

February 21, 1992 LB 1120

is depreciation? If I bought a large item in one year, we say that can either be an expense because that's something that you had to buy to make income and earn a living, and you could take that off all in one year. But for big items that doesn't work, because then you would have no income in one year, and the next year you'd have great amounts. So we have come up with a system for the last number of years, many, many years, of depreciation. So you take a little bit of that cost off every year for a number of years as an expense in the current year. To a certain extent that is the cost of replacing that item ahead of time, replacement cost. What the depreciation add-back does is do away with depreciation, because in these amounts you add that back to your income tax, and you, in effect, take away the advantages, or you take away the concept of depreciation. And for motor vehicles that is particularly difficult in motor carriers, trucks, and semis, and here's the reason why, they are taxed at the property tax level and their full value every year, tax number one. You got a corresponding deduction, at least for income tax purposes, to depreciate those items every year. We now change that concept. The depreciation add-back is particularly vicious and particularly difficult because it destroys that system that we've talked about of depreciating a little every year, and adds that back in at these levels over \$100,000. Now the reason that I say Senator Withem's amendment dealing with real estate is it's similar. Those are traditionally large investments. It doesn't take much to get to that \$100,000. If you build an apartment complex, or you build a huge building, which is necessary, they can have hundreds, and hundreds of thousands of dollars of depreciation, because they have millions, and millions of dollars of investment. If all that comes back in, that does away, effectively, with the system of depreciation. This has been exacerbated by one more concept. In the past probably ten years the federal government has created a system of rapid depreciation. And I'll bet Senator Nelson can talk to you about depreciation through the ACR system, Accelerated Cost Recovery System. Used to be we'd just do straight line depreciation, you divide an asset by number of years...

PRESIDENT MOUL: One minute.

SENATOR KRISTENSEN: ...and take that out. The federal government, to stimulate the economy, has an accelerated depreciation system. What does that mean? That means those people in the last few years who have made their investment to