Policy Brief – Tax Reform 2.0 – June 2018

Congress should make full Expensing of capital investment permanent, thus creating an environment for even greater economic growth, and continue to preserve the full and immediate deductibility of advertising expenses.

Background
The historic Tax Cuts and Jobs Act of 2017 (TCJA) is bringing strong economic growth and jobs to the U.S. economy. But, more still needs to be done to ensure that this growth is sustained and even further enhanced. To achieve this goal there needs to be continuous improvement that will keep the U.S. Tax Code internationally competitive.

The TCJA reduced tax rates for both corporations and individuals, limited major deductions, and created a new set of rules for companies that earn income overseas. However, many of the provisions of the new law will expire or change over the next eight years. One of special importance to manufacturers is the phasing out of full Expensing for capital investment starting in 2023.

Industry Position
Full Expensing for capital investment is one of the most important provisions of the TCJA, because it corrects the fundamental bias against business investment in the federal tax code: the fact that most business expenses can be deducted immediately, like the full deductibility of advertising expenses that was preserved in the TCJA at the urging of the printing industry, but capital expenditures are required to be deducted over long time periods. Expensing is also a major simplification of the tax code. Many economists consider full expensing to have even larger positive economic effects than reducing the corporate statutory tax rate, because the entirety of the tax change is focused on incentivizing businesses to engage in new investment. Indeed, there is empirical evidence showing that businesses respond to expensing by significantly increasing their capital investment levels. See Greenberg, Scott (2018) Tax Reform Isn’t Done, Tax Foundation.

Regrettably, full Expensing for short-life investments is set to gradually start phasing out by 20 percent a year in 2023, until the provision completely expires at the end of 2026, thereby increasing the cost of domestic investment in equipment and machinery and impeding economic growth. This must be avoided by making full Expensing of capital investment permanent.

115th Congress
Congress should make it a top priority to make full Expensing a permanent part of the federal tax code, rather than allowing the provision to phase out after 2022. Additionally, the full and immediate deductibility of advertising expenses should continue to be preserved.