

STATEMENT OF CONGRESSMAN JOHN E. FOGARTY, 2nd DISTRICT, RHODE ISLAND, ON
INTRODUCING H.R. 4824 PROVIDING FOR MORE LIBERAL DEPRECIATION ALLOWANCE
ON MACHINE TOOLS, TEXTILE MACHINERY AND OTHER INDUSTRIAL MACHINERY.

4/23/53

I have today introduced a bill to provide more generous tax allowances on depreciation which should have a direct beneficial help to our New England economy. This bill will amend the Internal Revenue Code by providing that, in the case of machine tools, textile machinery, and other industrial production machinery, the deduction for depreciation shall be based on replacement cost or original cost, whichever is higher.

The historic purpose of depreciation is to permit the replacement of physical assets when worn out or made obsolete by new developments. In periods of time when the dollar has maintained a more or less constant value, business concerns are able to meet this objective by charging, as an expense, depreciation in the amount of the original investment. However, in a period where prices are rising rapidly, the amount so charged is insufficient to replace the assets when such replacement is due.

It thus becomes necessary for a concern to add to the amount that has been set aside, a very substantial sum, often many times greater than that charged as depreciation, to permit the purchase of replacement equipment. This added amount must be supplied out of profits after taxes and to cover it a company has to earn several times the cost of the replacement machine.

It is my opinion that this deterrent should be changed to permit a company to charge as depreciation an amount sufficient to replace the outmoded equipment with new equipment of similar type and capacity.

I am convinced that this measure will be of great benefit to all industry and particularly so to industry in Rhode Island. It will undoubtedly stimulate the sale of machine tools. Since Rhode Island produces a great number of these tools, a general increase in sales and production will certainly be felt in our local industry.

In addition, Rhode Island has more old companies than the average for the country and hence has a greater problem of providing sufficient funds to replace their older equipment. This is particularly true in the textile field. An additional tax allowance for depreciation of its machinery might well be the fuse which could set off the charge needed to provide modern production machinery. This would permit our textile concerns to meet the competitive production costs of other areas with direct benefits to our Rhode Island economy and that of all New England.

I urge that the Committee on Ways and Means, to which the bill has been referred, take quick affirmative action on it.