113TH CONGRESS
2d Session

HOUSE OF REPRESENTATIVES

REPORT
113–432

AMERICA'S SMALL BUSINESS TAX RELIEF ACT OF 2014

MAY 2, 2014.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. CAMP, from the Committee on Ways and Means, submitted the following

R E P O R T

together with

DISSENTING VIEWS

[To accompany H.R. 4457]

[Including cost estimate of the Congressional Budget Office]

The Committee on Ways and Means, to whom was referred the bill (H.R. 4457) to amend the Internal Revenue Code of 1986 to permanently extend increased expensing limitations, and for other purposes, having considered the same, report favorably thereon with an amendment and recommend that the bill as amended do pass.

CONTENTS

39–006

Permanently extending to $500,000 the annual cost of property eligible for expensing under section 179, expanding the qualifying property eligible under section 179, and indexing the amounts for inflation, would allow firms to deduct immediately from their taxable income the full costs of up to $500,000 in investment of certain equipment from their taxable income, instead of spreading the costs out over time. The benefit of the immediate expensing phases out if total qualifying investment exceeds $2 million, indexed for inflation.

The staff of the Joint Committee on Taxation (JCT) estimates that enacting H.R. 4457 would reduce revenues, thus increasing federal deficits, by about $73 billion over the 2014–2024 period.

The Statutory Pay-As-You-Go Act of 2010 establishes budget-reporting and enforcement procedures for legislation affecting direct spending and revenues. Enacting H.R. 4457 would result in revenue losses in each year beginning in 2014. The estimated increases in the deficit are shown in the following table.

JCT has determined that the bill contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act.

The CBO staff contact for this estimate is Logan Timmerhoff. The estimate was approved by David Weiner, Assistant Director for Tax Analysis.

CBO ESTIMATE OF PAY-AS-YOU-GO EFFECTS FOR H.R. 4457, AS ORDERED REPORTED BY THE HOUSE COMMITTEE ON WAYS AND MEANS ON APRIL 29, 2014

	By fiscal year, in millions of dollars—												
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2014–2019	2014–2024
NET INCREASE IN THE DEFICIT													
Statutory Pay-As-You-Go Effects	1,812	18,216	10,140	8,579	7,145	5,738	4,819	4,322	3,746	3,971	4,646	51,630	73,135

Source: Staff of the Joint Committee on Taxation.
Note: Components may not sum to totals because of rounding.

D. MACROECONOMIC IMPACT ANALYSIS

In compliance with clause 3(h)(2) of rule XIII of the Rules of the House of Representatives, the following statement is made by the Joint Committee on Taxation with respect to the provisions of the bill amending the Internal Revenue Code of 1986: the effects of the bill on economic activity are so small as to be incalculable within the context of a model of the aggregate economy.

The bill permanently extends an increase in the amount of investment in equipment (and a small, targeted subset of real property) that may be deducted immediately, or expensed, as opposed to depreciated over longer periods of time. The ability to expense, rather than depreciate investment expenses reduces the cost to firms of making these investments, thus reducing their after tax cost of capital and providing an incentive for increased investment.[14] Some research on the effects of expensing on business in-

[14] Economic theory of the effects of "cost of capital" on investment was first formalized by Dale Jorgenson in 1963 "Capital Theory and Investment Behavior," American Economic Review, 54,

Continued

vestment has confirmed that investment increases when more generous expensing policy is in effect.[15] Additionally, there is some evidence that expensing is particularly helpful to smaller, start-up firms that may have less access to capital markets.[16] Other research has raised questions about the efficacy of expensing as opposed to investment tax credits in encouraging investment in light of the fact that investment tax credits produce a more favorable picture in firm financial statements. But such studies still find an overall positive effect of increased expensing on investment.[17]

Increased investment can be expected to result in an increase in the amount of economic growth and in the long run growth potential of the economy. Thus, we expect that the bill is likely to result in a small increase in overall economic growth. However, the increase in allowed expensing under the bill, from $25,000 in 2014 to $500,000, and the size of firms it applies to (firms using this provision cannot invest more than $2,500,000 in 2014) limit the expected impact of the incentive. JCT estimates that the amount of investment that could potentially take advantage of the provision is less than 10 percent of projected baseline investment. The availability of this incentive to a small subset of firms also poses the possibility that it could distort efficient investment decisions by favoring investment by certain types of firms over other types of firms.

Finally, in the short-run, the net reduction in tax receipts resulting from the bill could provide for a small increase in overall demand, thus resulting in some economic growth. In the longer term, the resulting increase in deficits would result in higher interest rates, reducing the positive investment incentive effects from the expensing.

Overall, we estimate that the effects of the bill on economic activity are so small relative to the size of the economy as to be incalculable within the context of a model of the aggregate economy.

V. OTHER MATTERS TO BE DISCUSSED UNDER THE RULES OF THE HOUSE

A. Committee Oversight Findings and Recommendations

With respect to clause 3(c)(1) of rule XIII of the Rules of the House of Representatives (relating to oversight findings), the Committee advises that it was as a result of the Committee's review of the provisions of H.R. 4457 that the Committee concluded that it

---

pp. 247–59. Jorgenson, along with Robert Hall added effects of taxation, particularly depreciation policy to this framework in "Tax Policy and Investment Behavior, American Economic Review," 57 (3) pp 391–414 in 1967. Many macroeconomic simulation models, including the JCT staff Macroeconomic Equilibrium Growth model, use this framework to model investment decisions.

[15] See, for example, Bond, Stephen, and Jing Xin, "Corporate Taxation and Capital Accumulation," Oxford University Centre for Business Taxation Working Paper, Said Business School, Oxford, UK, 2010.

[16] Steven M. Fazzari, R. Glenn Hubbard, Bruce C. Petersen, Alan Blinder, and James Poterba discuss the importance of the availability of retained earnings for firms with financing challenges in "Financing Constraints and Corporate Investment," Brookings Papers on Economic Activity, 1988(1), 1988 , pp. 141–206. Gian Luca Clementi and Jugo Hopenhayn explain that small firms are more likely to experience cash flow constraints in financing investment in "A Theory of Financing Constraints and Firm Dynamics," The Quarterly Journal of Economics, 121(1), MIT press, 2006, pp 229–265.

[17] See, for example, Edgerton, Jesse, "Investment, Accounting, and the Salience of the Corporate Income Tax," Finance and Discussion Series, Division of Research and Statistics and Monetary Affairs, Federal Reserve Board, Washington, D.C., March 21, 2011.