

Testimony before the United States Senate on behalf of the

TESTIMONY BEFORE THE UNITED STATES CONGRESS
ON BEHALF OF THE
NATIONAL FEDERATION OF INDEPENDENT BUSINESS

NFIB
The Voice of Small Business.®

Testimony of

Scott Harding

before the

Finance Subcommittee on Taxation and IRS Oversight

on the date of

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on the subject of

Section 179 Expensing

Good afternoon. I'm Scott Harding, President and CEO of F.B. Harding, Inc. Electrical Contractors in Rockville, MD. I'm proud to say that we have been in business since 1949. Thank you, Chairman Kyl and Ranking Member Jeffords, for giving me the opportunity to testify on behalf of the National Federation of Independent Business (NFIB) regarding Section 179 of the Internal Revenue Code. As a business owner, I am pleased to see that the committee is interested in addressing this important issue.

Small business owners do our jobs using hard earned experience and applied common sense. In business, we make many decisions daily that affect the life of our company and thus the livelihood of our employees and their families. Business, like life, can be complicated. But when it comes to complications in my company, the United States tax code ranks among the top. I'm sure most small business owners will say the same thing. So when I heard that Section 179 limits had been increased, I was eager to understand how my business could benefit from this legislation.

Working together with President Bush, Congress enacted into law the Jobs and Growth Tax Relief Reconciliation Act of 2003, which increased the limits on expensing from \$25,000 to \$100,000. This was a positive step to help small business owners and is one of the most significant changes to our tax code in years. The old threshold of a \$25,000 dollar limit was restrictive, outdated and simply unfair.

Under current law, Section 179 allows small businesses to expense (fully deduct from taxable income) a limited amount of the cost of new business equipment in a year. This tax benefit is limited to small businesses by a provision stipulating that the expensing amount is phased out dollar for dollar for any amount of investment above \$400,000 in a given year. However, in 2007, the law expires, and small businesses will only be able to expense up to

\$25,000 in new investment per year. Additionally, the \$400,000 limit will be reduced to \$200,000, severely limiting the number of small businesses that can qualify for this important provision.

In order to assist small business owners as they make the investments necessary to grow and expand their businesses, I would suggest three proposals:

- Make permanent the current law of \$100,000 in a given year;
- Make permanent the \$400,000 investment limit; and
- Index for inflation both the \$100,000 and \$400,000 limits.

Allowing small business owners to expense immediately critical investments is a key component to the expansion of our economy. It will put money into the hands of small business owners so they can hire new workers. It will put money directly into the economy, as owners will be more likely to purchase new equipment. By indexing the limits to inflation, the bill provides stability for small business owners. It assures owners that they won't have to come back to Congress and ask for additional increases to keep up with inflation.

In my business, last year alone we spent \$106,000 on our capital expenditures. We were able to purchase tools, computers, and four vehicles. This equipment is necessary to help operate my business and to stay competitive in the market. The expansion of 179 made this possible. Under the old rules, we would have only been able to expense \$25,000. Which is paltry considering a new vehicle uses up nearly all of that limitation. Under the expanded rule, we were able to expense \$100,000. This translated into a tax savings of approximately \$ 27,000. In

other words, because of the increased limits, we were not penalized but given the incentive to invest in our business.

As business people, we are risk takers. We do not take extra money and hide it under the mattress. When given the opportunity, we'll spend. When given the incentive, we'll invest. This is how you create more jobs and grow your business. In fact, according to the U.S. Small Business Administration, small business has generated 60-80 percent of net new jobs annually over the last decade. If small business benefits, the employee benefits, and the government ultimately benefits because more money is pumped into the economy. That is what makes America great.

I commend the Committee for holding this hearing. I look forward to working with the Congress and the President in the future to make Section 179 permanent.

Thank you for the opportunity to testify on this important issue, and I'll be happy to take any questions that you may have.

CORE VALUES

We believe deeply that:

Small business is essential to America.

Free enterprise is essential to the start-up and expansion of small business.

Small business is threatened by government intervention.

An informed, educated, concerned, and involved public
is the ultimate safeguard for small business.

Members determine the public policy positions of the organization.

Our employees and members, collectively and individually, determine the success of
the NFIB's endeavors, and each person has a valued contribution to make.

Honesty, integrity, and respect for human and spiritual values are important
in all aspects of life, and are essential to a sustaining work environment.

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