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**Long-Term Growth and Debt Reduction Subcommittee
U.S. Senate Committee on Finance
“Updating Depreciable Lives: Is there Salvage Value in the Current
System?”**

**Testimony of Christopher R. Anderson, President
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Thank you, Senator Smith for the opportunity to address the Long-Term Growth and Debt Reduction Subcommittee of the Senate Committee on Finance on the issue of Depreciable Lives and the current structure’s impact on technology employers. I would like to thank Chairman Grassley and Senator Kerry for this opportunity as well to testify on an issue of importance to technology employers from across the nation.

The Massachusetts High Technology Council was formed in 1977 by technology CEOs with the goal of making Massachusetts the most competitive place in which to create, operate, and expand high tech businesses. That remains our mission today. Council members employ hundreds of thousands of skilled workers in all of Massachusetts’s key technology sectors, including computer hardware, life sciences, software, medical products, semiconductor, defense technology and telecommunications. Our members include the executive leadership of tech employers such as EMC, Boston Scientific, Analog Devices, Genzyme, and MITRE.

As many of you know, Massachusetts historically has had a reputation for being a high tax state, even earning the derisive nickname of Taxachusetts. But over the past couple of decades Massachusetts leaders have realized that a high tech state like ours needs to maintain a stable, predictable and competitive business cost climate. Because of that attitude shift, we have shed that Taxachusetts moniker for the most part. State leaders recognized that a technology-rich state like Massachusetts needs a tax structure that drives innovation, investment and entrepreneurship.

In recent years Massachusetts passed a competitive Research & Development Tax Credit and made permanent the three percent Investment Tax Credit that rewards companies for making capital expenditures. As a result, as Senator Kerry has cited in testimony on July 6 before the Base Realignment and Closure Commission hearing in Boston, Massachusetts is the top technology state according to the annual rankings by the Milken

Institute. The lesson from Massachusetts is that thoughtful and strategic tax policy can have a positive impact on economic competitiveness.

Despite the ever-evolving nature of technology and growing global reach of innovation firms, investment in capital assets and the cost recovery for those assets are critical to the competitiveness of US employers. According to an April 2005 study led by PricewaterhouseCoopers for the President's Advisory Panel on Federal Tax Reform, in 2002 gross corporate depreciable and amortizable assets were valued at \$10 trillion. The depreciation and amortization deductions for the same year totaled \$825 billion. By comparison corporate incomes, with all deductions besides depreciation and amortization, came in at \$1.4 trillion. This shows that even in an innovation-based economy, capital investment is still king.

As the Committee contemplates the future structure of depreciation, it should consider that while technology, factories and jobs are becoming more and more portable, technology and science oriented research companies strongly want to invest in operations close to their home base. Congress, through this committee, has a unique opportunity to create a system that encourages capital investment and creates jobs for the long term by modernizing the depreciation structure.

I wanted to pass along the story of a midsize precision equipment manufacturer outside of Boston that had a very negative experience due to the current depreciation structure. This company had the type of opportunity that every ambitious tech firm yearns for: the chance to be a sole source global supplier for Intel. This high tech firm of about 200 employees had the expertise and workforce to do the job but needed to make significant capital investments in a short period of time to meet the needs of Intel. The company invested \$10 million in real estate and capital equipment to accommodate the new project – a significant capital outlay for a firm its size.

They were able to successfully meet Intel's goals and from a business and technological standpoint the venture was a success, but from a tax standpoint it became a nightmare that lasted for years. The contract with Intel had been for a finite period of time, which the company knew, but in the end had millions of dollars in equipment that they couldn't put back to use right away. They also couldn't expense the assets because of the depreciation schedule unless they were to sell them off, which would prevent reuse. The depreciation schedule did not recognize that some capital investments were destined to be short term or would likely have "unpredictable lives."

So what was at first glance an ideal opportunity for a small precision manufacturer soon became a burden on an otherwise successful company. They had cash flow problems for a few years and as a result bumped up against issues concerning the Alternative Minimum Tax. They were forced to leverage the company's assets, which made for some nervous moments for executives and employees alike. They have since bounced back, but as the President of this Mass. technology firm told me this week: "We were

forced to take our focus away from operational activities and move it to financial activities.”

There are many stories like this, many with more damaging outcomes, from across Massachusetts and the nation. It seems that a system which may have made sense decades ago is ripe for an overhaul to reflect the speed and flexible nature of the new economy.

Beyond the economic effects on the economy, the depreciable lives schedule has an unintended effect of suppressing investment in technological areas that would have a direct impact on improving society. One specific example is in the area of renewable energy, another technology cluster emerging in Massachusetts. Investment in this area is in the best interests of the United States by easing its dependence on foreign oil and helping the environment. However, many clean energy solutions are very costly and require significant private sector capital investment. They also depreciate at rates faster than traditional energy capital investments. In this case, the depreciation structure is chilling investment in renewables, which delays important discoveries and enhancements that would benefit our environment, economy and national security.

Mass. High Tech Council would urge you to consider the following recommendations in any efforts to reform the depreciation structure:

- Update the seven depreciation categories to better reflect the useful life of technology equipment like computers, which experts have suggested depreciate twice as fast as traditional assets;
- Consider partial expensing or reducing the statutory tax rate to promote more efficient allocation of capital;
- Allow a 50 percent tax depreciation deduction in the first year of service and the balance over the standard life;
- Grant the Treasury Department flexibility in categorizing assets based on technological capabilities; and
- Reinstate the bonus depreciation that ended at the end of calendar year 2004.

The Massachusetts High Technology Council looks forward to working with the Committee to craft a plan to create a depreciation system that fits with the 21st Century economy.

Thank you.