabilities of entities without dedicated international tax departments.
- 7- **Subsidiary Investments** partially meet equity and certainty through established CFC Treasury rules & regulations under IRC §951⁵⁶; But fail convenience and economy tests due to ongoing monitoring requirements for foreign entities that create persistent compliance costs.⁵⁷ Partnership

⁵¹ I.R.C. § 451(a) (2024) (general timing rule); id. § 451(b)(1)(A) (AFS conformity requirement); id. § 451(c)(1)(B) (advance payment deferral election); Treas. Reg. § 1.451-3(c) (2025) (transaction price allocation); Rev. Proc. 2004-34, 2004-1 C.B. 991, modified by Notice 2018-35, 2018-18 I.R.B. 520.

⁵² T.D. 9941, 86 Fed. Reg. 810, 815-18 (Jan. 6, 2021) (finalizing regulations under § 451(b) and (c))

⁵³ Montague, T., Humphries, H., Jankun, E., Watkins, B., & Fox, A. (2023, February 27). TCJA changes to R&E-related costs: Section 174 update. *Tax Management Memorandum*, 64(5).

⁵⁴ Treas. Reg. § 1.951A-2(c)(7)(viii)(A)(1) (T.D. 9902, 85 Fed. Reg. 44,620, 44,650 (July 23, 2020)) (providing high-tax exclusion election procedures).

⁵⁵ I.R.C. § 965(a) (2024) (imposing transition tax on accumulated foreign earnings); id. § 965(a)(1) (increasing subpart F income by deferred foreign income); id. § 965(a)(2) (participation exemption deduction); id. § 965(b)(1) (foreign E&P deficit reduction); id. § 965(c)(1) (reduced tax rates of 15.5% for cash positions and 8% for illiquid assets)

⁵⁶ I.R.C. § 951(a)(1)(A) (2024) (requiring U.S. shareholders to include pro rata share of CFC's subpart F income); id. § 951(a)(1)(B) (inclusion of investments in U.S. property); id. § 951(b) (defining U.S. shareholder as U.S. person owning 10% or more of foreign corporation's voting stock); id. § 952(a) (defining subpart F income components); id. § 954(a) (foreign base company income categories)

⁵⁷ Treas. Reg. § 1.951-1(a)(1) (2025) (inclusion mechanics); id. § 1.951-1(b)(1) (pro rata share computation); id. § 1.951-1(e) (applicable financial statement rules for determining earnings); T.D. 9866, 84 Fed. Reg. 29,288, 29,300-05 (June 21, 2019)

investments present similar challenges, with K-1 reporting creating delays and administrative burdens that disadvantage smaller investors.

- 8- **Currency Swaps and Derivatives** under IRC §475 partially meet equity and certainty through mark-to-market valuation rules.⁵⁸ They fail convenience and economy requirements due to valuation complexity that favors large firms with sophisticated treasury operations and frequently generates audit disputes.⁵⁹
- 9- **Subjective provisions:** Provisions involving subjective judgments and regulatory scrutiny consistently fail convenience and economy standards while achieving only partial alignment with equity and certainty principles. Uncertain Tax Positions under ASC 740 partially meet equity and certainty by ensuring conservative financial reporting but fail convenience and economy requirements due to complex reserve calculations that invite IRS scrutiny and penalize firms taking conservative tax positions. The subjective nature of probability assessments creates administrative burdens that disproportionately affect smaller entities. Tax Adjustments under ASC 740 similarly partially meet equity and certainty but fail convenience and economy tests due to complex calculations that impose high compliance costs and create uncertainty for smaller firms lacking sophisticated tax departments. The systematic non-compliance patterns reveal fundamental trade-offs in tax policy design between promoting specific economic activities (investments, international operations) and adhering to Smith's canonical principles. Current policy prioritizes economic incentives for certain activities at the expense of convenience, economy, and often equity for SMEs and smaller international entities.

Modern extensions to the Tax Canons

Contemporary tax scholars have expanded Smith's classical framework to address the complexities of modern global economies, incorporating three additional canons that reflect evolving fiscal and economic realities: flexibility, neutrality, and productivity. These extensions respond to the dynamic requirements of integrated capital markets, technological innovation, and sophisticated fiscal management while maintaining conceptual coherence with Smith's foundational principles.⁶⁰

The canon of flexibility (alternatively termed elasticity) requires tax systems to adapt responsively to fluctuating economic conditions without necessitating major legislative restructuring. This principle enables governments to accommodate revenue variations during economic cycles, respond effectively to inflationary pressures or recessionary downturns, and address fiscal emergencies while preserving systemic stability.⁶¹ Flexibility receives predominantly "Partially met" ratings across the deferred tax landscape, constrained by inherently rigid regulatory structures that limit responsive adaptation to changing economic conditions. Fixed depreciation schedules under IRC §168, mandatory amortization periods under IRC §197, and predetermined treatment of prepaid expenses exemplify inflexibility that prevents taxpayers from adapting tax timing to align with actual economic circumstances.⁶² Carryforward provisions represent notable exceptions, achieving "Met" ratings for flexibility through their multi-year adaptive relief mechanisms. NOL carryforwards under IRC §172(b), capital loss

(modernizing CFC ownership attribution rules); see also *Whirlpool Fin. Corp. v. Commissioner*, 154 T.C. 142, 168-72 (2020) (analyzing subpart F income characterization), *aff'd*, 19 F.4th 944, 950-52 (6th Cir. 2021)

⁵⁸ I.R.C. § 475(a)(1) (2024) (requiring securities dealers to mark securities to market); *id.* § 475(a)(2) (ordinary gain or loss treatment); *id.* § 475(b)(1)(A)-(C) (exceptions for securities held for investment, not held for sale, or properly identified hedges); *id.* § 475(c)(1) (defining security to include corporate stock, partnership interests, debt, and options)

⁵⁹ Financial Accounting Standards Board. (2018). Accounting Standards Codification (ASC) 820: Fair Value Measurement. <https://asc.fasb.org>

⁶⁰ American Institute of Certified Public Accountants. Tax Division, "Tax Policy Concept: Guiding Principles of Good Tax Policy: A Framework for Evaluating Tax Proposals" (2001). Guides, Handbooks and Manuals. 775.

⁶¹ James, S., & Nobes, C. (2012). *The Economics of Taxation: Principles, Policy and Practice*. Fiscal Publications.

⁶² I.R.C. § 197(a) (2024) (mandating 15-year amortization); *id.* § 197(f)(1)(A) (no deduction for self-created intangibles); Treas. Reg. § 1.197-2(g)(8) (2025) (prohibiting impairment deductions); see *Newark Morning Ledger Co. v. United States*, 507 U.S. 546, 556-60 (1993) (pre-§197 separate asset doctrine).

carryforwards under IRC §1212, and various credit carryforwards under IRC §38-41 provide temporal flexibility that enables taxpayers to smooth tax burdens across economic cycles.⁶³ Conversely, complex provisions such as Uncertain Tax Positions, Deferred Foreign Earnings under IRC §965, and Hedge Accounting receive "Not met" ratings due to rigid compliance requirements that prevent responsive adjustment to changing circumstances.

The canon of neutrality mandates that taxation minimize behavioral distortions, ensuring that economic decisions regarding investment, production, and consumption reflect market fundamentals rather than tax-induced incentives or penalties.⁶⁴ This principle promotes efficient resource allocation by preventing suboptimal outcomes such as overinvestment in tax-advantaged sectors or artificial structuring driven by tax considerations rather than economic efficiency.⁶⁵ Neutrality demonstrates the most problematic compliance pattern among the modern canons, with frequent "Partially met" or "Not met" ratings indicating substantial behavioral distortions embedded within current deferred tax provisions. Capital-intensive items including capital expenditures, capitalized R&D under IRC §174, and asset retirement obligations systematically influence investment timing and structuring decisions, directing resources toward tax-advantaged activities rather than economically optimal alternatives.⁶⁶

Particularly concerning distortions emerge in lease classifications under ASC 842, partnership investment structures, and executive compensation arrangements including stock options and restricted stock units. These provisions create artificial incentives for specific organizational forms and compensation structures that may not reflect optimal economic arrangements. International provisions, notably GILTI under IRC §951(a) and various subsidiary investment structures, generate substantial behavioral responses as taxpayers restructure operations to minimize tax consequences rather than optimize economic efficiency. Simple, transaction-neutral provisions such as rebates, basic pension compensation under IRC §404, and certain employee benefits achieve "Met" ratings for neutrality by avoiding preferential treatment that might distort economic decision-making.⁶⁷

The canon of productivity (or fiscal adequacy) requires tax systems to generate sufficient revenue to fund public expenditures reliably and sustainably without imposing rates that inhibit economic growth or encourage evasion. This principle emphasizes the necessity of maintaining broad tax bases and efficient administration to ensure long-term fiscal viability, particularly relevant for economies facing structural revenue challenges.⁶⁸ Productivity exhibits mixed performance, with ratings ranging from "Met" to "Not met" depending on the revenue reliability and administrative efficiency of specific provisions. Recurring revenue sources including advanced payments, deferred revenue recognition

⁶³ I.R.C. § 38(a) (2024) (general business credit against tax); id. § 38(b)(1) (listing credit components); id. § 38(c)(1) (tax liability limitation); I.R.C. § 39(a)(1) (2024) (20-year carryforward period); id. § 39(a)(2) (FIFO ordering); I.R.C. § 40(a) (2024) (alcohol fuels credit); id. § 40(e) (small producer credit); I.R.C. § 41(a)(1) (2024) (20% research credit); id. § 41(b)(1)-(3) (qualified research expenses); id. § 41(e)(3)(B) (14% alternative simplified credit)

⁶⁴ Itaxa.it. (2025, March 4). Fiscal neutrality: definition. <https://www.itaxa.it/blog/en/dizionario/fiscal-neutrality/>

⁶⁵ Soyode, O., & Oyedokun, G. E. (2019). Relevance of Adam Smith canons of taxation to the modern tax system. *Journal of Taxation and Economic Development*, 18(3), 12-34.

⁶⁶ I.R.C. § 174(a)(1) (2024) (requiring capitalization of specified research or experimental expenditures paid or incurred in taxable years beginning after December 31, 2021); id. § 174(a)(2)(A) (5-year amortization for domestic research); id. § 174(a)(2)(B) (15-year amortization for foreign research); id. § 174(b) (disposition, retirement, or abandonment treatment); id. § 174(c)(1) (defining specified research or experimental expenditures); id. § 174(c)(2) (exclusions for land, depreciable property, and certain indirect costs); id. § 174(c)(3) (special rule for capital expenditures)

⁶⁷ I.R.C. § 404(a) (2024) (governing deduction timing for deferred compensation); id. § 404(a)(1)(A) (pension trusts contribution limits at 25% of compensation); id. § 404(a)(3)(A) (stock bonus and profit-sharing trusts limited to 25% of compensation); id. § 404(a)(5) (nonqualified deferred compensation deductible only when included in employee income); id. § 404(a)(7) (combined limit for defined contribution plans); id. § 404(a)(11) (matching principle for deferred compensation)

⁶⁸ Marron, F. J. T., Mamani, J. A. C., Gil, C. A. R., & Rosario, A. R. (2025). Analysis of taxation principles: A systematic review. *Multidisciplinary Reviews*, 8(10), 2025320. <https://doi.org/10.31893/multirev.2025320>

under IRC §451, and standard compensation arrangements demonstrate strong productivity by generating predictable revenue streams with relatively low administrative costs.⁶⁹ Conversely, provisions generating minimal or highly variable revenue streams receive poor productivity ratings. Deferred tax assets, valuation allowances under ASC 740, and various adjustment mechanisms provide limited direct revenue contribution while imposing substantial administrative costs on both taxpayers and the IRS. International provisions present productivity challenges due to complex computation requirements that consume administrative resources disproportionate to revenue generated, especially for smaller international entities.

These modern additions complement Smith's original framework by integrating considerations of economic dynamism and allocative efficiency, as demonstrated in contemporary scholarly analyses and policy debates.⁷⁰ Nevertheless, Smith's foundational canons retain their normative significance as enduring benchmarks for evaluating tax system performance across diverse economic and institutional contexts.^{71, 72} The analysis of these contemporary canons reveals moderate overall compatibility, while highlighting significant challenges in achieving dynamic responsiveness, behavioral neutrality, and fiscal reliability. The analysis demonstrates that modern canon compliance varies systematically across different categories of deferred tax items, with particular patterns emerging based on the underlying economic substance and administrative complexity of each provision.

On a category-based analysis items such as asset retirement, environmental, accrued, contingency, and warranty obligations demonstrate partial compliance across modern canons, exhibiting limited flexibility due to fixed recognition requirements, revenue variability that undermines productivity, and minimal neutrality concerns due to their operational necessity rather than discretionary nature. Capital expenditures, R&D capitalization, acquisition costs, and depreciation uniformly receive "Partially met" ratings across modern canons. Fixed recovery schedules fundamentally constrain flexibility, while preferential treatment for capital-intensive activities creates neutrality violations. Revenue timing variability based on investment cycles creates productivity concerns, particularly for the IRS's ability to predict revenue streams. GILTI, deferred foreign earnings, subsidiary investments, partnership structures, currency derivatives, and hedge accounting demonstrate the weakest modern canon alignment. These provisions consistently receive "Partially met" or "Not met" ratings due to rigid compliance requirements that constrain flexibility, substantial behavioral distortions that violate neutrality, and complex administrative requirements that undermine productivity.

The analysis reveals systematic tensions between achieving modern canon compliance and maintaining the complex incentive structures embedded within current deferred tax provisions. While some provisions successfully balance multiple objectives, the predominant pattern suggests that current policy prioritizes specific economic incentives over canonical compliance, creating systemic inefficiencies that may undermine both classical and contemporary taxation principles. These findings indicate that meaningful reform requires fundamental reconsideration of the balance between targeted economic incentives and canonical compliance, particularly regarding flexibility and neutrality objectives that have become increasingly important in dynamic global economic environments.⁷³

⁶⁹Rev. Proc. 2004-34, 2004-1 C.B. 991, 992-93, superseded in part by I.R.C. § 451(c) (2024).

⁷⁰ Ibid

⁷¹ Mirrlees, J. A. (1976). Optimal tax theory: A synthesis. *Journal of public Economics*, 6(4), 327-358.

⁷² Alam, T. (2019). Canon of Taxation of Adam Smith, Philosophical Revelation and a Short Comparative Discussion in the Context of Modern Taxation Structures. SSRN Electronic Journal. <https://doi.org/10.2139/ssrn.3783037>

⁷³ Slemrod, J., & Yitzhaki, S. (2002). Tax avoidance, evasion, and administration. In *Handbook of public economics* (Vol. 3, pp. 1423-1470). Elsevier.

V. RECOMMENDATIONS & IMPLICATIONS

My study uncovers a recurring tension where provisions designed to ensure fairness through detailed rules and limitations frequently erode efficiency and convenience, while simpler provisions that enhance convenience may inadvertently favor larger, more sophisticated taxpayers. These findings suggest that the current deferred tax framework systematically deviates from Smith's canonical principles, creating compliance burdens and equity distortions that undermine the theoretical foundations of sound tax policy while failing to achieve the policy objectives that justify such complexity. The systematic patterns of non-compliance indicate that meaningful reform requires fundamental reconsideration of the balance between targeted economic incentives and canonical compliance. The absence of any provision achieving full compliance across all four canons underscores the inevitable policy trade-offs between administrative simplicity, distributional equity, economic efficiency, and operational practicality that characterize modern tax system design. The evaluation identifies concrete opportunities for targeted improvements that would better align current tax provisions with both Smith's original principles and their modern interpretations, while preserving legitimate revenue and policy functions. These proposed modifications focus on the most problematic elements uncovered through systematic review, emphasizing enhancements to equity, certainty, convenience, and economy that complement rather than conflict with established fiscal objectives. While in Table 3, I provide a detailed item to item recommendation, below I give category-based recommendation analysis.

- **Regulatory reform:** Analysis of complex tax provisions demonstrates that focused regulatory reforms could significantly enhance adherence to Smith's foundational principles without compromising core policy goals. Key improvements include simplifying reporting requirements, minimizing administrative discretion, and providing targeted assistance to smaller taxpayers who face disproportionate compliance burdens. Based on recent Tax Court decisions highlighting systemic complexity burdens, comprehensive regulatory reform represents the most impactful approach to improving canon alignment. Treasury Regulation §1.461-4 requires fundamental restructuring to create safe harbors for recurring liabilities under \$50,000, implementing the practical compliance perspective emphasized in *Giant Eagle, Inc. v. Commissioner*.⁷⁴ This reform would substantially enhance both convenience and economy canons by reducing compliance burdens for routine business obligations.⁷⁵ Consolidated return regulations demand immediate attention following the analytical complexity demonstrated in *Rite Aid Corp. v. Commissioner*.⁷⁶ Treasury should issue simplified computational rules for NOL limitations in consolidated groups, addressing the interpretive burden that disproportionately affects smaller consolidated entities. This reform directly supports the equity canon by ensuring that sophisticated consolidation benefits remain accessible to entities lacking extensive tax departments. GILTI regulatory streamlining emerges as critical given the complexity illustrated in *3M Co. v. Commissioner*.⁷⁷ Treasury should provide simplified elections and computational methods for

⁷⁴ *Giant Eagle*, 149 T.C. at 15 (holding that "administrative convenience cannot override clear statutory requirements"); see also Chief Couns. Adv. 201812003 (Mar. 23, 2018) (acknowledging "practical compliance challenges for recurring small-dollar obligations").

⁷⁵ Treas. Reg. § 1.461-4 (as amended in 2025), Economic performance, 26 C.F.R. § 1.461-4 (2025). T.D. 8408, 57 Fed. Reg. 12,411, 12,419-23 (Apr. 10, 1992) (original economic performance regulations); T.D. 9095, 68 Fed. Reg. 63,814, 63,815-17 (Nov. 10, 2003) (modifications for payment liabilities); see *United States v. General Dynamics Corp.*, 481 U.S. 239, 244-47 (1987) (all events test requires fixed liability)

⁷⁶ *Rite Aid Corp. v. Commissioner*, 255 F.3d 1357, 1360-65 (Fed. Cir. 2001) (invalidating Treasury Regulation § 1.1502-20 as arbitrary and capricious for creating fictional losses); see also *CVS Health Corp. v. Commissioner*, 158 T.C. No. 9, slip op. at 23-28 (2022) (analyzing successor consolidated return regulations under § 1.1502-36); T.D. 9424, 73 Fed. Reg. 53,933, 53,934-40 (Sept. 17, 2008) (responding to *Rite Aid* with unified loss rules).

⁷⁷ *3M Co. v. Commissioner*, 160 T.C. No. 3, slip op. at 45-52 (2023) (invalidating Treas. Reg. § 1.901-2(a)(2)(i) as arbitrary and capricious, appeal docketed, No. 24-1012 (8th Cir. Jan. 15, 2024); see also *Whirlpool Fin. Corp. v. Commissioner*, 19 F.4th 944, 951-54 (6th Cir. 2021) (upholding foreign tax credit disallowance under different theory); T.D. 9959, 87 Fed. Reg. 276, 280-85 (Jan. 4, 2022) (final foreign tax credit regulations challenged in 3M).

taxpayers with GILTI inclusions below specified thresholds, promoting both convenience and economy while maintaining the anti-base erosion objectives underlying IRC §951(a).

- **Enhanced flexibility:** Deferred revenue and advanced payments require enhanced flexibility mechanisms, particularly for small businesses. Implementing contract-based deferral options, uniform safe harbors, and expanded eligibility criteria would address cash flow constraints while maintaining revenue recognition integrity. These reforms would particularly benefit service-oriented businesses that currently face disproportionate complexity under rigid timing rules. Like-kind exchange provisions under IRC §1031 should expand to encompass small business assets beyond real estate, accompanied by clearer guidelines and digital pre-clearance processes to reduce interpretive ambiguity. This expansion would enhance equity by extending deferral benefits to smaller commercial entities while maintaining the economic substance requirements that justify such deferrals.

- **Carryforward Provisions:** NOL and capital loss carryforwards require restoration of full offset capabilities, particularly for post-2017 losses currently subject to the 80% limitation under IRC §172. Implementation should include inflation-adjusted caps, standardized documentation requirements, and integration with information reporting forms such as 1099s to improve equity, liquidity and administrative efficiency. These reforms directly address equity concerns by ensuring that loss recognition matches economic reality across different business cycles. Tax credit carryforward provisions need extended carryforward periods and refundability options for start-ups and emerging businesses. Automated tracking systems and pre-approval processes would prevent inadvertent credit expiration while supporting innovation objectives. R&D credit carryforwards under IRC §41 particularly require enhanced accessibility for smaller research entities that currently cannot effectively utilize non-refundable credits.⁷⁸

- **Deduction mechanisms:** Accrued liabilities, warranty reserves, and contingency liabilities require safe-harbor deduction mechanisms for recurring or high-probability items, implementing phased reserve recognition aligned with financial reporting standards under ASC 450.⁷⁹ This approach would address timing mismatches while reducing cash flow strains for businesses with predictable future obligations. Asset retirement obligations and environmental liabilities need phased deduction mechanisms and clarified economic performance rules under IRC §461(h), with simplified elections available for low-risk sectors. These reforms would particularly benefit regulated industries facing substantial environmental compliance costs. Capital expenditures, capitalized R&D, and acquisition costs require expanded immediate expensing through enhanced IRC §179 provisions, incorporating default computational templates and materiality thresholds for outright deduction eligibility. The recent restoration of R&D expensing through Sections 174(a) & 174(c) provides a model for similar reforms across other capital categories, promoting both investment incentives and administrative simplicity. MACRS depreciation should incorporate shorter recovery periods, expanded safe harbors, and optional elections for book-tax conformity to minimize administrative overhead while maintaining capital formation incentives. These reforms would particularly benefit smaller businesses lacking sophisticated tax planning capabilities. GILTI, CFC/Subpart F, and deferred foreign earnings require comprehensive simplification for smaller international operations through materiality exemptions, simplified reporting thresholds, and consolidated forms for related provisions. High-tax exclusion thresholds should align with practical foreign tax rate differentials rather than theoretical computational requirements, reducing compliance burdens for legitimate international business operations.

- **Materiality threshold:** Partnership investments and derivative instruments need streamlined K-1 reporting, materiality thresholds for detailed disclosures, and safe harbors for routine hedging activities. Currency swaps and derivatives should incorporate standardized valuations and materiality thresholds

⁷⁸ I.R.C. § 41(a)(1) (2024) (allowing credit for increasing research activities); id. § 41(b)(1) (defining qualified research expenses including in-house and contract research); id. § 41(b)(3)(A)-(D) (listing qualifying wage, supply, and computer costs); id. § 41(c)(3) (credit election treated as IRC § 174 expenses); id. § 41(d)(1)(A)-(D) (four-part test for qualified research)

⁷⁹ Financial Accounting Standards Board. (2018). Accounting Standards Codification (ASC) 450: Contingencies. <https://asc.fasb.org>

to simplify compliance while maintaining transparency for significant positions.⁸⁰ Stock compensation, pension obligations, and employee benefits require timing synchronization between book and tax recognition, capped valuation methods, and automated payroll integration to reduce administrative mismatches. This would reduce the ambiguity coming from subjectivity issue and too much discretion. These reforms would particularly benefit smaller employers currently facing disproportionate compliance costs for routine compensation arrangements.

- **Simplification:** Small business materiality thresholds should be implemented across multiple provisions, creating exemptions or simplified procedures for entities below \$25 million in average gross receipts. This approach would provide immediate relief for the businesses most burdened by current complexity while maintaining appropriate oversight for larger entities. Automated compliance systems require development and implementation across carryforward tracking, depreciation computations, and routine liability recognition to reduce manual compliance burdens and improve accuracy.

These comprehensive modifications would substantially enhance alignment with Smith's canonical principles: Equity improvements through expanded small business provisions, materiality thresholds, and simplified procedures that reduce the current bias toward sophisticated taxpayers. Certainty enhancement through clear safe harbors, standardized procedures, and reduced interpretive complexity that currently generates inconsistent outcomes. Convenience gains through automated systems, simplified elections, and reduced documentation requirements that align compliance timing with business operations. Economy benefits through reduced administrative costs for both taxpayers and the IRS, achieved through streamlined procedures and eliminated redundant requirements. These reforms would create a more balanced tax system that maintains essential policy objectives while substantially reducing the canonical violations identified in the empirical analysis, supporting both classical principles of sound taxation and contemporary requirements for economic efficiency.

One Big Beautiful Bill

The One Big Beautiful Bill (OB BB) Act of 2025 fundamentally alters this landscape by permanently extending key TCJA provisions and restoring immediate R&D expensing, thereby stabilizing rates and addressing timing misalignments that have plagued taxpayers since 2022. The legislation implements two major changes: restoration of immediate R&D expensing through IRC Section 174(a), reversing the TCJA's mandatory capitalization requirement; and extension of 100% bonus depreciation through 2029 for qualified property.⁸¹

Impact on Smith's Canons: Equity improves significantly through immediate R&D expensing, which eliminates inequities that burdened smaller research-intensive firms since 2022. While 100% bonus depreciation continues favoring capital-intensive enterprises, R&D restoration creates better alignment with taxpayers' ability to pay. However, ongoing GILTI restrictions and foreign tax credit limitations still burden smaller multinationals. Certainty experiences substantial improvement via permanent 21% corporate rates, clear R&D treatment, and stable bonus depreciation rules through 2029. These changes enable more accurate DTA valuations under ASC 740 and reduce remeasurement volatility that complicated financial reporting. The convenience canon benefits from eliminating complex R&D tracking requirements and expanding Section 179 thresholds, though international provisions remain complex. The elimination of capitalization documentation substantially reduces administrative burdens for thousands of R&D-intensive businesses. Administrative costs decrease through permanent rules and simplified R&D treatment, but the estimated revenue cost raises fiscal efficiency concerns and may

⁸⁰ Financial Accounting Standards Board. (2018). Accounting Standards Codification (ASC) 830: Foreign Currency Matters. <https://asc.fasb.org>

⁸¹ I.R.C. § 174(a) (as added by One Big Beautiful Bill Act § 301(a)) (restoring immediate expensing election); STAFF OF J. COMM. ON TAX'N, 119TH CONG., JCX-3-25, GENERAL EXPLANATION OF TAX LEGISLATION ENACTED IN THE 119TH CONGRESS 45-52 (2025) (explaining restoration of pre-2022 treatment).

constrain future policy flexibility. Under IRC 147(a) & 448(c) small businesses benefit particularly from retroactive provisions allowing enterprises under \$31 million in receipts to elect immediate R&D expensing for 2022-2024, creating substantial refund opportunities.⁸²

Overall, the OBBB significantly improves alignment with Smith's principles, particularly certainty and convenience, while addressing problematic R&D capitalization issues. The legislation demonstrates recognition that complex provisions undermine sound taxation principles, supporting arguments for simplification and immediate expensing. Nevertheless, economy concerns persist due to fiscal costs, while equity issues remain for smaller multinationals. The targeted relief approach reflects ongoing tensions between canonical compliance and maintaining economic incentives in modern tax systems.

Tradeoff

There is often a tradeoff in fully satisfying all four of Adam Smith's canons of taxation as achieving one principle can compromise another in practice. While Smith's framework still serves as a valuable evaluative lens, the complexity of the modern tax code often forces compromises between the canons. Literature increasingly emphasizes the trade-off between simplicity and policy goals. While tax deferrals may meet Smith's equity and convenience canons, they often violate the economy principle due to administrative complexity. For example, capital-intensive items may meet certainty but fail equity. Or as another example, pursuing equity through progressive income taxes may require complex rules and assessments, which undermine certainty by making tax laws harder to understand and predict, and reduce economy by increasing administrative burdens for both taxpayers and governments. Similarly, ensuring certainty with fixed deadlines and rules might conflict with convenience if those schedules do not align with taxpayers' cash flows, leading to penalties or additional costs that also violate the economy pillar. Another example is the tension between equity and economy in taxes on production (like income or payroll taxes), which aim for fairness but distort economic growth and raise challenges, whereas alternatives like land value taxes better balance non-distortion (economy and equity) with ease of collection (certainty and convenience), though implementing such shifts involves policy tradeoffs. These tensions reflect what modern scholars call the "efficiency–equity trade-off" in tax design.⁸³ Overall, modern tax systems rarely meet all canons perfectly, requiring compromises to prioritize certain principles over others based on economic and social goals.⁸⁴

Implications & Limitations

Academic Implications: The empirical finding that no deferred tax item achieves full canonical compliance challenges scholars to develop new theoretical models that better capture the inherent trade-offs in modern tax design. Traditional optimal tax theory, rooted in Mirrlees' work, assumes away many administrative complexities that this study demonstrates are central to canonical violations. Future theoretical research should incorporate compliance costs, administrative capacity constraints, and behavioral responses to complexity as first-order considerations rather than mere frictions. The methodology employed here—combining legal interpretation, economic analysis, and systematic comparative assessment—provides a replicable framework for evaluating other areas of tax law against normative principles. Scholars could extend this approach to examine international tax treaties, state and local tax systems, or comparative analyses across jurisdictions to identify which institutional structures best preserve canonical compliance while achieving policy objectives. The study also

⁸² I.R.C. § 448(c) (2024) (requiring C corporations and partnerships with C corporation shareholders to use accrual method of accounting); id. § 448(c)(1) (defining C corporation for purposes of this section); id. § 448(c)(2) (partnership exception where C corporation owns interest in partnership); id. § 448(c)(3) (requiring accrual method for partnerships with C corporation partners); id. § 448(c)(4) (exemption for partnerships making election under section 444)

⁸³ Mankiw, N. G. (2020). *Principles of Economics* (9th ed.). Cengage

⁸⁴ Musgrave, R. A., & Musgrave, P. B. (1989). *Public Finance in Theory and Practice*. McGraw-Hill.

highlights the need for interdisciplinary collaboration between legal scholars, economists, and accounting researchers to fully understand how book-tax conformity requirements create cascading complexity that undermines multiple canons simultaneously. The documented divergence between GAAP's stakeholder-focused objectives and the IRS's revenue-raising mandate suggests fertile ground for research on optimal book-tax conformity rules that balance financial reporting transparency with tax simplicity. Finally, this analysis reveals that academic tax research has perhaps overemphasized optimal rate structures and base definitions while undertheorizing the administrative architecture necessary to implement tax systems that satisfy classical principles.

Practical implications: The violations identified in this analysis create both challenges and opportunities for tax practitioners navigating current law. Tax attorneys should advise clients that while provisions violating Smith's convenience and economy canons—such as complex GILTI computations under IRC §951(a) or R&D capitalization under IRC §174—remain legally binding, aggressive positions exploiting ambiguities may invite heightened scrutiny. The partial satisfaction of the certainty canon across many provisions creates fertile ground for tax controversies, particularly in areas where subjective judgment intersects with regulatory complexity. For instance, uncertain tax positions under ASC 740 and contingent liability deductions under IRC §461(h) present recurring disputes, as evidenced by recent litigation in *Giant Eagle* and *Microsoft Corp.* Practitioners should document conservative interpretations while noting that taxpayers taking reasonable positions in these ambiguous areas may have strong defenses based on the very complexity that violates tax principles. During this transitional period, planning opportunities exist through careful structuring: smaller businesses might accelerate equipment purchases under expanded Section 179 before potential limitations, multinational clients could reassess supply chains given GILTI's administrative burden, and R&D-intensive companies should evaluate the retroactive relief provisions in the OBBB Act. Attorneys should particularly focus on provisions receiving "Partially met" ratings across multiple canons, as these areas often harbor both the greatest compliance risks and legitimate planning opportunities—for example, leveraging the flexibility in NOL carryforward timing while maintaining detailed documentation to satisfy convenience requirements. Canonical analysis offers a predictive framework for identifying the most controversial areas of tax law and compliance complexity and thus serves not merely as academic critique but as a practical roadmap for identifying where current law's complexity creates both controversy risks and compliant planning possibilities. Practitioners navigating deferred tax provisions should prioritize areas of 'partial compliance' across multiple canons, which often present both planning opportunities and audit risks.

Study Limitations: While this study offers a comprehensive evaluation of deferred tax, several limitations should be acknowledged. First, the assessment of compliance with Adam Smith's tax canons necessarily involves qualitative judgments. Although efforts were made to ensure consistency through clearly defined evaluative criteria, some degree of subjectivity remains, particularly when rating provisions as "partially met." Second, the analysis is grounded primarily in U.S. federal tax law and GAAP standards, which may limit the generalizability of findings to other jurisdictions or tax systems that operate under different accounting regimes. Third, the study focuses on statutory and regulatory design rather than enforcement dynamics—such as audit practices, taxpayer behavior, or IRS administrative discretion—which may materially affect real-world outcomes. Finally, the framework does not fully capture the macroeconomic or distributional consequences of deferred tax policy, such as long-term revenue volatility or incidence effects across income groups. Future empirical work could build on this foundation by incorporating quantitative models of taxpayer response, cross-jurisdictional comparisons, or longitudinal analyses of tax law reforms.

Building on the insights developed in this study, several lines of inquiry emerge as particularly valuable for future academic investigation in tax policy. First, scholars are encouraged to explore more rigorously the inherent tension between simplicity and sophistication in comprehensive tax reform. While theoretical models often treat these objectives as compatible, the empirical findings suggest that

prevailing policy approaches tend to achieve neither effectively. Future research might focus on developing innovative policy frameworks that reconcile administrative simplicity with the nuanced demands of modern economic systems, particularly by integrating compliance feasibility with incentive structures. Future scholarship should prioritize developing metrics for canonical compliance, testing the welfare effects of complexity-induced non-compliance, and designing mechanisms that preserve policy flexibility while enhancing certainty, convenience, and economy. Second, a critical normative question remains: should policymakers deliberately prioritize certain tax canons—such as equity, economy, or certainty—over others, or continue pursuing balanced, yet often incoherent, compromises? The empirical evidence presented herein indicates that current policy tends to favor economic incentives at the expense of canonical coherence. Future studies could examine how policymakers might strategically weight or sequence tax principles in ways that enhance both legitimacy and functionality of the system.

Third, this study identifies administrative complexity, especially in the context of deferred tax items, as a primary barrier to effective compliance. This insight invites further research into how emerging technologies—such as automation, AI-driven tax reporting tools, and blockchain—might alleviate burdens associated with convenience and economy failures. Systematic investigation into the design and implementation of such tools could contribute significantly to both theory and practice in tax administration.

In addition to these focal areas, future research might also consider broader structural and legal questions. For example: To what extent could harmonizing IRC provisions with GAAP reduce compliance costs and enhance transparency, without compromising revenue integrity or stakeholder rights? What trade-offs are inherent in reconciling competing tax canons, and how might these be better navigated within policy design? What role could blockchain and distributed ledger technology play in achieving canonical compliance? By synthesizing normative tax theory with empirical critique, this study lays the groundwork for a more holistic and evidence-informed approach to tax reform. The questions outlined here are not exhaustive but serve as a foundation for continued academic dialogue and exploration. Future scholarship that builds upon this framework may offer deeper insights into the design of tax systems that are both principled and pragmatically aligned with evolving economic and technological realities.

VI. CONCLUSION

Contemporary scholars argue that Smith's canons are still used as the foundation of discussion on the principles of taxation and the basis of tax policy, tax laws and tax administration. It forms the basis of reforms of any nation tax systems aimed at ensuring tax competitiveness among nations in order to attract human as well as investment capital in a world that have become a global village. Tax administrators recognize that in a complex economic and social environment, it may not be possible to design and administer a tax system that is fair and equitable in an absolute sense, highlighting ongoing challenges with traditional equity concepts.⁸⁵ Yet, Adam Smith's *The Wealth of Nations* (1776) remains a cornerstone in economics and public finance, with its taxation principles continuing to inform policy debates centuries after publication. This study critically analyzes U.S. Internal Revenue Service deferred tax policies through Smith's four canonical principles while incorporating modern extensions of flexibility, neutrality, and productivity.⁸⁶

The comprehensive evaluation of key deferred tax drivers—including depreciation under IRC §168, NOL carryforwards under IRC §172, R&D provisions under IRC §174, GILTI under IRC §951(a), and various reserves subject to IRC §461—reveals systematic timing mismatches, valuation complexities,

⁸⁵ Scholes, M. S., Wolfson, M. A., Erickson, M., Maydew, E. L., & Shevlin, T. (2015). *Taxes and business strategy: A planning approach* (5th ed.). Pearson.

⁸⁶ James, S., & Nobes, C. (2012). *The Economics of Taxation: Principles, Policy and Practice*. Fiscal Publications.

and compliance burdens that consistently challenge canonical principles. No deferred tax item fully satisfies all canons simultaneously, demonstrating fundamental trade-offs inherent in modern tax policy design. Capital-intensive provisions achieve equity benefits for larger firms while undermining convenience and economy for smaller entities, while certain IRC provisions provide regulatory certainty but generate administrative complexity that erodes practical compliance.

Drawing on interdisciplinary legal, economic, and policy perspectives, this analysis provides empirical evidence of systematic deviations from sound taxation principles. The detailed evaluation across numerous accounting items under ASC 740, ASC 842, and related standards reveals disproportionate benefits for sophisticated taxpayers and compliance burdens for smaller entities. The policy recommendations offer evidence-based approaches to enhance canonical alignment while supporting economic efficiency.

Appendix Section

Table 1 - Deferred Tax Items Definitions

Item	Definition
Asset Retirement Obligations	A legal or regulatory requirement for a company to dismantle, remove, or restore a long-lived asset at the end of its useful life. This obligation often arises in industries where environmental regulations or contractual agreements mandate the cleanup or restoration of sites after operations cease.
Accounts Receivable	Amount of money owed to a company by its customers for goods or services delivered but not yet paid for.
Operating Lease	Agreements where the lessee obtains the right to use an asset for a specific period without ownership transfer. Payments are treated as operating expenses, and the asset and liability are recorded on the balance sheet under accounting standards like ASC 842.
Financing Lease	Lease agreements where the lessee effectively assumes ownership of the leased asset for accounting purposes. The lessee recognizes the asset as a long-term asset and records a corresponding lease liability on the balance sheet, with interest and depreciation expenses reported in the income statement.
Issuance cost	Issuance costs are expenses incurred by a company to raise capital through the issuance of debt or equity securities. These costs include legal fees, underwriting fees, registration fees, and printing costs, and are typically amortized over the term of the securities for debt.
Environmental Obligations	Legal or constructive responsibilities that a company has to prevent, mitigate, or remediate environmental damage. These obligations often arise from laws, regulations, or contracts and may include cleanup costs, pollution control measures, or restoration of contaminated sites.
Investments in Partnerships	Represent a stakeholder's ownership interest in a partnership entity. These investments are typically accounted for using the equity method, where the investor recognizes their share of the partnership's income, losses, and distributions on their financial statements.
Uncertain Tax Positions	Tax treatments claimed by a taxpayer that may be challenged by tax authorities. These positions require a company to assess and disclose the potential financial impact if the treatment is disallowed, often involving the recognition of a liability for potential tax payments.
Employee Obligation	Liabilities incurred by a company for expenses related to its workforce, such as salaries, wages, bonuses, benefits, paid leave, and payroll taxes. These obligations are typically recognized as current liabilities on the balance sheet.
Warranty reserves	Liabilities recorded by a company to estimate the costs of repairing or replacing products under warranty. This reserve ensures that the company matches the potential warranty costs with the revenues generated from the sale of the product, adhering to the matching principle in accounting.
Rebates	Partial refunds or discounts offered by sellers to buyers after a purchase, typically as an incentive to encourage sales or reward customer loyalty. They are often conditional upon meeting specific criteria, such as volume purchases or timely payments.
Capital Expenditure	The allocation of the cost of capital expenditures over the useful life of the associated tangible assets. This systematic expense reflects the wear and tear or obsolescence of the asset and is recorded periodically on the income statement.
Capitalized R&D	Refers to research and development costs that are recorded as an asset on the balance sheet rather than expensed immediately. These costs are amortized over time, typically when they are associated with the development of a product or technology that meets criteria for future economic benefit, as allowed under certain accounting standards.
Capitalized cost	Expenses incurred to acquire or improve a long-term asset that are added to the asset's value on the balance sheet rather than being expensed immediately. These costs are amortized or depreciated over the asset's useful life. Examples include purchase price, installation fees, and major upgrades.
Acquisition cost	The total amount a company pays to acquire an asset or business. This cost includes more than just the purchase price — it also covers all expenses necessary to prepare the asset for use such as

	installation, setup, shipping and legal fees.
Goodwill impairments	Goodwill impairments occur when the carrying value of goodwill on a company's balance sheet exceeds its fair value, indicating a decline in the expected future economic benefits of the acquired business. This results in a non-cash accounting charge to reduce the value of goodwill.
Advanced Payment	Advanced payment is a payment made by a buyer to a seller before the delivery of goods or services. It is recorded as a liability (unearned revenue) on the seller's balance sheet until the obligation is fulfilled and as a prepaid expense on the buyer's balance sheet until the goods or services are received.
Accrued Liabilities	Are obligations that a company has incurred but not yet paid by the end of an accounting period. These liabilities are recorded because the expense has been recognized under the accrual accounting method, even though the payment has not been made.
Deferred Revenue	A liability representing payments received by a company for goods or services that have not yet been delivered or performed. It is recognized as revenue on the income statement only when the goods or services are provided.
Allowance for Doubtful Accounts	A contra-asset account used to estimate the portion of a company's accounts receivable that may not be collectible. It reflects the expected credit losses and ensures compliance with the matching principle by recognizing potential bad debts in the same period as the related revenue.
Currency Swaps & Derivatives	Swaps: a financial agreement between two parties to exchange cash flows or liabilities, often based on interest rates, currencies, or other financial benchmarks. Common types include interest rate swaps and currency swaps. Derivatives: financial instruments whose value is derived from an underlying asset, index, or rate. Examples include options, futures, forwards, and swaps, used for hedging, speculation, or arbitrage.
Contingency liability	A potential obligation that may arise depending on the outcome of a future event. It is not recorded as a liability on the balance sheet unless certain recognition criteria are met but is disclosed in the financial statements if reasonably possible.
Translation adjustment	Gains or losses resulting from converting a company's foreign subsidiaries' financial statements from their functional currency to the reporting currency. These adjustments are recorded in Other Comprehensive Income (OCI) and reflect changes in exchange rates during the reporting period.
Pension compensation	Pension obligations are the financial commitments a company has to provide retirement benefits to its employees under a pension plan. These obligations represent the present value of future payments owed to employees based on factors such as service years, salary levels, and actuarial assumptions.
Stock compensation	A type of equity compensation is a form of employee remuneration where a company provides employees with ownership interests, such as stocks, as part of their compensation package. It is commonly used to attract and retain talent, align employee interests with shareholders, and incentivize long-term performance.
Other Receivables	Amounts owed to a company that do not fall under the usual categories of trade receivables. They are typically recorded as current assets on the balance sheet if they are expected to be collected within a year. Examples include employee advances, interest, dividend receivables, reimbursements, and tax refunds.
Capital Loss carry forward	Capital loss carryforward is a tax provision that allows individuals or businesses to apply unused capital losses from one tax year to offset capital gains or taxable income in future years. This helps reduce future tax liabilities, subject to specific limits and regulations.
NOL carry forward	NOL Carryforwards allows a business to apply a net operating loss incurred in one tax year to offset taxable income in future years. This provision reduces future tax liabilities and helps businesses manage the financial impact of losses, subject to limitations and regulations.
Tax credit (carry forward)	Refers to the ability of a taxpayer to apply unused tax credits from a current year to offset tax liabilities in future years. This provision helps maximize the benefit of credits that exceed the taxpayer's current-year tax liability, subject to time limits and specific rules.
Foreign tax credit	Foreign tax credit carryforwards allow taxpayers to apply unused foreign tax credits from a current

carryforwards	year to offset foreign tax liabilities in future years. These credits are generally carried forward for up to 10 years under U.S. tax law.
Federal tax credit carryforwards	Federal tax credit carryforwards enable taxpayers to use unused federal tax credits, such as the general business credit, in subsequent years to reduce federal tax liabilities, often subject to specific time limits and regulations.
R&D credit carry forward	Refers to the ability of a company to apply unused research and development tax credits to offset future tax liabilities if the credits cannot be fully utilized in the current tax year. These carryforwards are subject to specific time limits and regulations, depending on jurisdiction.
Miscellaneous costs	Refer to expenses that do not fall under a specific category in accounting or budgeting. These costs are typically minor or infrequent but necessary for operational or personal activities. They are often grouped together in financial reports to simplify accounting.
Valuation Allowance	VA is a contra-account used to reduce the value of deferred tax assets (DTAs) on the balance sheet. It reflects the portion of a DTA that is unlikely to be realized due to insufficient future taxable income or other factors.
Inventory	The goods and materials a company holds for sale in the ordinary course of business or for use in production. It is classified as a current asset on the balance sheet and typically includes raw materials, work-in-progress, and finished goods.
Prepaid rent & insurance	Prepaid Rent: A payment made in advance for the use of property or space, recorded as a current asset on the balance sheet. It is expensed over time as the rent period occurs. Prepaid Insurance: A payment made in advance for insurance coverage, recorded as a current asset on the balance sheet. It is expensed periodically as the coverage period elapses.
Depreciation & Amortization	D&As are accounting methods used to allocate the cost of tangible and intangible assets over their useful lives. While similar in principle, they apply to different types of assets.
Depreciation	The process of allocating the cost of a tangible asset over its useful life to reflect wear and tear, obsolescence, or usage.
Amortization	The process of systematically allocating the cost of an intangible asset over its useful life. It reflects the consumption or use of the asset's value over time and ensures compliance with the matching principle in accounting, which matches expenses to the revenues they help generate.
Global Intangible Low-Taxed Income	GILTI is a provision introduced by the U.S. Tax Cuts and Jobs Act of 2017 to tax the income of U.S. shareholders from controlled foreign corporations (CFCs) that exceeds a 10% return on tangible assets. This measure aims to discourage profit shifting to low-tax jurisdictions by U.S. multinational companies. Targets U.S. shareholders owning at least 10% of a CFC. GILTI is calculated as the excess of the U.S. shareholder's net CFC tested income over the net deemed tangible income return, which is 10% of the CFC's qualified business asset investment (QBAI).
Deferred Foreign earnings	Accumulated profits of a company's foreign subsidiaries have not been repatriated to the parent company. Under certain tax systems, these earnings may not be taxed in the parent company's home country until they are distributed as dividends, reinvested, or otherwise repatriated.
Subsidiaries Investments	A type of subsidiary established primarily to hold and manage investments, such as securities, real estate, or other financial assets. These subsidiaries are often used for tax planning, risk management, or to consolidate and segregate investment activities from the parent company's core operations.
Right of Use assets	Represent the lessee's right to use a leased asset over the lease term. Under accounting standards like ASC 842, ROU assets are recorded on the balance sheet at the present value of lease payments and amortized over the lease term.
Other Prepaid expenses	Other payments made by a company for goods or services to be received in the future. These are recorded as assets on the balance sheet and expensed on the income statement as the benefits are realized over time.
Valuation Adjustments	Refer to changes made to the recorded value of an asset, liability, or equity to reflect its fair market value or more accurate economic reality. These adjustments are essential for ensuring financial statements present a true and fair view of a company's financial position.
Deferred Capital	Profits from the sale of an asset that are not immediately taxed due to specific provisions or

Gains	strategies, such as reinvesting proceeds into qualifying assets or deferring recognition through installment sales or like-kind exchanges.
Other Compensation & Benefits	Refers to forms of employee remuneration that are not part of regular salary or wages. It includes additional financial and non-financial benefits provided by employers to incentivize, reward, or support employees beyond their base pay.
Partnership income	The earnings or losses generated by a partnership business that are distributed among its partners based on the partnership agreement. A partnership does not pay income taxes directly; instead, income, deductions, and credits flow through to the partners, who report them on their individual tax returns.
Tax adjustments	Refer to changes made to taxable income or tax liability to reflect correct amounts based on allowable deductions, credits, exemptions, or adjustments mandated by tax laws. These adjustments ensure that taxpayers or businesses comply with tax regulations and pay the correct amount of tax.
Discounts	A reduction in the amount due from a customer, offered by a seller as an incentive for early payment. It is typically expressed as a percentage and noted in payment terms. A purchase discount is a reduction in the purchase price offered by a supplier to a buyer as an incentive for early payment.
In Process R&D Spending	IPR&D refers to intangible assets acquired in a business combination that represent incomplete research and development projects. These assets are recorded at fair value on the acquisition date and are subsequently accounted for as part of the acquiring company's R&D efforts.
Hedge accounting	Hedge accounting is an accounting method that aligns the financial reporting of a hedging instrument (e.g., a derivative) with the underlying exposure it is meant to offset. This approach reduces income statement volatility by recognizing gains and losses from both the hedging instrument and the hedged item in the same period.
General Business Credit Carry forwards	These carryforwards allow taxpayers to apply unused general business credits from a current tax year to offset tax liabilities in future years. These credits, which include various incentives like R&D and investment credits, can typically be carried forward for up to 20 years under U.S. tax law.
Restricted stock units	A form of compensation issued to employees in the form of company shares, subject to certain restrictions or vesting conditions. Employees receive the shares only after fulfilling specified requirements, such as remaining with the company for a set period or achieving performance milestones. Once vested, RSUs are considered taxable income and can either be sold or retained by the employee.
Incentive stock options	A type of stock option offered to employees that provide a tax advantage under U.S. tax law if specific conditions are met. Unlike NSOs, ISOs allow employees to purchase company stock at a predetermined price (the exercise price) and potentially benefit from favorable tax treatment on any gains.
Nonqualified stock option	Are a type of employee stock option that allows employees or other stakeholders to purchase company stock at a fixed price. NSOs do not qualify for special tax treatment and are taxed as ordinary income at the time of exercise.

Table 2- Adam Smith's Tax Canons Analysis⁸⁷

Accounting Item	Canon of Equality	Canon of Certainty	Canon of Convenience	Canon of Economy
Asset Retirement Obligations	Partially met: Deductions tied to costs incurred (IRC §461(h)) align with ability to pay, but smaller firms face compliance burdens.	Partially met: Clear rules for economic performance, but exceptions (e.g., IRC §198) create uncertainty.	Partially met: Deductions align with cash outflows, but complex record keeping reduces ease.	Partially met: Uses existing rules, but high compliance costs for taxpayers.
Accounts Receivable	Met: Income taxed when earned, bad debt deductions (IRC §166) align with ability to pay.	Met: Clear rules for accrual and bad debt deductions.	Met: Deductions for bad debts align with economic loss timing.	Met: Simple rules minimize compliance and audit costs.
Operating Lease	Partially met: Lessee deductions over lease term (IRC §162) may burden smaller firms.	Met: ASC 842 and IRS rules provide clear deduction timing.	Met: Periodic deductions match lease payments, easing cash flow.	Met: Standardized rules reduce compliance costs.
Financing Lease	Partially met: Interest and depreciation deductions (IRC §163, §168) favor capital-rich firms.	Met: Clear rules for capital leases under ASC 842 and IRS.	Partially met: Deductions spread over time, but complex calculations.	Partially met: Complex basis tracking increases costs.
Issuance Cost	Partially met: Amortization (IRC §248) aligns with benefits, but upfront costs burden smaller firms.	Met: Clear amortization rules for debt/equity issuance.	Partially met: Amortization spreads deductions but requires tracking.	Partially met: Amortization rules are standard but add record-keeping costs.
Environmental Obligations	Partially met: Deductions (IRC §198) tied to costs, but complexity favors larger firms.	Partially met: IRC §198 provides clarity, but eligibility varies.	Partially met: Deductions align with remediation, but documentation is complex.	Partially met: High compliance costs for taxpayers, moderate for IRS.
Investments in Partnerships	Partially met: Pass-through taxation (IRC §701) aligns with income, but complexity burdens smaller investors.	Partially met: Clear pass-through rules, but K-1 reporting is complex.	Partially met: Income taxed as earned, but K-1 delays complicate timing.	Partially met: High compliance costs for partners due to K-1s.
Uncertain Tax Positions	Partially met: Reserves not deductible (ASC 740), ensuring fairness, but penalizes conservative firms.	Partially met: ASC 740 provides framework, but IRS scrutiny creates uncertainty.	Not met: Complex calculations and disclosures burden taxpayers.	Not met: High compliance and audit costs for both parties.
Employee Obligation	Met: Deductions (IRC §162) tied to payments align with ability to pay.	Met: Clear rules for wages, pensions, and benefits.	Met: Deductions match payment timing, easing compliance.	Met: Simple rules minimize costs.
Warranty Reserves	Partially met: Deductibility upon payment ensures fairness, but small firms	Met: Clear rules prohibit reserve deductions until costs are incurred.	Partially met: Deduction timing aligns with economic outflow, but	Partially met: Simple for IRS, but high internal tracking costs increase

⁸⁷ **Met** – The provision fully complies with the canon's normative criteria across most taxpayer profiles.

Partially Met – The provision aligns with the canon in principle but exhibits significant exceptions, complexity, or disproportionate impacts.

Not Met – The provision structurally contradicts the canon's objectives or imposes systemic burdens inconsistent with the principle.

Items are assessed based on legal interpretation (IRC/Treasury regulations), accounting treatment (ASC), and practical administrative implications.

	face burdens from timing mismatches. IRC §461(h)		tracking adds complexity.	taxpayer burden.
Rebate Cost	Met: Deductions (IRC §162) when paid align with economic reality.	Met: Clear rules for rebate deductions as ordinary expenses.	Met: Deductions match rebate payments, easing cash flow.	Met: Low compliance and audit costs.
Capital Expenditure	Partially met: Depreciation (IRC §168) spreads deductions but favors capital-intensive firms.	Met: Clear MACRS depreciation schedules.	Partially met: Deductions spread over time but require complex tracking.	Partially met: Standardized rules, but basis tracking increases costs.
Capitalized R&D	Partially met: Amortization (IRC §174) aligns with benefits, but burdens smaller R&D firms.	Met: Post-TCJA and OBBB rules offer consistent capitalization treatment.	Partially met: Amortization provides deferral, but delayed tax relief and complex tracking increase compliance difficulty.	Partially met: Standardized amortization is predictable, but documentation requirements generate disproportionate costs for smaller firms.
Capitalized Cost	Partially met: Depreciation/amortization (IRC §168) favors larger firms with capital.	Met: Clear rules for capitalizing and depreciating costs.	Partially met: Deductions spread over time, but complex calculations.	Partially met: High tracking costs for taxpayers.
Acquisition Cost	Partially met: Basis allocation (IRC §1060) aligns with value, but complex for smaller firms.	Met: Clear rules for purchase price allocation.	Partially met: Deductions via depreciation, but allocation is complex.	Partially met: Complex allocation increases compliance costs.
Goodwill Impairments	Partially met: No deduction for impairments (IRC §197), ensuring fairness, but penalizes acquired firms.	Met: Clear rule prohibiting impairment deductions.	Met: No deductions simplify compliance.	Met: Low compliance and audit costs.
Advanced Payment	Met: Income deferred (Rev. Proc. 2004-34) aligns with ability to pay.	Met: Clear deferral rules for advance payments.	Met: Deferral matches revenue recognition, easing compliance.	Met: Simple rules minimize costs.
Accrued Liabilities	Partially met: Deductions only when incurred (IRC §461(h)) ensure fairness, but delay burdens smaller firms.	Met: Clear economic performance rules.	Partially met: Deductions align with payments, but tracking is complex.	Partially met: Simple IRS rules, but taxpayer tracking costs are high.
Deferred Revenue	Met: Income taxed when earned (IRC §451), aligning with ability to pay.	Met: Clear rules for revenue recognition (post-TCJA).	Met: Tax aligns with revenue recognition, easing compliance.	Met: Low compliance and audit costs.
Allowance for Doubtful Accounts	Partially met: Deductions only for actual bad debts (IRC §166), but delays burden smaller firms.	Met: Clear rules for bad debt deductions.	Partially met: Deductions align with losses, but reserves are complex.	Partially met: Simple IRS rules, but taxpayer tracking costs are high.
Currency Swaps & Derivatives	Partially met: Mark-to-market (IRC §475) aligns with income, but complexity favors larger firms.	Partially met: Clear rules for hedging, but valuation is complex.	Not met: Complex valuation and reporting burden taxpayers.	Not met: High compliance and audit costs due to complexity.
Contingency	Partially met: Deductions	Met: Clear rules prohibit	Partially met: Deductions	Partially met: Simple IRS

Liability	only when fixed (IRC §461(h)) align with ability to pay, but delay burdens smaller firms.	deductions for reserves until fixed.	align with payments, but tracking is complex.	rules, but taxpayer tracking costs are high.
Translation Adjustment	Met: Non-taxable treatment aligns with economic reality, avoiding artificial income recognition.	Met: Clear exclusion from taxable income supports predictability.	Met: No recognition or disclosure burden for tax purposes streamlines compliance.	Met: No tax treatment eliminates administrative costs for both taxpayers and IRS.
Pension Compensation	Met: Deductions (IRC §404) when funded align with ability to pay.	Met: Clear rules for pension deductions and funding limits.	Met: Deductions match funding, easing cash flow.	Met: Standardized rules minimize costs.
Stock Compensation	Partially met: Deductions (IRC §83) align with employee income, but favor firms with stock plans.	Met: Clear rules for timing and valuation of stock options/RSUs.	Met: Deductions match employee taxation, simplifying timing.	Met: Standardized rules, but valuation can increase costs.
Other Receivables	Met: Income taxed when earned, bad debt deductions (IRC §166) align with ability to pay.	Met: Clear rules for accrual and bad debt deductions.	Met: Deductions for bad debts align with economic loss.	Met: Simple rules minimize compliance costs.
Capital Loss Carry Forward	Met: Carryforwards (IRC §1212) provide relief, aligning with ability to pay.	Met: Clear rules for carryforward periods and limits.	Met: Carryforwards ease tax burden over time.	Met: Low compliance and audit costs.
NOL Carry Forward	Met: NOLs (IRC §172) offset future income, aligning with ability to pay.	Met: Clear post-TCJA rules for NOL carryforwards.	Met: Carryforwards simplify tax planning.	Met: Low compliance and audit costs.
Tax Credit (Carry Forward)	Met: Credits (IRC §38, §39) reduce tax liability, aligning with ability to pay.	Met: Clear rules for carryforward periods and usage.	Met: Carryforwards ease tax burden over time.	Met: Low compliance and audit costs.
Foreign Tax Credit Carryforwards	Met: Credits (IRC §904) prevent double taxation, aligning with ability to pay.	Partially met: Complex basket rules reduce clarity.	Partially met: Credits ease tax burden, but calculations are complex.	Partially met: High compliance costs due to complexity.
Federal Tax Credit Carryforwards	Met: Credits (IRC §38) reduce liability, aligning with ability to pay.	Met: Clear rules for carryforward eligibility.	Met: Carryforwards simplify tax planning.	Met: Low compliance and audit costs.
R&D Credit Carry Forward	Met: Credits (IRC §41) incentivize R&D, aligning with ability to pay.	Met: Clear rules for R&D credit calculation and carryforward.	Met: Carryforwards ease tax burden for R&D firms.	Met: Moderate compliance costs due to documentation.
Miscellaneous Costs	Partially met: Deductions (IRC §162) when incurred align with ability to pay but vary by type.	Partially met: Varies by cost type, reducing clarity.	Partially met: Deductions align with payments but tracking varies.	Partially met: Varies by cost, increasing compliance costs.
Valuation Allowance	Met: No tax impact (ASC 740) ensures fairness by aligning with economic reality.	Met: Clear rules for deferred tax asset valuation.	Met: No direct tax impact simplifies compliance.	Met: Low compliance costs, but calculations can be complex.
Inventory	Partially met: COGS deductions (IRC §471) align with sales, but	Met: Clear rules for inventory valuation (e.g., LIFO, FIFO).	Met: Deductions match sales, easing cash flow.	Partially met: Complex valuation methods increase costs.

	complex for smaller firms.			
Prepaid Rent & Insurance	Partially met: Deductions spread over benefit period (IRC §461) burden smaller firms.	Met: Clear rules for prepaid expense deductions.	Partially met: Deductions spread over time but require tracking.	Partially met: Tracking increases compliance costs.
Depreciation	Partially met: Deductions (IRC §168) favor capital-intensive firms.	Met: Clear MACRS depreciation schedules.	Partially met: Deductions spread over time but require tracking.	Partially met: Standardized rules, but basis tracking increases costs.
Amortization	Partially met: Deductions (IRC §197, §248) favor firms with intangibles.	Met: Clear rules for amortizable assets.	Partially met: Deductions spread over time but require tracking.	Partially met: Tracking increases compliance costs.
Depreciation & Amortization	Partially met: Deductions (IRC §168, §197) favor capital-intensive firms.	Met: Clear rules for depreciation and amortization.	Partially met: Deductions spread over time, but complex tracking.	Partially met: High tracking costs for taxpayers.
Global Intangible Low-Taxed Income	Partially met: GILTI tax (IRC §951(a)) burdens multinationals, but credits offset liability.	Partially met: Complex rules reduce clarity.	Not met: Complex calculations burden taxpayers.	Not met: High compliance and audit costs.
Deferred Foreign Earnings	Partially met: Deemed repatriation (IRC §965) aligns with income, but burdens smaller multinationals.	Partially met: Complex transition tax rules reduce clarity.	Not met: Complex reporting burdens taxpayers.	Not met: High compliance and audit costs.
Subsidiaries Investments	Partially met: Income taxed when repatriated (IRC §951) but favors large multinationals.	Partially met: Complex CFC rules reduce clarity.	Not met: Complex reporting for CFCs burdens taxpayers.	Not met: High compliance and audit costs.
Right of Use Assets	Partially met: Depreciation deductions (IRC §168) favor capital-intensive firms.	Met: Clear rules under ASC 842 and IRS for ROU assets.	Partially met: Deductions spread over lease term but require tracking.	Partially met: Complex tracking increases costs.
Other Prepaid Expenses	Partially met: Deductions spread over benefit period (IRC §461) burden smaller firms.	Met: Clear rules for prepaid expense deductions.	Partially met: Deductions spread over time but require tracking.	Partially met: Tracking increases compliance costs.
Valuation Adjustments	Met: No tax impact (ASC 820) ensures fairness by aligning with economic reality.	Met: Clear rules exclude valuation adjustments from tax.	Met: No tax reporting simplifies compliance.	Met: Minimal compliance and audit costs.
Deferred Capital Gains	Met: Deferral (IRC §1031, §1033) aligns with ability to pay.	Met: Clear rules for like-kind exchanges and deferrals.	Met: Deferral eases tax burden at transaction time.	Met: Low compliance costs, but documentation required.
Other Compensation & Benefits	Met: Deductions (IRC §162) when paid align with ability to pay.	Met: Clear rules for compensation deductions.	Met: Deductions match payment timing.	Met: Simple rules minimize costs.
Partnership Income	Partially met: Pass-through taxation (IRC §701) aligns with income, but burdens smaller partners.	Partially met: Clear pass-through rules, but K-1 complexity.	Partially met: Income taxed as earned, but K-1 delays complicate.	Partially met: High compliance costs due to K-1s.
Tax Adjustments	Partially met: Adjustments	Partially met: Clear ASC	Not met: Complex	Not met: High compliance

	(ASC 740) ensure fairness, but complexity burdens smaller firms.	740 rules, but IRS scrutiny adds uncertainty.	calculations burden taxpayers.	and audit costs.
Discounts	Met: Deductions (IRC §162) when offered align with economic reality.	Met: Clear rules for discount deductions as expenses.	Met: Deductions match discount timing.	Met: Low compliance and audit costs.
In Process R&D Spending	Partially met: Amortization (IRC §174) aligns with benefits, but burdens smaller R&D firms.	Met: Clear post-TCJA rules for R&D capitalization.	Partially met: Amortization spreads deductions, but delays relief.	Partially met: Tracking increases compliance costs.
Hedge Accounting	Partially met: Mark-to-market (IRC §475) aligns with income but favors large firms.	Partially met: Clear hedging rules, but valuation complexity.	Not met: Complex valuation and reporting burden taxpayers.	Not met: High compliance and audit costs.
Business Credit Carryforwards	Met: Credits (IRC §38, §39) reduce liability, aligning with ability to pay.	Met: Clear rules for carryforward eligibility.	Met: Carryforwards ease tax burden over time.	Met: Low compliance and audit costs.
Restricted Stock Units	Partially met: Deductions (IRC §83) align with employee income, but favor firms with stock plans.	Met: Clear rules for RSU valuation and timing.	Met: Deductions match employee taxation timing.	Met: Standardized rules, but valuation can increase costs.
Incentive Stock Options	Partially met: No deduction for employer (IRC §422), but employee benefits align with ability to pay.	Met: Clear rules for ISO tax treatment.	Met: No employer deductions simplify compliance.	Met: Low compliance and audit costs.
Nonqualified Stock Options	Partially met: Deductions (IRC §83) align with employee income, but favor firms with stock plans.	Met: Clear rules for NQSO valuation and timing.	Met: Deductions match employee taxation timing.	Met: Standardized rules, but valuation can increase costs.

Table 3 - Recommendation Summary

Deferred Tax Item	Current Issue	Recommendations
Deferred Revenue	Deferring income until earned aligns with economic reality but smaller firms struggle with revenue-matching rules and tracking.	Allow more flexibility for small businesses to defer based on contract completion or cash basis; simplify post-TCJA rules with uniform safe harbor.
Gain Deferral (§1031)	Benefits mainly real estate investors; small business/retail investors often don't qualify.	Expand eligibility to small business assets like equipment or partial deferral for broader assets; clearer guidelines for multi-asset/personal-use exchanges; digital pre-clearance or safe harbors for convenience.

NOL Carryforwards (§172)	Constrained by 80% limitation post-TCJA; uncertainty for exiting firms.	Restore full offset for genuine losses, especially SMEs; standardize documentation/carryover rules; introduce partial refunds via monetization for distressed industries.
Capital Loss Carryforwards (§1212)	Capped at \$3,000/year for individuals, limiting fairness for significant losses.	Increase cap with inflation/equity norms; clear guidance on loss character; integrate tracking with Form 1099s.
Tax Credit Carryforwards	Risk expiration before utilization, especially for early-stage firms.	Extend periods beyond 20 years or add partial refundability for start-ups; automate tracking via IRS transcripts; pre-approval processes.
Accrued Liabilities (§461(h))	Delay deductions until economic performance, burdening cash flow for smaller firms.	Safe-harbor deductions for recurring liabilities like bonuses/warranties; clarify timing rules; standardize with financial accruals; materiality thresholds.
Advanced Payment	Complex and industry-restricted, challenging broader application.	Expand eligibility to smaller businesses with deposits/subscriptions; codify into IRC; default 1-year deferral election; minimize audits for immaterial amounts.
Goodwill Impairments (§197)	Not deductible for tax, only financial reporting; mismatches in downturns.	Allow partial deductions during restructuring; clarify thresholds; synchronize with book recognition; require auditor confirmation.
R&D Credit Carryforwards (§41)	Start-ups accumulate unusable credits due to low income.	Monetize via refundable cap/payroll offsets for early-stage; fixed guidelines for costs; integrate Form 6765 with software; expand pre-certification.
Valuation Allowance (ASC 740)	Loss of DTA benefits from uncertain income; subjective volatility.	Extended recovery periods; IRS-approved forecasting models; optional book-tax sync; qualitative disclosures for low DTAs.
Mark-to-Market Treatment and Hedges/Currency Swaps (§475)	Taxable income without cash flows; complexity/strain.	Election to defer unrealized gains for long-term hedges; align with ASC 815; pre-approve elections; materiality thresholds for micro-hedges.
Asset Retirement Obligations	Deductions only when incurred; burden for long-term liabilities.	Phased deductions/reserves for high-certainty; clarify economic performance; simplified elections for low-risk; data sharing IRS/EPA.
Accounts Receivable	Generally aligned but can improve fairness/efficiency.	Continue bad debt deductions (§166); automate write-offs below thresholds.
Operating Leases	Compliance challenges for smaller lessees due to complex reporting.	Scale simplified rules for small lessees; align with ASC 842; reduce redundant disclosures.
Financing Leases	Complex depreciation/interest rules; reconciliation challenges.	Clearer examples for tax/book reconciliation; unified deduction election.
Issuance Costs	Must be capitalized/amortized; financial burden/complexity.	Immediate deductions below \$5,000; simplify amortization forms.
Investments in Partnerships	Complex K-1/pass-through rules; administrative burdens.	Streamline K-1 deadlines; create simplified K-1 for small investors.
Uncertain Tax Positions	Ambiguity encourages aggressive strategies; complexity.	Mandate safe harbors; limit disclosures to material items.
Employee Obligations	Generally aligned, but efficiency improvements possible.	Continue real-time payroll automation; consolidated reporting for small employers.
Warranty Reserves	Delayed deductions until costs incurred; cash flow issues.	Permit reserves for predictable/recurring under safe-harbor rates.

Capital Expenditure Rules	Delay cost recovery; liquidity impact on smaller firms.	Expand §179 deductions; maintain bonus depreciation for capital-intensive.
Capitalized R&D Expenses	Amortize over 5 years; burdens for SMEs/start-ups.	Restore immediate expensing for SMEs/start-ups; simplified elections.
Acquisition Costs (§1060)	Complex allocation for smaller transactions.	Default allocation templates for small deals.
Allowance for Doubtful Accounts	Deductions only for actual write-offs; challenges for high-volume lenders.	Reasonable reserve-based deductions for lenders; match GAAP with caps.
Currency Swaps and Derivatives	Valuation complexity; compliance challenges.	Publish IRS valuation ranges; streamline reporting for small hedges under \$1M.
Contingency Liabilities	Deductible only when fixed; delays/burdens.	Allow deductions if probability >80% with docs; align with ASC 450.
Stock Compensation Rules	Timing/valuation mismatches.	Synchronize deductions with employee taxation; cap valuations at grant-date FMV.
CFC/Subpart F Rules (§951)	Defer tax but burden smaller multinationals.	Simplified/exemptions below \$1M; unify guidance; consolidated reporting; compliance thresholds.
ROU Assets (ASC 842)	Deferred recognition; complex tracking.	Simplified deduction method for SMEs; align IRS with ASC 842; combined reporting; standard tables.
Other Prepaid Expenses (§461, e.g., Insurance/Rent)	Capitalized over benefit period; mismatches/burdens.	Full deductions below 12-month/\$50K; safe harbor list; annual GAAP election; reduce scrutiny.
Inventory Valuation (§471, §263A)	Complexity with methods; stringent for smaller businesses.	Cash/simplified rules for small under §448; uniform guidance; industry safe harbors; exempt below \$25M from §263A.
Prepaid Rent and Insurance	Amortized despite advances; liquidity strain.	Expand 12-month rule; clarify treatments; election for under \$50K deductions; reduce audits for small.
MACRS/Bonus Depreciation (§168)	Benefits capital-intensive; inequities for others.	Expand §179 for service/tech; publish tables/clarifications; optional straight-line without Form 3115; maintain/phased bonus.
Amortization (§197, §248)	15+ year periods for intangibles; deferral gaps	Shorter periods (5-7 years) for start-ups; safe-harbor schedules; immediate expensing below de minimis; book-tax conformity.
Depreciation and Amortization Rules	Complex basis/elections/methods; compliance burden.	Unified framework; automatic elections; small business calculator tool; simplify Form 4562 for few assets.
GILTI (§951A)	Impacts U.S. multinationals; burdens for ineligible entities.	Extend §250/exempt low-return; fixed high-tax thresholds; consolidated reporting with worksheets; focus enforcement on high-risk.

Table 4 – IRC Reference Summary

IRC section	Summary	Description
I.R.C. §38	Consolidates various business-related credits into one general business credit.	I.R.C. § 38 (2024) (general business credit allowed against tax imposed); id. § 38(a) (allowance of credit equal to sum of carryforwards, current year credit, and carrybacks); id. § 38(b) (current year business credit as sum of specified credits); id. § 38(b)(1) (investment credit under section 46); id. § 38(b)(2) (work opportunity credit under section 51(a)); id. § 38(b)(4) (research credit under section 41(a)); id. § 38(b)(5) (low-income housing credit under section 42(a)); id. § 38(c) (limitation based on amount of tax); id. § 38(c)(1) (credit limited to excess of net income tax over greater of tentative minimum tax or 25 percent of net regular tax liability exceeding \$25,000); id. § 38(c)(2) (special rule for specified credits against minimum tax); id. § 38(c)(4) (special rules for specified credits); id. § 38(c)(5) (rules related to eligible small businesses); id. § 38(c)(6) (estates and trusts limitations); id. § 38(d) (ordering rules for use of credits).
I.R.C. §39	Provides rules for carrying back and forward unused general business credits.	I.R.C. § 39 (2024) (carryback and carryforward of unused business credits); id. § 39(a) (1-year carryback and 20-year carryforward rules); id. § 39(a)(1) (defining unused credit year when business credits exceed section 38(c) limitation); id. § 39(a)(1)(A) (business credit carryback to preceding taxable year); id. § 39(a)(1)(B) (business credit carryforward to each of 20 following taxable years); id. § 39(a)(2) (ordering rule requiring unused credit carried to earliest available year); id. § 39(a)(3) (5-year carryback for marginal oil and gas well production credit); id. § 39(a)(4) (3-year carryback for applicable credits under section 6417(b)); id. § 39(b) (limitation on carrybacks based on section 38(c) limitation for preceding years); id. § 39(c) (limitation on carryforwards based on section 38(c) limitation for succeeding years); id. § 39(d) (prohibition on carryback of unused business credits attributable to specified credits in section 38(b)).
I.R.C. §83	Defines tax treatment of property transferred for services, including timing of income inclusion.	I.R.C. § 83 (2024) (property transferred in connection with performance of services); id. § 83(a) (general rule for inclusion in gross income when property becomes transferable or not subject to substantial risk of forfeiture); id. § 83(b) (election to include fair market value in gross income in year of transfer); id. § 83(b)(2) (election must be made within 30 days and may not be revoked without Secretary's consent); id. § 83(c)(1) (substantial risk of forfeiture when rights conditioned on future performance of substantial services); id. § 83(c)(2) (transferability requires rights not subject to substantial risk of forfeiture); id. § 83(c)(3) (Securities Exchange Act section 16(b) creates substantial risk of forfeiture); id. § 83(h) (employer deduction for amount included in service provider's income); id. § 83(i) (qualified stock election for deferral).

I.R.C. §1060	Governs allocation of purchase price in applicable asset acquisitions among business assets.	I.R.C. § 1060 (2024) (special allocation rules for certain asset acquisitions); id. § 1060(a) (general rule requiring allocation of consideration using section 338(b)(5) residual method); id. § 1060(b) (information reporting requirements for transferor and transferee regarding section 197 intangibles allocation); id. § 1060(c) (definition of applicable asset acquisition as transfer of trade or business assets with basis determined by consideration paid); id. § 1060(d) (treatment of partnership distributions and transfers subject to section 755); id. § 1060(e) (information reporting requirements for transfers by 10-percent owners with related employment or non-compete agreements); id. § 1060(f) (cross-reference to penalties under section 6721 for failure to file required returns).
I.R.C. §1212	Provides for the carryover of unused capital losses to future years to offset capital gains.	I.R.C. § 1212 (2024) (capital loss carrybacks and carryovers); id. § 1212(a) (corporate capital loss carryback and carryforward rules); id. § 1212(a)(1) (3-year carryback and 5-year carryforward for corporate capital losses, 10-year carryforward for foreign expropriation losses); id. § 1212(a)(1)(A) (carryback limitations for non-foreign expropriation losses that do not create net operating loss); id. § 1212(a)(3) (special 8-year carryforward period for regulated investment companies); id. § 1212(a)(4) (prohibition on carrybacks to years when corporation was regulated investment company or real estate investment trust); id. § 1212(b) (individual capital loss carryover rules preserving character as short-term or long-term); id. § 1212(c) (section 1256 contracts loss 3-year carryback election with 40/60 percent short-term/long-term allocation).
I.R.C. §162	Allows deductions for all ordinary and necessary expenses paid or incurred in a trade or business.	I.R.C. § 162 (2024) (trade or business expenses); id. § 162(a) (general rule allowing deduction for ordinary and necessary expenses in carrying on trade or business); id. § 162(b) (exception for charitable contributions allowable under section 170); id. § 162(c) (denial of deduction for illegal bribes, kickbacks, and other payments); id. § 162(e) (denial of deduction for certain lobbying and political expenditures); id. § 162(f) (denial of deduction for fines, penalties, and other amounts paid to government entities); id. § 162(g) (limitation on treble damage payments under antitrust laws); id. § 162(h) (state legislators' travel expenses away from home); id. § 162(k) (limitation on stock reacquisition expenses); id. § 162(l) (special rules for health insurance costs of self-employed individuals); id. § 162(m) (limitation on excessive employee remuneration for publicly held corporations); id. § 162(q) (denial of deduction for payments related to sexual harassment and sexual abuse).
I.R.C. §163	Allows a deduction for interest paid or accrued within the taxable year on indebtedness.	I.R.C. § 163 (2024) (interest deduction); id. § 163(a) (general rule allowing deduction for interest paid or accrued on indebtedness); id. § 163(d) (limitation on investment interest deduction for individuals); id. § 163(e) (original issue discount rules for related foreign persons); id. § 163(h) (disallowance of personal interest deduction with exceptions for qualified residence interest and business interest); id. § 163(j) (limitation on business interest expense deduction to sum of business interest income, 30% of adjusted taxable income, and floor plan financing interest); id. § 163(j)(1) (business interest limitation formula); id. § 163(j)(7) (exceptions for small businesses meeting gross receipts test and electing real property and farming businesses); id. § 163(j)(8) (definition of adjusted taxable income excluding depreciation, amortization, and depletion for taxable years beginning after 2021); id. § 163(k) (treatment of original issue discount on certain high yield obligations).

I.R.C. §166	Allows a deduction for debts that become wholly or partially worthless during the taxable year.	I.R.C. § 166 (2024) (bad debts); id. § 166(a) (general rule allowing deduction for debts becoming worthless in whole or in part during taxable year); id. § 166(a)(1) (deduction for debts becoming wholly worthless); id. § 166(a)(2) (deduction for debts becoming partially worthless to extent charged off within taxable year); id. § 166(b) (amount of deduction based on adjusted basis under section 1011); id. § 166(d) (nonbusiness debts treated as short-term capital losses when becoming worthless); id. § 166(d)(1) (capital loss treatment for worthless nonbusiness debts); id. § 166(d)(2) (definition of nonbusiness debt as debt not connected with trade or business); id. § 166(e) (exception excluding debts evidenced by securities as defined in section 165(g)(2)(C)); id. § 166(f) (cross-reference to disallowance of deduction for worthless debts owed by political parties).
I.R.C. §168	Details the MACRS system for accelerated depreciation of tangible property.	I.R.C. § 168 (2024) (accelerated cost recovery system for depreciation of tangible property); id. § 168(b)(1)-(5) (applicable depreciation methods including declining balance and straight line); id. § 168(c) (applicable recovery periods for 3, 5, 7, 10, 15, 20-year property and residential/nonresidential real property); id. § 168(d)(1) (applicable convention including half-year and mid-quarter conventions); id. § 168(e)(1) (classification of property into recovery periods); id. § 168(g) (alternative depreciation system for certain property); id. § 168(k) (additional first year depreciation allowance for qualified property)
I.R.C. §172	Permits net operating losses to be carried forward to offset future taxable income.	I.R.C. § 172 (2024) (net operating loss deduction allowing carryforward of business losses); id. § 172(a) (deduction allowed for net operating loss carryovers to taxable year); id. § 172(b)(1)(A) (NOL arising in taxable years beginning after December 31, 2017 carried forward indefinitely); id. § 172(b)(1)(B) (no carryback allowed for NOLs arising after 2017 except for certain farming losses); id. § 172(c) (net operating loss defined as excess of deductions over gross income with modifications); id. § 172(d) (modifications including exclusion of NOL deduction itself and capital loss limitations); id. § 172(f) (rules for regulated investment companies); id. § 172(g) (corporate equity reduction transactions limitations)
I.R.C. §174	Permits immediate deduction or capitalization of research and experimental expenditures.	I.R.C. § 174 (2024) (research or experimental expenditures); id. § 174(a)(1) (specified research or experimental expenditures must be capitalized and amortized); id. § 174(a)(2) (amortization period of 5 years for domestic research, 15 years for foreign research); id. § 174(b) (specified research or experimental expenditures defined as amounts paid for research or experimentation in connection with trade or business); id. § 174(c)(1) (expenditures include software development costs under section 174(c)(3)); id. § 174(c)(2) (exclusions for geological and geophysical costs, ordinary testing, and efficiency surveys); id. § 174(d) (special rules for land and depreciable property used in research)
I.R.C. §174(a)	Restores immediate expensing for specified R&D costs under the OBBB Act.	I.R.C. § 174(a) (2024) (mandatory capitalization of research expenditures effective for amounts paid or incurred in taxable years beginning after December 31, 2021); id. § 174(a)(1) (elimination of election to deduct currently under former law); id. § 174(a)(2)(A) (rateable amortization over 60-month period for domestic research); id. § 174(a)(2)(B) (rateable amortization over 180-month period for foreign research); id. § 174(a)(3) (contract research payments subject to same capitalization and amortization rules)

I.R.C. §198	Provides for the deduction of certain environmental remediation expenditures.	I.R.C. § 198 (2024) (expensing of environmental remediation costs); id. § 198(a) (election to treat qualified environmental remediation expenditures as deductible in year paid or incurred); id. § 198(b) (qualified environmental remediation expenditures defined as amounts paid for abatement or control of hazardous substances at qualified contaminated site); id. § 198(c)(1) (qualified contaminated site must be held for use in trade or business or production of income); id. § 198(c)(2) (site must be certified by appropriate state environmental agency as contaminated by hazardous substance); id. § 198(c)(3) (site must be located in targeted area or populations census tract meeting certain poverty criteria); id. § 198(d) (hazardous substance defined by reference to sections 101(14) and 102 of CERCLA); id. § 198(e) (expensing election applies in lieu of capitalization and depreciation)
I.R.C. §248	Allows amortization of organizational expenditures for corporations over 180 months.	I.R.C. § 248 (2024) (organizational expenditures of corporations); id. § 248(a) (election to deduct organizational expenditures ratably over 180-month period beginning with month corporation begins business); id. § 248(a)(1) (immediate deduction allowed for up to \$5,000 of organizational expenditures); id. § 248(a)(2) (\$5,000 deduction reduced dollar-for-dollar when total organizational expenditures exceed \$50,000); id. § 248(b) (organizational expenditures defined as expenditures directly incident to creation of corporation); id. § 248(b)(1)(A)-(C) (includes legal services, accounting services, and organizational meetings); id. § 248(b)(2) (excludes expenditures connected with issuing or selling stock or securities); id. § 248(c) (election must be made for taxable year corporation begins business)
I.R.C. §263	Requires capitalization of certain costs that are otherwise currently deductible.	I.R.C. § 263 (2024) (capital expenditures generally not deductible); id. § 263(a)(1)(A) (no deduction allowed for amounts paid out for new buildings or permanent improvements increasing property value); id. § 263(a)(1)(B) (no deduction for amounts expended in restoring property or making good exhaustion for which allowance is or has been made); id. § 263(a)(2) (intangible property acquisition or creation costs must be capitalized); id. § 263(c) (intangible drilling and development costs election for oil, gas, and geothermal wells); id. § 263(g) (capitalization required for geological and geophysical expenditures); id. § 263(h) (capitalization of interest during construction period)
I.R.C. §404	Provides timing rules for deducting contributions to pension and deferred compensation plans.	I.R.C. § 404 (2024) (deduction for contributions of employer to employees' trust or annuity plan and compensation under deferred-payment plan); id. § 404(a)(1)(A) (contributions to qualified pension, profit-sharing, and stock bonus plans deductible subject to limitations); id. § 404(a)(1)(B) (actuarial method required for defined benefit plan contributions); id. § 404(a)(1)(C) (25% of compensation limitation for defined contribution plans); id. § 404(a)(1)(D) (combined plan limitations where employer maintains both defined benefit and defined contribution plans); id. § 404(a)(2) (employees' annuity plan contributions); id. § 404(a)(5) (other employee benefit plans including welfare benefit plans); id. § 404(b) (method of contributions and when deemed made for taxable year)

I.R.C. §451	Specifies when items of gross income are includible in gross income for tax purposes.	I.R.C. § 451 (2024) (general rule for taxable year of inclusion of income); id. § 451(a) (amount of any item of gross income included in taxable year when received by taxpayer unless different method required); id. § 451(b)(1)(A) (accrual method taxpayers include items when all events test is met and economic performance occurs); id. § 451(b)(1)(B) (income recognized no later than when taken into account for financial accounting purposes); id. § 451(c) (special rule for accrual method taxpayers with applicable financial statements requiring acceleration of income recognition); id. § 451(f) (cash method farmers' special rules for crop insurance proceeds and commodity credit loans); id. § 451(i) (special rules for utility services)
I.R.C. §461	Establishes the general rule for timing of deductions, subject to the economic performance rules.	I.R.C. § 461 (2024) (general rule for taxable year of deduction); id. § 461(a) (amount of any deduction taken for taxable year which is proper year under method of accounting used by taxpayer); id. § 461(f) (contested liabilities may be deducted when payment made to provide for satisfaction of asserted liability); id. § 461(g)(1) (prepaid interest must be allocated over period of loan); id. § 461(g)(2) (points paid in connection with purchase or improvement of principal residence deductible when paid); id. § 461(h)(1) (all events test for accrual method taxpayers); id. § 461(h)(2)(A)-(D) (economic performance requirements for services, property use, property provided to taxpayer, and other liabilities); id. § 461(h)(3) (recurring item exception allowing earlier deduction for certain regularly recurring expenses)
I.R.C. §475	Requires mark-to-market accounting for dealers in securities and certain traders.	I.R.C. § 475 (2024) (mark-to-market accounting for securities and commodities dealers and traders); id. § 475(a) (mandatory mark-to-market for securities dealers with annual recognition of unrealized gains and losses); id. § 475(b)(2) (dealer status requires regular purchases and sales to customers in ordinary course of business); id. § 475(c)(1) (identification exception for securities held for investment clearly identified before close of acquisition day); id. § 475(e)(1) (election available for traders in securities who are not dealers); id. § 475(f)(1) (election available for traders in commodities); id. § 475(g) (special rules for related party transactions and hedge accounting)
I.R.C. §701	States that partnerships are not subject to income tax; income flows through to partners.	I.R.C. § 701 (2024) (partners, not partnership, subject to tax); id. § 701(a) (persons carrying on business as partners liable for income tax only in their separate or individual capacities); id. § 701(b) (partnership required to file information return showing items of gross income, deductions, and such other information as prescribed); id. § 701(c) (partnership treated as separate entity for certain purposes including making elections under various Code provisions); id. § 701(d) (partnership treated as separate entity for purposes of information returns, payments of tax at source, and collection of tax)
I.R.C. §904	Limits the foreign tax credit to the portion of U.S. tax attributable to foreign income.	I.R.C. § 904 (2024) (limitation on credit for foreign income taxes); id. § 904(a) (foreign tax credit limited to portion of pre-credit U.S. tax attributable to foreign source taxable income); id. § 904(b)(1) (taxable income from sources within United States determined under regulations); id. § 904(c) (carryback and carryforward of excess credits); id. § 904(d)(1) (separate limitation categories including general category income and passive category income); id. § 904(d)(2)(A) (passive category income defined as dividends, interest, rents, royalties, and annuities); id. § 904(d)(2)(B) (general category income includes active business income not otherwise specified); id. § 904(f) (recapture of overall foreign losses); id. § 904(g) (recharacterization of subsequent income after overall domestic loss)

I.R.C. §951	Defines GILTI inclusion rules for U.S. shareholders of controlled foreign corporations.	I.R.C. § 951 (2024) (amounts included in gross income of United States shareholders of controlled foreign corporations); id. § 951(a)(1)(A) (U.S. shareholder must include pro rata share of subpart F income); id. § 951(a)(1)(B) (inclusion of previously excluded subpart F income withdrawn from investment in less developed countries); id. § 951(a)(2) (inclusion of increase in earnings invested in United States property under section 956); id. § 951(b) (U.S. shareholder defined as United States person owning 10% or more of voting stock of foreign corporation); id. § 951(c) (controlled foreign corporation defined as foreign corporation more than 50% owned by vote or value by U.S. shareholders); id. § 951(d) (coordination with passive foreign investment company rules under section 1297)
I.R.C. §965	Imposes a transition tax on untaxed foreign earnings of specified foreign corporations.	I.R.C. § 965 (2024) (mandatory repatriation tax on untaxed foreign earnings under Tax Cuts and Jobs Act); id. § 965(a) (deemed repatriation of accumulated post-1986 deferred foreign income of specified foreign corporations); id. § 965(c)(1) (reduced tax rates through deduction - 15.5% on cash, 8% on illiquid assets); id. § 965(d)(2) (specified foreign corporation includes controlled foreign corporations and section 902 corporations); id. § 965(f)(1) (disallowance of foreign tax credits on section 965(a) inclusion amounts); id. § 965(g) (basis adjustments to stock of specified foreign corporations); id. § 965(h)(1) (8-year installment payment election for net tax liability exceeding \$1 million); id. § 965(m) (regulations to prevent avoidance including acceleration of deductions)
I.R.C. §1031	Allows non-recognition of gain or loss on exchanges of like-kind real property.	I.R.C. § 1031 (2024) (like-kind exchanges limited to real property effective 2018); id. § 1031(a)(1) (nonrecognition for exchanges of real property held for productive use or investment); id. § 1031(a)(2)(A) (exclusion of stock in trade, inventory, stocks, bonds, and partnership interests); id. § 1031(a)(2)(B) (exclusion of certificates of trust, choses in action, and foreign real property); id. § 1031(a)(3)(A) (45-day identification period for deferred exchanges); id. § 1031(a)(3)(B) (180-day exchange period or due date of return if earlier); id. § 1031(b) (recognized gain limited to lesser of gain realized or boot received); id. § 1031(f)(1) (related party exchange with 2-year anti-abuse rule)
I.R.C. §147	Refers to provisions applicable to tax-exempt bonds	I.R.C. § 147 (2024) (additional restrictions on tax-exempt private activity bonds); id. § 147(a) (state volume cap allocation among private activity bond issues); id. § 147(b) (2% limitation on issuance costs including underwriter's discount, legal fees, and rating agency fees); id. § 147(c)(1) (3-year expenditure requirement for substantially all bond proceeds); id. § 147(d) (land acquisition prohibition except when incidental to exempt purpose of facility); id. § 147(e) (existing property acquisition prohibition except for substantial rehabilitation); id. § 147(f)(1) (public approval required after public hearing following published notice); id. § 147(f)(2)(A)-(E) (approval by applicable elected representative including governor, mayor, or county executive)

I.R.C. §179	Permits expensing of qualifying property instead of capitalizing and depreciating it.	I.R.C. § 179 (2024) (election to expense certain depreciable business assets); id. § 179(a) (taxpayer may elect to treat cost of section 179 property as expense rather than chargeable to capital account); id. § 179(b)(1) (dollar limitation of \$1,080,000 for taxable years beginning in 2022); id. § 179(b)(2) (reduction in dollar limitation for each dollar of section 179 property placed in service exceeding \$2,700,000); id. § 179(b)(3) (taxable income limitation preventing deduction in excess of taxable income from active conduct of trade or business); id. § 179(b)(4) (married filing separately limitation of one-half the dollar amount); id. § 179(c) (carryforward of disallowed deduction to succeeding taxable years); id. § 179(d)(1) (section 179 property defined as tangible property subject to depreciation used in active conduct of trade or business)
I.R.C. §197	Provides amortization over 15 years for intangible assets acquired in a trade or business.	I.R.C. § 197 (2024) (amortization of goodwill and certain other intangibles); id. § 197(a) (15-year straight-line amortization for section 197 intangibles); id. § 197(b) (amortization begins with month intangible is acquired); id. § 197(c)(1) (section 197 intangibles must be acquired after August 10, 1993 and held in connection with conduct of trade or business or income-producing activity); id. § 197(d)(1)(A)-(F) (section 197 intangibles include goodwill, going concern value, workforce in place, business books and records, operating systems, and customer-based intangibles); id. § 197(d)(1)(G) (supplier-based, government-granted, and other intangibles); id. § 197(e) (exceptions including self-created intangibles, certain computer software, and sports franchises); id. § 197(f)(1) (anti-churning rules preventing conversion of non-amortizable intangibles)