PUBLIC ROUNDTABLE ON BILL 15-637, "DEPRECIATION ALLOWANCE FOR SMALL BUSINESSES DE-COUPLING FROM THE INTERNAL REVENUE CODE ACT OF 2003"

Before the

Committee on Finance and Revenue
Council of the District of Columbia

The Honorable Jack Evans, Chairman

January 29, 2004, 10:00 a.m.
Room 412, John A. Wilson Building

Testimony of
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Good morning Chairman Evans and members of the Committee on Finance and Revenue. I am Dan Black, director of operations for the Office of Tax and Revenue (OTR). With me this morning is Edward Blick, attorney advisor for OTR. We are pleased to comment today on Bill 15-637, the "Depreciation Allowance for Small Businesses De-Coupling from the Internal Revenue Code Act of 2003."

In an effort to stimulate the economy, in 1958 the U.S. Congress added Section 179 to the Internal Revenue Code. This section provided a tax benefit to small businesses by allowing a present-year deduction of the cost of business assets, within certain limits, instead of spreading the deduction over the useful life of the assets through depreciation. The allowable present-year deduction has increased over the years from $5,000 to $25,000.

In March 2002, Congress enacted the *Job Creation and Worker Assistance Act of 2002*. This federal statute increased the amount a small business can deduct for property acquired in the current year from $25,000 to $100,000. Though intended as a business incentive, the new depreciation tax breaks threatened to cost states large amounts of revenue. In response, many states, including Virginia and Maryland, moved quickly to "de-couple" from the federal code – in effect, disallowing the depreciation provisions.

Bill 15-637 would amend the D.C. Code to de-couple the District from the increase in the deduction under section 179 of the Internal Revenue Code, as provided by the *Job Creation and Worker Assistance Act of 2002.* To provide more clarity, OTR recommends a minor addition to the bill as introduced and will work with the committee to make the recommended change before the bill is marked-up.

In conclusion, the proposed legislation will prevent a decrease in local General Fund revenue. In the absence of the proposed legislation, there would be a potential loss of $2.46 million in FY 2004 and $9.29 million in FY 2004 through FY 2007.

Thank you, Chairman Evans and members of the Council for this opportunity to testify.

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