NICK J. RAHALL, II
4TH DISTRICT, WEST VIRGINIA

COMMITTEES:
PUBLIC WORKS AND TRANSPORTATION
SUBCOMMITTEES:
AVIATION
WATER RESOURCES
SURFACE TRANSPORTATION

INTERIOR AND INSULAR AFFAIRS
SUBCOMMITTEES:
MINES AND MINING
ENERGY AND ENVIRONMENT

STANDARDS OF OFFICIAL CONDUCT

Congress of the United States
House of Representatives
Washington, D.C. 20515

440 CANNON BUILDING
WASHINGTON, D.C. 20515
(202) 225-3452

DISTRICT OFFICES:
815 FIFTH AVENUE
HUNTINGTON, WEST VIRGINIA 25701
(304) 522-NICK

BAIR BUILDING
BECKLEY, WEST VIRGINIA 25801
(304) 252-5000

1005 FEDERAL BUILDING
BLUEFIELD, WEST VIRGINIA 24701
(304) 325-6222

R K BUILDING
LOGAN, WEST VIRGINIA 25601
(304) 752-4934

July 28, 1983

Honorable Joe Gaydos
2366 Rayburn H.O.B.
Washington, D.C. 20515

***letter sent to Congressional Coal Group Members

Dear Joe:

Today I am writing to bring to your attention a bill I believe will help to make our mining industry more efficient and better able to compete on a world wide basis. The legislation I am speaking of is H.R. 3434, the Work Opportunities and Renewed Competition Act of 1983.

For many of our basic industries (e.g. mining, airline, auto, railroad, and paper) the investment tax credit (ITC) is not functioning as the incentive for capital investment it was intended to. H.R. 3434 attemps to unleash some of the unused ITC many of our basic industries have accrued over the past several years because they have not been profitable.

This bill will allow a firm to compute the value of its unused ITC through December 31, 1982. That figure would be called the reinvestment credit. After a firm makes an investment in new plant and/or equipment between October 1, 1983 and December 31, 1984 it can apply to the Department of the Treasury for a loan up to 85% of the reinvestment credit. Beginning in 1986 a firm, which acquired a loan against the value of its reinvestment credit, must begin repaying the loan. The firm must pay back the loan, plus 15%. For example, say in 1984 a company invests $200 in new equipment and it had a $100 ITC accrual at the end of 1982. After making the $200 investment it could go to the Department of Treasury and apply for a loan against its ITC accrual. The Department would make a loan of $85 to the company. Beginning in 1986 the same company would have to begin repaying the loan, plus 15% or, in this case $100. The minimum repayment would be 20% per year.

over

I believe that it is in our national interest to maintain our basic industries. Knowing of your interest in this vital segment of our economy, I hope you will be able to give this legislation careful consideration and that it will merit your support. Attached is a copy of the "Dear Colleague" sent out by the sponsors.

With warm regard, I am

Sincerely,

Nick

NICK J. RAHALL, II
Member of Congress

NJR/ebj

Enclosure

Congress of the United States
House of Representatives
Washington, D.C. 20515

Dear Colleague:

In the past few years, the hue and cry that our industrial sector is losing the battle to compete in world markets has become increasingly shrill. While our trading partners have continued to build modern plants with advanced equipment, our basic industries have lost their competitive edge. We can continue to study and worry about the niche the moribund American industrial sector will have in future historical writings, or we can fight back. We believe it is time to fight back.

On June 28, 1983 we introduced legislation, H.R. 3434, the Work Opportunities and Renewed Competition Act of 1983, (WORC), aimed at revitalizing our nation's industrial base, where the need for plant and equipment rebuilding is greatest and unemployment is highest. WORC can swiftly and decisively turn around the decline in our aging industrial sector. It will rectify both a serious economic and military situation, and it is important for a number of reasons.

Our nation is one of goods and services, and we must create an environment where both work together in harmony. Four-and-one-half million Americans rely on jobs in the basic industry; writing off the basic industries such as steel, automobiles, mining, transportation, and chemicals will mean writing off millions of jobs. We must explore entrepreneurial frontiers, but we must also realize that our economic prowess is dependent on a vital industrial sector. WORC will also allow our industries to regain a competitive position vis-a-vis their foreign counterparts. The call for trade restrictions, for example, will make our industry less competitive, not more, and may cut off the fragile recovery we are seeing globally. Our bill will allow industry to meet competitors head-on with better products and technology. Moreover, it is folly to think we can be a defense force second-to-none if we are not an industrial force second-to-none. A strong, healthy industrial foundation capable of quick expansion to support our national security needs is critical to our defense posture.

This legislation simply is a one-time program which will unlock earned, but unused, investment tax credits companies accumulated prior to 1983. WORC would allow companies to obtain 85 percent of the value of their carryover credits if and when they first reinvest in new plant and equipment. The company would not receive the funds from the Treasury until it had itself paid for the new plant and equipment. In order to insure immediate help to the economy, the reinvestment would have to be made by the end of 1984.

To avoid a revenue loss in critical budget years and to continue our effort in conquering federal deficits, the legislation requires that companies pay back to the Treasury not just the 85 percent, but the other 15 percent as well. The payback, beginning in 1986, would be at a rate of 20 percent per year. Thus, the concept is a discounted loan through the tax system.

WORC has already been embraced both by labor and management; the Basic Industries Coalition, as well as the United Mine Workers, have endorsed our bill. We expect many other groups to speak out soon on how the proposal will foster a more productive economy.

If you wish to cosponsor H.R. 3434, or have any questions about the bill which are not addressed in the sheet we have attached, feel free to contact Linda Robertson, at X52211, or Chris Doyle, at X53615.

Sincerely yours,

Barber Conable
BARBER CONABLE
Member of Congress

James Jones
JAMES R. JONES
Member of Congress

ORIGINAL COSPONSORS OF H.R. 3434

Jack Murtha (PA)
Katie Hall (IN)
Sherwood Boehlert (NY)
Don Ritter (PA)
John Dingell (MI)
Henry Nowak (NY)

Attachment

SUMMARY OF THE "WORC" REINVESTMENT CREDIT

BACKGROUND

Many companies in basic manufacturing and transportation industries have made massive investments in new machinery and equipment in recent years. They anticipate significant levels of additional purchases in the mid-1980s as part of a continuing program to modernize and revitalize industrial productivity and efficiency. In recent years, however, many companies have not been able to benefit from the investment tax credits (ITCs) earned with respect to such investments because significant operating losses have produced no current tax liability. Furthermore, the carryovers of such losses will prevent their use of such ITCs in the near future. Thus, the ITC is failing to achieve the maximum financial effect for the industries that most need its benefits.

REINVESTMENT CREDIT

The proposed reinvestment credit will dramatically improve the efficiency of the ITC by allowing the investing company to elect to accelerate use of carryover ITCs in exchange for a discounted payment from Treasury, payable as the company invests in new machinery and equipment. The company must repay the full elected amount, not just the 85 percent, no later than 1990.

The principal steps in the operation of the new reinvestment credit mechanism are generally described as follows:

(1) Reinvestment credit election. Anticipating its inability to use its accumulated ITCs in 1983 through 1985, the company elects to treat all of its 1982 carryover ITCs as the "reinvestment credit." These ITCs then cannot be used as carryovers in such years even if the company's tax liability increases due to unexpectedly high profits.

(2) Reinvestment. As the company reinvests in kinds of machinery and equipment in which it has previously invested--not in new business ventures--the Treasury will pay the company an amount equal to 85 percent of the costs of such reinvestments, but not more than 85 percent of the total reinvestment credit relinquished to Treasury.

(3) Mandatory Repayment. Beginning in 1986 and continuing through 1990, the company must repay the full amount of the reinvestment credit--not just the 85 percent payments--at a rate of 20 percent per year. (It is possible that the company will repay a portion or all of the reinvestment credit prior to the 5-year schedule. This can result from an increase in profits in the mid-1980s that raise tax liability in the absence of the foregone ITCs. This higher tax will reduce the mandatory taxes payable in 1986 through 1990.)

(4) Reinstatement. As the company makes its mandatory repayments in 1986 through 1990, an equal amount of the reinvestment credit will be reinstated as ITCs. However, such reinstated ITCs will have lost the same number of years from the normal 15-year carryover period as though they had been available in every year since 1982.

(5) Penalties. Companies claiming more reinvestment credit than the amount to which they are entitled will be penalized. Companies that elect less than the maximum reinvestment credit will also be penalized.

SUMMARY

ITCs that do not offer a near term benefit to the firms that have earned them through prior investments thwart the intended investment incentive. The reinvestment credit offers the company in such situation the opportunity to exchange its earned but currently unusable ITCs for a currently available but discounted cash payment, provided the company is reinvesting in new assets. Thus, the reinvestment credit enhances the operation of the ITC as an investment incentive by simultaneously "cashing out" the ITCs and encouraging new investments. The reinvestment credit mechanism will be available to companies from date of enactment through 1984 only.