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Expiring Business Tax Provisions

Background

A number of tax provisions that provide companies valuable incentives for investment expired in 2013; collectively, these are referred to as "tax extenders." These provisions are used every day by businesses as they make strategic choices regarding the investments they make in both capital equipment and personnel needs, as well as how they position themselves in the global market. The expiration of these provisions creates doubt and uncertainty for business planning, hindering the ability to effectively make decisions that improve the economy and create jobs.

ELFA has consistently supported the use of capital formation tax incentives as a key component of economic growth and competitiveness. Provisions that ELFA has specifically advocated for include:

- 100% Expensing of Equipment Investments
- Bonus Depreciation
- The Active Financing Exception to Subpart F
- Renewable Energy Production and Investment Tax Credits

100% Expensing/Bonus Depreciation
The 100% expensing of certain equipment investments provided under IRC Section 179 and "bonus depreciation" investment incentives provide much needed stimulus to the economy. Such incentives have a history of providing support and growth for capital formation when the United States faces economic struggles and uncertainty. Section 179 expensing and bonus depreciation both promote capital investment modernization and growth. Since many investment decisions are made months in advance, and over a long-term, having these incentives in place would provide reliability and certainty in the economy.

Active Financing Exception to Subpart F
Under current tax law, U.S. financial services firms--including manufacturers and leasing companies--are allowed to defer U.S. tax on overseas active business income until the income is transferred to the U.S. This rule assures that U.S. financial services companies will only pay a current tax in the country where their foreign operations are located and addresses concerns about U.S. competitiveness and fairness by applying to our financial services companies the same general U.S. rule that defers current U.S. tax on active trade or business income earned in other industries. This provision benefits U.S. leasing companies as it maintains a level playing field with foreign competitors. For example, a multi-year equipment lease may run 5-7 years and

be priced to reflect the active financing exception provision in current law. Without this provision, U.S. lessors would need to charge a higher rent reflecting the increased tax cost that would arise if the active financing exception to Subpart F was not part of the tax code.

Renewable Energy Incentives

The financing of renewable energy equipment and projects is emerging as an important component of the equipment leasing and finance industry. Rising energy costs coupled with energy security and climate concerns have increased national interest in renewable electricity generation. Continued growth in this sector is dependent on a fiscal environment that promotes innovation in how we meet our national energy needs including the installation of renewable energy technologies. Renewable energy production tax credits (PTCs) and renewable energy investment tax credits (ITCs) are prime examples of this support.

Tax legislation originally enacted in 2008 and 2009 provides support for renewable technologies, transmission and smart grid technology, energy efficiency and clean coal technologies. Renewable energy in particular is highly capital intensive requiring significant upfront risk and upfront financing and thus constitutes a prime opportunity for the use of tax incentives.

REQUEST: ELFA strongly urges Congress to extend all the expiring business tax provisions retroactively back to the beginning of 2014. Given the current economic uncertainty and need to continue to foster continued economic recovery, now is not the time to stop these meaningful tax incentives. Moreover, action during the spring and early summer will provide much needed certainty for the remainder of 2014, which will help foster an environment for economic growth.

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Talking Points

- The ELFA strongly urges Congress to extend expiring business tax provisions as soon as possible, ideally before the August recess. The ELFA is especially interested in the following provisions:
    - 100% expensing of equipment;
    - Bonus depreciation;
    - Active financing exception to Subpart F; and
    - Renewable energy incentives.
- The provisions provide much needed incentives for investments in capital equipment that lead to jobs and economic growth in the United States.
- The U.S. business sector, including companies that lease and finance equipment, rely on these provisions to make their investment decisions.