



Testimony
of
Daniel Fesler

Chief Executive Officer, Lampert Yards
St. Paul, MN

On behalf of the

**National Lumber and Building Material Dealers
Association**

Before the

Congress of the United States

House of Representatives

Committee on Small Business

**“Bonus Depreciation: What It Means for Small
Business”**

July 14, 2010
Washington, D.C.

Introduction

Chairwoman Velazquez, Ranking Member Graves, Members of the Committee, on behalf of the National Lumber and Building Material Dealers Association (NLBMDA), thank you for providing me the opportunity to testify today on this very critical issue to small business. My name is Dan Fesler. I am the Chief Executive Officer of Lampert Yards in Saint Paul, Minnesota and the Chairman of the National Lumber and Building Material Dealers Association. Lampert Yards, Inc began in 1887 and continues to be a family-owned business with 34 retail lumber yard locations in Minnesota, Wisconsin, Iowa, North Dakota and South Dakota. I am a 4th generation owner and we employ 395 people.

Founded in 1917, NLBMDA is the voice of the lumber and building supply industry. The association has over 6,000 members in all 50 states operating single or multiple lumber yards and component plants serving homebuilders, subcontractors, general contractors, and consumers in the new construction, repair and remodeling of residential and light commercial structures. Most of our members are family-owned small businesses and many of these small businesses are in their second and third generation of family ownership.

NLBMDA is the national non-profit trade association that represents its members in the national public policy arena, with emphasis on efforts to 1) promote the industry and educate legislators and public policy personnel; and 2) assist legislative, regulatory, standard-setting and other government or private bodies in the development of laws, regulations and policies affecting lumber and building material dealers, its customers and suppliers.

The U.S. Economy and Housing Market and its Effects on Small Business

The U.S. economy and housing market is still in the midst of one of the most challenging periods in our nation's history. As reminded almost daily in the media, the housing crisis still plagues the U.S. economy. The weak housing sector continues to send ripple effects throughout the country, which is putting a severe strain on both large and small businesses nationwide. Our nation's lumber and building material dealers are on the front lines of this crisis and many unfortunately have had to permanently shut their doors as a result.

Federal Reserve Chairman Ben Bernanke two days ago noted small businesses employ about half of all Americans and contribute to 60 percent of gross domestic product and account for 60 percent of job creation. With unemployment at 9.5% and Chairman Bernanke declaring small businesses central to tackling unemployment, it is obvious that much more needs to be done

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by Congress and the President to help small businesses out of their current economic situation.

With respect to my own company, since the decline of the housing market we have had to close 7 facilities and lay-off or terminate 418 employees. We have seen numerous lumber yards, builders, distributors, and manufacturers go out of business. In addition, the costs of operating our business have steadily increased due to government regulations, such as IRS rule changes and loss of deductions, EPA regulations, and increased OSHA oversight and regulations. Health care costs have grown steadily for the last 10 years. While costs have been up sharply, sales have been declining for the last 4 years. We have seen our margins erode and profitability decline. The average lumber yard lost \$1.5 million in 2009. We have been forced to suspend investments in new or needed equipment.

Bonus Depreciation Helps Small Businesses and Will Help Stimulate the Economy

One way to help lumber and building material dealers and many businesses out of their current economic difficulties would be to extend the bonus depreciation for one year as recommended by President Obama in his Fiscal Year 2011 Budget to Congress.

While the HIRE Act signed by President Obama on March 18 renewed the increased Sec. 179 expensing levels for this year, the temporary 50 percent bonus depreciation lapsed at the end of 2009 and has not been restored. Bonus depreciation allows businesses to recover the costs of certain capital expenditures more quickly than under ordinary tax depreciation schedules. Businesses can use bonus depreciation to immediately write off 50 percent of the cost of depreciable property. The measure would allow businesses, large and small, to write off more of the cost of equipment and machinery purchases more quickly than allowed under current law. Bringing back bonus depreciation will encourage companies of all sizes to invest in newer, more efficient, and more environmentally friendly equipment, which will help large and small businesses alike.

In a fragile economic recovery, temporarily extending for one year bonus depreciation for business capital investments purchased and placed into service by year end will help promote continued investment. Bonus depreciation will stimulate sales of business capital investments, such as machinery and equipment, by helping customers who have buying needs and suppliers who

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have products to sell. American jobs will be restored with the increased demand for business capital investments. Bonus depreciation extension will help lower the cost of such purchases at a time when economic uncertainty and high unemployment are thwarting business capital investment.

Bonus depreciation is somewhat of a misnomer though. It sounds like you are getting a bonus or a greater benefit when in actuality it makes depreciation match the true life cycle of a product. For Lamperts, we have 235 computer terminals and 197 printers in use in our company every day. On average, they last 3 years because they are used 10 hours per day, 6 days a week in a work environment that can easily make them dirty and dusty. Under normal IRS depreciation rules these must be written off over 5 years which is much longer than their true life cycle. Bonus depreciation allows us to write these off over a faster period of time, but also in line with their true life cycle. Without bonus depreciation, we hold and use equipment longer, and we delay the cost of investment in newer and better equipment. Giving a company the ability to write things off as they age and before they become obsolete would encourage the purchase of newer equipment on a more frequent basis and would assist in stimulating the economy and providing more jobs for companies selling these types of products and equipment to businesses such as Lamperts.

Please consider the following data on bonus depreciation:

- Business investment in equipment and software rose at an annual rate of 19% in 4th quarter 2009 and then slowed to 11.4% pace in 1st quarter 2010.¹
- A recent study estimated that the bonus depreciation provisions of 2002 and 2003 increased investment 1.8 percent above trend, increased GDP by \$10 to \$20 billion, and contributed to the creation or retention of 100,000 to 200,000 jobs.²

The data above have led two of the Senate's sponsors of the bonus depreciation bill to reflect this in their recent statements. As Senator Baucus pointed out recently on the Senate floor, an extension of bonus depreciation will boost economic activity by hundreds of millions of dollars and would spark investment, increase cash flow, and help create jobs. In addition, Senator Grassley was correct in saying that bonus depreciation is a time-tested temporary incentive for increased business investment.

¹ Bureau of Economic Analysis, U.S. Department of Commerce, June 25, 2010

² University of Michigan Study: "Investment Incentives and Economic Stimulus: Lessons from "Bonus Depreciation", by Christopher L. House and Matthew D. Shapiro, January 18, 2008

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Support for Bonus Depreciation

This past spring, 82 national organizations signed a letter urging Congress to renew the recently expired bonus depreciation law through at least 2010 including the National Association of Manufacturers (NAM), the National Association of Home Builders (NAHB), and the U.S. Chamber of Commerce, as well as NLBMDA.

Also, it is rare that many issues achieve a great deal of bipartisanship these days, but recently 11 Democrats and seven Republicans signed a letter to House Ways and Means Committee Chairman Sander Levin (D., Mich.) and ranking member Dave Camp (R., Mich.) urging them to include the bonus depreciation provision in a final package of small-business tax incentives that could be negotiated with the Senate later this month.

In addition, this past Congress in the House alone, Members have introduced numerous jobs tax bills – H.R. 4779, H.R. 361, H.R. 4311, H.R. 212, H.R. 4637 and H.R. 4965 – that contain this important, bipartisan provision.

Taking all of this data and support into account for bonus depreciation, we sincerely hope the House will seriously consider passing a bonus depreciation extension, which we know will help get our economy back on track.

Conclusion

NLBMDA appreciates this opportunity to testify on this critical issue. We look forward to working with the Committee and Congress on this and other steps that will help us emerge from this current crisis and improve our economy in the long run. I will be glad to answer any questions you may have.

Thank you.

For More Information, Contact:

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