

Statement of U.S. Senator Chuck Grassley
United States Senate Subcommittee on Long-Term Growth and Debt Reduction of
the Senate Committee on Finance
“Updating Depreciable Lives: Is There Salvage Value in the Current System?”
July 21, 2005

Mr. Chairman and Senator Kerry, thank you for calling this hearing today to examine the state of our nation’s cost recovery system. It would be nice if there was an easy answer to the question of how best to improve our current depreciation system. It’s a difficult issue and one that we have considered for some time. Today’s hearing will be helpful as you have solicited the input of several witnesses who have considerable background and expertise in this arcane area of the law.

The current depreciation system was built in large part on accounting principles that attempt to mirror economic reality. At times Congress has deviated from that, for fiscal policy reasons or political reasons, but our current system, in large part, attempts to provide economically-realistic asset recovery lives. The principal problem that we have is that our system has not been adequately updated since Congress revoked Treasury’s rule-making responsibility in the area in 1988. No matter how well-intentioned, the responsibility for assigning class lives to an ever-growing and evolving population of assets is a tremendous challenge. One could argue that Congress has not managed this challenge well. It is difficult for the legislative branch of government to conduct the high volume of analyses required to continuously update our tax cost recovery system. Seventeen years of that approach has demonstrated the need for a more flexible system. However, history has also shown that we should have congressional involvement, even if our input is not warranted at every step.

Our current tax depreciation system is also extraordinarily complex, and we would do well to simplify that system as part of any fundamental change. Simplification and updating of class lives would go far in reducing the significant number of ambiguities and controversies that arise over the assignment of class lives. Finally, as part of any review of depreciation, we should consider the appropriateness of requiring a different depreciation method for taxpayers subject to the corporate AMT.

I look forward to hearing recommendations from our witnesses on how to amend the current system and provide simplification and updated guidance to emerging industries and new technologies. I also look forward to learning more about the views of our witnesses on the role that depreciation should play in providing fiscal stimulus or encouraging economic growth for particular industries or the U.S. economy at large.