Investment Tax Credits - A Good Idea Whose Time Has Come

PUBLISHER'S PAGE

If timing is crucial in the successful implementation of good ideas, then now is the time to reinstate a good idea that fell into disfavor in the mid-1980s. Now is the time to include the investment tax credit as part of whatever inevitable tax structure tinkering is going to take place during this election year.

An investment tax credit, which gives companies an incentive to invest in capital equipment, has merit on a number of counts. One of the things our economy needs is a spur to large-scale investment that will give a payback beyond the short term. Investment in upgrading the tools of production is just such a spur.

A number of variations on the theme of the investment tax credit are being discussed around Washington these days. One is the president's proposal to grant a 15% tax credit to companies for the purchase of capital equipment. Basically, under that program, if you bought capital equipment worth $100,000 in a given year, you could take $15,000 off your total tax bill for that year.

Another proposal is to limit the credit to "productive equipment" like machine tools and computers. This would limit the total bill for the credit and would certainly benefit the gear industry.

As in the past, some have also suggested the possibility of including used machinery in the credit. This would have several advantages including creating a stronger market for trade-ins and encouraging companies to improve their technology. Such a credit would not appreciably hurt the sellers of new goods, since, most of the time, the buyer of used equipment is simply priced out of the market for new goods anyway.

A third proposal on the table is to make the investment tax credit something like the one recently passed for research and development. Under this plan, the credit is incremental. It is paid out only on spending over and above an average spent on R&D between 1984-1988. Again, the incentive to upgrade and improve capital equipment is clear.

Each of the plans outlined has advantages and disadvantages. No doubt, before any changes in the tax laws come about, other new ideas will end up on the table as well. A number of our European friends either already have or are in the process of instituting just such plans. Italy is proposing to invest 1,500 billion lire over the next three years in its economy through such measures. The Italian government will give back to purchasers of capital equipment 10% of the equipment's cost in cash and allow them to write off 100% of the price on their taxes in the first year. In the UK, manufacturers are now campaigning for a 100% first year write-off for their investments in capital goods.

PUBLISHER'S PAGE

In my view, any ideas on investment tax credits deserve our full attention and that of our legislators. In an election year, when the temptation is to go for the quick and easy fix in exchange for votes, we have to make our feelings clear.

The need to make our economy more viable is of paramount importance. We as a country must invest in ourselves and in our industrial productive capacity, and changes in the tax code that will encourage spending on capital improvements will help us do that.

Congress must understand the importance of manufacturing to our nation's economic health. It's more than "important"; it's necessary that the tools we use in this country - whether they are machine tools, airplanes, tractors, or computers - are the best and most modern we can afford. It is the only way to maintain our competitiveness and the overall economic health of the nation.

If our leadership in Washington is serious about "jump starting" the economy, it should spend the money and take the action where it will do some good: on our industrial infrastructure. Give businesspeople the chance to upgrade their plants, buy the newer machinery they need to stay competitive and keep their employees on the payroll, and generate the kind of serious money that really will get the economy moving again. Those are the kinds of investments that will not only address the short term problem of the recession, but also are part of the response to the long term challenge to our economic health that America faces.

Michael Goldstein -

Michael Goldstein
Publisher/Editor-in-Chief