

With suspension to a time certain, there is bound to be a massive deferment of commitments (if the cut-in is on a commitment basis) or of delivery instructions (if it is on an installation basis) as the restoration date approaches. Unless the cut-in comes at just the right moment (right with this deferment taken into account), the resultant "air pocket" in equipment activity will be both untimely and injurious. It will be the more so, of course, the later the cut-in relative to the correct timing.

The chance that a predetermined suspension period will end at or near the right time is very slim. So also is the chance that the preceding "air pocket" in equipment activity will be rightly timed. There is grave risk that the inevitable wait for restoration will serve to aggravate capital goods recessions.

OTHER DIFFICULTIES IN "FINE TUNING" TAX PLANNING FOR CONTRACYCLICAL PURPOSES

In respect to fine tuning, frequently economists in government who theorize about the effect of tax actions and even legislators who act on such recommendations are not fully aware of the practical effects which flow from such legislation and beyond that of the sometimes tortuous, cumbersome, and burdensome problems implicit in administration and compliance. This is particularly true in the tax field because of its inherent complexity and the validity of this conclusion is further underlined by the delays, inconsistencies, and difficulties in the administrative process.

Let us comment briefly on some examples, all pertaining to the investment tax credit. Business witnesses warned the Congress that suspension of the investment tax credit would involve terribly complex and administrative burdens, one of these being administration of the provision in the suspension legislation referring to "binding contracts." The Congress recognized this difficulty and attempted to lay down some guidelines in the congressional reports. Despite this noble effort, the problems of interpretation and application that will arise in this area are almost unlimited.

And to date no regulations have issued from the Treasury Department on the credit suspension. This is not intended to be a captious comment with respect to the Treasury regulations staff. These are difficult regulations to write and the Treasury has been carrying an extraordinarily heavy workload. But the fact is that the regulations are not out yet and this is merely one indicator of the administrative difficulties involved in the process.

An even more glaring example is the fact that regulations have not yet been published under the recapture section of the investment credit provisions of the original investment credit statute passed in 1962. Once again a terribly complex problem, but the fact is that the regulations are not yet available.

The purpose of these comments is to underline the proposition that it is very difficult, if not impossible, to accurately forecast and promptly achieve fine tuning effects when government is attempting to manipulate in the complex tax field a device like the investment tax credit which simply does not lend itself to the process of manipulation.

A further example. By the time the Congress enacted the suspension provision, the capital goods boom had already crested. There is pretty good evidence that the action intended by its proponents to have impact in 1966 is having a delayed effect at the wrong time with the wrong result as far as the general economic picture is concerned.