



# AMERICANS *for* TAX REFORM

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*President*

## AMERICA'S GROWTH AGENDA

### *Part One: Replace Depreciation with Full Business Expensing to Spur Business Investment and Create Jobs*

Proposal: Allow businesses and other taxpayers that depreciate property to immediately-expense the cost of the asset in the year of purchase, rather than have to slowly deduct (depreciate) the cost over several tax years

#### Current Law

Not all business purchases are created equal. If a business buys a box of paperclips, that's a tax deduction in the year of purchase. If, however, that same business buys a computer, it will have to be slowly-deducted (depreciated) over five years.

Small businesses can already deduct most depreciable assets in the first year today (so-called "179 Expensing"). However, larger businesses and real property owners cannot. In addition, "structures" (buildings) must be depreciated over many decades.

Below are some common assets and their depreciation lives:

Tractors and Some Livestock	3 Years
Computers, Automobiles	5 Years
Furniture	7 Years
Restaurants and Leasehold Improvements	15 Years (Extender Needed)
Residential Rental Property	27.5 Years
Office Buildings	39 Years

These long depreciation lives are even longer for taxpayers entrapped by the AMT.

The principle is a simple one—a business has to spend the money for the asset in the first year. They should also get the tax deduction in the first year.

#### Pro-Growth Solution

Depreciation is needlessly complex and economically destructive. All taxpayers should be able to fully-deduct business assets purchased in the first year.

#### *Alternative Options*

- "Bonus Depreciation": Allow a certain percentage (say, 50% as was done in 2003) to be expensed the first year (leftover basis depreciated as normal)
- Uncap Section 179 Expensing to remove current dollar limits
- Full expensing for all assets except buildings
- Shorten depreciation lives to move closer to expensing

**Fun Fact:** House Democrats offered full expensing as one of their alternatives to the Reagan tax cut. Republicans turned them down.

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