EDITORIAL

BEING FAIR IS A MATTER OF PERSPECTIVE

Photo by Jennifer Short

I recently attended a briefing, arranged by the White House, regarding the Treasury's tax simplification plan. A Treasury Undersecretary explained that their goal was to come up with a tax code that was "fair" to everyone. "For too long," he said, "the tax code has been unfairly favorable to capital intensive 'smokestack' industries" by giving tax credits and fast depreciation." This is most advantageous to companies which require large investments in themselves. To be "fair", they recommended that the Investments Tax Credit (ITC) be eliminated and the depreciation on capital equipment be stretched to seventeen years.

While this obviously satisfies the Treasury's need for "fairness", it is clear that they have not given consideration to the economic consequences of their plan. For example, they improperly try to equate the investment tax considerations for a fifty man law office with that of a fifty man CNC machine shop. In the real economic world, only one or two CNC machines might equal the entire investment of the law office. More importantly, the law firm only competes against other law firms, which are operating under the same investment rules. However, the machine shop owner must also compete with foreign shops whose governments encourage investments to modernize their industries.

There has been a direct parallel between the rate of investment in capital equipment and the availability of Investment Tax Credit. With machine tools having a life of twenty or more years, and investment decisions being projected over long periods of time, we are only now starting to see the positive results of the 1981 Accelerated Cost Recovery System (ACRS), which provided for accelerated depreciation of capital equipment. The 13th annual AMERICAN MACHINIST INVENTORY showed a marked increase in the percentage of less than 10 year old machine tools for the first time, except for World War II, in the 60 year history of the inventory. Productivity, also increasing, was up 4.7 percent in 1984, the biggest one-year gain since 1973.

It is economically imperative that we maintain the ability to manufacture high quality goods at low cost for our own consumption. It is better for this country that a General Motors has the tax incentives to invest five billion dollars in this country, for their Saturn Project, in order to ensure that every year, 500,000 more cars will be built in the U.S. rather than being imported. Doesn't it seem "fair" that General Motors will employ approximately 20,000 workers in their new plant rather than have their cars built in far-off lands?

The harm that will be caused by the elimination of ITC and ACRS goes far beyond our heavy industries. Our high technology industries, which have often been hailed as the best hope for shoring up the U.S. manufacturing base, are starting to be eroded by these same investment problems. 1985 will probably be the first year that the Japanese semiconductor industry invests more money in itself than the U.S. industry, although U.S. chipmakers still maintain a declining 56% to 38% share of world production. For our economic welfare, we must provide the economic incentives for our nation to reinvest in itself; otherwise, we will very shortly find that we have spent and consumed our heritage.

To compensate for the elimination of these investment tax incentives, the Treasury Department stated that taxes for all corporations will be reduced. It will, in reality, RAISE taxes for about ninety percent of the active corporations in the United States. According to the National Small Business Association, 90.1% of U.S. corporations have taxable income of less than \$100,000. Those corporations will have their taxes INCREASED BY UP TO 120%. The 9.9% of the corporations having income of more than \$100,000 will have their taxes DECREASED BY 28%.

For the near term, the administration is occupied with the deficit, but after that issue is settled, they will turn their attention to tax simplification. If the ITC and ACRS tax incentives are removed, our entire industry, our nation, will be severely and adversely affected. No matter what your job, whether employer or employee, manager or managed, your future is at stake. Now is the time to write your Congressmen and the President and tell them how important ITC and ACRS are to the viability and future of your business and our country.

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