FULL COMMITTEE HEARING ON BONUS DEPRECIATION: WHAT IT MEANS FOR SMALL BUSINESS

HEARING

BEFORE THE

COMMITTEE ON SMALL BUSINESS
UNITED STATES
HOUSE OF REPRESENTATIVES

ONE HUNDRED ELEVENTH CONGRESS

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FULL COMMITTEE HEARING ON BONUS DEPRECIATION: WHAT IT MEANS FOR SMALL BUSINESS

Wednesday, July 14, 2010

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,
Washington, DC.

The Committee met, pursuant to call, at 1:50 a.m., in Room 2360, Rayburn House Office Building, Hon. Nydia M. Velázquez [Chair of the Committee] presiding.

Present: Representatives Velázquez, Moore, Dahlkemper, Kirkpatrick, Graves, and Bartlett.

Chairwoman VELÁZQUEZ. The Committee hearing is called to order.

Today's hearing comes at a critical time for the U.S. economy. June marked the sixth month in a row that private sector jobs increased. Also, GDP has risen over three straight quarters after shrinking for six consecutive quarters. Despite these positive signs, unemployment remains unacceptably high.

Small businesses will be critical to putting Americans back to work. With business activity picking up, we need to continue finding ways to promote entrepreneurship and investment. Last month, the House passed legislation aimed at steering tax relief to small businesses and promoting the flow of capital to our Nation's entrepreneurs. The Senate is expected to consider its own small business jobs bill shortly.

As Congress completes a final package, there will be a lot of debate on which policies will best create jobs. One of those issues will be extending bonus depreciation. The Senate bill contains an extension of the 50 percent bonus depreciation tax deduction, while the House version does not.

Bonus depreciation allows a business to take a 50 percent deduction for investments in new manufacturing equipment, office equipment, and other capital expenditures. This policy lapsed at the end of 2009.

Today's hearing will focus on the impact of bonus depreciation on small businesses. We all know that bonus depreciation can help boost economic activity. However, it is also important to recognize what it means for smaller firms.

The witnesses appearing today are small businesses in a range of sectors. They will offer insight on how bonus depreciation affects them and their industries.

To many of the businesses here, bonus depreciation has an enormous impact. It increases cash flow and encourages investment while spurring expansion. Bonus depreciation also yields indirect economic benefits for small businesses. While small firms may not always purchase million-dollar machines, they see new opportunities when corporations make investments. Small businesses often sell, manufacture, ship or service big-ticket items that large companies purchase using bonus depreciation.

This is the kind of economic activity we need to foster widespread job creation. As noted in the 2010 Economic Report of the President, a true recovery from the current recession will be driven by business investment. This just underscores why bonus depreciation is necessary and why it has generated $10 billion to $20 billion in purchases while helping sustain or create between 100,000 to 200,000 jobs.

Today's hearing will give Committee members the chance to consider all of these benefits. It will provide the perspective of small businesses and what bonus depreciation means for their industries.

I would like to thank today's witnesses for taking time out of your busy schedules to offer your testimony at this hearing. Your testimony will be an invaluable part of the process as we move tax legislation with the ultimate goal of creating more jobs.

I will now yield to the ranking member for his opening statement.

[The information is included in the appendix.]

Mr. GRAVES. Thank you, Madam Chair, and thank you for holding this hearing on bonus depreciation. A special thanks to all of our witnesses for being here. I know many of you traveled a long way, and I appreciate you taking time away from your companies to be with us.

Bonus depreciation is an important tax incentive for businesses. It helps owners more quickly recover the costs of qualified purchases, freeing up capital to invest in their companies. What is not helpful, however, is Congress' pattern of temporarily extending or not extending tax provisions. This indefinite situation makes it extremely difficult for businesses, especially small businesses, to plan for the future.

Making things more difficult for small businesses is the atmosphere of uncertainty caused by Washington's antibusiness agenda. New taxes, mandates, and regulations and countless new laws, including the health care law, threaten to strangle our Nation's entrepreneurs. More taxes are looming, thanks to the proposed climate change legislation and the financial regulatory reform bill, the potential expiration of the 2001 and 2003 tax relief packages, and the return of the estate tax.

A prevailing feeling of uncertainty about what lies ahead has made a lot of employers hesitant about creating new jobs because they aren't able to accurately predict costs and revenues.

Washington has spent a record $3.6 trillion this year alone. Because of runaway Federal spending on the stimulus and countless other initiatives, the Federal deficit recently topped $1 trillion in the first 9 months of this fiscal year. Relying on unsustainable borrowing and spending is not going to provide small businesses with

the stability they need and may put added pressure on interest rates and capital supplies.

Washington has a spending problem. It doesn't have a revenue problem. We have got to curb unsustainable spending and encourage a return to fiscal sanity. At the same time, tax relief, including bonus depreciation, is critical. However, these days the benefit of a temporary tax relief is far outweighed by the coming thicket of additional taxes, mandates, and regulations that entrepreneurs face. Instead of more temporary extensions of important tax incentives, I think we should make those provisions permanent as a part of a responsible overall tax policy.

Remember, we are depending on small businesses to create jobs, hire workers, and get our economy moving. They need policies that encourage expansion and job growth such as lower taxes, less government spending, and fewer unnecessary government mandates and regulations.

Again, Madam Chairwoman, I appreciate you having this hearing. This is a very good hearing for businesses and I look forward to what our witnesses have to say.

[The information is included in the appendix.][2 p.m.]

Chairwoman VELÁZQUEZ. Our first witness is Mr. Jack Sanford. He is the President of Faulconer Construction Company, headquartered in Charlottesville, Virginia. Faulconer Construction is a multidisciplined site and road contractor founded in 1946. Mr. Sanford is testifying on behalf of the American Road & Transportation Builders Association, with over 5,000 members.

You will have 5 minutes to make your opening statement.

STATEMENT OF JACK SANFORD, PRESIDENT, FAULCONER CONSTRUCTION COMPANY, CHARLOTTESVILLE, VA; ON BEHALF OF AMERICAN ROAD & TRANSPORTATION BUILDERS ASSOCIATION

Mr. SANFORD. Thank you, Madam Chairman.

Madam Chairman and members of the Committee, I am Jack Sanford, President of Faulconer Construction Company, based in Charlottesville, Virginia. I am here today representing the American Road & Transportation Builders Association. I am the third generation in my family to own and manage Faulconer. We currently have around 260 employees, and we perform site development and heavy highway construction primarily in Virginia and North Carolina.

According to the latest economic census conducted by the U.S. Bureau of the Census, there are just over 11,000 business establishments involved in transportation construction. Most are small businesses. More than 90 percent have less than 100 employees, and the average is less than 40. My industry is basically made up of small businesses. The improvements we deliver are also very important to the broad range of small businesses to move people and products around town and throughout the country.

It is no secret, Madam Chairman, the construction industry has been extremely hard hit by the Nation's recent economic difficulties. Even with the robust transportation and infrastructure investments provided by the American Recovery and Reinvestment Act,

unemployment in our sector still exceeds 20 percent, which is more than twice the national average.

The Recovery Act's transportation investments have met their intended goals of supporting employment and generating economic activity. One cannot, however, overlook the concurrent State budget difficulties and decline in private sector construction activities that have somewhat diluted the benefits of these investments. The Recovery Act also included a critical 1-year extension of the 50 percent depreciation bonus enacted in 2008. ARTBA member firms have demonstrated how this provision allowed firms to strengthen their operations and also to boost the overall economy.

The General Contractors Association of New York reports one transportation construction company chose to purchase $10 million of heavy construction equipment in 2009 because of the tax benefits coming from bonus depreciation. Another smaller New York firm purchased two pieces of equipment in 2009 from their local Caterpillar dealer, and cited bonus depreciation provisions as the reason.

The Virginia Transportation Construction Alliance, the statewide industry association to which my company belongs, reports a bridge-building contract to purchase a $1.1 million crane because of the combination of low interest rates and bonus depreciation that was in effect. A second Virginia construction firm reports it purchased nearly $650,000 of equipment in 2008 and 2009 because of the tax benefits.

These real-world examples demonstrate the effectiveness of the bonus depreciation for stimulating economic activity. As such, we strongly support efforts to extend this depreciation benefit for 2010.

One modest improvement that would broaden the use of the depreciation bonus is extending its application to firms leasing new equipment if they choose to purchase that equipment. This is allowed under the current regulations for purchase decisions made within 3 months. However, allowing a lessee of new equipment who converts to a purchase, regardless of the inception date of the lease, to take advantage of this provision would greatly expand the applicability and benefits of bonus depreciation.

Madam Chairman, earlier I mentioned the array of challenges facing the U.S. transportation construction industry. I would be remiss in not pointing out the most meaningful action Congress could take for our sector and its thousands of small businesses—the enactment of a multiyear reauthorization for Federal highway and public transportation programs.

I recognize the focus of today's hearing is bonus depreciation, but members need to understand the interrelationship between this tax benefit and the lack of action on the multiyear surface transportation bill.

As a business owner, the lack of certainty about Federal transportation programs directly influences my decisions to make capital purchases. This creates a situation where two factors are working at cross purposes. The depreciation bonus is an excellent incentive to purchase new equipment, but the lack of a reauthorization bill is an equally powerful disincentive. We ask that you urge the congressional leadership of both parties to make passing an extension of the depreciation bonus and a multiyear highway public transpor-

tation bill a priority in 2010. Such actions would produce immediate and long-term economic benefits.

Thank you for having me and for the opportunity to appear before you today. I would be happy to answer any questions from the Committee.

Chairwoman VELÁZQUEZ. Thank you, Mr. Sanford.

[The statement of Mr. Sanford is included in the appendix.]

Chairwoman VELQAZQUEZ. Our next witness is Mr. Daniel Fesler. He is the CEO of Lampert Yards in St. Paul, Minnesota. Lampert Yards is a Midwest regional lumber company, and Mr. Fesler is the fourth generation of his family to hold the president's job. Mr. Fesler is testifying on behalf of the National Lumber and Building Material Dealers Association, which has over 6,000 members.

Welcome.

Mr. FESLER. Thank you.

STATEMENT OF DANIEL FESLER, CEO, LAMPERT YARDS, ST. PAUL, MN; ON BEHALF OF NATIONAL LUMBER AND BUILDING MATERIALS DEALERS ASSOCIATION

Mr. FESLER. Chairwoman Velázquez, Ranking Member Graves, and members of the Committee, on behalf of the National Lumber and Building Material Dealers Association, thank you for allowing me the opportunity to testify today. I am grateful to be here to discuss these critical business issues.

My name is Dan Fesler, and I am the chief executive officer of Lampert Yards in St. Paul, Minnesota, and am chairman of the National Lumber and Building Material Dealers Association. Lampert Yards began in 1887, and it continues to be a family-owned business with 24 operating lumber yards in five States—Minnesota, Wisconsin, Iowa, South Dakota, and North Dakota. I am a fourth generation, and we employ right now, currently, 395 employees.

Founded in 1917, the NLBMDA is the voice of the lumber and building material industry. The Association has over 6,000 members, and it operates in all 50 States, operating single and multiple lumber yards, component plants, servicing homebuilders, contractors, consumers, and new construction, repair and remodeling, residential and light commercial buildings. Most of the members are family-owned businesses like myself, and the vast majority of them are second- or third-generation businesses.

As you know, the U.S. economy and housing market is still in the midst of one of the greatest downturns in the history of our Nation. As reminded almost daily in the media, the housing crisis still plagues our economy. Our Nation's lumber and building material dealers are on the front lines of this crisis, and many, unfortunately, have had to permanently shut their doors as a result.

With respect to my own company, since the decline of the housing market, we have closed seven facilities. We have had to lay off or terminate 418 employees. We have seen numerous lumber yards, builders, distributors, manufacturers, go out of business. In addition, the costs of operating our business have significantly increased at significant rates due to government regulation, such as

IRS rules changes, loss of deductions, new EPA regulations, and increased OSHA oversight and regulations.

Health-care costs continue to grow steadily, as they have for the last 10 years. While costs have been up sharply, sales have been declining over the last 4 years. We have seen our margins and profitability erode and decline. The average lumber yard lost $1.5 million in 2009. We have been forced to suspend investments in new or needed equipment.

One way to help lumber and building material dealers and many businesses out of their current economic difficulties would be to extend the bonus depreciation for 1 year, as recommended by President Obama in his 2011 budget. While the HIRE Act, signed by President Obama in March, renewed the increased section 179 expensing levels for this year, the temporary 50 percent bonus depreciation lapsed at the end of 2009, and it has not been restored.

Bonus depreciation allows businesses to recover the costs of certain capital expenditures more quickly than under ordinary tax depreciation schedules. Businesses can use bonus depreciation to immediately write off 50 percent of the cost of depreciated property. Bringing back bonus depreciation will encourage companies of all sizes to invest in newer, more efficient and more environmentally friendly equipment, which will help both large and small businesses alike.

In a fragile economic recovery, extending bonus depreciation for capital investments will help promote continued investment. It will stimulate sales of business capital investments, such as machinery and equipment, by helping customers who have buying needs and suppliers who have products to sell. A bonus depreciation extension will help lower the cost of such purchases at a time when economic uncertainty and high unemployment are thwarting business capital investment.

Bonus depreciation to me is somewhat of a misnomer. It sounds like you are getting a bonus or a greater benefit when, in actuality, what it does for us is it has depreciation matched to the true life cycle of the product. For Lampert's, we have 235 computer terminals in our operation. We have 197 printers in use in the company every day. On average, that equipment lasts for 3 years, partially because they run 10 hours a day, 6 days a week, and also because we operate in a harsh environment that often causes the equipment to get dirty and dusty.

Under the normal IRS depreciation rules, these must be written off over 5 years, which is much longer than their true life cycle. Bonus depreciation allows us to write these off over a faster period of time, but also in line with their true life cycle. Without bonus depreciation, we hold and use equipment longer, and we delay the cost of investment in newer and better equipment. Giving a company the ability to write these things off in a more timely manner would be much more beneficial.

Taking all of this data and support into account for bonus depreciation, we certainly hope the House will seriously consider passing a bonus depreciation extension, which we know will help our economy to get back on track.

The NLBMDA appreciates the opportunity to testify on this critical issue. We look forward to working with the Committee and

Congress on this and on other steps that will help us emerge from the current crisis.

I will be glad to answer any questions.

Chairwoman VELÁZQUEZ. Thank you.

[The statement of Mr. Fesler is included in the appendix.]

Chairwoman VELÁZQUEZ. The chair recognizes the ranking member.

Mr. GRAVES. Thanks, Madam Chair.

Madam Chair, I am pleased to introduce Dennis Vander Molen, who is the president of Vermeer MidSouth, a full-service equipment dealer based in Jackson, Mississippi, which specializes in sales, leasing, training, and in the servicing of Vermeer horizontal drilling machines, rock trenchers and trench compactors.

Mr. Vander Molen is the 2010 chairman of the Associated Equipment Distributors. Born in Iowa, Mr. Vander Molen has been with the Vermeer company for his entire career, working his way up through the company in service, engineering and sales. In 1987, he left Vermeer to co-found Vermeer MidSouth, which is a distributor. The company has grown to seven locations. It serves four States and employs 60 people.

Thanks for being here, and I appreciate your coming all this way.

STATEMENT OF DENNIS VANDER MOLEN, PRESIDENT, VERMEER MIDSOUTH, INC., JACKSON, MS; ON BEHALF OF ASSOCIATED EQUIPMENT DISTRIBUTORS

Mr. VANDER MOLEN. Good afternoon, Chairwoman Velázquez and Ranking Member Graves. Thank you for that introduction. It is my pleasure to appear before you today both as a small business owner and in my capacity as the 2010 chairman of Associated Equipment Distributors.

AED is an international trade association, representing independent, authorized construction mining, forestry and agricultural equipment dealers throughout the country and around the world.

As you have heard, I am the president and general manager of Vermeer MidSouth, a family-owned company since 1987, and our company does employ a good many people throughout that four-State area of Mississippi, Arkansas, Louisiana, and Tennessee.

I appreciate the opportunity to be with you today to discuss how installing the depreciation bonus will help small companies like mine recover from the great recession. I would like to use my time to highlight three key areas.

First, the construction equipment industry has been affected as much as any other in this economic downturn. For us this recession has been nothing short of a depression. A study conducted last year by Global Insight for AED and the Association of Equipment Manufacturers painted a grim picture. The study found that, from 2007 to 2009, spending on construction equipment fell 50 percent; and that, over the last 3 years, manufacturers, distributors and maintenance providers shed 257,000 jobs, representing a stunning 37 percent of the industry workforce.

The effects of the equipment industry downturn have been felt well beyond the dealer yards and manufacturing plants. Global Insight estimated that the equipment industry depression has cost an additional 274,000 jobs in the broader economy. In total, the down-

turn in the equipment industry has cost 550,000 jobs nationwide since 2006.

My second point is that the depreciation bonus is a powerful and proven economic stimulus tool. It was first employed in 2002 when the Nation was in the grips of another milder economic downturn. A survey of National Utility Contractors Association members, conducted by AED in 2003, found that 67 percent of the contractors who were aware of the loss said that it prompted them and their companies to invest in new equipment in the prior 12 months.

Because of the success of the depreciation bonus in the early part of the decade, Congress included it in the 2008 Economic Stimulus Act. A survey of NUCA members conducted in 2008 found that, despite the fact that the depreciation bonus had been only in effect for just a few months, approximately one-third of survey respondents said that they had already purchased equipment in the first half of 2008 to take advantage of that law.

More recently, a survey of our own members, conducted this spring, found that the capital investment incentives in the ESA and in the American Recovery and Reinvestment Act had done more to stimulate new equipment sales than even the ARRA's additional infrastructure movement.

In that same survey, equipment distributors were asked to rate the beneficial impact of the various policy solutions our industry is advocating to help the industry recover. The only priorities that ranked higher than reinstating the depreciation bonus were reenacting the multiyear highway and water infrastructure reauthorization bills and then passing legislation to free up credit for small businesses.

While the depreciation bonus alone would be helpful, simultaneous congressional action in all of these areas would be mutually reinforcing. Multiyear highway and water infrastructure investment bills would address critical national needs while giving contractors a reason to start buying equipment again. The depreciation bonus would give them an additional incentive to do so, and the small business credit legislation would ensure that they have the means to make a purchase.

My third and final point is that the benefits of the depreciation bonus will be felt way beyond the equipment industry. Distributors and contractors who buy equipment and take advantage of the depreciation bonus will get a tax cut this year, which will free up resources and allow them to take additional investments and hire new workers.

Because the depreciation bonus applies only to new equipment, the machines contractors buy will be cleaner and more fuel-efficient than the ones that they owned previously. Upstream, manufacturing plants idled by the recession will again be receiving orders, which will put laid-off workers back to work. Large and small companies that supply equipment manufacturers will see business pick up as well.

The scenario will be repeated in all sectors, which is why more than 80 organizations representing a broad cross-section of the economy are working with AED in an ad hoc coalition and are urging Congress to reinstate the depreciation bonus.

To sum it up, recent government data shows that the national economic situation is very volatile and underscores the importance of additional recovery legislation. Whatever the true state of the U.S. economy is, the depreciation bonus will help. If things are going better, the depreciation bonus will strengthen the recovery and help it take hold. If the economy is once again deteriorating, the depreciation bonus will encourage business purchasing, thereby stimulating economic activity and, hopefully, helping hold away another economic downturn.

Thank you for allowing me the opportunity to share with you, and I would be glad to answer any questions.

Chairwoman VELÁZQUEZ. Thank you, Mr. Vander Molen.

[The statement of Mr. Vander Molen is included in the appendix.]

Chairwoman VELÁZQUEZ. Our next witness is Mr. Robert Ring. He is the president of Meyer & Depew Company, located in Kenilworth, New Jersey. Meyer & Depew serves the mid-Atlantic region, and it is one of the area's leading residential and commercial HVAC contractors. Mr. Ring is testifying on behalf of Air Conditioning Contractors of America, which has over 4,000 members.

Welcome.

STATEMENT OF ROBERT RING, PRESIDENT, MEYER & DEPEW COMPANY, INC., KENILWORTH, NJ; ON BEHALF OF AIR CONDITIONING CONTRACTORS OF AMERICA

Mr. RING. Thank you very much.

Chairwoman Velázquez, Ranking Member Graves, Dr. Bartlett, and Mr. Moore, thank you for allowing me this opportunity to provide testimony on behalf of the small business service contractors of the heating, ventilation, air conditioning, and refrigeration, or HVACR, industry.

My name is Bobby Ring, and I am the president of Meyer & Depew Company, a 57-year-old family-owned business, located in central New Jersey. Meyer & Depew offers maintenance, repair and installation services for heating, cooling and indoor air quality equipment to residential and commercial clients throughout central and northern New Jersey.

Like a lot of family small businesses in the HVACR industry, I began working there when my father hired me, back in 1981. Today, I am the majority owner. Incidentally, my 20-year-old son has recently joined our firm, and may one day become the third generation to own and operate our business.

I come before you this afternoon as a proud member of the Air Conditioning Contractors of America, ACCA, where I serve as Secretary of the Board of Directors and as chairman of the Government Relations Committee. Every day, more than 4,000 ACCA member companies across the Nation help homeowners, small business owners, and property managers realize the comfort, convenience and cost benefits of energy-efficient HVACR equipment. Eighty-four percent of ACCA members have fewer than 50 employees, and 60 percent have fewer than 20 employees, so we truly are representative of small business.

It is an honor to present testimony before you today, and I want to commend the Committee for its leadership and its efforts to pro-

tect the interests of the great economic engine known as America's small businesses.

My comments today will focus on the small business investment incentives permitted through Internal Revenue Code section 179 and on bonus depreciation. I can attest that these tax incentives not only benefit the small businesses of the HVACR industry, but they also have a ripple effect through the economy to all of the businesses that we purchase equipment and goods from. I hope that my testimony will influence future policy decisions that further assist our economic recovery.

As you are well aware, small businesses of all types struggle with cash-flow issues, access to credit and dealing with the various tax and regulatory burdens from both the Federal and State as well as from local governments. In a very real way, expensing allowances and the ability to use bonus depreciation help a small business like mine by lowering tax liability, freeing up more money to hire new employees and encouraging the purchase of new equipment, such as trucks, computers, office machinery, and furniture. Knowing that I can write off half of the purchase price of a qualified vehicle or office equipment in the year I place it into service gives me the economic justification to invest in my company. Robust section 179 expensing allowances and bonus depreciation help small companies like mine to get off the sidelines and spend money.

On several occasions since 2002, Congress has approved short-term expansions of section 179 expensing and bonus depreciation as a way to stimulate the economy. In those years, our company has used these incentives to purchase new trucks for our service technicians and computers and equipment for our office staff. The stimulus bill extended the expansion of the section 179 expensing limits and the ability to write off half of selected investments through bonus depreciation in 2009. The passage of the HIRE Act in March of this year extended the section 179 expensing limits retroactively for 2010. Now Congress must take the next step and extend bonus depreciation, and it must do so quickly.

Small business needs certainty in today's uncertain times. I have to tell you the uncertainty of not knowing where we are going, what the law is going to be, what the tax regulations are going to be, really puts a lot of us in the position where we don't know what to do, and that stifles small business and economic growth. A business owner will not spend precious financial resources in the hopes that the bonus depreciation will pass someday and be applied retroactively.

HVACR contractors are not the only small business group calling for bonus depreciation. In April, ACCA was part of a coalition of 82 small businesses that urged Congress to reinstate bonus depreciation. Delaying the reinstatement now during this fragile economic recovery sends a negative signal to small businesses, especially when surveys have shown that bonus depreciation prompts small businesses to take advantage of investment opportunities.

In order to increase the economic benefits of section 179, I would also like to recommend that, as Congress considers an extension of bonus depreciation, that it also expands the qualifying property under section 179. Under depreciation rules, property with a recov-

ery schedule of more than 20 years, known as section 1250 property, does not qualify for section 179 expensing or bonus depreciation. In fact, HVACR equipment must be depreciated over 39-1/2 years, which, according to the American Society of Heating, Refrigeration and Air Conditioning Engineers, is more than twice the expected life of properly installed and maintained HVACR systems.

ACCA applauds Chairwoman Velázquez for the introduction of H.R. 4841, the Small Business Tax Relief and Job Growth Act of 2010. H.R. 4841 would remedy this problem by expanding the definition of a ″qualified structural improvement″ under section 179 property made in 2010 and 2011 to include any improvement to a building or its structural components, including improvements to the roof, drainage, plumbing, electrical components, heating, ventilating, air conditioning, insulation, and fire protection, intended to improve or to make such a building ready for use in a trade or business.

Not only would this change in the Tax Code help many small firms that are located in commercial properties, like professional townhouse suites, doctors' offices and strip malls, to be able to afford energy-saving HVACR retrofits, but it would also allow these improvements to qualify for bonus depreciation. Without any incentive to replace aging HVACR equipment, small businesses will continue to maintain and repair old, inefficient furnaces, air conditioners, chillers, and boilers.

According to the 2005 Residential Energy Consumption Survey, since 1990 only 30 percent of the commercial buildings have had their main heating equipment replaced, and only 37 percent have had their main cooling equipment replaced. Some may argue that expanding the definition of section 179 qualified property would cost too much in lost revenue, but those losses would be more than made up for in increased economic activity, lower utility costs and fewer greenhouse gas emissions, as well as in job creation.

My fellow ACCA members and I are very concerned about the status of our Nation's economic recovery. Economic indicators point in different directions over the next few months and years. America's small business needs to see positive signs from Washington to allay fears that a double-dip recession may be occurring. The passage of bonus depreciation will send the right message that Congress is interested in helping promote job creation and a revitalization of the economy.

With that, I conclude my comments, and I would be happy to answer any questions you may have. Thank you again for giving me this opportunity to provide this testimony.

Chairwoman VELÁZQUEZ. Thank you, Mr. Ring.

[The statement of Mr. Ring is included in the appendix.]

Chairwoman VELÁZQUEZ. Our next witness is Mr. Jon Budington. He is the CEO of Global Printing in Alexandria, Virginia. Global Printing provides printing distribution and marketing support services to organizations. Mr. Budington is here to testify on behalf of the Printing Industries of America. PIA is the world's largest graphic arts trade association, representing an industry with approximately 1 million employees.

STATEMENT OF JON BUDINGTON, CEO, GLOBAL PRINTING, ALEXANDRIA, VA; ON BEHALF OF PRINTING INDUSTRIES OF AMERICA

Mr. BUDINGTON. Chairwoman Velázquez, Ranking Member Graves, members of the Committee, on behalf of Printing Industries of America, I want to thank you for allowing me to testify today. My name is Jon Budington, and I am president now and CEO of Global Printing, a manufacturing and marketing services firm based in Alexandria, Virginia.

Global first opened its doors in 1978. Over the past 30 years, it has grown to employ over 90 employees, and it generates revenue annually of around $11 million.

In talking a little bit about the printing industry at the macro level, printing is one of America's oldest and largest manufacturing industries. At the start of 2008, the industry employed 1 million workers in a uniquely domestic industry. Almost all print consumed in America is produced in America, providing jobs in every State and district. In total, printing comprises approximately 1.2 percent of total annual economic output in the United States.

Unfortunately, the recent recession has shrunk print's economic footprints by historic proportions. The number of U.S. printing plants declined 8 percent in 2008. Total shipments, not adjusted for price changes, in 2009 were down 15.6 percent industry-wide, and employment declined by 6.9 percent.

Lower print demand relative to supply caused printing prices to decline by 6.5 percent in 2009. Printers' profits have declined by approximately half over the past 2 years. Access to capital remains an issue for the printing industry with almost one in four printers reporting problems in obtaining credit in the first quarter of 2010.

I can attest to that myself. I became CEO of Global Printing during the 2001 recession. In that year, Global lost 30 percent of its revenue, and we were bleeding cash terribly. We understood in order to remain viable in today's online world, our print-focused business model needed to change. We invested heavily in new technology that integrated print with the Internet. This new technology created new jobs and allowed Global to provide cutting-edge, creative ideas to our established print clients. Those investments made in 2001 are what basically got us through that recession.

In the current economic climate, many businesses have closed or slashed payroll. At Global, in seeing this coming, we took proactive measures to suspend 401(k) contributions, administer across-the-board pay cuts and initiate a hiring freeze. We avoided using our line of credit for fear that it may not be renewed, and opted not to seek any equipment financing. All of these very difficult business decisions allowed Global to weather the current economic storm. However, in order to continue to grow—and as you know, all small businesses must grow—investments must be made, and incentives for those investments are necessary.

Bonus depreciation is a winning proposition that our Nation needs for economic recovery. By allowing companies like Global to depreciate 50 percent of capital investments in the coming tax year, Congress reduces the upfront costs of those investments. As a result, bonus depreciation leaves Global with more cash resources for both more investments and new jobs.

The benefits of bonus depreciation aren't theoretical. Multiple studies from academic experts, private analysts, and the Treasury Department found that past cycles of bonus depreciation, from 2002 to 2004, drove substantial economic growth, with up to $9 of GDP growth for every $1 of tax benefit. More importantly, during the same period, bonus depreciation helped create or save between 100,000 and 200,000 jobs.

At Global, our efforts to preserve capital and find new business has paid off. By making new investments and changing our business model yet again, Global has more than doubled its revenues and added 30 employees from the 2001-2008 period. This past January, I hired 15 new employees from a competing printer who decided to close its doors, and, as a result, it has expanded our ability in looking at new clients and new markets.

Global is uniquely poised for significant growth in 2011, but this will only become a reality if the company can make significant equipment investments to produce this new revenue. The investment in new technology will add over $500,000 of debt to our balance sheet, and I will say that is a very conservative investment, because small printing companies like mine can make seven-figure investments on a regular basis. Accelerated depreciation is a major cash-flow incentive for Global to make these investments, and I therefore urge Congress to extend bonus depreciation, section 179 expensing and other pro-growth incentives to help companies like ours weather the storm.

Again, thank you for holding today's hearing and for inviting me to testify, and I look forward to answering any questions you may have.

Chairwoman VELÁZQUEZ. Thank you, Mr. Budington.

[The statement of Mr. Budington is included in the appendix.]

Chairwoman VELÁZQUEZ. Mr. Sanford, last year businesses had access to increased section 179 expensing and bonus depreciation. The Committee has heard many times how important section 179 expensing limits are for small firms.

Can you explain how the two provisions work together and how bonus depreciation provides an additional benefit for small firms? There might be some Members of Congress who do not see the direct benefit of bonus depreciation for small firms. Can you please explain that?

Mr. SANFORD. Yes, ma'am.

Well, as you have heard from almost every member, we are in a distressed market, and the bonus depreciation extension would enable us to invest into equipment—new, greener, cleaner, more efficient equipment. Getting that ability to have that accelerated depreciation means we will have other revenues to reinvest in the company in other ways, most especially in the area of jobs. If we can grow our business, grow our revenue, it flows to all capacities of the business.

I don't know if I answered your question.

Chairwoman VELÁZQUEZ. Yes, you did.

Mr. Ring, small firms benefit not only as purchasers of business equipment but also indirectly as manufacturers and distributors or as sellers of such investments.

Can you explain how small firms benefit from larger companies making investment that might be spurred by bonus depreciation?

Mr. RING. Absolutely. I am very glad that you asked me that.

Our customers, our commercial customers, have HVACR equipment on the roofs of their buildings or serving their buildings that, right now, is required to be depreciated over 39-1/2 years. That is a very old standard that may have applied to how heating systems were manufactured and installed many years ago when that law was first written. Right now, the average life expectancy of a commercial package heating and cooling unit is about 15 years. There is absolutely no tax incentive whatsoever for anyone to replace a piece of equipment that is not 39-1/2 years old.

We have suggested—and our association has worked with Members of Congress in the past, including yourself—to help introduce a piece of legislation we call the Cool and Efficient Buildings Act that would encourage commercial property owners to replace outdated HVACR equipment with high-efficiency equipment and entitle them to an accelerated depreciation. This would have a tremendous impact on our global warming potential, our carbon footprint. It would meet many policy objectives of this and many other administrations of reducing our energy consumption. At the same time, it would stimulate the economy.

We currently have a $1,500 Federal tax credit in place for our residential clients that is resulting in increased sales for us right now. Any type of incentive to our commercial clients to replace systems through an accelerated depreciation would be phenomenal to our business. Our residential small business is up 8 percent right now. Our commercial business is down 30 percent.

Chairwoman VELÁZQUEZ. And that is related to the $1,500?

Mr. RING. Absolutely.

Chairwoman VELÁZQUEZ. Thank you.

Mr. Budington, one issue facing small firms—and you mentioned it—is the lack of affordable credit. If a firm is going to spend $300,000, for example, on a piece of equipment, they would likely need to arrange for some sort of financing. So how has the lack of credit affected you or those in your industry from taking advantage of bonus depreciation?

Mr. BUDINGTON. That is an excellent question. I am glad you asked.

It is interesting because we missed out on the boat to use the credit previously because our business cycle—we spent a great deal of time, when this recession first started, aligning our business, making sure our costs were in line, getting everybody on board to, you know, like I said, take pay cuts and the 401(k) contribution cuts. We were not in a position to be thinking about investing in the company at that point. After putting all those pieces in place and realigning our business with what our clients needed, we suddenly found ourselves ready to grow, but then realized that some of the credits had expired.

So what is interesting is, when we look at how this bill is put together, the time frame that we give companies the availability to use it might not always sync up with our time frame of how and when we can use it. All companies need to be, in this case, profitable right now, and we need to watch our covenants very closely,

which we have, and we are in a position where we can begin to borrow money again; but obviously, the last year and a half was a very difficult time for anybody in the printing industry to be going to the bank and financing equipment.

Chairwoman VELÁZQUEZ. Okay. Thank you, Mr. Budington.

Mr. Fesler, to claim bonus depreciation, a business must have not only purchased equipment but must also place it in service by the end of the year.

Have you seen any instances where a company has lost the tax benefit because of prolonged production schedules or other delays?

Mr. FESLER. That is a good question, Madam Chairman.

I think for us there is availability of product to purchase, so I don't really see delays. But we often consciously make the decision not to purchase equipment if it is not affordable to us, and in a declining industry and business where profits and margins are shrinking, it is difficult to spend money for such things, but we do have to replace a certain amount of our equipment every year.

We are going to replace 30 computers this year. A desktop computer is $800, but a blade server is $20,000. We will spend $200,000 in computer equipment. We will spend $600,000 in trucks, but because of the cost of these things, we will replace less this year than we have in the last 10 years. Bonus depreciation would lessen that cost over a shorter period of time and allow us to purchase more.

Chairwoman VELÁZQUEZ. Okay.

I will come back for a second round of questions, and I will have my first question addressed to Mr. Vander Molen.

I will recognize the ranking member.

Mr. GRAVES. This question is for everybody.

One of the things that we keep hearing in the Committee is employers are telling us how reluctant they are to expand their companies or to hire workers until there is some sort of certainty out there about what the future holds. I am specifically interested if you have your own company or if you want to speak on behalf of your association.

Have you frozen your business decisions at this point because of the uncertainty? If you could, also give me one thing or two things, government policies, that have you more concerned about the economic recovery than anything else.

We will start with Mr. Budington.

Mr. BUDINGTON. I have been with the same company straight out of college. I started here in customer service. I was hired during a recession. It had some times of prosperity. I took over as CEO during a recession, and now I am the principal majority owner in a new recession. So my experience is every recession is different.

It is very hard to put this recession into perspective, but this one seems very different. It seems longer. It seems to affect a broader group of our clients that we depend on grabbing our revenue from. I will say that in 2001, I was really focused on changing the business model and how we would invest to make the business model work to that new model. In this recession, we have a moving surface that we are standing on.

I mean, in the economy, there is a lot of uncertainty. I mean, if I look at Yahoo! Finance today, there are going to be ten different

opinions on where the Dow is going to go and how the economy is going to improve or fall off a cliff. For a business owner, I do not understand what the answer is to where we are going, and with that level of uncertainty, it is hard for me to make decisions. Every piece of debt that I bring into my company, I personally guarantee with my home, with my children's college funds, and with my 401(k).

Having a lack of certainty in the business climate is something that I am used to, but from the government climate, from where I see the government's approach, there is a lot of pressure on taxation. There is a lot of pressure on the rules of how this would work. I mean my investments are under $800,000 for section 179. Well, what if they go over that? Depreciation gets extended, but I don't have a long-term plan on how that depreciation should work in my business and an understanding of how some assets that we purchase in this new economy are going to change much faster than the depreciation schedules allow us to, and we seem to defer those decisions down the road. That uncertainty, for me, complicates the uncertainty that I am already navigating through in this economy.

Mr. GRAVES. Mr. Ring.

Mr. RING. Well, Mr. Graves, I would begin by saying I agree 100 percent with your opening remark that we don't have a tax problem. We do have a spending problem.

Like all of us up here, as small businesses, I believe the best thing that government can do for any of us is to curb government spending and to allow us all to keep more of our own money to spend in the economy. A tax credit to me for hiring a new employee is not going to prompt me to hire a new employee. Increased demand for my goods and services will prompt me to hire employees. That is the only thing that will prompt me to hire employees.

I have postponed the purchase of vehicles recently because of the downturn in the economy and the uncertainty as to how many employees I am going to have. One of the reasons, you know, I postponed that decision is I reduced the number of employees, and I parked vehicles that would normally have been used.

I have a lot of uncertainty about health care. Every day, I read something else about another provision of the health-care law that seems to be an unknown to us before it is coming.

I am worried about taxes. I am very worried about estate taxes. In the death of George Steinbrenner, they pointed out today that the family there saved $500 million because he died this year instead of next year or last year. I think that is a horrible thing for anyone who owns his own business to have to try and predict how the business will continue in the event of the majority shareholder's death. What will have to be done? Will the business have to be sold in order to pay the estate taxes in 9 months or else? Perhaps that is something that Congress could look at and give us some flexibility in how the estate taxes are paid. I still have a hard time understanding how Congress believes or the government believes that death is a taxable event.

Like Mr. Budington, I have a lack of confidence right now in what the government is doing to help small business and help restore confidence in what is going on. I read, increasingly, of a lot

of taxpayer/voter lack of confidence in the government's ability to get us out of this. When people read that, it just reinforces the thought process that they shouldn't be spending money right now and that maybe they should hang onto what they have got.

I read something yesterday, excuse me, last week that said that our stock market performance is mirroring exactly what it did after the Great Depression when we double-dipped, and I actually thought about should I take my money out of my 401(k) and put it into a more secure investment than leaving it in the stock market, which is exactly what we shouldn't be thinking or doing, but that is what we are hearing.

Mr. GRAVES. Mr. Vander Molen.

Mr. VANDER MOLEN. Yes, thank you for the question and for the opportunity to give you some feedback.

I can echo what these other two guys have said, with the addition that, you know, fear is a terrible thing. You know, fear can strangle any kind of movement, whether it is economically or whether we walk out of the front door in the morning, and it is with uncertainty that people are not going to invest.

That is one of the things that—I think what we can do is look at how do we develop a culture that says you know what, I am going to invest and I can expect some kind of return on that investment. The equipment is going to do a task. It is going to be productive, and there is value there. But when fear makes us do things, like not buy trucks or not buy equipment or not add to facilities, whatever that might be, or add jobs, add to people's work at our places of business, then you know we can't go forward. Small business has got a strangle on us if we operate by fear. We need some confidence out here that there are things that can happen for the greater good, and this bonus depreciation is one piece of it.

Bonus depreciation, all in itself, will not do us any good. People still have to make money. Businesses have to make money so that they can reinvest into equipment and things like that. So that is why we really need that bonus depreciation along with some other things like—whether it be highway bills or water infrastructure, you know, some small business incentives that can help that.

You know, I think, too, that bonus depreciation can help with a tangible product. I mean it is something that you can see. Things are happening.You know, you can put your fingers on it. You know, if we spend money on things that you can't see, that doesn't give anybody any confidence that we are going in the right direction.

Mr. GRAVES. Mr. Fesler.

Mr. FESLER. Thank you. That is a great question.

For us, we are in the housing industry, and people want houses. People are trying to get them. People work hard to get them. The largest holdup to having people move forward at that today is the availability of credit. The government used to fund, roughly, 10 to 15 percent of the houses that were built, through Fannie Mae, Freddie Mac and a few others. Today, they are 60 percent of the money that is available for housing.

The financial industry has been unwilling to step back into that industry and to start lending heavily again. A lot of that is due to the uncertainty of the regulations that are going to get hammered on them, and they don't want to find themselves in a bad place,

so there is a lot of holding off on the advancing of credit. That has more to do with the development and growth of our business than anything else right now.

Until the financial institutions begin to release funding for the construction business again, construction is going to move very slowly. There is a pent-up demand for it. People want it, but they can't afford it. That is going to be directly related to the job creation we have. We will grow jobs as the economy recovers and as people begin to move into housing. We had over 800 employees. Now we have less than 400. Those jobs will come back slowly over time.

As far as the purchasing of equipment goes, if equipment were more affordable, either through tax incentives or other programs, we would purchase more. We need $800,000 in trucking equipment this year, but our banks will only support us to a level of 600. That means we spend more money on baling wire and duct tape, and that is not a very effective way to manage a business, but that is the environment we are in. It is ″hang on and make things work.″

Mr. GRAVES. Mr. Sanford.

Mr. SANFORD. Thank you.

It is unusual. I have never seen these other four gentlemen, but I believe we are living under the same tent. Our anxieties about the economy and about the market going forward and about the uncertainty in the marketplace is just amazing to me, especially in my business where we take chunks in assets in millions of dollars' worth of equipment when we make purchases.

Without the enactment of a multiyear reauthorization for the Federal highway transportation bill extending into the FAA programs and for transit programs, which we do work in all of those areas, there is just too much uncertainty, as Mr. Budington said, to risk the personal guarantee of your home and your family, as we do day-to-day, to make investments in equipment. Especially without the bonus depreciation to help in the small way that it would help for us, it is just making those decisions—they are almost off the table.

I want to mention the access to credit. Access to credit now seems tougher in our industry as we go forward in trying to finance jobs than it has ever been. I am watching, daily, friends and colleagues in our industry go out of business, good businesses that have been in business for 30 and 40 years, because of just doing foolish things—trying to cash flow their businesses by bidding in increments below their costs, feeling that they are just going to be able to continue their business by cash flowing because they say they have got a contract. That is not happening. What they are doing is working themselves directly out of business.

So that is why I mentioned in my remarks earlier the reauthorization and depreciation. All of these things are like one leg to the three-legged stool. They all have got to go in conjunction with each other.

Mr. GRAVES. Thank you.

Chairwoman VELÁZQUEZ. I know that I need to recognize the gentleman, and I will.

Would you yield for a second?

Mr. MOORE. Sure.

Chairwoman VELÁZQUEZ. Mr. Sanford, where would your industry be today if it was not for the stimulus package?

Mr. SANFORD. Well, I regret to tell you, for the work I have in Virginia, we have not received any stimulus money. We have been fortunate that we are multidisciplined. We do airport work, and I do have a project down at a fairly large airport. We are working for some military contracts with the Navy and the Marine Corps in North Carolina at some military bases. So, to the respect that they have gotten stimulus money for that spending, it is keeping me going right now.

Chairwoman VELÁZQUEZ. But you call for the reauthorization of a multiyear in government investment—

Mr. SANFORD. And multiyear for highway projects for the Highway Reinvestment Act.

Chairwoman VELÁZQUEZ. Yes. So in a way, it is the recognition that investment is netted coming from the government in terms of the multiyear highway bill?

Mr. SANFORD. Yes. Yes.

Chairwoman VELÁZQUEZ. Mr. Moore.

Mr. MOORE. Thank you.

This is a question I want to pose to any of you who care to answer this. The theory behind bonus depreciation is to reduce business tax liabilities so that the business will have increased cash flow and thereby will help the business make more investments.

In your experience, do you have an example of when your business elected to take a bonus depreciation deduction and such a deduction resulted in a specific investment being made in the business? If so, could you share that with our Committee here? Anybody.

Mr. BUDINGTON. You know, what is interesting is our accounting firm would regularly come to us at the end of the year to say we have a credit that is expiring, and do you have the need to spend X number of dollars to take advantage of the depreciation.

What is unfortunate is that making decisions on purchasing equipment in my industry takes a long time. I travel. We learn about things. We understand it. So I would have to say, no, we have not used it to make a decision. What is interesting is that, in this case that we are in now, it is time to start investing in the company again, and it would be nice to have the availability of this advanced depreciation.

Mr. MOORE. Mr. Ring, any comments?

Mr. RING. Yes, Mr. Moore.

We have done that in the past with regard to the purchase of vehicles. Typically, we would like to purchase four or five vehicles at $100,000 to $125,000 a year. Similarly, my accountant has come to me and said that we have an opportunity to do this if it makes sense. If this is something that you might want to do in the next 6 months, let's do it now and take advantage of this. We have done that.

On a somewhat related note in testimony of the benefit of government incentives, our company last year did in the middle of this recession spend $375,000 to put 240 solar panels on our roof. That was in large part due to the incentives that were offered by the

Federal Government and the State of New Jersey, and it made that a very wise business decision with a payback of less than 5 years.

Mr. MOORE. Very good.

Mr. RING. Yes.

Mr. MOORE. Does anybody else have a comment?

Mr. Vander Molen.

Mr. VANDER MOLEN. Yes. We have used it for investment in our rental fleet, and that enables us to utilize those dollars somewhere else; but I would say, even more importantly, our customers have used it, and they will make purchase decisions prior to the end of the calendar year so that they can utilize those tax savings and know that those sales that happened at the end of the fiscal year, in December, were very welcomed in our company.

Mr. MOORE. Thank you, sir.

Mr. Fesler and Mr. Sanford.

Mr. FESLER. I would echo those same things.

Typically speaking, when you have either a rebate available to you or a deduction available to you, your accounting staff or marketing people, whoever is available or whoever is aware of those events, come and they say, you know, this is a good time to do this. We then look at our company. What are our needs? We know we are going to replace so much equipment each year, but it will cause us to accelerate on an earlier basis the replacement of some of the equipment that will give us more efficient equipment and that will operate better and longer. There is also some environmental impact when you go to a more energy-efficient product. So we will consciously make that decision based on the availability of incentives.

Mr. MOORE. Very good.

Mr. Sanford, any comments, sir?

Mr. SANFORD. Just one comment.

In my remarks, I mentioned being able to reach back further than 3 months, which would be very important in the construction industry, to expand that window for a lessee to go back. Sometimes we will lease equipment for 6 to 9 months on a long-term purchase option agreement depending on the work you have got going forward and looking forward. You feel comfortable enough, and you have the credit availability to take that equipment and take it down and put a mortgage on it and purchase it. It was new equipment when you took it out. So I think expanding that window further than the 3 months would be very, very helpful in our industry.

Mr. MOORE. Any recommendations for how long to expand?

Mr. SANFORD. Well, I don't know what you all would agree to, but 6 to 9 months would certainly help. It gets you from one year to the next year.

Mr. MOORE. Thank you, sir.

My time is just about up. I yield back, Madam Chair.

Chairwoman VELÁZQUEZ. Mr. Bartlett.

Mr. BARTLETT. Thank you very much.

I would just like to note, first of all, that I think there is a fundamental difference between Highway Trust Fund money and stimulus money.

Highway Trust Fund money is money that was taken from the taxpayer through taxes on the fuel you used and put in trust for you to be available when you needed to build roads and bridges.

The stimulus money was either printed or it was borrowed from our kids. It was ultimately borrowed from our kids. If you borrowed it from some sheikh or Bank of Russia or China or someplace, our kids have to pay it back, right? So we have borrowed it from our kids.

I think there is a fundamental difference between those two pots of money. Am I wrong?

Mr. SANFORD. I hope I didn't misspeak. I understand what you are saying.

Mr. BARTLETT. Okay. Thank you, sir.

You know, if you had a bonus depreciation of 1 year, that is the same thing as expensing it the year you bought it, isn't it?

Mr. SANFORD. Correct.

Mr. BARTLETT. Okay. You know, when I sit back and look at this thing, I am wondering, like the old farmer said, if the juice is worth the squeezing.

What we have are these very complex depreciation schedules which cost you a lot of money for bookkeeping. It costs the government a lot of money to make sure you have kept your books in accordance with the law, and at the end of the day, it is exactly the same as if you had expensing the year you bought it, is it not? You get it all back in terms of depreciation and salvage value, and the government gets that much less in taxes because you ultimately got it all back except they spread it out over a number of years. When you first start, there is a temporary benefit to the government because the government gets a bit more taxes until you depreciate the thing, but at the end of the day, if you are looking at it over a lifetime or over a decade, it comes out exactly the same.

I am wondering why we do this, because I doubt that the increased cost of capital to the government, the benefit of that, comes anywhere close to the bookkeeping cost to the government, to say nothing of the bookkeeping cost that you have.

I was in the small business world in a former life, and I know those stupid depreciation schedules and how difficult they are to maintain—different for this and different for that. Why don't we just expense things the year we bought them? Because at the end of the day, it comes out exactly the same for both the taxpayer and the government.

Why do we want to pay in ourselves for these depreciation schedules? Am I missing something?

Mr. BUDINGTON. Amen.

Mr. BARTLETT. Everybody is a loser here. I understand win-win. I do not understand lose-lose, and everybody loses here. I think the taxpayer loses and the government loses. The taxpayer loses in two ways. He loses because his government is less efficient with all of the bookkeeping they have to do to make sure you have followed these silly laws, and you have huge investments and all the bookkeeping to keep track of and the stuff in it. At the end of the day, it comes out exactly the same.

Can you help me to understand why we do this?

Chairwoman VELÁZQUEZ. Will the gentleman yield?

Mr. BARTLETT. Yes.

Chairwoman VELÁZQUEZ. So it is a great argument and quite convincing. Why is it that during the majority Republican-controlled Congress, you were not able to make that argument?

Mr. BARTLETT. I did make that argument, but wisdom doesn't always prevail. And you may have noted that I broke with the prior administration very early in their administration. They spent too much, and they had too many regulations. I broke with them very early.

Well, I just want to understand why we do this, because we are just hurting—everybody loses when we do this.

Yes, sir. Why do you think we do it?

Mr. RING. Obviously, the government saw some benefit. But I have to say, if we knew that was up for discussion, we would have talked about that today. We would have probably asked for that. I guess the government—I would imagine the government is concerned that businesses would go out and buy stuff to avoid paying taxes. Imagine that.

Mr. BARTLETT. But that is only a very temporary thing. At the end of the day, you expense everything. With the salvage value and the expensing, you get it all back, right? The government loses all the taxes at the end of the day because you have depreciated the thing, right? So it is exactly the same as if you had expensed it the year you bought it. So I do not understand why we are doing this to ourselves.

Mr. SANFORD. Well, I think, as counsel mentioned before the hearing started, it has been since 1986 since the whole depreciation schedule en masse has even been reviewed. It gets reviewed from year to year in smaller segments, and I think that it needs to be en masse.

Mr. BARTLETT. I don't want to review it. I just want to do away with it because I think that it is a lose-lose for everybody concerned, is it not? Tell me where I am wrong.

Mr. RING. You are not.

Mr. BARTLETT. Thank you, sir. Thank you very much.

I yield back.

Chairwoman VELÁZQUEZ. Thank you.

Mr. Vander Molen, if bonus depreciation is enacted this year, we will need to decide whether to make it retroactive or only effective for the rest of 2010. Some argue against making it retroactive. Their argument is that it will not encourage new business activity.

Are they opposed to reasons why purchases made in the first part of the year should be eligible for relief?

Mr. VANDER MOLEN. I think, if you look at our business, when you look at the first 6 months of productivity, it hasn't really been anything to write home about. I don't know as far as on the revenue side of government. It is probably not going to make that much difference. For the contractors or the people that can take advantage of that bonus depreciation, it is still all about the cash.

When you have tax incentives, you have a cash incentive, and that cash incentive enables a small business to function and to perform and sustain itself and to succeed itself; and that is what we pay taxes on, is income, and if you roll that thing back to January 1, I think it is a viable option that needs to be considered.

Chairwoman VELÁZQUEZ. Okay.

Mr. Budington, bonus depreciation is designed to spur purchases now rather than at some point in the future. So did the expiration of bonus depreciation in 2009 prompt you to make purchases you may not have otherwise made?

Mr. BUDINGTON. Well, going back to one of the points I brought up, I think that is exactly the problem. The situation that we were dealing with in 2009 was trying to understand what the situation was, what our business climate was going to become, and how severe this recession would be.

Every time a recession starts, people talk about there is a turnaround coming next quarter, maybe next half. As you can imagine, nobody predicted we were going to be here in the beginning of 2009. We spent most of 2009 getting costs aligned with the realities of where our business was and understanding, once again, how our business was going to have to adapt to this new environment that we were in.

I think the problem with the way these bills are set up is that, if we believe that depreciation is going to spur investment in our businesses and if we believe that investment in our businesses is going to create jobs, then it should just be open to say when our business has come up with a model, understands where our future is going and is ready to make that investment, that that depreciation is available for us to take at that time.

It is hard for us to plan all of this and get all of these stars in alignment in advance of what the rules are for when we can and when we cannot use it. When my accountant does come in to yell that it is time to take that depreciation, I am rarely ready, unfortunately.

Chairwoman VELÁZQUEZ. Okay. So, if Congress enacts bonus depreciation this year, with the understanding that this may be the last time this deduction is offered, will that create an incentive for you to make an additional purchase before the end of 2010?

Mr. BUDINGTON. Well, as I brought up earlier, we are at a point where we are ready to make some investments. We see some opportunities to grow that we are, actually, pretty excited about. So this will be a big boost and a big help for us.

What is interesting if you think about depreciation, when I buy a big fixed asset, it is not a linear depreciation for me. I have huge upfront costs. I have to build the market. I have to build the sales force around it. In that initial year, year and a half, I am usually taking a loss on what I am paying into that; whereas, later on down the road, I am hopefully getting a return on my investment.

So, yes, I will use that in 2009, but at the same time, I think it would be unwise for businesses to be making rash decisions on spending and putting companies in jeopardy. Banks are very different entities to be dealing with now than they were in 2007. So, if I get someone who is encouraging me to take on debt that I don't personally believe that our company is ready to handle—because that debt might require me to make decisions that have nothing to do with that equipment—I have to make sure that our company can make up those payments and cover the covenants that the bank requires. Again, I don't want to be making a rash decision based on time frames.

Chairwoman VELÁZQUEZ. Okay.

Mr. Fesler, your industry is tied to the housing industry—

Mr. FESLER. Correct.

Chairwoman VELÁZQUEZ. —where unemployment is, roughly, double the national average.

Why is bonus depreciation so important to the housing sector, and do you believe that it can assist you?

Mr. FESLER. Well, it does assist us as a lumber supplier. We have the need to replace a certain amount of equipment each year because equipment ages; it gets old; it runs out of its useful life. In fact, with computers, we have already made the determination that we are going to buy 25 of those this year, and that is what we need to replace to keep our entire company up and running at the proper stage.

With bonus depreciation, they become more affordable. If that were retroactive, we could literally afford 30 instead of 25. The reality is we should be replacing 50, but because of the economic downturn, we are withholding spending more than what we need to and are trying to stay within the guidelines of our banks. But having more dollars available as an incentive to purchase would encourage us to purchase more. Purchasing equipment like that helps other industries. It helps us to manage better, and it should theoretically spur some job growth.

Chairwoman VELÁZQUEZ. Okay. Thank you.

Mr. Graves, do you have any other questions?

Mr. Ring, I noticed that you mentioned that the tax credit of $1,500 helped your industry.

Mr. RING. Yes, ma'am.

Chairwoman VELÁZQUEZ. That costs money. Given the constraints that we are in, the government, this is a very complex issue to decide whether this and that. I can see, based on the arguments that I heard, that some people believe that, yes, we should spend money to encourage investment and to encourage purchases of new equipment, but we know that that will have a direct impact on the deficit that we are facing.

So, in terms of the stimulus package, Mr. Sanford, I saw, when you mentioned here in your testimony how the stimulus—not maybe for you, personally, but for some others in your industry—has been a lifeboat for our sector and the State Department of Transportation, and we would be in a much deeper hole without the Recovery Act's transportation investment.

So these are difficult choices that we are all facing, and it is quite a long debate that we are going to be facing and knowing that it is going to have an impact on the deficit, and it will have an impact on spurring economic activity that we need in order to create jobs that will get this economy growing again.

With that, I want to thank you all. This has been quite enlightening for us, and we will be sharing some of the things and the arguments with the leaders that we heard here, who will be considering small business tax relief for small businesses. Thank you very much.

I ask unanimous consent that members will have 5 days to submit a statement and supporting materials for the record. Without objection, so ordered.

[The information is included in the appendix.]

Chairwoman VELÁZQUEZ. This meeting is now adjourned.
[Whereupon, at 3:00 p.m., the Committee was adjourned.]

NYDIA M. VELAZQUEZ, NEW YORK
CHAIRWOMAN

SAM GRAVES, MISSOURI
RANKING MEMBER

Congress of the United States
U.S. House of Representatives
Committee on Small Business

2361 Rayburn House Office Building
Washington, DC 20515-6315

STATEMENT
Of the Honorable Nydia M. Velázquez, Chairwoman
United States House of Representatives, Committee on Small Business
Full Committee Hearing: *"Bonus Depreciation: What It Means for Small Business"*
Wednesday, July 14, 2010

Today's hearing comes at a critical time for the US economy. June marked the sixth month in a row that private sector jobs increased. Also, GDP has risen over three straight quarters – after shrinking for 6 consecutive quarters. Despite these positive signs, unemployment remains unacceptably high.

Small businesses will be critical to putting Americans back to work. With business activity picking up, we need to continue finding ways to promote entrepreneurship and investment. Last month, the House passed legislation aimed at steering tax relief to small businesses and promoting the flow of capital to our nation's entrepreneurs. The Senate is expected to consider its own small business jobs bill, shortly.

As Congress completes a final package, there will be a lot of debate on which policies will best create jobs. One of those issues will be extending bonus depreciation. The Senate bill contains an extension of the 50% bonus depreciation tax deduction, while the House version does not.

Bonus depreciation allows a business to take a 50% deduction for investments in new manufacturing equipment, office equipment, and other capital expenditures. This policy lapsed at the end of 2009.

Today's hearing will focus on the impact of bonus depreciation on small businesses. We all know that bonus depreciation can help boost economic activity. However, it is also important to recognize what it means for smaller firms.

The witnesses appearing today are small businesses in a range of sectors. They will offer insight on how bonus deprecation affects them and their industries.

To many of the businesses here, bonus depreciation has an enormous impact. It increases cash flow and encourages investment, while spurring expansion.

Bonus depreciation also yields indirect economic benefits for small businesses. While small firms may not always purchase million dollar machines, they see new opportunities when corporations make investments. Small businesses often sell, manufacture, ship or service big-ticket items that large companies purchase using bonus depreciation.

This is the kind of economic activity we need to foster widespread job creation. As noted in the 2010 Economic Report of the President, a true recovery from the current recession will be driven by business investment. This just underscores why bonus depreciation is necessary – and why it has generated $10 to $20 billion in purchases, while helping sustain or create 100,000 to 200,000 jobs.

Today's hearing will give Committee Members the chance to consider all these benefits. It will provide the perspective of small businesses and what bonus depreciation means for their industries.

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Opening Statement for Hearing:
"Bonus Depreciation: What it Means for Small Business"
Ranking Member Sam Graves (R-MO)
House Committee on Small Business
United States House of Representatives
Washington, D.C.
July 14, 2010

Madam Chairwoman, thank you for holding this important hearing on bonus depreciation. A special thanks to our panel of witnesses, many of whom have traveled and taken time from their companies to be with us.

Bonus depreciation is an important tax incentive for businesses. It helps owners more quickly recover the cost of qualified purchases, freeing up capital to reinvest in their companies. What is not helpful, however, is Congress' pattern of temporarily extending – or not extending – tax provisions. This indefinite situation makes it extremely difficult for businesses, especially small businesses, to plan for the future.

Making things more difficult for small businesses is the atmosphere of uncertainty caused by Washington's anti-business agenda. New taxes, mandates and regulations in countless new laws – including the health care law -- threaten to strangle our nation's entrepreneurs. And more taxes are looming, thanks to proposed climate change legislation, the financial regulatory reform bill, the potential expiration of the 2001 and 2003 tax relief, and the return of the estate tax. A prevailing feeling of uncertainty about what lies ahead has made employers hesitant to create new jobs because they aren't able to accurately predict costs and revenues.

Washington has spent a record $3.6 trillion this year alone. Because of runaway federal spending on the stimulus and countless other initiatives, the federal deficit recently topped $1 trillion for the first nine months of Fiscal Year 2010. Relying on unsustainable borrowing and spending will not provide small businesses with the stability they need, and may put added pressure on interest rates and capital supplies.

Washington has a spending problem, not a revenue problem. We must curb unsustainable spending and encourage a return to fiscal sanity. At the same time, temporary tax relief, including bonus depreciation, is critical. However, these days, the benefit of temporary tax relief is far outweighed by the coming thicket of additional taxes, mandates and regulations that entrepreneurs face. Instead of more temporary extensions of important tax relief initiatives, we should make those provisions permanent as part of a responsible overall tax policy.

Remember, we are depending on small business owners to create jobs, hire workers and get our economy moving. They need policies that encourage expansion and job growth, such as lower taxes, less government spending, and fewer unnecessary government mandates and regulations.

Madam Chairwoman, thank you for holding this important hearing. I look forward to hearing from our witnesses.

Testimony of

Jack Sanford
President
Faulconer Construction Co.

Submitted to:
Committee on Small Business
U.S. House of Representatives

Hearing:
"Bonus Depreciation: What It Means for Small Business"

July 14, 2010

American Road & Transportation Builders Association
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Testimony of Jack Stanford
President
Faulconer Construction Co.

On behalf of the American Road & Transportation Builders Association

Hearing: "Bonus Depreciation: What It Means for Small Business"

House Committee on Small Business
July 14, 2010

Chairman Velazquez and members of the committee, I am very pleased to be here to testify on behalf of the American Road and Transportation Builders Association (ARTBA), the consensus voice of the transportation construction industry. My name is Jack Sanford, president of Faulconer Construction Company, based in Charlottesville, Virginia.

ARTBA, which celebrated its 100th anniversary in 2002, has over 5,000 member firms and member public agencies from across the nation. They belong to ARTBA because they support strong federal investment in transportation improvement programs to meet the needs and demands of the American public and business community. The industry we represent generates more than $200 billion annually in U.S. economic activity and sustains 2.5 million American jobs.

Faulconer, my company, traces its roots back to the 1880's. The current incarnation of our company was founded in 1946 and I am the third generation in my family to own and manage it. We are a site development and heavy/highway contractor operating in Virginia and North Carolina. We currently have about 260 employees.

We typically perform work for both public and private owners, including the Virginia Department of Transportation, the U.S. military, universities and railroads. The "mix" has usually been about 70 percent public and 30 percent private work at any given time. However, during the current recession, opportunities for private work have declined and, with occasional exceptions, almost all of our work has been for public entities. Therefore, our company has a very keen interest in the status of our federal and state transportation infrastructure programs, as they are the source of much potential work for us.

Thank you for the opportunity to appear before this hearing of the Small Business Committee to discuss "Bonus Depreciation: What It Means for Small Business."

Transportation Infrastructure & Small Businesses

I represent the transportation construction industry, the industry that builds and preserves the nation's roads, bridges, transit systems, airports, railroads and water ports. Each year, more than 10 percent of all the construction work put in place in the United States is on transportation and transportation-related projects.

According to the latest economic census conducted by the U.S. Bureau of the Census, there are just over 11,000 business establishments that are involved in transportation construction. Most are small businesses. More than 90 percent have less than 100 employees, and the average is less than 40.

But it is a very capital intensive industry. The average establishment buys or leases almost $500 thousand dollars of heavy equipment each year, versus $20 thousand for the average residential construction company. As a result, long-term predictability of federal, state and local highway investment is very important to businesses in the transportation construction industry.

While my industry is basically an industry of small businesses and the federal highway program is of critical interest to us, it is important to recognize the importance of federal highway investment to a broad range of small businesses in our economy.

In virtually every industry, small businesses depend on the nation's transportation network to move people and products around town and around the country. Retailers need reliable transportation to get seasonal products from ports to their stores. Service providers need reliable roads to get service trucks and workers to customers. Virtually every manufacturer depends on the just in time delivery system as a way to control inventory costs.

Highway congestion has become a major drain on the energy and vitality of American small businesses. It negatively affects small businesses in three significant ways:

- When employees are paid by the hour, time lost waiting in traffic or waiting for a delivery means higher costs.

- When businesses are paid by the job, by the trip or by the call, traffic congestion that reduces the number per day means lower incomes.

- Most important, when the day is spent dealing with the fall-out of highway congestion—scheduling, routing, late deliveries, missed appointments, unhappy customers—this takes time away from planning and growing the business.

Depreciation Bonus

The economic difficulties our nation has suffered since 2008 have hit the U.S. construction industry particularly hard. Our sector continues to be plagued by unemployment levels in excess of 20 percent—more than twice the national average. At the same time, state budget challenges are forcing many states to scale back their transportation programs. Compounding this situation has been the virtual disappearance of private sector transportation infrastructure projects which I mentioned previously. As a result, the U.S. transportation construction industry is not seeing the type of recovery that some other segments of our economy are beginning to experience.

Certainly, the transportation infrastructure investments provided in the American Recovery and Reinvestment Act of 2009 have been a lifeboat for our sector and state departments of transportation. The measure's $27.5 billion in highway investments, $8.4 billion for public transportation improvements, and $1 billion for airport construction have prevented many states from making major cutbacks in transportation investments and in some areas have led to market expansion. The bottom line is that while our industry still has a long way to go, we would be in a much deeper hole without the recovery act's transportation investments.

In addition to the ARRA's boost to U.S. infrastructure improvements, the act included a critical one-year extension of the 50 percent depreciation bonus enacted in 2008. Allowing firms to accelerate the depreciation of equipment purchases has a proven track record of stabilizing companies and providing new opportunities for equipment manufacturers.

One of ARTBA's affiliated chapters, the General Contractors Association of New York, reports that some of its member-firms did use the bonus depreciation provision in 2009. They include a larger transportation construction company which chose to purchase $10 million of heavy construction equipment last year because of the tax benefits coming from bonus depreciation.

Another, smaller New York company purchased two new pieces of equipment in 2009 from the local Caterpillar dealer—a pay loader and an excavator—rather than waiting until the New York construction market improved. They cited the bonus depreciation provision as the reason.

The Virginia Transportation Construction Alliance, the statewide industry association to which my company belongs, reports that a bridge-building contractor purchased a $1.1 million crane because of the combination of low interest rates and the depreciation bonus that was then in effect. A second Virginia construction firm reports it purchased nearly $650,000 of equipment in 2008 and 2009 because of this provision.

Extending depreciation bonus will encourage both job creation and the purchasing of newer, more environmentally friendly construction equipment. Currently, the Senate is considering such a measure as an amendment to H.R. 5297, the "Small Business Jobs and Credit Act of 2010."

Allowing firms to reduce their tax liability in the first year of an equipment purchase incentivizes companies of all sizes to purchase new equipment. These savings would provide new equipment

purchasers the ability to create new and retain existing jobs at a time when the construction industry is under duress from a series of external challenges.

Furthermore, extending the depreciation bonus would help protect the environment, as newer equipment will have more up-to-date environmental controls. Today's heavy construction equipment is far cleaner than what was used a generation ago. In fact, according to the United States Environmental Protection Agency (EPA), emissions from new engines in off-road equipment such as backhoes, excavators and large tractors have been reduced by 85 percent for soot and 70 percent for nitrogen oxides. Extension of the depreciation bonus will allow companies to purchase the newest, cleanest equipment models and help ensure construction emissions continue to decline.

On a much broader scale, it should be noted that incentivizing companies to purchase new equipment has benefits beyond immediate economic activity and employment support. This tax benefit allows companies like mine that pride themselves on building the nation's transportation infrastructure improvements to purchase newer, more efficient equipment. This equipment, in turn, will be utilized to more effectively deliver transportation improvements that all Americans and U.S. firms rely upon daily.

Certainly, ARTBA and I are enthusiastic supporters of the depreciation bonus. As you continue to deliberate on this issue, I would like to offer a modest adjustment that could make the provision even more effective. The current regulations provide a narrow three-month window for firms involved in a lease of new equipment to take advantage of the accelerated depreciation if they chose to purchase that equipment. From personal experience, I can tell you that expanding this window would allow even more firms to take advantage of the depreciation bonus and, at the same time, achieve the objective of facilitating increased purchase of new construction equipment.

I would be happy to provide the Committee with more specifics about this suggestion, but hope you will consider this recommendation as you work on this matter.

Surface Transportation Reauthorization

Madame Chairman, earlier I mentioned the array of challenges currently facing the U.S. transportation construction industry. I would be remiss in not pointing out the most meaningful action Congress could take for our sector and its thousands of small businesses is enactment of a multi-year reauthorization of the federal highway and public transportation programs.

While states are suffering from their own budget challenges, they are also impeded by the uncertainty surrounding the future of federal surface transportation infrastructure investments. The federal government constitutes 40 to 45 percent of the U.S. highway construction market. As such, it is no surprise that states are reluctant to move forward with long-term transportation improvement plans and projects when nearly half of the nation's surface transportation investments are in limbo.

The last federal surface transportation bill expired almost 10 months ago and only the House Transportation & Infrastructure Committee has put forth an attempt to reauthorize these programs. I recognize the purpose of today's hearing is to talk about the depreciation bonus, but members need to understand the interrelationship between this tax benefit and the lack of action on the multi-year surface transportation bill.

As a business owner, the lack of certainty about this legislation—its overall investment levels and when it will be forthcoming—directly impacts my decision to make capital purchases. This creates a situation where two factors are working at cross purposes: the depreciation bonus is an excellent incentive to purchase new equipment, but the lack of a reauthorization bill is an equally powerful disincentive.

In closing, I hope all members will work with your respective leaderships to make passing an extension of the depreciation bonus AND a multi-year highway and public transportation bill a priority in 2010.

Thank you again for the opportunity to appear before you today. I would be happy to answer any questions from the committee.

Testimony
of
Daniel Fesler

Chief Executive Officer, Lampert Yards
St. Paul, MN

On behalf of the

National Lumber and Building Material Dealers Association

Before the

Congress of the United States

House of Representatives

Committee on Small Business

"Bonus Depreciation: What It Means for Small Business"

July 14, 2010
Washington, D.C.

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Introduction

Chairwoman Velazquez, Ranking Member Graves, Members of the Committee, on behalf of the National Lumber and Building Material Dealers Association (NLBMDA), thank you for providing me the opportunity to testify today on this very critical issue to small business. My name is Dan Fesler. I am the Chief Executive Officer of Lampert Yards in Saint Paul, Minnesota and the Chairman of the National Lumber and Building Material Dealers Association. Lampert Yards, Inc began in 1887 and continues to be a family-owned business with 34 retail lumber yard locations in Minnesota, Wisconsin, Iowa, North Dakota and South Dakota. I am a 4th generation owner and we employ 395 people.

Founded in 1917, NLBMDA is the voice of the lumber and building supply industry. The association has over 6,000 members in all 50 states operating single or multiple lumber yards and component plants serving homebuilders, subcontractors, general contractors, and consumers in the new construction, repair and remodeling of residential and light commercial structures. Most of our members are family-owned small businesses and many of these small businesses are in their second and third generation of family ownership.

NLBMDA is the national non-profit trade association that represents its members in the national public policy arena, with emphasis on efforts to 1) promote the industry and educate legislators and public policy personnel; and 2) assist legislative, regulatory, standard-setting and other government or private bodies in the development of laws, regulations and policies affecting lumber and building material dealers, its customers and suppliers.

The U.S. Economy and Housing Market and Its Effects on Small Business

The U.S. economy and housing market is still in the midst of one of the most challenging periods in our nation's history. As reminded almost daily in the media, the housing crisis still plagues the U.S. economy. The weak housing sector continues to have ripple effects throughout the country and is putting severe strain on both large and small businesses nationwide. Our nation's lumber and building material dealers are on the front lines of this crisis and many unfortunately have had to permanently shut their doors as a result.

Federal Reserve Chairman Ben Bernanke two days ago noted small businesses employ about half of all Americans and contribute to 60 percent of gross domestic product and account for 60 percent of job creation. With unemployment at 9.5% and Chairman Bernanke declaring small businesses central to tackling unemployment, it is obvious that much more needs to be done

by Congress and the President to help small businesses out of their current economic situation.

With respect to my own company, since the decline of the housing market we have had to close 7 facilities and lay-off or terminate 418 employees. We have seen numerous lumber yards, builders, distributors, and manufacturers go out of business. In addition, the costs of operating our business have steadily increased due to government regulations, such as IRS rule changes and loss of deductions, EPA regulations, and increased OSHA oversight and regulations. Health care costs have grown steadily for the last 10 years. While costs have been up sharply, sales have been declining for the last 4 years. We have seen our margins erode and profitability decline. The average lumber yard lost $1.5 million in 2009. We have been forced to suspend investments in new or needed equipment.

Bonus Depreciation Helps Small Businesses and Will Help Stimulate the Economy

One way to help lumber and building material dealers and many businesses out of their current economic difficulties would be to extend the bonus depreciation for one year as recommended by President Obama in his Fiscal Year 2011 Budget to Congress.

While the HIRE Act signed by President Obama on March 18 renewed the increased Sec. 179 expensing levels for this year, the temporary 50 percent bonus depreciation lapsed at the end of 2009 and has not been restored. Bonus depreciation allows businesses to recover the costs of certain capital expenditures more quickly than under ordinary tax depreciation schedules. Businesses can use bonus depreciation to immediately write off 50 percent of the cost of depreciable property. The measure would allow businesses, large and small, to write off more of the cost of equipment and machinery purchases more quickly than allowed under current law. Bringing back bonus depreciation will encourage companies of all sizes to invest in newer, more efficient, and more environmentally friendly equipment, which will help large and small businesses alike.

In a fragile economic recovery, temporarily extending for one year bonus depreciation for business capital investments purchased and placed into service by year end will help promote continued investment. Bonus depreciation will stimulate sales of business capital investments, such as machinery and equipment, by helping customers who have buying needs and suppliers who

have products to sell. American jobs will be restored with the increased demand for business capital investments. Bonus depreciation extension will help lower the cost of such purchases at a time when economic uncertainty and high unemployment are thwarting business capital investment.

Bonus depreciation is somewhat of a misnomer though. It sounds like you are getting a bonus or a greater benefit when in actuality it makes depreciation match the true life cycle of a product. For Lamperts, we have 235 computer terminals and 197 printers in use in our company every day. On average, they last 3 years because they are used 10 hours per day, 6 days a week in a work environment that can easily make them dirty and dusty. Under normal IRS depreciation rules these must be written off over 5 years which is much longer then their true life cycle. Bonus depreciation allows us to write these off over a faster period of time, but also in line with their true life cycle. Without bonus depreciation, we hold and use equipment longer, and we delay the cost of investment in newer and better equipment. Giving a company the ability to write things off as they age and before they become obsolete would encourage the purchase of newer equipment on a more frequent basis and would assist in stimulating the economy and providing more jobs for companies selling these types of products and equipment to businesses such as Lamperts.

Please consider the following data on bonus depreciation:

- Business investment in equipment and software rose at an annual rate of 19% in 4th quarter 2009 and then slowed to 11.4% pace in 1st quarter 2010.[1]
- A recent study estimated that the bonus depreciation provisions of 2002 and 2003 increased investment 1.8 percent above trend, increased GDP by $10 to $20 billion, and contributed to the creation or retention of 100,000 to 200,000 jobs.[2]

The data above have led two of the Senate's sponsors of the bonus depreciation bill to reflect this in their recent statements. As Senator Baucus pointed out recently on the Senate floor, an extension of bonus depreciation will boost economic activity by hundreds of millions of dollars and would spark investment, increase cash flow, and help create jobs. In addition, Senator Grassley was correct in saying that bonus depreciation is a time-tested temporary incentive for increased business investment.

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[1] Bureau of Economic Analysis, U.S. Department of Commerce, June 25, 2010
[2] University of Michigan Study: "Investment Incentives and Economic Stimulus: Lessons from "Bonus Depreciation", by Christopher L. House and Matthew D. Shapiro, January 18, 2008

Support for Bonus Depreciation

This past spring, 82 national organizations signed a letter urging Congress to renew the recently expired bonus depreciation law through at least 2010 including the National Association of Manufacturers (NAM), the National Association of Home Builders (NAHB), and the U.S. Chamber of Commerce, as well as NLBMDA.

Also, it is rare that many issues achieve a great deal of bipartisanship these days, but recently 11 Democrats and seven Republicans signed a letter to House Ways and Means Committee Chairman Sander Levin (D., Mich.) and ranking member Dave Camp (R., Mich.) urging them to include the bonus depreciation provision in a final package of small-business tax incentives that could be negotiated with the Senate later this month.

In addition, this past Congress in the House alone, Members have introduced numerous jobs tax bills – H.R. 4779, H.R. 361, H.R. 4311, H.R. 212, H.R. 4637 and H.R. 4965 – that contain this important, bipartisan provision.

Taking all of this data and support into account for bonus depreciation, we sincerely hope the House will seriously consider passing a bonus depreciation extension, which we know will help get our economy back on track.

Conclusion

NLBMDA appreciates this opportunity to testify on this critical issue. We look forward to working with the Committee and Congress on this and other steps that will help us emerge from this current crisis and improve our economy in the long run. I will be glad to answer any questions you may have.

Thank you.

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PROMOTING ECONOMIC RECOVERY BY REINSTATING THE DEPRECIATION BONUS

STATEMENT OF DENNIS VANDER MOLEN, PRESIDENT AND GENERAL MANAGER, VERMEER MIDSOUTH, INC., JACKSON, MISSISSIPPI ON BEHALF OF THE ASSOCIATED EQUIPMENT DISTRIBUTORS BEFORE THE U.S. HOUSE OF REPRESENTATIVES COMMITTEE ON SMALL BUSINESS

July 14, 2010

Chairwoman Velazquez, Ranking Member Graves, and other distinguished members of this committee, my name is Dennis Vander Molen and it is my pleasure to appear before you today both as a small business owner and in my capacity as 2010 national chairman of the Associated Equipment Distributors (AED).

Executive Summary:

- For the construction equipment industry, the recession has been a depression. Between January 2007 and September 2009, equipment distributors and manufacturers shed 37 percent of their workforce and saw equipment sales fall 50 percent.
- The 50 percent depreciation bonus created by recent economic stimulus legislation allows companies that buy new equipment to reduce their tax bill for the year in which the purchase is made. This frees up cash that these companies can use to make additional investments and hire new workers.
- AED studies have shown that the depreciation bonus is highly cost-effective way for Congress to stimulate economic activity.
- The depreciation bonus expired at the end of 2009. AED urges Congress to reinstate the temporary tax incentive for at least one year to help promote economic recovery in the equipment industry and broader economy.

I am the president and general manager of Vermeer MidSouth, a family-owned company headquartered in Memphis, Tennessee that sells, rents, and services Vermeer construction equipment. We have seven locations in Mississippi, Tennessee, Arkansas, and Louisiana. Vermeer MidSouth has 50 employees, down from more than 70 prior to the recession.

I am testifying today on behalf of AED, the national trade association representing authorized, independent distributors of construction, mining, forestry, and agricultural equipment. AED has more than 700 member companies, the overwhelming majority of which are small businesses. Approximately 48 percent of the association's distributor members report annual revenues of $10 million or less.

I appreciate the opportunity to come before the Committee to discuss what the depreciation bonus means for small businesses in the equipment industry and why this capital investment tax incentive is so critical to recovery in our industry and the broader economy.

My testimony has three major themes:

- First, the construction equipment industry has been hit as hard as any other economic sector by the recent recession. Equipment sales have fallen more than 50 percent since 2006 and 550,000 jobs have been lost nationwide because of the economic crisis in our industry.

- Second, the depreciation bonus is a proven tool to help stimulate the economy.

- Third, while helping ailing equipment distributors and manufacturers, reinstating the depreciation bonus will have economic and social benefits well beyond our industry and will keep the nation on the path to economic recovery.

The National Recession Has Been a Construction Equipment Industry Depression

The construction equipment industry has been affected as much as any other by the recent economic downturn. For us, the recession has been nothing short of a depression. A study conducted last year by IHS Global Insight for AED and the Association of Equipment Manufacturers (AEM) painted a grim picture of equipment industry economic conditions.[1] The study found that from 2007 to 2009, spending on construction equipment fell 50.1 percent. The drop in demand for new equipment has had devastating employment consequences. Over the last three years, the construction equipment industry – manufacturers, distributors, and maintenance providers - shed 257,700 jobs or 37 percent of its work force.

The effects of the downturn in our industry have been felt well beyond our dealer yards and manufacturing plants. IHS Global Insight estimated that the equipment industry depression cost an additional 274,700 jobs in the broader economy. Suppliers to equipment manufacturers have been hit particularly hard, losing 134,000 positions. Taken together, the downturn in the equipment industry cost the U.S. economy 550,000 jobs on a peak to trough basis. Put another way, as of September 2009 the U.S. economy had lost 6.9 million jobs in the recession. Of that total, eight percent, or two out of every 25 jobs lost, can be linked to the downturn in construction equipment purchasing.

AED's own research supports IHS Global Insight's findings. An AED member survey conducted in April 2010 confirms the dismal condition of the construction equipment industry.[2] Since January 2007, AED members have taken difficult and painful steps to keep their companies in business:

- 75 percent of AED members have laid off workers;

- 68 percent have eliminated positions through attrition;

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[1] IHS Global Insight, *U.S. Construction Equipment: Powering Jobs and Dollars* (Sept. 2009) <http://www.startusupusa.com/pdf/09-29-09-Global-Insight-Construction-Equipment-Report.pdf>

[2] Associated Equipment Distributors, "AED Survey Illustrates Impact of Industry Depression, Recovery Priorities," Washington Insights Newsletter, April 2010 <http://www.aednet.org/government/aed-washington-insights.cfm?id=04/01/2010&show=yes#ref3>.

- 64 percent have reduced salaries and wages;
- 64 percent have sold equipment from their rental fleets at a loss;
- 36 percent have reduced health insurance benefits;
- 32 percent have suspended participation in a workforce development program (e.g., training partnership with a local community college);
- 21 percent have cancelled the opening of a new facility; and
- 17 percent have closed one or more facilities.

Fundamentally, the AED survey results reinforce IHS Global Insight's original determination that the economic downturn has taken a devastating toll on equipment distributors and their employees.

The Depreciation Bonus: Powerful Medicine for the U.S. Economy

In March 2002, Congress enacted the Job Creation and Worker Assistance Act in an effort to stimulate the then-struggling U.S. economy.[3] At the time, the nation had seen five consecutive quarters of low or negative growth in gross domestic product (GDP) attributable in large part to a substantial drop in business purchasing.[4] Lawmakers were focused on encouraging new business investment and the centerpiece of the legislation was a provision designed so that companies would buy more, manufacturing activity would increase, new jobs would be created, and economic recovery would take hold.

The mechanism that Congress created to encourage new business investment was a 30 percent "depreciation bonus," which allowed companies that purchased new equipment prior to the end of 2004 to depreciate 30 percent of the equipment's purchase price in that year. The remaining 70 percent of the value of the equipment was depreciable under pre-existing rules. By allowing a company to depreciate a greater part of the purchase price in the first year, the depreciation bonus lowered the firm's tax liability for the year in which new equipment was put in service.

Upon enactment of the Job Creation and Worker Assistance Act in spring 2002, AED undertook an aggressive campaign to educate the construction industry about the law. These efforts included the development and distribution of a brochure to dealers and their customers about the depreciation bonus, a series of articles about it in construction industry publications, and the development of a website - www.depreciationbonus.org - to educate equipment purchasers.

In early 2003, AED conducted a survey of National Utility Contractors Association (NUCA) members to determine what impact the 30 percent depreciation bonus had on utility contractor equipment

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[3] Pub. L. No. 107-147.

[4] U.S. Bureau of Economic Analysis, "Gross Domestic Product News Release of April 25, 2003: Gross Domestic Product: First Quarter 2003 (Advance)," Table 1. – Real Gross Domestic Product and Related Measures: Percent Change from Preceding Period, <http://www.bea.gov/bea/newsrel/gdp103a.htm>.

purchasing habits. The results provided the earliest evidence of the depreciation bonus's positive impact and suggested a strong correlation between capital investment incentives and equipment purchasing.[5] Among other things, the NUCA/AED survey found that:

- Of the survey respondents who were aware of the new depreciation rules, 67 percent said that the bonus had prompted their companies to invest in new equipment in the prior 12 months.

- Fifty-nine percent of all survey respondents said that their companies had been prompted to purchase equipment in the prior 12 months because of the depreciation bonus.

- Ninety percent of the survey respondents said that expansion of the depreciation bonus from 30 to 50 percent would lead their companies to purchase or to consider purchasing new equipment, with 33 percent saying that their companies would definitely purchase new equipment if the depreciation bonus were to be expanded.

Shortly after the results of the AED-NUCA survey were released, President Bush signed legislation expanding the depreciation bonus to 50 percent and extending it through the end of 2004.[6]

Given the positive impact the depreciation bonus had on the economy in the early part of the decade, it was not surprising a one-year 50 percent depreciation bonus was included in Economic Stimulus Act (ESA)[7] signed into law into early 2008 and extended for 2009 by the American Recovery and Reinvestment Act (ARRA).[8] Those stimulus laws also included a significant expansion of Internal Revenue Code Sec. 179 expensing, which primarily benefits smaller companies. While the Hiring Incentives to Restore Employment Act extended the higher expensing levels for 2010, the depreciation bonus lapsed at the end of 2009.[9] AED is leading an ad hoc coalition of trade associations seeking to reinstate the depreciation bonus for at least one year.

There is evidence to suggest that although the U.S. economy is still fragile and the construction industry is still mired in a depression, the depreciation bonus has had a positive impact. A survey of NUCA members conducted by AED in July 2008 found that despite the fact that the ESA had only been law for a few months, approximately one-third of survey respondents said they had purchased equipment in the first half of 2008 to take advantage of the ESA's depreciation bonus (35 percent) and/or the increased Section 179 expensing levels (32 percent).[10]

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5 Christian A. Klein, "Capital Investment Incentives Work: A Study of the Past and Future Impact of the Depreciation Bonus and Small Business Expensing Level Increases on Utility Contractor Equipment Purchasing" (2003) (report for AED and NUCA).

6 Pub. L. No. 108-27.

7 Pub. L. No. 110-185.

8 Pub. L. No. 111-5.

9 Pub. L. No. 111-147.

10 Christian A. Klein, "Economic Stimulus Act Having Positive Effect, But Additional Stimulus Needed: A Study of the Impact of Capital Investment Incentives and Infrastructure Spending on Utility Contractors" (2008) (report for AED and NUCA).

AED's 2010 Government Affairs Survey similarly asked AED members a number of questions about the impact of the ARRA.[11] The results suggest that ARRA's infrastructure spending had some impact on equipment sales, as well as on equipment rental and product support business. However, the most benefit came from the depreciation bonus and increased Sec. 179 expensing levels. Indeed, twice as many members reported new equipment sales attributable to the capital investment incentives as to ARRA's infrastructure spending. Specifically:

- 36 percent of respondents said the ARRA's 50 percent depreciation bonus and increased Sec. 179 expensing levels motivated equipment purchases at their companies last year;
- 29 percent said the ARRA's infrastructure spending created product support business at their companies;
- 29 percent said the ARRA's infrastructure spending resulted in increased equipment rentals at their companies;
- 19 percent said that ARRA's infrastructure spending resulted in used equipment sales at their companies; and
- 18 percent said the ARRA's infrastructure spending resulted in new equipment sales at their companies.

It is important to put the survey results in their proper context. There are a number of reasons that the ARRA's infrastructure investment has apparently had relatively limited impact on AED members.

First, construction activity has dropped so precipitously during the recent recession that those few contractors lucky enough to win bids on ARRA infrastructure projects have being using their existing, idled fleets rather than buying new equipment. Second, the ARRA's infrastructure investment has been relatively short-term, which mitigates in favor of contractors renting equipment rather than purchasing it. Finally, the lack of progress on new, multi-year highway and water reauthorization bills has meant enormous uncertainty in the construction markets and has led contractors uncertain about future business prospects to defer new purchases. In other words, the responses to this survey question should not be read as an indictment of infrastructure as stimulus, but rather as an indication of how bad construction industry economic conditions are and how important it is for Congress to finalize new, multi-year infrastructure authorization bills as part of a broader recovery agenda.

The importance of both infrastructure investment and the depreciation bonus were reinforced by distributor responses to another survey question. AED members were asked to rate the beneficial impact of the various policy solutions the association is advocating to help equipment companies recover from the industry depression. The only priorities that ranked higher than reinstating the depreciation bonus were enacting multi-year highway and water reauthorization bills and passing

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[11] Associated Equipment Distributors, "AED Survey Illustrates Impact of Industry Depression, Recovery Priorities," Washington Insights Newsletter, April 2010 <http://www.aednet.org/government/aed-washington-insights.cfm?id=04/01/2010&show=yes#ref3>.

legislation to free up credit for small businesses. Simultaneous congressional action in all these areas would be mutually reinforcing. Long-term highway and water reauthorization legislation would give contractors a reason to start buying equipment, the depreciation bonus would give them an additional incentive to do so, and the small business credit legislation would ensure that contractors have the means to make purchases.

Depreciation Bonus Reinstatement Will Support Recovery in the Construction Equipment Industry and Beyond

The recent AED survey results reflect the widely-held belief in the equipment industry that the depreciation bonus has the potential to encourage new equipment sales, which will help create new jobs in equipment dealerships around the country. Some dealers may themselves take advantage of the depreciation bonus to add equipment to their rental fleets.

Distributors and contractors who buy equipment and take advantage of the depreciation bonus will get a tax cut this year, which will free up resources to make additional investments and hire new workers. Because the depreciation bonus applies only to new equipment, the machines contractors buy will be cleaner and more fuel efficient than the ones they replace. Up stream, manufacturing plants idled by the recession will once again begin receiving orders, which will put laid off employees back to work. Large and small companies that supply equipment manufacturers will once again see business pick up as well.

Of course, the benefits of a reinstated depreciation bonus will be felt throughout the economy as the scenario above is repeated in all economic sectors. This is why in April 2010, 82 groups signed onto a letter coordinated by AED, the AMT-The Association for Manufacturing Technology, and the National Association of Manufacturers (see Appendix A) calling on Congress to reinstate the depreciation bonus.

Recent economic news shows that the national economic situation is very volatile and underscores the importance of additional recovery legislation. The Bureau of Economic Analysis reported June 25, 2010 that the U.S. economy grew just 2.7 percent in the first quarter of 2010, a much slower rate than in the last quarter of 2009.[12] The Bureau of Labor Statistics reported on July 2, 2010, that total nonfarm payroll employment declined by 125,000 in June, while the unemployment rate edged down to (still high) 9.5 percent. Adding to the uncertain picture was the report from the Labor Department on July 8 that new claims for unemployment benefits fell in the week ending July 3, 2010.[13]

Whatever the true state of the U.S. economy, the depreciation bonus will facilitate growth. If recovery is underway, the depreciation bonus will strengthen it and help it take hold; if the economy is once again deteriorating, the depreciation bonus will encourage business purchasing, thereby stimulating economic activity and helping to avoid another major slowdown.

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12 U.S. Bureau of Economic Analysis, "Gross Domestic Product News Release of June 25, 2010: Gross Domestic Product: First Quarter 2010 (Third Estimate); Corporate Profits: First Quarter 2010 (Revised Estimate)" <http://www.bea.gov/newsreleases/national/gdp/2010/pdf/gdp1q10_3rd.pdf>.

13 U.S. Department of Labor, "Unemployment Insurance Weekly Claims Report", July 8, 2010 <http://www.dol.gov/opa/media/press/eta/ui/eta20100936.htm>.

Minor Augmentation Will Enhance Depreciation Bonus's Impact on the Construction Industry
As Congress considers legislation to reinstate the depreciation bonus, AED and other construction trade associations are urging a minor change to the law that will enhance its value for construction contractors.

In circumstances in which large contractors working on long-term projects purchase equipment or other depreciable items for use in the performance of their contracts, the Internal Revenue Code's percentage-of-completion method of accounting (PCM) can nullify the beneficial effects of the depreciation bonus. PCM requires revenues from long-term contracts to be taken into income in proportion to the project costs that have been incurred to date. Since depreciation bonus accelerates costs for tax purposes, a corresponding percentage of revenue is accelerated under PCM. Depreciation bonus's intended tax benefit is therefore nullified, along with its resulting stimulative and job-producing effects.

As a result, unless an adjustment is made in the depreciation bonus provision, some profitable contractors will be excluded from the benefits of the provision and, most significantly, will not be motivated by the reinstated depreciation bonus to purchase new equipment.

AED and other construction trade associations are therefore urging that the depreciation bonus be modified so that any deduction taken as depreciation bonus will not affect the cost calculation under PCM; thus, there will not be an acceleration of revenues under that method of accounting. As the depreciation bonus bill moves forward, we look forward to working with members of the House and Senate to accomplish this technical, revenue-neutral improvement.

Conclusions
The depreciation bonus is a powerful, proven, and cost-effective economic stimulus tool. Given the enormous uncertainty still plaguing the construction equipment industry and the entire U.S. economy, we urge Congress to act swiftly to reinstate the depreciation bonus for 2010. Doing so will help the construction equipment industry recover from its current depression; promote broader economic recovery; improve cash flow for large and small companies; encourage businesses to invest in newer, more efficient equipment; and, arguably most importantly, create well-paying jobs in the near-term..

For more information regarding this statement, please contact:

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APPENDIX A: APRIL 1, 2010 COALITION LETTER IN SUPPORT OF DEPRECIATION BONUS REINSTATEMENT

April 1, 2010

The Honorable Nancy Pelosi
Speaker
U.S. House of Representatives
Washington, D.C. 20515

The Honorable Harry Reid
Majority Leader
U.S. Senate
Washington, D.C. 20510

The Honorable John Boehner
Republican Leader
U.S. House of Representatives
Washington, D.C. 20515

The Honorable Mitch McConnell
Republican Leader
U.S. Senate
Washington, D.C. 20510

RENEW BONUS DEPRECIATION TO SUPPORT ECONOMIC RECOVERY AND CREATE JOBS

Dear Speaker Pelosi, Majority Leader Reid, and Republican Leaders McConnell and Boehner:

The undersigned national organizations urge you to work in a bipartisan manner to renew the recently expired bonus depreciation law through at least 2010.

While the HIRE Act signed by President Obama on March 18 renewed the increased Sec. 179 expensing levels for this year, the temporary 50 percent bonus depreciation lapsed at the end of 2009 and has not been restored.

Enhanced Sec. 179 will have a positive economic impact. However, because the law limits expensing to $250,000, the direct beneficiaries are primarily smaller businesses. Bringing back bonus depreciation will encourage companies of all sizes to invest in newer, more efficient, and more environmentally-friendly equipment, which will help large and small businesses alike. In the manufacturing sector, for example, many smaller companies produce custom-made equipment that is often sold to larger companies ineligible for Sec. 179, but which could claim bonus depreciation. The two capital investment incentives work well in concert. Both are sorely needed now to help spur sales and create jobs.

Reinstating bonus depreciation will help inoculate the economy against a backward slide in business capital investment in the months ahead, enhance the impact and benefits of other job creation legislation (e.g., infrastructure investment), encourage recovery in fragile, capital-intensive sectors of the economy (e.g., construction and manufacturing), and, most significantly, put Americans back to work.

For all the foregoing reasons, we urge you to restore bonus depreciation for at least one year.

Thank you for your consideration of our comments.

Sincerely,

Aeronautical Repair Station Association
Aerospace Industries Association
Air Conditioning Contractors of America
Aluminum Association
American Composites Manufacturers Association
American Concrete Pavement Association
American Concrete Pipe Association
American Concrete Pressure Pipe Association
American Concrete Pumping Association
American Council of Engineering Companies
American Gas Association
American Institute of Architects
American Iron and Steel Institute
American Lighting Association
American Machine Tool Distributors' Association
American Rental Association
American Road and Transportation Builders Association
American Society of Travel Agents
American Sportfishing Association
American Traffic Safety Services Association
AMT-The Association for Manufacturing Technology
Associated Builders and Contractors
Associated Equipment Distributors
Associated General Contractors of America
Association of American Railroads
Association of Equipment Manufacturers
Composite Can & Tube Institute
CTIA – The Wireless Association
Edison Electric Institute
European-American Business Council
Financial Executives International's Committee on Taxation
General Aviation Manufacturers Association
Heating, Airconditioning & Refrigeration Distributors International
INDA, Association of the Nonwoven Fabrics Industry
Industrial Fasteners Institute
Interlocking Concrete Pavement Institute
International Franchise Association
International Housewares Association
Metal Powder Industries Federation

Metals Service Center Institute
National Asphalt Pavement Association
National Association of Chemical Distributors
National Association of Manufacturers
National Automatic Merchandising Association
National Automobile Dealers Association/American Truck Dealers
National Business Aviation Association
National Concrete Masonry Association
National Council for Advanced Manufacturing
National Electrical Contractors Association
National Federation of Independent Business
National Lumber and Building Material Dealers Association
National Marine Manufacturers Association
National Mining Association
National Precast Concrete Association
National Ready Mixed Concrete Association
National Retail Federation
National Shooting Sports Foundation, Inc.
National Stone, Sand & Gravel Association
National Tooling & Machining Association
North American Equipment Dealers Association
NPES - The Association for Suppliers of Printing, Publishing and Converting Technologies
Nuclear Energy Institute
Plastic Pipe and Fittings Association
Portland Cement Association
Precision Machined Products Association
Precision Metalforming Association
Pressure Sensitive Tape Council
Printing Industries of America
Society of Chemical Manufacturers & Affiliates
Society of Glass and Ceramic Decorated Products
Specialty Equipment Market Association
SPI: The Plastics Industry Trade Association
Sporting Arms and Ammunition Manufacturers' Institute, Inc.
Spring Manufacturers Institute
Tooling and Manufacturing Association
The Uni-Bell PVC Pipe Association
U.S. Chamber of Commerce
United States Telecom Association
The Vinyl Institute
Water and Wastewater Equipment Manufacturers Association, Inc.
Window & Door Manufacturers
Wood Machinery Manufacturers of America

Testimony of

Robert C. Ring

President

Meyer & Depew Heating and Cooling

Kenilworth, New Jersey

On Behalf of the

Air Conditioning Contractors of America (ACCA)

Submitted to the House Small Business Committee

Full Committee Hearing on

Bonus Depreciation: What It Means for Small Business

2360 Rayburn House Office Building

July 14, 2010

Chairwoman Velazquez, Ranking Member Graves, and members of the House Small Business Committee, thank you for allowing me this opportunity to provide testimony on behalf of the small business service contractors of the heating, ventilation, air conditioning, and refrigeration (HVACR) industry.

My name is Bobby Ring, and I am the President of Meyer and Depew Company, a family-owned business located in Kenilworth, New Jersey. Meyer and Depew offers maintenance, repair, and installation services for heating, cooling, and indoor air quality equipment to residential and commercial clients throughout Central and Northern New Jersey. Like a lot of small business owners in the HVACR industry, I began working for my father and his partner in 1981. Together we bought his partner out in 1998, and today I am now the majority owner.

I come before you this afternoon as a proud member of the Air Conditioning Contractors of America (ACCA) where I serve as Secretary of the Board of Directors and as Chairman of the Government Relations Committee.

Every day, more than 4,000 ACCA member companies across the nation help homeowners, small business owners, and building managers realize the comfort, convenience, and cost benefits of energy efficient HVACR equipment. Eighty-four percent of ACCA's member companies have fewer than 50 employees, and 60% have fewer than 20 employees.

It's an honor to present testimony before you today and I want to commend the Committee for its leadership and its efforts to protect the interests of the great economic engine known as America's Small Businesses.

My comments today will focus on the small business investment incentives permitted through Internal Revenue Code Section 179 and Bonus Depreciation. I can attest that these tax incentives benefit the small business service contractors of the HVACR industry. But they also have a ripple effect through the economy to all the small businesses that serve small businesses with qualified property.

I hope that my testimony will inform future policy decisions that further assist our economic recovery.

Bonus Depreciation

As you are well aware, small businesses of all types struggle with cash flow issues, access to credit, and dealing with the various tax and regulatory burdens from the federal, state, and local governments.

In a very real way, expensing allowances and the ability to use bonus depreciation help a small business like mine by lowering tax liability, freeing up more money to hire new employees, and encouraging the purchase new equipment, such as trucks, computers, or office machinery or furniture.

Knowing that I can write off half of the purchase price of a qualified vehicle or office equipment in the year I place it into service gives me the economic justification to invest in my company. Robust Section 179 expensing allowances and bonus depreciation help small companies like mine to get off the sidelines and spend money.

On several occasions since 2002, Congress has approved short term expansions of section 179 expensing and bonus depreciation as a way to stimulate the economy. In those years, our company has used these incentives to purchase new trucks for our service technicians and computers and equipment for our office staff.

The stimulus bill extended the expansion of the Section 179 expensing limits and the ability to write off half of selected investments through bonus depreciation in 2009.

Passage of the Hiring Incentives to Restore Employment (HIRE) Act in March of this year extended the Section 179 expensing limits retroactively for 2010.

Now Congress must take the next step and extend bonus depreciation and it must do it quickly. Small businesses need certainty in today's uncertain times. Section 179 and Bonus Depreciation work best in tandem. A business owner will not spend precious financial resources on the hopes that bonus depreciation will pass some day and apply retroactively.

HVACR contractors are not the only small business group calling for bonus depreciation. In April, ACCA was a part of a coalition of 82 small business organizations that urged Congress to reinstate bonus depreciation. Delaying the reinstatement now, during this fragile economic recovery, sends a negative signal to small businesses. Especially when surveys have shown that bonus depreciation prompts small businesses to take advantage of investment opportunities.

Expand Section 179 to Include Section 1250 Equipment

In order to increase the economic benefits of section 179, I would recommend that as Congress considers an extension of bonus depreciation, it also expand the qualifying property under section 179.

Under Section 179 of the tax code, property with a depreciation schedule of more than 20 years, known as Section 1250 property, does not qualify for section 179 expensing or bonus depreciation.

ACCA applauds Chairwoman Velazquez for the introduction of HR 4841, the Small Business Tax Relief and Job Growth Act of 2010. HR 4841 would remedy this problem by expanding the definition of a qualified structural improvement under section 179 property made in 2010 and 2011 to include any improvement to a building or its structural components (including improvements to the roof, drainage, plumbing,

electrical components, heating, ventilation, or air conditioning, insulation, fire protection) intended to improve or make such building ready for use in a trade or business.

Not only would this change in the tax code help many small firms located in commercial properties like professional townhouse suites, doctor's offices, and strip malls that use smaller and less expensive commercial HVAC equipment afford energy saving retrofits, but it would also allow these improvements to qualify for bonus depreciation.

Without any incentive to replace aging HVACR equipment, small businesses will continue to maintain and repair old, inefficient furnace, air conditioners, chillers, and boilers. According to the Department of Energy's 2005 Buildings Energy Databook and the Energy Information Administration, commercial buildings account for 18% of total US energy consumption. Within those buildings, 14.2% of the energy consumed goes toward space heating, 13.1% goes toward space cooling, and 6% goes toward ventilation. All told, nearly $142 billion was spent nationally in 2005 on space heating and cooling for both residential and commercial buildings combined. According to the 2005 Residential Energy Consumption Survey, since 1990 only 30% of commercial buildings have had their main heating equipment replaced, and only 37% have had their main cooling equipment replaced.

Some may argue that expanding the definition of section 179 qualified property would cost too much in lost revenue, but those losses would be more than made up in increased economic activity, lower utility costs, fewer greenhouse gas emissions, and job creation.

My fellow ACCA members and I are very concerned about the status of our nation's economic recovery. Economic indicators point in different directions over the next few months and years. America's small businesses need to see positive signs from Washington to allay fears about a double dip recession. Passage of bonus depreciation will send the right message that Congress is interested in helping promote job creation and a revitalization of the economy.

With that I will conclude my comments and would be happy to answer any questions you may have. Thank you again for this opportunity to testify before you.

STATEMENT FOR THE RECORD

JON BUDINGTON

GLOBAL PRINTING

and

THE PRINTING INDUSTRIES OF AMERICA

BEFORE THE

HOUSE COMMITTEE ON SMALL BUSINESS

July 14, 2010

"Bonus Depreciation: What It Means for Small Business"

INTRODUCTION

Chairwoman Velazquez, Ranking Member Graves, and members of the Committee, on behalf of Printing Industries of America, thank you for inviting me to testify today.

My name is Jon Budington and I am the President of Global Printing, a manufacturing and marketing services firm based in Alexandria, Virginia. Global Printing opened its doors in 1978, and over the past 30 years has grown to employ 90 full time workers and generates annual revenue of 11 million dollars.

At the macro level, printing is one of America's oldest and largest manufacturing industries. At the start of 2008, the industry employed one million workers in a uniquely domestic industry. Almost all print consumed in America is produced in America, providing jobs in every state and district. In total, printing comprises approximately 1.2 percent of total annual economic output in the United States.

U.S. Economy and Its Effect on the Printing Industry and Global Printing

Unfortunately, the recent recession has shrunk print's economic footprint by historic proportions. The number of US printing plants declined 8 percent in 2008, total shipments (not adjusted for price changes) in 2009 were down 15.6 percent industry wide, and employment declined by 6.9 percent.

Lower print demand relative to supply caused printing prices to decline by 6.5 percent in 2009. Printers' profits have declined by approximately HALF over the past two years. Access to capital remains an issue for the printing industry with almost one in four printers reporting problems in obtaining credit in the first quarter of 2010.

I became CEO of Global Printing during the 2001 recession. In that year, Global lost 30 percent of its revenue and bled cash. We understood in order to remain viable in today's online world, our print-focused business model needed to

change. We invested in new technology that integrated print with the Internet. This new web technology created new jobs and allowed Global to provide cutting edge, creative ideas to our established print clients.

In the current economic climate, many businesses have closed or slashed payroll. At Global we took proactive measures to suspend 401K contributions, administer across the board pay cuts and initiate a hiring freeze. We avoided using our line of credit for fear it may not be renewed, and opted not to seek any equipment financing. All of these difficult business decisions allowed Global to weather the current economic storm. However, in order to continue to grow, investments must be made and incentives are necessary.

Bonus Depreciation Provides Incentive to Invest and Capital to Save and Create Jobs

Bonus depreciation is a winning proposition that our nation needs for economic recovery. By allowing Global to depreciate 50 percent of capital investments in the coming tax year, Congress reduces the upfront costs of those investments. As a result, bonus depreciation leaves Global with more cash resources for both investment and new jobs.

The benefits of bonus depreciation aren't theoretical. Multiple studies – from academic experts, private analysts, and the Treasury Department – found that

past cycles of bonus depreciation (from 2002 to 2004) drove substantial economic growth, with up to $9 of GDP growth for every $1 of tax benefit. More importantly, during the same period, bonus depreciation helped create or save between 100,000 and 200,000 jobs.

At Global, our efforts to preserve capital and find new business has paid off. By making new investments and changing our business model, Global more than doubled its revenues and added thirty new jobs from 2001 to 2008. This past January, I hired 15 new employees from a competing printer who decided to close its doors, and, as a result, expanded Global's client base and sales market.

CONCLUSION

Global is uniquely poised for significant growth in 2011, but this will only become a reality if the company can make significant equipment investments to produce this new revenue. The investment in new technology will add over $500,000 of debt to our balance sheet. Accelerated depreciation is a major cash flow incentive for Global to make these equipment investments. I therefore urge Congress to extend bonus depreciation, Section 179 expensing and other pro-growth incentives.

Again, thank you for holding today's hearing and for inviting me to testify. I look forward to answering any questions you may have.

Full Committee Hearing
Bonus Depreciation: What it Means for Small Business
Rep. Glenn Nye Statement for the Record
July 14, 2010

I want to thank Chairwoman Velazquez and Ranking Member Graves for holding this hearing, and taking a discerning look at how bonus depreciation has aided in the recovery of our economy, and its specific impact on small businesses.

Bonus depreciation allows a business to depreciate fifty percent of certain capital investments, reducing the upfront costs of these investments, resulting in more resources for other business expenditures such as job creation.

The recent recession shed nearly 7 million jobs from our economy. The last two years we've worked to recover many of those lost jobs; however, there remains much work to be done. Reports from the second quarter show the recovery continues, but the pace has slowed down.

More than any other committee, this committee has proven it understands the importance of small business to our economy. Small businesses drive our economy forward, and business investment in productive equipment is crucial to a robust recovery.

Bonus depreciation encourages just this type of investment. Since its inception in 2008, it has injected tens of billions of dollars of investment into the marketplace.

Certainly the cost of extending bonus depreciation is greatly outweighed by the return of investment we receive.

The recent recession saw a double digit decline in business investment. Extending the bonus depreciation specifically targets and reverses this number.

When looking for good policies to spur job growth and strengthen our economy, it is clear bonus depreciation needs to be at the top of our list.

We can no longer afford to put this off, we must extend the bonus depreciation and give businesses the tools they need to reinvest in our economy and drive us forward to a robust recovery.

July 14, 2010

The Honorable Nydia Velázquez
Chair
House Small Business Committee
2361 Rayburn House Office Building
U.S. House of Representatives
Washington, D.C. 20515

The Honorable Sam Graves
Ranking Member
House Small Business Committee
B-363 Rayburn House Office Building
U.S. House of Representatives
Washington, D.C. 20515

Dear Chairwoman Velázquez and Ranking Member Graves:

On behalf of Associated Builders and Contractors (ABC), a national organization with 77 chapters representing 25,000 merit shop construction and construction-related firms with 2 million employees, we appreciate the opportunity to share our concerns as they relate to the House Small Business Committee's hearing entitled, "Bonus Depreciation: What It Means for Small Business."

The construction industry already is strained by job loss with unemployment over 20 percent. Tighter lending standards by banks are preventing ABC members from accessing the credit they need to grow and finance routine operations. The construction industry is both capital and labor intensive. Construction contractors typically operate within a 2 percent to 3 percent profit margin; in the current economy, it is even less. Because access to capital is a major concern, it is important for construction firms to retain as much cash on hand as possible to reinvest in their business.

Bonus depreciation spurs investment in equipment and also encourages investment in a business. For example, according to Jeff Roth, Vice President of Quality Machine and Welding Co., Inc. – an ABC member company and family-owned small business – business volume has decreased by 63 percent over the course of the last two years. Roth's company would not have purchased big ticket equipment over the last two years without bonus depreciation.

One of the greatest benefits of bonus depreciation is to the project owner. Building components with lives of 20 years or less have previously been eligible for bonus depreciation, which has created a huge incentive for investors to build new projects for purposes of depreciation deductions. This is in addition to the benefits to construction firms for new equipment purchases. Additionally, bonus depreciation may be utilized even if it creates a tax loss, unlike the Section 179 deduction, and bonus depreciation increases the business' return on investment.

Small businesses are the backbone of our economy and give Americans a sense of pride and accomplishment in our country. In the construction industry, they provide valuable jobs and play an integral role in building communities.
It would be extremely helpful to all small businesses to extend bonus depreciation, and we look forward to working with you to provide further relief for small businesses to spur economic growth and recovery.

Sincerely,

Brewster B. Bevis

Brewster B. Bevis, Senior Director, Legislative Affairs
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AEM ASSOCIATION OF EQUIPMENT MANUFACTURERS

AGRICULTURE
CONSTRUCTION
FORESTRY
MINING
UTILITY

July 14, 2010

TO MEMBERS OF THE SMALL BUSINESS COMMITTEE:

On behalf of the Association of Equipment Manufacturers (AEM), thank you for holding this hearing to examine the importance of the bonus depreciation and its value to small businesses as an effective economic stimulus tool. Ninety-five percent of AEM's members are AEM "small enterprises," businesses which gross up to $250 million annually.

We are deeply concerned with any matter impacting the small business community and would like to associate ourselves with the testimony of the Associated Equipment Distributors (AED).

AEM is the U.S.-based international trade group serving the off-road equipment manufacturing industry. AEM members number more than 800 companies that manufacture equipment, products and services used worldwide in the agriculture, construction, forestry, mining and utility sectors.

The U.S. equipment manufacturing industry is an important contributor to the nation's economy, and our sector's health is in many ways a key indicator of the strength of the overall economy. Unfortunately, the evidence of that has been all too clear during this "great recession." The construction equipment industry has been devastated in recent years as we lost 37 percent of our workforce and saw sales drop by half. The 50-percent depreciation bonus established by the Economic Stimulus Act in early 2008 and extended for 2009 by the American Recovery and Reinvestment Act allowed companies to purchase needed equipment and reduce their tax burden for the year in which the purchase is made. This not only helped support demand for equipment when our industry began to experience difficulties but also freed up considerable capital that companies could use to make additional investments such as hiring new workers.

Given the sluggish pace of the economic recovery, AEM strongly encourages Congress to use this proven, effective, pro-growth policy to extend the bonus depreciation benefits for small businesses.

If AEM can be of any assistance on this or on other matters, please do not hesitate to contact Anne Forristall Luke, AEM's vice president of government affairs, at (202) 898-9064 or at aforristallluke@aem.org.

Sincerely,

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Statement of

The Associated General Contractors of America

submitted to the

Committee on Small Business
U.S. House of Representatives

on the topic of

Bonus Depreciation: What It Means for Small Business

July 14, 2010

The Associated General Contractors of America (AGC) is the largest and oldest national construction trade association in the United States. AGC represents more than 33,000 firms, including 7,500 of America's leading general contractors, and over 12,500 specialty-contracting firms. More than 13,000 service providers and suppliers are associated with AGC through a nationwide network of chapters. Visit the AGC Web site at www.agc.org.

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The Associated General Contractors of America (AGC) is pleased to submit these comments for the record of the July 14, 2010 hearing of the House Small Business Committee entitled "Bonus Depreciation: What It Means for Small Business."

Introduction

The Associated General Contractors of America (AGC) is the largest and oldest national construction trade association in the United States. AGC represents more than 33,000 firms, including 7,500 of America's leading general contractors, and over 12,500 specialty-contracting firms. Over 13,000 service providers and suppliers are associated with AGC through a nationwide network of chapters. AGC contractors are engaged in the construction of the nation's commercial buildings and industrial facilities, highway and public transportation infrastructure, water and wastewater systems, flood control and navigation structures, defense installations, multi-family housing, and more. Small business is big in construction. In 2007, 92 percent of construction firms had fewer than 20 employees. Only 1 percent had 100 or more.

State of the Construction Industry

Continuing the momentum of economic recovery aided by the enactment of the American Reinvestment and Recovery Act (P.L. 111-5) ("Recovery Act") and subsequent legislation, is particularly important for the construction industry. Most recent U.S. Census Bureau figures show that construction spending shrank again in May, dropping 8 percent from a year earlier, although homebuilding and Recovery Act-funded public works increased from year-ago levels. Private nonresidential construction sagged 25 percent from May 2009 to May 2010, while public construction edged down 3 percent, and private residential construction rose 11 percent. Federal Recovery Act funds helped keep public construction afloat and buoyed single-family construction.

There were year-over-year increases of 5.6 percent for highway and street construction, 13.8 percent for other transportation, 5.1 percent for sewage and waste disposal, 5.0 percent for water supply, and 23 percent for conservation and development—all categories that received Recovery Act funds. In contrast, spending on all other public and all private nonresidential categories fell. New single-family home construction soared 31 percent in May from the depressed levels of a year earlier, but new multi-family construction—condos and rental housing—tumbled 57 percent.

Despite these limited gains, increases in public construction spending are unlikely to last once the Recovery Act runs its course. High office and retail vacancy rates, and underutilized capacity indicate that private-sector construction will continue to decline through at least the end of the year. Also, in May, architectural firms laid off workers for the 21st time in 22 months, indicating less work for architects now and less for building contractors to bid on and build in the coming months. Further, cash-strapped state and local governments are not expected to increase their capital programs until at least 2012.

While the recession may have ended a year ago for the rest of the economy, for construction, job losses and business closures continue every month. Seasonally adjusted construction industry employment slipped in June to the lowest level since July 1996 while the industry's unemployment rate remained at 20.1 percent, more than double the average for all workers. While the rest of the

economy added nearly a million jobs in the first half of 2010, 114,000 construction workers lost theirs, joining the two million others who have become unemployed since August 2006.

That is why AGC is urging Congress to move forward with multi-year reauthorizations of surface transportation, aviation, water infrastructure, and water resources programs to provide opportunities for the construction industry beyond the Recovery Act.

AGC has studied the economic impact of infrastructure investment on job creation. AGC's analysis, in partnership with George Mason University, showed that investment in nonresidential construction adds significantly to jobs, personal income, and Gross Domestic Product (GDP)—far beyond the hiring that takes place in the construction industry itself. AGC found that $1 billion in nonresidential construction spending would add about $2.6 billion to GDP, about $780 million to personal earnings, and create or sustain 28,500 jobs.

During consideration of the Recovery Act, AGC urged Congress to enact economic stimulus legislation that would have an immediate positive impact on economic activity. AGC's recommendations included both construction spending and targeted tax provisions to stimulate public and private investment in infrastructure and nonresidential construction, and to leverage stimulus funding by incentivizing capital investment. AGC continues to believe that targeted tax relief is an important component of the economic recovery package and urges the Committee to recommend reinstating bonus depreciation with a minor adjustment that would enhance its stimulus impact on and job creation benefit to the construction industry.

Bonus Depreciation

The Recovery Act extended a temporary benefit for businesses to recover the costs of capital expenditures made in 2008 faster than the ordinary depreciation schedule would allow by permitting these businesses to immediately write-off 50 percent of the cost of depreciable property (e.g., equipment).

Bonus depreciation has had a positive impact on the economy and was an incentive for businesses that were able to make investments last year. However, due to a nuance in the tax code, the benefits of the law have been denied to long-term contractors (i.e., businesses that construct facilities or produce products under contracts that are not completed in the same year in which they are entered). In circumstances in which long-term contractors purchase equipment or other depreciable items for use in the performance of their contracts, the Internal Revenue Code's percentage-of-completion method of accounting (PCM) typically nullifies the beneficial effects of bonus depreciation. PCM requires revenues from long-term contracts to be recognized as income in proportion to the project costs that have been incurred to date. Since bonus depreciation accelerates costs for tax purposes, a corresponding percentage of revenue is accelerated under PCM. As a result, unless an adjustment is made in the bonus depreciation provision, contractors will be excluded from the benefits of the provision and will not be motivated to make purchases of new equipment that will generate near-term jobs in the equipment industry.

For example, assume a taxpayer expects to be paid a total contract price of $10,000,000 for constructing a large civil engineering project and expects to incur total construction costs of

$5,000,000[1]. For simplicity, assume that all anticipated costs are for depreciable equipment purchased in the first year of the contract and that in the absence of bonus depreciation the equipment would be depreciated ratably over a five-year period (i.e., disregard any accelerated depreciation rules that normally would apply). Under PCM without bonus depreciation, in the first year of the contract the taxpayer has $1,000,000 of costs (20 percent of its total anticipated costs of $5,000,000), and therefore $2,000,000 of revenue must be recognized under PCM (20 percent of the $10,000,000 contract price). Accordingly, taxable income from the contract that year is $1,000,000 ($2,000,000 revenue minus $1,000,000 costs). With bonus depreciation, however, the taxpayer has first-year costs of $3,000,000 (60 percent of the total anticipated costs of $5,000,000 representing $2,500,000 of the equipment's total cost deducted as bonus depreciation, plus that year's ratable portion of the remaining $2,500,000 basis deducted under the normal depreciation rules). As such, because of bonus depreciation, first-year revenues increase to $6,000,000 (60 percent of the total contract price). Taxable income therefore triples from $1,000,000 to $3,000,000 ($6,000,000 revenue minus $3,000,000 costs).

To eliminate this inequity and instead maximize the stimulative effect of bonus depreciation in the construction and equipment industries, bonus depreciation should be "decoupled" from the calculation of contract costs under PCM, so that long-term contractors will be able to claim bonus depreciation without subjecting themselves to the acceleration of contract revenues that PCM requires. The legislative solution to this problem is straightforward. First, bonus depreciation should be extended. It is currently available only for property that is both acquired and placed in service during the 2008-2009 time period. AGC recommends that any new jobs-related legislation should extend the current two-year provision for an additional year to cover property acquired after December 31, 2007 and placed in service before January 1, 2011.

Second, AGC recommends that bonus depreciation be amended by adding a special rule to such jobs-related legislation that modifies the PCM method of accounting that is required for long-term contracts. Under the special rule, taxable income from a long-term contract subject to PCM would be computed as if the bonus depreciation provision had not been enacted. The Joint Committee on Taxation (JCT) has completed a revenue estimate of a proposal to extend bonus depreciation by one year along with a special rule limited to property with a recovery period of seven years or less. The JCT estimated that the proposal with the special rule would not add to the 10-year cost of a one-year extension of bonus depreciation.

To build on the Recovery Act investments and spur capital expenditures, AGC recommends extending the bonus depreciation for capital expenditures made in 2010. A modification to bonus depreciation must also be made so that long-term contractors are not excluded from the benefits of the provision.

Conclusion

AGC members are ready to build and to create and sustain jobs throughout the country. Construction has always been an engine of economic stimulus and can play that role once again. While increases in infrastructure investment do have a direct impact on the economy, at the same time, AGC members,

[1] This is a hypothetical example simplified here to illustrate the effect of calculating taxable income under PCM with bonus depreciation. According to the Construction Financial Management Association, the actual average net earnings before income taxes in construction are less than 3 percent.

most of which are small businesses, have benefited from the tax provisions enacted in the Recovery Act and subsequent legislation. A one-year extension of bonus depreciation with a modification for long-term contractors would create jobs throughout the economy. Available literature suggests that the one-year bonus depreciation provision that was enacted in 2003, a provision similar to the one currently in the Internal Revenue Code, generated approximately 100,000-200,000 jobs.[2] AGC estimates that roughly 11,000 additional jobs could be created if the special rule for long-term contractors subject to PCM were enacted.

Thank you for this opportunity to comment.

[2] House, C. and Shapiro, M., *Temporary Investment Tax Incentives: Theory with Evidence from Bonus Depreciation*, NBER Working Paper 12514, September 2006.

Testimony of the American Truck Dealers Division of the National Automobile Dealers Association on: "Bonus Depreciation: What It Means for Small Business," July 14, 2010.

The American Truck Dealers (ATD) division of the National Automobile Dealers Association appreciates the opportunity to submit comments to the House Committee on Small Business regarding the role of bonus depreciation's effect on truck dealerships throughout the nation. ATD represents approximately 2,100 medium- and heavy-duty truck dealerships (83% of medium and heavy-duty truck dealers), most of which are small businesses and many of which are family-owned. Truck dealerships have been hit hard during the current recession by the freefall in demand for new trucks. Extension of bonus depreciation and other governmental initiatives that will help businesses purchase new trucks are needed to help these small businesses survive.

Truck dealerships are business-to-business operations, selling primarily to two types of customers: fleets and owner-operators. Additionally, medium- and heavy-duty trucks are big-ticket items; a new medium-duty truck costs about $60,000 and a new heavy-duty truck costs about $100,000. As the economy has deteriorated, sales of new medium- and heavy-duty trucks have fallen dramatically, from nearly 550,000 in 2006 to fewer than 200,000 in 2009. EPA emissions standards have added an additional $7,500 (on average) to the cost of a medium- or heavy-duty truck, further slowing sales. As such, trends in 2010 show sales continuing at moribund levels, threatening the viability of many truck dealers.

The fleet customers and owner operators who are the truck dealership's customers often run on thin profit margins, and new truck purchases are often their largest capital investments. The financial impact of accelerated depreciation would be substantial for these companies and may mean the difference between making a new truck purchase now and postponing it indefinitely. Indeed most trucking companies have been postponing purchases for some time, increasing the average age of the trucking fleet on the country's roads. This has resulted in an average age of the largest heavy-duty trucks (Class 8) of approximately 9 years, which means that a most of the trucks currently on U.S. roads do not reflect the massive safety and environmental improvements that have been made by the trucking industry over the last decade.

In addition, many truck dealerships have cut their workforce, or postponed hiring new workers with the decline in new truck sales. However, truck dealerships could add sales, service, and other staff if an increase in demand for medium- and heavy-duty trucks in truck sales emerged.

An extension of bonus depreciation would also help truck dealers to make internal improvements to their dealerships. Truck dealership are capital-intensive businesses, and their service departments depend on expensive machinery for many operations, such as paint booths, cranes and hoists, truck power washers, and vehicle inspection system machines. The ability for dealerships to invest in their own businesses with the incentive provided by bonus depreciation would provide a lift to the economy.

ATD believes efforts to extend bonus depreciation for 2010 will increase sales of medium- and heavy-duty trucks and create economic expansion. This stimulus would increase employment, and make our roads cleaner and safer. As the trucking industry is often a leading economic indicator, we support the Committee's efforts to bring attention to this issue and hope to work with the Committee in the future on issues of importance to small business truck dealerships.

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Testimony of

The Interlocking Concrete Pavement Institute

For

The Committee on Small Business

United States House of Representatives

Regarding

Extension of the 50% Bonus Depreciation Provisions

July 14, 2010

Madam Chairwoman, my name is Randall G. Pence, Capitol Hill Advocates, Inc. I am pleased to offer testimony on behalf of ICPI, the Interlocking Concrete Pavement Institute.

ICPI represents producers and installers of segmental interlocking concrete pavers in the United States, Canada and elsewhere. ICPI is the voice of the segmental interlocking concrete pavement industry and is the leader in efforts to develop the industry in the Americas through technological research, engineering, product development and innovation, marketing, government relations and public relations. Many ICPI members are small businesses or market to small businesses.

ICPI is among the unique group of associations that represents, inclusively, manufacturers of product, installers of the product, and associated suppliers required to produce the product. In that sense, ICPI members see the impacts of the downturn in the economy from all sides, all perspectives.

All elements of the interlocking concrete pavement industries report substantial softness in sales and installations, across the board in all markets and in all parts of the country. The ICP industry, like most of the construction and manufacturing economy, does not expect a strong rebound any time in the near future. Demand is down, financing is difficult and sometimes impossible. There remains a need for targeted government action to stimulate economic activity in and around the construction and construction products economy.

Of course, the 50% bonus depreciation allowances would benefit ICPI in all membership classes and in all levels.

From a public policy standpoint, the 50% bonus depreciation mechanism is particularly attractive because it benefits and boosts economic activity at multiple entry points on the construction and construction products economies. Installers see an improved capacity to purchase new equipment, often with equipment that is more efficient and helpful to weather a serious economic downturn. The equipment manufacturers see an improved capacity to sell equipment to installers. Suppliers in the manufacturing chain benefit as well from the improved movement of equipment.

All the economic activity stimulated by the 50% bonus depreciation, taken in sum and applied over a relatively short period of time, can have a substantial positive impact on construction, job growth, as well as helping small businesses throughout the production chain maintain at least warm base operations until a more robust, market-driven upturn returns.

There are ancillary benefits of note to federal policymakers. The 50% bonus depreciation provisions facilitate retooling and replacement of existing hardware with new equipment that is often more energy efficient, cleaner, safer to operate, with less impact on the environment.

One of the most striking aspects of the 50% bonus depreciation mechanism is that so many small business groups support it. ICPI was pleased to join 81 other small business groups earlier in signing correspondence to Capitol Hill defending the 50% bonus depreciation provision. Support for the mechanism is broad and deep.

In conclusion, ICPI strongly supports an extension of the 50% bonus depreciation mechanism. We thank you and congratulate you for your sensitivity to this issue, and your help in building the record in favor of this important tax stimulus device.

Madam Chairwoman, thank you for this opportunity to provide the views of ICPI. I look forward to working with you as the small business advocates in Congress examine the state of economic activity in the U.S. and search for workable solutions to help small businesses continue to operate.

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Statement of the North American Equipment Dealers Association on Depreciation
to the
House Small Business Committee
July 14, 2010

The North American Equipment Dealers Association (NAEDA) respectively submits this statement to the House Small Business Committee concerning depreciation and technician and mechanic tool write-offs.

NAEDA represents approximately 5,000 retail agricultural, construction and outdoor power equipment dealerships in the United States and Canada. Collectively, these dealerships represent tens of thousands of owners and company employees. NAEDA is also an association with 15 affiliate organizations in the United States and three affiliate organizations in Canada. This statement is presented on behalf of our members and our affiliate associations.

NAEDA encourages Congress and the IRS to consider the MACRS Depreciation Class Life Systems for 1) farm and ranch equipment, and 2) a dealership's buildings and contents through a bonus depreciation program or a change in the current depreciation class life system.

Allowing equipment customers (farmers and ranchers) to write off or depreciate a piece of equipment over a shorter lifetime of five years or less will increase their income, help in debt repayments and allow for the timely replacement of equipment with newer models, which helps to drive our industry. In addition, faster equipment replacement brings environmental benefits from newer engines, better fuel efficiencies and the latest technology in emission controls.

NAEDA also requests that an equipment dealership's buildings and contents under the various depreciation definitions for "class life" be reviewed by IRS and adjusted to reflect changes in the industry. Current depreciation schedules spread out the costs of such improvements over too long of a recovery period, which often delays a dealer from making such investments. A depreciation schedule change here, bonus depreciation or a class life change, would encourage capital expansion plans for many dealers, provide space to accommodate newer and larger equipment and the diagnostic hardware to service that equipment and help the local economy with additional construction jobs.

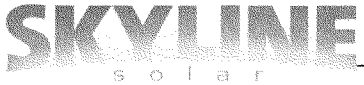
Another issue the committee should consider is for IRS clarification of tool reimbursement programs for technicians and mechanics, which would allow them to write-off the tools they purchase for employment purposes. Most of the more than 4 million technicians and mechanics in the U.S. must buy their own tools as a condition of employment.

The equipment industry and others, representing thousands of automobile, farm equipment, and construction equipment dealerships, aviation businesses, etc. (including third-party administrators of tool reimbursement plans for these businesses), have repeatedly requested Private Letter Rulings and Industry Issue Resolutions from the IRS. We have yet to receive definitive guidance from them on the issue of tool reimbursements for dealerships and their employees. Specifically, we are asking the IRS to clarify this issue by amending Section 62 of the IRS Code so businesses and their technicians and mechanics can receive fair tax treatment in relation to their investment in tools.

Facts about the U.S. Agricultural Equipment Industry:

- It has a broad foothold throughout the U.S. economy, and its ***sales represent more than $82 billion in*** business.
- With **U.S. exports of $6.2 billion**, it is an enormous source of foreign revenue and a major contributor toward balancing U.S. trade.
- It is responsible for **nearly 250,000 U.S. jobs** in all 50 states and provides major support to both rural and urban communities.
- It supports a highly skilled labor force and is responsible for a **payroll of more than $8.5 billion**.

We would like to thank the committee for the opportunity to submit these comments for their consideration and action. Should you have any questions, please feel free to contact Michael Williams, NAEDA Vice President of Government Relations at 636-349-6204 or by email at williamsm@naeda.com.



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July 19, 2010

In the interest of encouraging job growth, renewable energy and continued emergence from the recent recession, Skyline Solar, Inc. urges Congress to extend bonus depreciation. Bonus depreciation is an effective tool to stimulate the economy in the short term, while not increasing the long-term federal deficit. Bonus depreciation does not reduce the amount of taxes paid by purchasers of capital equipment. It only reduces the tax burden in the near term and increases it proportionally in future years.

In addition to the manufacturing industry in general, bonus depreciation is also important for solar companies who are working to meet U.S. government goals for solar energy implementation, an important component of energy independence in the interest of national security and financial health. We believe bonus depreciation will strongly stimulate sales of the solar photovoltaic systems we manufacture, perhaps by as much as 20%.

Therefore we strongly recommend that Congress pass legislation as soon as possible to extend bonus depreciation through December 31, 2011.

Sincerely,

Tim Keating
Vice President of Marketing and Field Operations

○