Plymouth Institute for Free Enterprise

End Penalties on Business Investment

Preston Brashers, Research Fellow

ADVANCING AMERICAN FREEDOM

TOPLINE: Congress should reform the tax code to ensure that full and immediate expensing is permanently allowed for all forms of business investment.

BACKGROUND: A longstanding defect in the U.S. tax system is businesses' inability to fully deduct the costs of certain investments when they are made. Instead, the tax system often spreads such deductions over many years (up to 50 years in certain cases) based loosely on the expected useful life of the investment. Business income taxes should only apply to actual profits. Delaying deductions for valid business expenditures deviates from that ideal, as the deductions' value declines over time based on the cost of borrowing at prevailing interest rates. The inability to fully and immediately expense physical capital investments discourages spending on assets that could allow businesses to grow and that could support higher worker productivity and wages.

The One Big Beautiful Bill (OBBB) achieved significant progress toward ending implicit penalties on business investments. OBBB made full and immediate expensing for business equipment and machinery permanent. It also *temporarily* allowed full and immediate expensing for factories and certain other goods-producing structures built within the United States (but set it to expire after 2028).

Action Items (Congress):

- **Permanently extend full expensing for factories** and goods-producing structures.
- **Allow full expensing for *all* new structures**, including commercial and industrial buildings and rental housing.
- **Allow full expensing for all intangible drilling costs** (gas and oil exploration).

How It Would Make Life More Affordable:

- Full expensing for new rental property would help expand affordable housing (and could act as a pro-growth alternative to subsidies for low-income housing).
- Full expensing for factories and other structures and for gas and oil production would allow businesses to invest more in their capacity and worker productivity, resulting in higher wages and an increased supply of goods and services.

Related Legislation: CREATE JOBS Act (S. 2056, H.R. 3967).

BOTTOMLINE: Affordable goods and services depend on businesses producing sufficient output. To grow and expand, businesses must invest, and they would be able to invest more if the tax code didn't penalize it.