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FILE

August 1, 1975

Dear Mr. Calvin:

Thank you so much for your July 29th letter in which you very thoroughly describe the problems faced by the truck trailer manufacturing industry.

I have forwarded your letter on to the proper staff and am hopeful that I will have a substantive reply before too long.

Sincerely,

**Charles Leppert, Jr.
Special Assistant
for Legislative Affairs**

**Mr. Charles J. Calvin
President
Truck Trailer Manufacturers Assn.
2430 Pennsylvania Avenue, NW
Washington, D. C. 20037**

bcc: Jim Cannon w/incoming for draft response

CL:nb



Truck Trailer Manufacturers Association

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CHARLES J. CALVIN
President

*Utilizing TTMA Services may give you an Education;
not using them will give you experience.*

Telephone (202) 785-5833

July 29, 1975

Mr. Charles Leppert, Jr.
Deputy Assistant for Legislative Affairs (House)
The White House
Washington, D. C. 20500



Dear Mr. Leppert:

We find it necessary at this time to reemphasize the serious problem confronting the truck trailer manufacturing industry. While other segments of the automotive industry may be coping with an approximate 20 percent drop in output and U. S. industry as a whole, including manufacturing, mining, and utilities, is operating at 69 percent of capacity, a six-months report for the truck trailer manufacturing industry through June 1975 indicates A PRODUCTION DECREASE OF 76.2 PERCENT compared to the similar period in 1974!

Employment is currently down over 65 percent and the remaining employees are seriously concerned that their careers will be, at best, short lived, as well they would be were not employers making every effort to retain experienced workers. This mammoth economic crunch has also prompted the members of the Truck Trailer Manufacturers Association to reluctantly cancel their Annual Convention for the first time in 34 years.

Our dilemma is the result of several contributing factors, not the least of which is the current general economic situation. However, the truck trailer manufacturing industry has also had to deal with an added burden . . . Federal Motor Vehicle Safety Standard 121. Effective January 1, 1975, FMVSS 121 requires the installation of antilock braking systems on most new trailers. This equipment is installed at a cost increase of approximately 10% per trailer, or some \$800. This increase, the 10% Federal excise tax on truck trailers, inflation, and the depressed economy has brought about a major decline in the sale of such vehicles. In fact, orders for new equipment are virtually non-existent and many plants have ceased operations. These measures are also creating a very definite multiplier effect on allied supplier businesses. For example, one supplier discovered that his comfortable six-month backlog in orders for components had dwindled, over the course of one weekend, to a backlog of only one week. His work force of 940 employees was necessarily reduced to 140!

July 29, 1975

Congress has the means to offset the high cost of Standard 121 by repealing the 10% Federal excise tax on truck trailers and the 8% tax on related parts and accessories. It is interesting to note that the Excise Tax Branch of the Internal Revenue Service, because of the federally-mandated braking equipment, will realize more in increased taxes than the trailer manufacturer will realize in net profits. If the status quo is maintained, the IRS cannot collect excise taxes on trailers that are not being built (approximately \$21 million in the first 5 months of 1975 as compared to \$36 million for the same period in 1974); the S. 121 braking systems cannot be installed on non-existent trailers; and the carrier will continue using pre-1975 transportation equipment. Who wins? . . . or more sensibly . . . don't we all lose? The excise tax repeal would help offset the high cost of added safety equipment and undoubtedly result in greater sales, higher employment, and a stimulated economy.

The truck trailer manufacturing industry has long advocated repeal of the 10% Federal excise tax on truck trailers and the 8% excise tax on related parts and accessories. Not only is this tax discriminatory and financially burdening, but the sheer complexities involved in interpreting, applying, and administering the regulation and its rulings have necessitated undue expenditures in time and manpower by trailer manufacturers, tax attorneys, and government administrators. We would venture to say that the value of expenditures in dealing with the truck trailer excise tax requirements and their very many ramifications quite possibly exceeds the dollar value contributed by the specific taxes themselves.

To add emphasis we quote a former Chief of the Excise Tax Branch of the IRS:

"Before the Excise Tax Reduction Act of 1965, we covered a wide variety of industries. Industries that had different distribution patterns than you (truck trailer manufacturers) may have. Industries having the conventional distribution patterns - that is, the sale to the wholesale distributor level and beyond that possibly a sale to a jobber level who is an intermediate wholesale distributor and then to the dealer or retailer and finally to the consumer. . . .

"Where we run into problems is where manufacturers sell directly to consumers, thus constituting a sale at retail. Or, they may sell to dealers who, in turn, sell to consumers. But, we are aware there is no wholesale distribution pattern in the (truck trailer manufacturing) industry and I suspect this is one of the problems that bugs this industry."

(more)

July 29, 1975

As pointed out, this tax law was conceived for another industry and another distribution pattern (the automobile wholesale and retail sales method). Our industry does not have a wholesaler-to-dealer pattern, but operates mainly on a manufacturer-to-user concept.

Again quoting the same individual:

"Remember, we (the IRS) are not initially and primarily responsible for your tax treatment, your tax troubles, or your tax problems. That authority vests in the Congress of the United States. They pass the revenue laws and we interpret them. We take what they give us and try to work it out. If you have any problems which stem from the statute itself, the clear and unmistakable language of the statute, or, if you will, the cloudy language of the statute - and that's what happens in most cases -- complain to your Congressman, and not to us. Now this doesn't mean that we don't get all of the complaints, we usually do, because many people feel we are responsible for the law as well as the interpretation of it."

All of these difficulties are magnified even more when consideration is given to the fact that there are probably no more than ten individuals who are "bona fide" excise tax experts, such as the one just quoted, who are presently active in industry or government.

The excise tax was originally imposed as a "temporary" measure. The majority of similar selective excise taxes have been repealed. The remaining truck-related excise taxes are thus unfair in that similar taxes are no longer levied on competing forms of transportation; e. g., trains, planes, river barges, freighters, and pipelines. Nor does a similar tax apply to other goods which enter into the production process, such as machinery and equipment. Nevertheless, the most basic transportation for the most basic essentials of life --- food and clothing --- is still being devoured by this parasitical remnant. The manufacturing segment of the trucking industry might well be considered the only target left for the Excise Tax Branch of the Internal Revenue Service and the number of rulings and determinations have extended coverage, not just to trailer manufacturers, but also to equipment distributors, dealers, and owners.

We quote another excise tax expert:

"Until the existing selective excise taxes are repealed in their entirety or replaced by a uniform excise tax, any improvement . . . is a step forward. However, many interpretative problems remain for subsequent resolution, and in view of the deficiencies as indicated, the administrative problems of compliance, enforcement, and uniform application continue to be difficult."

(more)

July 29, 1975

An excise tax law should not lend itself to the possibility of being used as a competitive factor. However, we believe that this law, and its thousands of private tax rulings which are not available to the industry as a whole, are subject to varying interpretations which may unintentionally result in unfair competitive practices.

The Highway Trust Fund was conceived in 1956 to finance a multi-billion dollar highway program. The revenues for the fund are idealistically regarded as "user" taxes in that the user of the highways pays for the construction of the highways. The excise tax on truck trailers, however, is not a "user" tax. It is a tax that must be paid by the manufacturer as soon as a vehicle is built and not recouped until the vehicle is sold. The excise tax on trucks and trailers under 10,000 pounds gross vehicle weight, and certain buses, was repealed in 1971. The excise tax on automobiles, which never did go into the trust fund, was also repealed at that time to encourage sales and employment in the industry. And, at this writing, Congress is in the process of repealing excise taxes on tires and the remaining buses. Since its inception, the Highway Trust Fund has been a target source of funds to finance projects other than construction of the Nation's highways. Mass transit is one of these projects. We would like to point out that mass transit problems were not created by truck trailers and that every dollar removed from the Highway Trust Fund to further mass transit interests makes the punitive tax on truck trailers even more inequitable.

In the ten year period from 1965 to 1974, the Highway Trust Fund has been the recipient of some \$50.5 billion in taxes. The excise tax on truck trailers, while it has been a financial burden to our industry and an administrative nightmare to both our industry and the government, has contributed only 1.1 percent of the trust fund total in the same period. Average annual Highway Trust Fund revenues for the period from 1960 to 1969 amount to some \$3.6 Billion, while average annual excise taxes on truck trailers for that period were \$37 million. Similarly, average annual Highway Trust Fund revenues for the 1965-1974 period were \$5 Billion and the average annual excise tax on truck trailers was \$55 million for the same period. Certainly the excise tax on truck trailers cannot be considered a lucrative source of revenue. The fact that this tax, as a source of funds, is relatively insignificant, while it has constantly created confusion and untold collection and administrative expense, would lead us to believe that IRS officials themselves would welcome the repeal of this tax law.

Repeal is the only sensible solution to this troublesome tax problem. A reduction would, of course, help the purchaser, however, every single administrative problem created by the 10 percent tax would remain intact even if it were reduced to one percent or less. In fact, a reduction would only serve to greatly intensify the collection burden, which we believe already exceeds the value of the revenue collected.

July 29, 1975

In an effort to assist manufacturers, the Truck Trailer Manufacturers Association has published a Federal Excise Tax Guide. Over the years, this loose-leaf publication has become a valuable aid, not only to trailer manufacturers and component suppliers, but to manufacturers of trucks, truck bodies, truck tractors, and buses and special passenger vehicles, who are all subject to the tax law. Even though this guide book has 740 pages and weighs almost eight pounds, it still cannot be considered the ultimate panacea to the interpreters of this difficult excise tax regulation.

Repeal of the 10 percent excise tax was included in tax legislation passed by the Senate earlier this year. Unfortunately, it was removed by House/Senate Conferees, who noted that the tax would be considered in future tax reform legislation. Present indications are that this could be as late as 1976. The future for our industry, however is NOW! We repeat, immediate emergency legislation is imperative in order to offset another Federally created, inflationary expense which is apparently the straw that is breaking the industry's back. Incidentally, Canada's 12% tax on transportation equipment was repealed last November.

It is our sincere belief that the production decreases, plant closings, and the unemployment that has so devastated the truck trailer manufacturing industry in 1975 can be reversed in the near future. However, the remedy must be administered immediately. Congressional repeal of the discriminatory and punitive 10 percent Federal excise tax on truck trailers and the 8 percent tax on related parts and accessories is the only remedy at hand. We urge you to consider the vital necessity of this action. We are not requesting Federal protection or subsidization of our industry, but simply an opportunity to reopen our plants, provide more employment, and thus improve the National economy.

Sincerely yours,



Charles J. Calvin
President

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