



National School Transportation Association

625 Slaters Lane, Suite 205 • Alexandria, VA 22314
(703) 684-3200 • (703) 684-3212 FAX • www.schooltrans.com

PRESS RELEASE

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NSTA DECLARES VICTORY IN TAX BILL

National School Transportation Association Protects Contractors' Bottom Line

WASHINGTON, D.C. – The National School Transportation Association (NSTA) celebrated a significant victory this week when Congress passed the major corporate tax bill. HR 4520, the American Jobs Creation Act of 2004, carried what could have been a significantly damaging provision for school bus contractors. Fortunately, NSTA was able to neutralize the provision before the bill was passed.

Buried in the 380 pages of international tax and trade language in the bill that passed the Senate was a provision prohibiting Sale-In Lease-Out (SILO) transactions, which allow tax-exempt entities to transfer the tax benefits of accelerated depreciation on assets to a taxable entity. The private entity buys the assets, then leases them back to the tax-exempt entity. SILOs have been utilized for years by municipal governments, public transit authorities and other tax-exempt organizations.

In getting rid of this “loophole” in the law, the Senate bill expanded the definition of leases to include service contracts between private entities and tax-exempt entities—such as transportation contracts with public school districts. The effect was to change the way contractors can depreciate their assets for tax purposes, from accelerated depreciation used by private taxpayers to the straight-line basis required for “tax-exempt use property.” In addition, deductions could not exceed income recognized in the year.

The practical consequence was that the typical recovery period for a school bus would increase from five years to nine years, with a significant negative effect on cash flow and on the ability to purchase new equipment.

NSTA discovered the problem after the Senate bill passed the Finance Committee, but moved quickly to get agreement from the Treasury Department and the House and Senate committees to exempt school bus contractors from the new rules.

“This is a great victory for school bus contractors,” said Dale Krapf, president of Krapf Bus Companies. “My accountant tells me we would have lost 60% of our tax depreciation if NSTA had not caught this. That’s a big hit to our bottom line, and I have to think it would have been just as bad for other companies.”

The bill—with NSTA’s correction—was signed by the President on October 22.