

**Statement of Senator Gordon H. Smith**  
**Finance Subcommittee on Long-Term Growth and Debt Reduction Hearing –**  
**Updating Depreciable Lives: Is there Salvage Value in the Current System?**  
**July 21, 2005**

Thank you all for coming today.

Today the Finance Subcommittee on Long-Term Growth and Debt Reduction conducts its first hearing in the 109<sup>th</sup> Congress, Updating Depreciable Lives: Is there Salvage Value in the Current System?. We are going to hear from a distinguished panel of witnesses who will provide us with their insights on the current tax depreciation system and its effects on long-term economic growth.

Over the last two decades, the U.S. economy has changed dramatically. Many new technologies and industries have emerged. Twenty years ago no one had ever heard of the internet or email – and things such as e-commerce, Blackberries and iPods just didn't exist. As we all know, the use of computers has also revolutionized and streamlined manufacturing processes in many traditional industries.

Unfortunately, however, we have not modernized our tax depreciation system. It has not kept pace with these industry changes. Our depreciation system is out-of-date. And, an outdated tax depreciation system is not good for the U.S. economy. We need a system that promotes and encourages capital investment – especially investments in technology – and also a system that responds to the emergence of new technologies and industries. The more companies invest in equipment and buildings, the more our economy grows.

An example of how the current depreciation system is out-of-date is the fact that the recovery periods used to calculate depreciation allowances for many types of equipment – especially high-tech assets – do not reflect the actual economic lives of such equipment. As one of our witnesses, Dr. Neubig, pointed out in an article on depreciation, when the asset classes for computerized equipment under the current system were developed, mainframe computers were the norm. The fact that such asset classes have not been updated since that time clearly demonstrates the need for modernization of the system.

For example, a personal computer has a depreciable life of 5 years – however, its economic life is really only 2 to 3 years. Although a personal computer may work perfectly fine for 5 or more years, we all know from our own experiences that after a couple of years, more technologically advanced computers enter the marketplace and such new computers are faster and have superior applications – making the older computer “economically obsolete.”

Another example that all of us on Capitol Hill can relate to is Blackberries. They may run for several years – however many of us replace our Blackberries every couple of years to take advantage of new features. Yet, like personal computers, a Blackberry has a depreciable life of 5 years.

As these examples demonstrate, years ago useful lives were determined by the wear and tear on an asset. However, these days there's a greater frequency of change in our society. So today we must focus on an asset becoming economically obsolete – and not wear and tear.

To address these concerns with the depreciation system, I am currently working with my colleagues including Senators Kerry and Baucus on legislation aimed at modernizing and simplifying the depreciation rules. This bill will encourage capital investment, strengthen the economy and make it easier for companies to comply with depreciation rules.

I would like to thank all of the witnesses for coming today and I look forward to hearing your testimony. I'll now turn to my colleague Senator Kerry for his comments.