EXTENSION OF THE SECTION 45G RAILROAD TRACK MAINTENANCE CREDIT

Objectives of the Legislation

Originally enacted in 2004, Section 45G creates a strong incentive for short line railroads to invest private sector dollars on freight railroad track rehabilitation and improvements. The credit is capped based on a mileage formula. The credit is currently scheduled to expire at the end of the current 2011 tax year. The proposed extension legislation would do the following:

- **Extend 45G–** Section 45G will expire on December 31, 2011. This bill proposes extending the provision through 2017 to provide important long-term planning certainty necessary to maximize private-sector transportation infrastructure investment.
- **Allow eligibility for new short line railroads created after January 1, 2005 and before January 1, 2011** – Congress should allow 45G credits to be earned from investments made to track purchased by or built by short line railroads after January 1, 2005. Congress originally created a cutoff date of January 1, 2005 to avoid the creation of an incentive for large railroads to increase line sales. Since 2004, new short line railroads have been created, and several short lines have constructed new track to provide freight rail service to new rail customers. Expenses to maintain these lines should qualify for 45G. A new cutoff date of January 1, 2011 is imposed to prevent the distortion of the economics of future line sales and to cap the score of 45G at a known number.

The bill text referenced above is identical to H.R. 1132 co-sponsored by 260 Representatives in the 111th Congress. This bill does not include a more costly a provision to increase the credit cap that was included in H.R. 1132.

A straight extension of current law is scored at $165 million per year extended.

The Case for Short Line Railroads

Over 550 short line railroads preserve nearly 50,000 miles of track that otherwise would have been abandoned by the large Class I railroads. This track received little investment by its previous Class I owners and must be upgraded and maintained if over 10,000 rail customers are to stay connected to the national main line rail network. These freight rail connections are critical to preserving the first and last mile of connectivity to factories, grain elevators, power plants, refineries, mines, and transload facilities that employ over 1 million Americans. While highway infrastructure is maintained by federal and state governments, freight rail infrastructure is maintained by private sector investments.

Short lines use approximately 184 million gallons of fuel to move 10.6 million carloads of freight annually. Trucks would require 540 million gallons to move the same freight. Short lines save shippers 20% to 50% over comparable truck transportation. Short lines keep 30 million truckloads/year off the highway, saving $1.3 billion per year in highway damage costs.

EXTENSION OF THE SECTION 45G RAILROAD TRACK MAINTENANCE CREDIT

Text of Legislation

SECTION 1. SHORT TITLE

This Act my be cited as the 'Short Line Railroad Rehabilitation and Investment Act of 2011'.

SECTION 2. EXTENSION AND MODIFICATION OF RAILROAD TRACK MAINTENANCE CREDIT.

(a) Extension of Credit- Section 45G(f) of the Internal Revenue Code of 1986 is amended by striking `January 1, 2012' and inserting `January 1, 2018'.

(b) Expenditures- Subsection (d) of section 45G of the Internal Revenue Code of 1986 (relating to qualified railroad track maintenance expenditures) is amended by striking `for maintaining' and all that follows and inserting `for maintaining--

`(A) in the case of taxable years beginning after December 31, 2004, and before January 1, 2012, railroad track (including roadbed, bridges, and related track structures) owned or leased as of January 1, 2005, by a Class II or Class III railroad (determined without regard to any consideration for such expenditures given by the Class II or Class III railroad which made the assignment of such track), and

`(B) in the case of taxable years beginning after December 31, 2011, railroad track (including roadbed, bridges, and related track structures) owned or leased as of January 1, 2011, by a Class II or Class III railroad (determined without regard to any consideration for such expenditures given by the Class II or Class III railroad which made the assignment of such track).'.

(c) Effective Date- The amendments made by this section shall apply to taxable years beginning after December 31, 2011.