New Report Assesses Economic Impact of Short Line Railroads and Effectiveness of the Short Line Tax Credit

Introduction

The American Short Line and Regional Railroad Association (ASLRRA) retained PricewaterhouseCoopers LLP (PwC) to undertake an independent analysis of (1) the economic importance of the short line and regional freight railroads (short line railroads) in the U.S., (2) the historical effectiveness of the Short Line Tax Credit (45G), and (3) the investment incentives provided by the Credit if extended after enactment of the 2017 Tax Cuts and Jobs Act.

The Importance of Short Line and Regional Railroads

PwC analysis found that more than 61,000 jobs were supported by short line railroads in 2016, based on the direct, indirect, and induced employment of railroad workers, suppliers, and contractors. Direct, indirect, and induced labor income was estimated to be $3.8 billion annually, and total value added to the economy was $6.5 billion annually.

Also, over 478,000 jobs throughout the economy based at short lines customer facilities were found to be dependent on short line services in 2016. Customer labor income was $26 billion and total value added to the economy was $56 billion annually. PwC found the manufacturing, agriculture, and mining industries to be particularly reliant on short line services.

Effectiveness and Importance of the Short Line Tax Credit

The report includes findings related to the effectiveness of the Short Line Tax Credit:

1) According to the Railway Tie Association, the Credit is responsible for the purchase of approximately 1 million more wooden crossties each year; and data show a significant increase in the rate of crosstie installation since the first year of the Credit as compared to the larger Class 1 railroads, and
2) Federal Railway Administration data show a 50 percent reduction in train derailments on short line railroads since the Credit first went into effect, with short line railroad safety performance now approaching that of the larger railroads.

The Need to Continue the Short Line Tax Credit

Using a cost of capital analysis, the report demonstrates that the Short Line Tax Credit is significantly more effective at driving increased short line infrastructure investment than the Tax Cuts and Jobs Act alone. For a marginal investment under the $7,000 in spending per track mile taxable benefit cap, the tax credit drives a 63 percent reduction in the cost of capital. Economics researchers have estimated that a decline of this magnitude is associated with a 47.3 percent increase in investment. By comparison, the impact of the Act through its reduction in the corporate tax rate and expensing for equipment on a short line railroad company is a reduction in the cost of capital of 1.2 percent, which is associated with only a 0.9 percent increase in investment.

The Credit lapsed on December 31, 2017. A diverse assortment of groups has called for making it permanent, including the AASHTO Rail Committee, the STB Rail-Shipper Transportation Advisory Council, and Saving Our Service – a group of over 600 rail customers. In addition, stand-alone bills in Congress to make this Credit permanent have the formal co-sponsorship support of over half of the members of both the House and Senate.

Now is the time for Congress to act to make the Short Line Tax Credit permanent.

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