

Statement of Senator John Kerry
Senate Finance Subcommittee on Long-term Growth and Debt Reduction
Hearing: Updating Depreciable Lives: Is there Salvage Value in the Current System?
July 21, 2005

I would like to thank the Chairman for holding this hearing to evaluate our depreciation system and whether it needs updating. I agree that our depreciation system has not kept pace with technological advances. There are several industries today that were not even contemplated when class lives that serve as the basis for recovery were assigned in 1981, and some class lives even date back to 1962.

In the 1980's we could not imagine today's reliance on computer and wireless technology. The wireless industry was in its infancy and there was no specifically assigned life for wireless equipment. As a result, today we have what accountants call "audit roulette" with no certainty on how these assets should be depreciated.

All of this matters, because it impacts investment, innovation, competitiveness and ultimately the quality and quantity of jobs in America.

I look forward to hearing from the witnesses on how we can improve the depreciation system to spawn technological advances. I have introduced legislation that would reduce the recovery period for computer equipment and software because these items become obsolete in our fast-changing economy.

We are fortunate to have with us today Chris Anderson, the president of the Massachusetts High Technology Council. Massachusetts is home to a vital tech economy including computer hardware, life sciences software, medical products, semiconductors, defense technology and telecommunications. Mr. Anderson will discuss how our depreciation system does not reflect economic realities in the technology sector.

Our current tax law allows a small business to expense an asset in lieu of depreciation. Through 2007, up to \$100,000 a year can be expensed. This provision should be made permanent because it assists small businesses in making the necessary capital investments in order to get the business off and running and it simplifies their taxes.

Small businesses drive our economy, comprising over 99% of all firms and over 50 % of GDP. Two-thirds of all new American jobs are created by small businesses. Small businesses start out small, but they often wind up being leaders in their field and household names. Intel, Hewlett-Packard, and Sun Microsystems are just a few successful companies that started out as small businesses, and some started with assistance from the Small Business Administration.

Chairman Smith mentioned in his opening statement that we are working on legislation to repair our broken depreciation system. I am glad to be part of that effort. One of the suggestions we will hear today is to provide Treasury with the authority to assign or reassign assets to different classes based on ongoing technological and economic developments. I am very interested in hearing views on that idea, because I would rather support comprehensive approach than a piecemeal approach. I also hope that we can make these changes in a thoughtful manner, so that the tax code properly reflects the market, so that we provide certainty to taxpayers, so that taxpayers cannot improperly shelter income, and so that we don't create more debt.