

Video address delivered before the Tax and Fiscal Affairs Committee of the Associated General Contractors of America: Building an equitable tax code

Senator Spark M. Matsunaga Papers

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"BUILDING AN EQUITABLE TAX CODE"

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UNITED STATES SENATOR

DELIVERED BEFORE THE TAX & FISCAL AFFAIRS COMMITTEE
OF THE ASSOCIATED GENERAL CONTRACTORS OF AMERICA
AT ITS 67TH ANNUAL CONVENTION/CONSTRUCTOR EXPOSITION

SHERATON WAIKIKI HOTEL

WAIKIKI BEACH, HONOLULU, HAWAII

THURSDAY, MARCH 20, 1986 - 10:00 A.M.

SPEECH FILE
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3/18/86

Mr. CHAIRMAN, MEMBERS OF THE TAX & FISCAL AFFAIRS
COMMITTEE OF THE ASSOCIATED GENERAL CONTRACTORS OF AMERICA,
FRIENDS ALL: ALOHA! AND I THANK YOU, BILLY (CARTER), FOR WHAT
I AM ASSUMING WAS A MOST GENEROUS INTRODUCTION BEFORE YOU
SWITCHED ON THE VIDEO PROJECTOR. IT IS OF GREAT COMFORT TO ME
TO BE PROPERLY INTRODUCED, EVEN ON TAPE, FOR IN OUR NATION'S
CAPITAL I HAVE BEEN IDENTIFIED MUCH TOO OFTEN AS A FOREIGN
DIPLOMAT.

IN BEHALF OF THE PEOPLE OF HAWAII, WHOM I HAVE THE
HONOR OF REPRESENTING IN THE UNITED STATES SENATE, I WELCOME
YOU ALL AND EXTEND WARM GREETINGS TO THOSE WHO HAVE COME FROM

AFAR. YOUR HIGHEST REWARD FOR HOLDING YOUR 67TH ANNUAL CONFERENCE AND EXPOSITION IN ALOHA LAND WILL COME TO SOME OF YOU ON JUDGEMENT DAY, FOR ON THAT DAY, BECAUSE OF YOUR VISIT TO THE 50TH STATE, YOU WILL AT LEAST HAVE THE SATISFACTION OF KNOWING WHAT HEAVEN LOOKS LIKE, IF YOU ARE DIRECTED TO GO THE OTHER WAY.

AS FOR ME, IT IS ALWAYS A REJUVENATING RESPITE TO RETURN TO MY NATIVE LAND TO ADDRESS A DISTINGUISHED GROUP SUCH AS YOURS; BUT I DEEPLY REGRET IT WAS NOT POSSIBLE TO DO SO THIS MORNING -- AND JOIN YOU IN PERSON -- BECAUSE THE SENATE FINANCE COMMITTEE, OF WHICH I AM A MEMBER, IS ENGAGED IN MARKUP SESSIONS ON TAX REFORM LEGISLATION. I HOPE YOUR OWN SESSIONS ARE BOTH INFORMATIVE AND STIMULATING AND THAT AT THEIR CONCLUSION YOU WILL TARRY IN HAWAII AWHILE LONGER, PERHAPS BY VISITING OUR NEIGHBOR ISLANDS, BEFORE RETURNING HOME; ANY DELAY IN GETTING BACK TO WORK WILL BE MORE THAN OFFSET BY THE RENEWED VIGOR WITH WHICH YOU WILL BE ABLE TO TAKE

UP YOUR TASKS AFTER A RELAXING RESPITE IN THE PARADISE OF THE PACIFIC. THAT'S ALL FOR COMMERCIALS.

IT HAS BEEN SAID THAT YOUR INDUSTRY -- WHICH EMBRACES CONSTRUCTION, MANUFACTURING AND THE PROVISION OF BOTH SUPPLIES AND SERVICES -- REPRESENTS THE CUTTING EDGE OF THE NATIONAL ECONOMY, FOR WITHOUT YOUR VARIED CONTRIBUTIONS THERE CAN BE NO GROWTH AND PROSPERITY IN OUR COUNTRY. YOU ARE TO BE CONGRATULATED FOR THE COLLECTIVE ACCOMPLISHMENTS IN DOMESTIC CONSTRUCTION OF YOUR PREDOMINANTLY SMALL BUSINESS MEMBERSHIP, AS WELL AS YOUR IMPORTANT ROLE IN OUR NATION'S INTERNATIONAL TRADE IN SERVICES.

TODAY WE ARE ACUTELY AWARE OF THE NEED TO REFURBISH AND EXPAND PUBLIC INFRASTRUCTURE THROUGHOUT OUR COUNTRY -- NOT ONLY TO REPLACE AGING FACILITIES BUT TO ACCOMMODATE THE RECENT UPSWING IN RESIDENTIAL CONSTRUCTION. IN THIS RESPECT THE DECLINE IN RECENT YEARS IN THE PERCENTAGE OF GROSS NATIONAL PRODUCT REPRESENTED BY CONSTRUCTION SPENDING SHOULD BE A MATTER OF PRESSING CONCERN. AS WE MEMBERS OF CONGRESS WRESTLE

WITH BUDGET AND DEFICIT PROBLEMS -- WEIGHING THE ALLOCATION OF NATIONAL RESOURCES BETWEEN DEFENSE SPENDING AND DOMESTIC PROGRAMS AND THE FISCAL ASPECTS OF INTERGOVERNMENTAL RELATIONS -- IT WOULD BE WELL FOR US TO CONSIDER THIS MATTER, THAT OUR OWN 7.6 PERCENT OUTLAY FOR CONSTRUCTION COMPARES MISERABLY WITH THE 23 PERCENT OUTLAY BY JAPAN AND THE 24 PERCENT OUTLAY BY SINGAPORE, WHERE ECONOMIC ADVANCE IN RECENT YEARS HAS BEEN TRULY IMPRESSIVE. THESE FIGURES DO NOT BODE WELL FOR OUR FUTURE COMPETITIVE POSITION IN WORLD TRADE.

THE SUBJECT YOU HAVE ASKED ME TO DISCUSS THIS MORNING, TAX REFORM, CERTAINLY HAS A BEARING UPON CAPITAL FORMATION AND THEREBY ON PROSPECTS FOR INCREASING CONSTRUCTION OUTLAYS. BUILDING AN EQUITABLE TAX CODE IS A TASK REQUIRING A CONSIDERABLE SENSE OF BALANCE AND A FIRM FOUNDATION OF KNOWLEDGE REGARDING BUSINESS PRACTICES ACROSS THE COMMERCIAL SPECTRUM. FOR THOSE OF US ON THE TAX WRITING COMMITTEES OF CONGRESS MUCH OF THIS KNOWLEDGE CAN ONLY BE GAINED BY HEARINGS AND INTERACTION WITH CONSTITUENTS IN THE BUSINESS COMMUNITY.

IN THIS CONNECTION, THE WORK OF THE ASSOCIATED GENERAL CONTRACTORS OF AMERICA IN BRINGING YOUR CONCERNS TO OUR ATTENTION IS MOST APPRECIATED.

AS YOU KNOW, OUR FEDERAL CONSTITUTION PROVIDES THAT ALL TAX MEASURES MUST ORIGINATE IN THE HOUSE OF REPRESENTATIVES. ACCORDINGLY, UPON THE URGING OF PRESIDENT REAGAN, THE HOUSE, BY AN UNPRECEDENTED VOICE VOTE, PASSED AND SENT TO THE SENATE H.R. 3838, THE TAX REFORM ACT, WHICH IRONICALLY THE PRESIDENT IN FACT OPPOSES. HE IS, OF COURSE, COUNTING ON THE REPUBLICAN CONTROLLED SENATE TO AMEND THE HOUSE BILL TO BRING IT MORE IN LINE WITH HIS OWN PACKAGE, BETTER KNOWN AS TREASURY II.

THE HOUSE-PASSED TAX BILL KEEPS THE FEDERAL TAX CODE PROGRESSIVE IN CHARACTER AND HAS THE EFFECT OF REMOVING SOME SIX MILLION LOWER INCOME, NEAR POVERTY-LEVEL FAMILIES FROM THE TAX ROLLS. ITS LOWER RATES SHOULD HAVE THE EFFECT OF REDUCING THE ATTRACTION OF TAX SHELTERS AND OTHER NON-ECONOMIC, TAX-MOTIVATED INVESTMENTS. THE HOUSE BILL ALSO TAKES A MAJOR STEP

TOWARDS ADDRESSING THE WIDE AND INEQUITABLE DISPARITY IN EFFECTIVE TAX RATES BETWEEN INDUSTRIES.

YOUR PRIME CONCERN ABOUT THE HOUSE BILL, I AM TOLD, IS THAT IT PROPOSES REPEAL OF THE COMPLETED CONTRACT METHOD OF ACCOUNTING. AS YOU ARE WELL AWARE, TAXPAYERS USING THIS METHOD DO NOT REPORT REVENUES ON AN ANNUAL BASIS BUT RATHER WAIT UNTIL AFTER A CONTRACT HAS BEEN COMPLETED. THE HOUSE BILL WOULD REPEAL THE USE OF THE METHOD, EXCEPT IN THE CASE OF CONSTRUCTION COMPANIES WITH LESS THAN \$10 MILLION IN ANNUAL GROSS RECEIPTS ON CONTRACTS LASTING LESS THAN TWO YEARS. THE HOUSE WAYS AND MEANS COMMITTEE TOOK THE POSITION THAT LONG TERM CONTRACTS SHOULD BE REPORTED ON A PERCENTAGE OF COMPLETION METHOD, CLAIMING THAT THE DIFFICULTIES OF INCOME ESTIMATION DO NOT JUSTIFY THIS LONG-TIME METHOD OF ACCOUNTING FOR ALL BUT THE SMALLEST CONTRACTORS.

IN JANUARY OF THIS YEAR, THE GENERAL ACCOUNTING OFFICE (GAO) SUBMITTED AN ANALYSIS TO THE CONGRESS ON THIS QUESTION IN RESPONSE TO A REQUEST MADE IN SEPTEMBER BY SENATOR

LAWTON CHILES OF FLORIDA. THE GAO RECOMMENDED THAT CONGRESS SHOULD FURTHER RESTRICT USE OF THE COMPLETED CONTRACT METHOD ON THE THEORY THAT CONTRACTORS SHOULD BE ABLE TO MAKE DEPENDABLE ANNUAL ESTIMATES OF PROJECT COSTS. THE GAO DID POINT OUT IN ITS REPORT THAT THE AMOUNT OF ANNUAL TAX DEFERRAL FOR CONSTRUCTION CONTRACTORS WAS ONLY A FRACTION OF THE MANUFACTURERS' DEFERRAL UNDER THIS METHOD. ACCORDING TO THE GAO REPORT, BETWEEN 1980 AND 1984 TWENTY FEDERAL CONTRACTORS ACCOUNTED FOR \$4.36 BILLION IN TAX DEFERRALS, WHICH CONSTITUTED 84% OF ALL DEFERRALS, BY THE USE OF THIS METHOD. ALSO, THE GAO REPORT CONCEDED THAT IN THE COURSE OF ITS ANALYSIS IT HAD BEEN UNABLE TO EVALUATE THE EXTENT TO WHICH CHANGES ENACTED IN THE TAX EQUITY AND FISCAL RESPONSIBILITY ACT (TEFRA) IN 1982 HAD BEEN SUCCESSFUL IN RESTRICTING THE UNINTENDED BENEFITS OF THE COMPLETED CONTRACT METHOD OF ACCOUNTING. INDEED, THIS REPORT OBSERVED THAT IT WAS ONLY ON DECEMBER 30 OF LAST YEAR THAT THE INTERNAL REVENUE SERVICE ISSUED FINAL REGULATIONS TO IMPLEMENT THE TEFRA CHANGES.

LAST THURSDAY, MARCH 13, THE CHAIRMAN OF THE SENATE FINANCE COMMITTEE, SENATOR BOB PACKWOOD OF OREGON, UNVEILED HIS OWN REFORM PACKAGE, AFTER MORE THAN 30 DAYS OF PUBLIC HEARINGS, HIS ONE TO ONE MEETINGS WITH COMMITTEE MEMBERS, AND MEETINGS BETWEEN MEMBERS' AND COMMITTEE STAFFS. THE PACKWOOD PROPOSAL, AS IT RELATES TO THE COMPLETED CONTRACT ISSUE, APPEARS TO BE AN IMPROVEMENT OVER THE HOUSE BILL. UNDER HIS PROPOSAL, THE USE OF THE COMPLETED CONTRACT METHOD WOULD CONTINUE TO BE ALLOWED FOR CONTRACTS OF LESS THAN TWO YEARS IN DURATION WITH GROSS RECEIPTS UNDER \$10 MILLION. IN ADDITION, CONTRACTS OF MORE THAN TWO YEARS DURATION OR MORE THAN \$10 MILLION IN ANNUAL GROSS RECEIPTS WOULD CONTINUE TO BE ELIGIBLE FOR THIS ACCOUNTING METHOD -- SUBJECT TO NEW COST ALLOCATION RULES AND A REQUIREMENT TO DEDUCT ALL COSTS, INCLUDING INTEREST, UPON THE COMPLETION OF THE CONTRACT. IN THIS RESPECT, PERHAPS IT CAN BE SAID OF THE PACKWOOD PACKAGE THAT IT REFLECTS AN APPRECIATION OF SOME OF THE MORE SUBTLE POINTS MADE IN THE GAO ANALYSIS, AS WELL AS A RECOGNITION THAT THE

ABUSES ASSOCIATED WITH THIS METHOD CAN BE RESOLVED WITHOUT RESORT TO OUTRIGHT REPEAL.

A SECOND ISSUE OF CONCERN TO YOUR ORGANIZATION IS THE INFLUENCE OF THE TAX CODE UPON THE DETERIORATION OF OUR NATION'S INFRASTRUCTURE. AS ONE MEMBER OF THE FINANCE COMMITTEE, I AM CONVINCED THAT IN VIEW OF THE SEVERE BUDGET CONSTRAINTS AT THE FEDERAL LEVEL, IT IS ESSENTIAL TO PERMIT STATE AND LOCAL GOVERNMENTS CONTINUED USE OF SUCH TOOLS FOR FINANCING PUBLIC WORKS AS TARGETED TAX INCENTIVES. THE IMPORTANCE OF SUCH FACILITIES AS SEA PORTS, AIRPORTS AND ROADS MUST NEVER GO UNRECOGNIZED IN OUR FEDERAL TAX CODE.

FINALLY, THERE IS THE ISSUE WHICH PERVADES THE ENTIRE ISSUE OF TAX REFORM -- NOT ONLY FOR THE CONSTRUCTION INDUSTRY BUT FOR BUSINESS GENERALLY; THE ISSUE OF EFFECTIVE DATES FOR ANY TAX CHANGES. AS A MEMBER OF THE SENATE'S TAX-WRITING COMMITTEE, I HAVE BECOME MOST SYMPATHETIC DURING THE LAST TEN YEARS TO THE COMPLAINTS OF THE BUSINESS COMMUNITY THAT

FREQUENT CHANGES IN OUR TAX LAWS MAKE PLANNING AND DECISION-
MAKING EXTREMELY DIFFICULT, IF NOT IMPOSSIBLE. BECAUSE OF
THIS CONSIDERATION, I JOINED TEN OF MY COLLEAGUES ON THE
FINANCE COMMITTEE IN URGING CHAIRMAN PACKWOOD TO RESOLVE THE
EFFECTIVE DATE ISSUE **BEFORE** THE BEGINNING OF MARKUP ON ANY TAX
REFORM BILL. LAST FRIDAY FINANCE CHAIRMAN PACKWOOD AND WAYS
AND MEANS CHAIRMAN ROSTENKOWSKI AGREED TO POSTPONE THE
EFFECTIVE DATE FOR CERTAIN STATE AND LOCAL BOND CHANGES UNTIL
SEPTEMBER 1, 1986, BUT THEY LEFT UNRESOLVED THE QUESTION OF
THE EFFECTIVE DATES FOR MANY OTHER PROPOSED CHANGES. CLEARLY
MANY OF THESE DECISIONS WILL HAVE TO BE RESOLVED DURING THE
JOINT HOUSE-SENATE CONFERENCE ON THIS BILL. YOU HAVE MY
PLEDGE THAT I WILL WORK TO MAKE ANY AND ALL CHANGES
PROSPECTIVE IN NATURE AND NOT RETROACTIVE IN THEIR
APPLICATION. AS CONTRACTORS, YOU KNOW BETTER THAN OTHERS THAT
ANY REMODELING WORK BECOMES NEXT TO IMPOSSIBLE WHEN CHANGE
ORDERS FORCE YOU TO START ALL OVER AGAIN.

MARKUP OF THE SENATE BILL SHOULD BE UNDERWAY EVEN AS THIS VIDEO PRESENTATION OF MINE, FILMED LATE TUESDAY AFTERNOON, IS BEING VIEWED BY YOU ON THURSDAY MORNING. I FULLY EXPECT THE BILL TO BE OUT OF COMMITTEE BY THE END OF NEXT MONTH AND UP FOR FLOOR DEBATE IN JUNE. HOUSE AND SENATE CONFERENCE COMMITTEES SHOULD BE ABLE TO HAMMER OUT DIFFERENCES BETWEEN THEM BY THE END OF SUMMER AND WE SHOULD HAVE LEGISLATION BEFORE THE PRESIDENT FOR HIS SIGNATURE BY THE END OF AUGUST, UNLESS THE PRESIDENT WILL INSIST ON INCLUSION OR EXCLUSION OF CERTAIN OF HIS PET PROVISIONS.

TO CONCLUDE MY STATEMENT, I THANK YOU FOR ALLOWING ME TO ADDRESS YOU BY VIDEO TAPE. YOU HAVE ONLY TO GLANCE OUTWARD TOWARD THE BEACH TO APPRECIATE HOW MUCH I WOULD HAVE PREFERRED TO BE WITH YOU IN PERSON. BUT HERE ON CAPITOL HILL WE HAVE REACHED A POINT WHERE THE CRAFTSMEN FOR REVENUE RAISING MUST STICK TO THEIR LATHES. YOU HAVE MY VERY BEST WISHES FOR A STIMULATING CONVENTION AND EXPOSITION, AND A RELAXING SOJOURN IN MY NATIVE STATE. ALOHA NUI LOA.

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