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Office of the President

December 13, 1984

The Honorable James A. Baker III
Chief of Staff and
Assistant to the President
The White House
Washington, D. C. 20500

Dear Mr. Baker:

The tax reform proposals of the Treasury Department incorporate some changes that really improve our tax system. We believe, however, that the proposed severe diminution of the investment incentives will retard growth and job creation. Progress in improving both productivity and the competitiveness of U.S. products in world markets that began with the tax changes of 1981 will also be impeded. We urge reconsideration of those aspects of the tax reform.

The evidence is very strong that the introduction of the Accelerated Cost Recovery System (ACRS) in 1981 in conjunction with the investment tax credit propelled spending for plant and equipment to new high levels. These combined incentives have contributed significantly to economic growth since 1982, have helped increase productivity and improved the international competitive position of U.S. firms.

These were the stated goals of the President; they were achieved with the help of ACRS and the investment tax credit. Why run the risk of decelerating investment through the proposed tax changes at a time when even more growth is needed?

FACT: The rise in plant and equipment spending in this recovery period has been faster than in any other similar period of rise after a recession. Tax incentives were an important factor in that perfomance.

FACT: Other countries that compete with us in foreign markets use more liberal depreciation allowances to encourage investment. In our industry Canada is a significant competitor. It permits a write-off of 50% of equipment purchases in the first year and the remaining 50% in the next two years. Its investment tax credit averages 15.7%. While we recognize that this is only one part of the overall tax burden for business and individuals, the fact that other countries make strong efforts to direct their tax policies toward encouraging investments in new plant and equipment should send a signal to us. Why should we go in the other direction?

Indexing: We believe the use of indexing to adjust depreciable balances is not a real offset to the removal of ITC and ACRS. It would take an inflation rate in excess of 10% a year to provide comparable benefits. In addition, we view the extensive use of indexing on the revenue side as a conflict with the proposed lessening of indexing on the spending side. We would hope that Administration policies which have successfully brought the inflation rate down to 4% so far will render these high inflation expectations a moot concern.

FACT: Fears that the federal deficit would "crowd out" private investment and lift interest rates to new high levels did not materialize, partly because of the tax treatment of invested capital. The savings generated by the investment tax credit and accelerated capital cost recovery prevented this "crowding out". The cash flow benefits of these investment tax credits are a unique form of savings in that they are earmarked for investment. They are born out of investment and return to investment with a high degree of velocity. If we were to tamper with this source of savings in the United States while experiencing continued budget deficits, "crowding out" would become a reality and future growth would be seriously threatened: Higher interest rates would result.

Finally, we must make a strong appeal for stability. We have had too many stop-and-go policies that affect capital investment incentives. This volatility in tax policies completely ignores the long-term nature of the capital planning process. For the paper industry, an average project will take anywhere from three to six years, depending on whether it is an expansion of an existing facility or a new green field mill.

We are alarmed by the threat to future growth at this stage of the recovery - which already shows signs of faltering because consumers have chosen a conservative consumption pattern. This can lead to a moderation in future investment programs. The additional uncertainty created by the proposed changes in investment incentives can weaken the recovery further. This will adversely affect the budget, since growth, and accelerated revenues from growth, are counted on to help close the federal deficit.

Sincerely yours,

Louis F. Laun

Louis F. Laun
President

HUNT

**Hunt Real Estate Corporation**
237 Main Street Suite 500
Buffalo, New York 14203
716-854-5943

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re: Treasury Department Tax Reform Proposals

Dear Mr. Baker:

I urge you to immediately take a strong position against the tax reform proposals recently issued by the U.S. Department of Treasury. The uncertainty of future legislation is causing havoc in the investment community. This uncertainty is likely to result in an acceleration of the recessionary pressures already building in the present economic climate.

I believe that if enacted, certain provisions contained in the Treasury proposal would create a disincentive for capital formation, thus greatly damaging the economy of the United States. This in turn will cripple the construction and development industries resulting in the loss of millions of jobs, and ultimately creating a severe housing shortage and higher rents for millions of tenants across the United States. The proposal is economically damaging and ineffectual and conflicts with the underlying philosophy of the Reagan administration and re-election. I, therefore, urge you, in the strongest terms, to publicly oppose the recent Treasury proposal.

Very truly yours,

Morvin S. Blackmer
111 Penhurst Pk.
Buffalo, N.Y. 1422

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Joseph A Cesimone

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Very truly yours,
Patricia J. Forlanger

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Jack Delmar

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Eleanor F Heckman

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Lynn E. Henry

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Sally M. Julian
Pres.

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Helen Ruzkowski

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John E. Smith

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Harold S. Tilley

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J. Hojecon, Jr.
Exec. V Pres.

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Howard Lurie [?]