
Does increase in the depreciation expensing allowance spur economic growth? evidence from USA

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Abstract

Section 179 of the Internal Revenue Code enacted in 1958 has operated for several decades in the United States. In addition, in late 2010, two congressional acts affecting section 179 have been passed, i.e. The Tax Relief Act of 2010 and The Small Business Jobs Act of 2010. The newest changes in effect are that the depreciation expensing allowances to be increased to \$500,000 and total possible equipment to be increased to \$2 million. The essence of these adoptions is to provide incentives for business as well as individual investors. However there are concerns as to the degree of economic growth these adoptions will provide. This research is therefore focused on showing the relationship between these annual appropriation, depreciation and economic growth as the figures are debated upon and changed annually. Congress questions the economic growth provided by section 179 appropriations. The study suggests that annual increments of capital depreciation deductions will aid corporate and individual business growth as well as other variables that affect economic growth in the United States. However, the benefits for small business are higher than for corporations. The regression results document greater depreciation will lead to higher economic growth over an extended period of time.
