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Tax Law May Spur Market For Used Goods

Expanded deduction improves the value proposition of buying secondhand assets

By Richard Rubin And Andrew Tangel

Jamie Knorring, president of commercial shelving maker **B-O-F** Corp. in the Chicago area, is planning to buy a used factory machine to make clamps as part of a broader plan to boost worker productivity.

Making workers more efficient isn't the only factor that makes it a good purchase for him; buying the equipment can also lower his tax bill.

The new tax law allows firms to claim an immediate 100% deduction when they buy an asset, including purchases of used equipment that already have been written off by previous owners.

"It sweetens the deal," Mr. Knorring said of the tax benefit. The company, which has about 70 employees and took in revenue last year of approximately $20 million, is planning to buy other equipment, purchases made easier to justify given the new tax incentive, he said.

Tax planners say the market for used equipment—including railcars, airplanes and industrial machines—is likely to heat up in the months ahead as firms try to take advantage of changes in the tax law. It could mean a shuffling of assets by companies purely for tax reasons and mergers and acquisitions that exploit new tax edges.

Before now, smaller companies could fully deduct purchases of used equipment, but larger firms had to spread those deductions over many years, and faster depreciation schedules applied only to new assets.

Under the new law, one company's gently worn asset could be worth more in another company's hands. That situation creates an incentive for deals that get tax deductions to companies that can use them and income to companies that already have lower tax rates.

Tax lawyers say they are flagging the possibilities to clients. "We might well see the development of a kind of swap meet for slightly depreciated business assets," Chris Sanchirico, a tax-law professor at the University of Pennsylvania.

Tax lawyers said one asset class that could get attention is airplanes.

The tax changes will likely accelerate purchases of new and used aircraft, said Michael Morgan, an investment banker at Burnham Sterling who advises airlines. "It's certainly going to be helpful on the margin and we'll see more acquisition of aircraft because of this," Mr. Morgan said.

Sale-leaseback deals and other transactions that take advantage of the new rules could also make sense in the rail and energy industries, tax lawyers said.

Randolph Smith, a national practice leader at Grant Thornton LLP, said any transactions would likely have to meet a test for having a business reason other than tax avoidance.

"It seems like another of these things that will be industry-specific and it will be relatively easy in some cases based on the idiosyncratic character of certain industries and might be harder or impossible in others," said Ari Glogower, a tax law professor at Ohio State University.