

## NMFWRI WHITE PAPER

### Restoration Equipment Depreciation: A logging Contractor's "Invisible" Cost

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**Machine rates** are estimates of the owning (fixed) and operating (variable) costs of equipment over their useful lives, usually expressed in terms of dollars per hour.

- **Fixed costs** are those that normally occur whether the equipment is used or not, including the costs associated with license, taxes, interest, insurance and depreciation.
- **Variable costs** are typically incurred only when the equipment is being used and include costs associated with fuel and lube, replacement of tires/tracks, and maintenance and repair.

Since they are often paid out of pocket on a daily, weekly or monthly basis, most logging business owners have a pretty good handle on their operating costs. However, not all logging business owners really understand or account for the fixed costs associated with their equipment.

The most poorly understood – and, therefore, perhaps most insidious – of a logger's fixed equipment costs is **depreciation**. Generally described as a **non-cash expense that reflects the loss of equipment value over its useful life**, accounting for depreciation is critical to logging business owners who rely on equipment to fell, delimb, yard, and transport raw material. It provides logging business owners with the opportunity to take advantage of the costs associated with depreciation when reporting profits/losses to the IRS – often using **accelerated methods**

(methods that skew depreciation costs to the early years of equipment during its useful life, rather than spreading these costs evenly over the ownership period, as with **straight line depreciation methods**) to calculate depreciation. In addition, it reinforces the idea that depreciation on equipment represents a real cost of doing business and is related to such factors as equipment **replacement costs**.

Calculating depreciation generally requires estimates of the Initial value (purchase price) and the equipment's salvage, or residual, value, in addition to the time period over which the equipment will be depreciated – usually considered the equipment's "**useful life.**"

In addition, a working knowledge of equipment depreciation provides business owners with a sense of replacement costs – the dollar amount one might expect for used equipment if it were sold in the marketplace or the cost of replacing the equipment with its current equivalent – associated with aging equipment, since the **actual cash value**, or market value, of used equipment is replacement cost minus any depreciation.

***Remembering that equipment loses value – and eventually serviceability – over time and ultimately may have to be replaced, reinforces the necessity to set aside the costs associated with equipment replacement in addition to the day-to-day operating costs associated with equipment use.***