NORTH AMERICAN EQUIPMENT DEALERS ASSOCIATION
"Committed to building the best business environment for North American equipment dealers."
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March 28, 2013

RE: Small Business/Pass Throughs Tax Reform Working Group
IRC Sections 179 and 168
Capital Investment Incentives and Depreciation Expensing

Requested Actions:

- Make permanent the bonus depreciation and Section 179 provisions enacted under The Small Business and Work Opportunity Tax Act of 2007, the Economic Stimulus Act of 2008 and the American Taxpayer Relief Act of 2012.
- Change the farm and ranch equipment assigned class life to five years for depreciation purposes. This will match the same assigned class life of construction equipment.
- Modify current depreciation schedule for buildings and contents to accurately reflect actual lifetime usage rates and specialty uses.

The Small Business and Work Opportunity Tax Act of 2007 (SBWOTA), the Economic Stimulus Act of 2008 (ESA) and the American Taxpayer Relief Act of 2012 all have changed the rules regarding depreciation and deduction of business property costs over the years. Those rules had numerous provisions that benefitted equipment dealers and their customers these last few years.

For example, SBWOTA and ESA provided:

- An additional first-year depreciation deduction equal to 50 percent of the cost of certain new property: property eligible for MACRS with a depreciation period of 20 years or less.
- Section 179 increased the business expense deduction to allow faster write-offs of capital purchases.

The American Taxpayer Relief Act of 2012, on the other hand, included a 50% bonus depreciation extension through 2013. The law also allowed companies the option to accelerate AMT credits in lieu of the depreciation bonus and to permit businesses using PCM (percentage of completion method of accounting) to benefit from the capital investment incentive. Additionally, Sec. 179 expensing levels were increased to $500,000.

Continuation of these two IRC Sections is critically important to equipment dealers. These laws and their provisions encouraged more equipment purchases by customers and dealers who purchase their own machinery, tools or other property either used in a dealer's business or held in inventory for leasing purposes. These are also good economic stimulators and job creators for our industry in general.

Allowing equipment customers (farmers and ranchers) to write off or depreciate a piece of equipment over a shorter lifetime, should increase their income, help in their debt repayments and allow for the timely replacement of equipment with newer models. Faster equipment replacement also brings environmental benefits from newer engines, better fuel efficiencies and the latest technology in emission controls.

NAEDA would also like to recommend two additional areas for consideration by the Working Group concerning depreciation. We recommend the Working Group consider the MACRS Depreciation Class Life Systems for: 1) farm and ranch equipment, and 2) dealership buildings and contents. Currently, farm and ranch equipment is assigned a class life of seven years while construction equipment is assigned a class life of five years under IRS Code 168. Farm and ranch equipment, like construction equipment, is used year-round and has become somewhat interchangeable. We recommend a change to the law that would assign a class life of five years to farm and ranch equipment. Legislation was introduced last year to do just that in House Bill 1747 and Senate Bill 700.

For an equipment dealership's buildings and contents, the various depreciation definitions for "class life" needs to be reviewed and the law amended to reflect changes in the industry. The current depreciation schedules spread out the costs of such improvements over too long a recovery period, which often delays an equipment dealer from making such investments.

The need for buildings to accommodate newer and larger equipment and provide adequate space for diagnostic hardware to service equipment, including tracking and guidance systems, will demand capital expansion for many dealers. These costs need to be recovered over a shorter time-period because the technology is constantly changing in the agricultural area.

In summary:

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- Change the farm and ranch equipment assigned class life to five years for depreciation purposes. This will match the same assigned class life of construction equipment.
- Modify current depreciation schedule for buildings and contents to accurately reflect actual lifetime usage rates and specialty uses.

NAEDA represents and works with nearly 5,000 retail agricultural, industrial and outdoor power equipment dealerships in the U.S. and Canada. Collectively, these dealerships employ approximately 100,000 people. NAEDA is an association that works with 16 affiliated associations throughout North America and it is on their behalf – and the dealerships we all serve – that we submit comments concerning investment incentives and equipment depreciation.