Obama to Push Tax Break for Business Investment

Businesses Would Be Allowed to Write Off New Investment in Plants, Equipment

By JONATHAN WEISMAN And JOHN D. MCKINNON

President Barack Obama, in one of his most dramatic gestures to business, will propose that companies be allowed to more quickly write off 100% of their new investment in plants and equipment through 2011.

The proposal, to be laid out Wednesday in a speech in Cleveland, tops a raft of announcements, from a proposed expansion of the research and experimentation tax credit to $50 billion in additional spending on roads, railways and runways.

Companies can now deduct new investment expenses, but over a longer period of time—three to 20 years. The proposed change, which would let companies keep more cash now, is meant to give companies who may be hesitant to invest an incentive to expand, acting as a spur to the overall economy.

While some economists praised the investment-incentive idea, some business groups and congressional Republicans said their higher priority remained an extension of the Bush income-tax rates for higher earners that are set to expire at the end of 2010. Mr. Obama and many congressional Democrats want to let those breaks expire.

Jade West, senior vice president of the National Association of Wholesaler-Distributors, said she hoped the tax proposal "is something we could get behind, but the devil is in the details."

Administration officials hope businesses spooked by the faltering recovery but with investments already on the drawing board will rush to take advantage of the tax break. The tax break would be retroactive to Sept. 8, the day it is announced, so businesses won't delay planned investments while waiting for congressional action. It would extend to Dec. 31, 2011.

White House economists said the plan would cut business taxes by nearly $200 billion over two years. Officials said that over the
long run the government would only lose $30 billion, because deductions that businesses would have taken in future years under current rules would disappear.

Congress must approve the proposal, and White House Chief of Staff Rahm Emanuel said Monday the White House hasn't yet discussed legislative strategy. The House and Senate return from recess the week of Sept. 13 with a separate, small-business lending measure as their first priority.

Lawmakers plan to leave Washington again after a few weeks in session to campaign ahead of the hotly contested midterm elections Nov. 2, so any action on the new proposal may have to wait until a lame-duck session after Election Day, or early next year.

Mr. Obama will follow his economic address Wednesday with a full White House press conference on Friday. "Without a doubt with this series, the president has seized the economic initiative," Mr. Emanuel said.

Still, Mr. Obama's proposal drew skepticism from some of his administration's prominent opponents.

"The White House is missing the big picture. These aren't necessarily bad proposals, but they don't address the two big problems that are hurting our economy—excessive government spending, and the uncertainty that Washington Democrats' policies, especially their massive tax hike, are creating for small businesses," said House Minority Leader John A. Boehner (R, Ohio).

A senior administration official said about 1.5 million companies—those with tax liabilities and investments in the works—are expected to take advantage of the proposal.

Businesses would be able to lower their taxable income for the full amount of new investments they make in plants, equipment and virtually any investment besides real estate, an administration official said.

Under current law, if a company spends $10 million on a new factory, it gets to deduct the full amount of the cost over a period of between three and 20 years, depending on the investment. So it cuts its stated pre-tax profits by a varying amount each year, thus reducing taxes until the cost of the investment has been written off.

Under the new proposal, the company would get to deduct the full $10 million in the first year. That would give it an immediate cash infusion to offset the costs of investment. It would also give certainty that the full tax benefit would be realized. Companies often don't get to write off the full cost of an investment over an extended time. They might go out of business during that window, or other tax complications could arise.

The investment incentive would embrace a long-held wish by conservative economists that had never won support from either Republican or Democratic administrations. "Temporary investment incentives like this can have big effects because they really pull investment forward," said R. Glenn Hubbard, dean of the Columbia University School of Business and a former chairman of the Council of Economic Advisers under President George W. Bush. "This could have a big stimulative effect."

Kevin Hassett, an economist at the conservative American Enterprise Institute, praised the Obama plan, saying it "goes to
2002: Allowed 30% write-off for three years.
2003: Rate rises to 50%
2008: Small businesses allowed to write off value of investment up to $250,000. 50% allowed for larger companies.
2009: Both extended a year
2010: Both under consideration in Congress.
Source: Tax Policy Center

discount, but they are not doing so, he said. It's unclear why they would make those investments for a tax break.

The business investment deduction would supplement other Obama proposals, notably a permanent extension of an expanded research and experimentation tax credit, an idea Mr. Obama has touted since his presidential campaign.

At a Labor Day union rally in Milwaukee Monday, Mr. Obama also proposed the $50 billion round of infrastructure investments. Administration officials say the money would pay for 150,000 miles of refurbished roads, 4,000 miles of high-speed rail and 150 miles of airport runway, along with advances in air-traffic control technology.

Mr. Emanuel said the three proposals together would move money quickly into the economy through the government and the private sector.

Some in the business community said a higher priority for them continued to be the extension of the Bush-era income-tax rates for higher earners, set to expire at the end of 2010.

Mr. Obama and many congressional Democrats want to eliminate the current 33% and 35% rates for higher earners, and return them to pre-Bush levels of 36% and 39.6%.

"The best thing to do is to get rid of uncertainty, and that includes the cliff we're falling off with all these [tax] provisions that are expiring," said Bill Rys, tax counsel for the National Federation of Independent Business, a small-business group.

Many NFIB members also are concerned about a new requirement for reporting purchases of more than $600 to the Internal Revenue Service, he added. He questioned whether many business owners would choose to buy more equipment, at least until sales pick up.

Ms. West, of the wholesaler-distributors group, said, "If this will be offered as a tradeoff for raising the top two rates, it's a non-starter."

"That said," she added, "I am delighted to see the administration move toward policies that acknowledge that tax policy has consequences."

Jay Timmons, executive vice president of the National Association of Manufacturers, described the expensing proposal as "good at face value."

But he questioned the administration's logic in proposing to raise some business taxes in order to lower others.

"The good news [is that] the administration recognizes that manufacturing is key to getting the economy back on track and ensuring we are able to sustain economic growth and job creation. But you can't do that if you're penalizing one sector of manufacturing while trying to incent another."
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