

ment of orders and their delivery. The interval between orders and the completion of installation (the point at which the credit can be claimed) is of course longer still.

No one knows within a wide margin the current overall average of this order-to-completion period for credit-eligible equipment, but Treasury estimates place it in the range of 9-12 months.⁷ Even if we take the lower limit of this range, we are dealing, obviously, with a very long lead time, the existence of which has important implications for the problem in hand.

FAIRNESS

As just noted, the investment credit is claimable on the completion of installation and the placement of the equipment in service. This means that if the suspension is on the same basis industry will lose the benefit of the credit on outstanding commitments representing say three-quarters of a year's investment in eligible equipment—commitments entered into in good faith in expectation of that benefit.

The unfairness of denying the credit to such commitments was recognized in the Gore amendment, to which we referred earlier, by a provision protecting the eligibility of equipment for which firm contracts had been entered into prior to the effective date. It has been recognized also in subsequent suspension proposals, including the Long amendment and the Administration bill.

To afford complete protection of outstanding commitments, it is necessary, of course, to allow time for them to work through the production pipeline. The Gore amendment allowed one year, a period sufficient for most, but not all, of them to clear. The Long amendment, on the other hand, allowed only *four months*. This is grossly inadequate and would leave a substantial proportion of the carry-over unprotected. The Administration proposal is better in this respect: it imposes no time limit at all.

While the complete protection of outstanding commitments eliminates a considerable part of the inequity at the suspension stage, it does not remove all of it. Industry often makes a heavy investment in the planning and engineering of equipment programs before firm contracts are entered into. To the extent that this investment is conditioned on the availability of the credit, the suspension destroys its value and usefulness. Moreover, there is a large element of chance in the impact of the suspension. The commitment flow of individual companies is extremely "lumpy." The cut-out date is certain to catch some of them with large placements just inside the line and others with similar placements just outside. (For example, the Administration proposal for a cut-out on September 1 finds a large airline with an order dated September 2 for \$410 million worth of equipment.)⁸

Although a partial equity can be secured by putting the credit suspension on a commitment basis, given a sufficient workout period, unfortunately this creates difficult administrative problems.

ADMINISTRATIVE DIFFICULTIES

The completion of the installation of a piece of equipment is ordinarily a clearly identifiable event, but the timing of a "firm contract" for its procurement may not be. For this reason the switch from an installation to a commitment basis presents administrative problems.

This was pointed out by Senator Long in the debate on the Gore amendment: "This rule will open up difficult areas of dispute between the Internal Revenue Service and business firms over what constitutes a binding commitment. I doubt if any mechanical rule can be followed here. Each case will have to be examined on its own merits."⁹

When is a "firm contract" entered into? Is it on the date a purchase order is sent, or when confirmed by the equipment producer? Must the order be noncancellable? If not, what kind of cancellation penalties are required to make it "firm"? Must the delivery date be fixed, or can it be indefinite? What about supplements and amendments? Do they take the date of the original

⁷ Quoted by Senator Proxmire from a Treasury communication to him. *Congressional Record*, August 23, 1966, p. 19421. It is estimated further that 40 percent of eligible equipment has an *order-to-delivery* period of less than 6 months, 40 percent between 6 months and a year, and 20 percent over a year (the average for the last group being about 2 years).

⁸ *Wall Street Journal*, September 9, 1966, p. 2.

⁹ *Cong. Rec.*, March 7, 1966, p. 4972.