

H.R. 721
Extending the Short Line Railroad Tax Credit (45G)

Reducing Small Business Taxes to Increase Small Business Investment

The short line rehabilitation tax credit requires a company to invest one dollar to receive 50 cents in credit. Short lines are one of the most capital intensive industries in the country, and they need to reinvest every dollar available. For many this need exceeds 30 percent of annual revenues. Reducing these small business taxes maximizes the ability to invest. The National Railroad Tie Association estimates that the tax credit has allowed short line railroads to purchase and install more than 750,000 ties/year over and above their normal annual purchases. Increasing private investment strengthens local economies and benefits customers whose success in the marketplace depends on efficient and competitive rail service.

Creating Private Sector Jobs

Most short lines do not have the in-house manpower to undertake rehabilitation projects and must hire contractors and laborers to do the work. The Federal Railroad Administration estimates that half of every dollar spent on short line rehabilitation goes to pay workers.

Short line customers are small and medium-sized businesses that operate in rural and small town America where job creation is a difficult task. Short lines are their only connection to the national railroad network and allow them to sell their product in markets that they could not afford to reach by truck. The ability to maintain and increase their own workforce is dependent on efficient and competitively priced short line service.

Materials Made in America by American Workers

Railroad rehabilitation requires wood ties, steel rail and spikes, rock for ballast, and timber and steel for bridges. Virtually all of this material is manufactured in America by American workers. Increasing short line investment increases the sales of these American materials.

A Return on Investment for a Generation

Railroad rehabilitation builds long lasting transportation assets. A new railroad tie can last up to 40 years. New steel rail will last longer than that. The rehabilitation tax credit maximizes investment in assets that will preserve rail service, reduce transportation rates and help customers grow their small businesses. Those assets will be producing those same benefits for 30 to 40 years, an excellent return on investment.

Short Line Railroads – A Small Business Poster Child

Short line railroads are created by entrepreneurs who purchase the marginal or money losing lines of the Class I railroads. Much of this track would otherwise be abandoned and most of it could not justify investment by the previous owners. As smaller, local businesses, short lines have turned these into profitable lines on a P&L basis. But a successful business must invest capital dollars above and beyond its operating expenses to be successful. For short lines which must not only maintain expensive infrastructure but make up for years of deferred maintenance by the previous owners, the capital requirements can exceed 30 percent of annual revenues. The short line tax credit helps private sector risk takers to be successful and that success preserves rail service and rail jobs.

Short Lines as Life Lines

The tax credit's ultimate beneficiaries are the customers that depend on short line service to keep them connected to the national railroad network. Today, short lines operate 50,000 miles of track and serve more than 12,000 facilities that employ over one million people. The majority of these businesses are located in rural and small town America lacking any other rail service. For those areas, the short line's ability to take a 25-car train 75 miles to the nearest Class interchange is just as important as the giant railroad's ability to attach that block to a 100-car unit train and take it across the country. Those areas are not inconsequential. In five states short lines operate 100 percent of the state's rail network. In 10 states they operate more than 50 percent. In 30 states they operate at least 25 percent of the rail network.

Saving Fuel

Railroads are the most fuel-efficient mode of transportation. On an annual basis short lines use an estimated 184 gallons of diesel fuel to move 10.6 million carloads of freight. Trucks would require 540 million gallons of fuel to move the same freight.