

AGC Construction Tax News

Current News from the Associated General Contractors of America for Construction Financial Professionals

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Senate Finance Passes “JOBS” Bill with Provisions Affecting Contractors – The Senate Finance Committee on October 1 approved the Jumpstart Our Business Strength (JOBS) Act (S. 1637). The main thrust of the bill is a change in the treatment of export and foreign-source income. However, there is also a variety of provisions affecting domestic taxpayers, including contractors. On the favorable side: Companies with net operating losses in 2003 would be allowed to carry the losses back 3 years instead of 2. Also, the phase-out rate for equipment expensing under sec. 179 would be lowered to 50 cents instead of \$1 per dollar of investment for taxpayers buying more than the maximum qualifying amount (\$400,000 in 2003), so that a taxpayer buying \$500,000 of equipment would be allowed to expense \$50,000 instead of \$0 as at present. Construction would be affected also by at least three revenue raisers: Sports utility vehicles (but not trucks) weighing 14,000 pounds or less, instead of the present 6000-lb. limit, would be subject to limits on depreciation under sec. 280F. The 10% tax credit for rehabilitation of buildings placed in service before 1936 would be repealed, although the 20% tax credit for historic structures would be retained. Clearing and grading costs for electric and gas utility lines would be assigned 20- and 15-year depreciation lives, instead of the 7-year write-offs that can be claimed now.

No timetable has been set for Senate floor action. In the House, Ways and Means Committee Chairman Bill Thomas has said he hopes to mark up a bill in the next week or so but he faces opposition from a competing bill. For details on the bills and timing of further action contact the editors.

IRS Issues Guidance on Bonus Depreciation, Vehicles – The Internal Revenue Service on Oct. 2 issued Revenue Procedure 2003-75, providing limitations and tables for depreciation of business automobiles, trucks and vans. For details contact the editors or go to www.irs.gov. On Sept. 8 the IRS published temporary and proposed regulations in the *Federal Register*, detailing information about the 30% and 50% “bonus depreciation” enacted in 2002 and 2003. For more information go to the above sources or www.depreciationbonus.org, a website established by the Assn. of Equipment Manufacturers and Associated Equipment Distributors.

AGC Marshals Opposition to FAS 150 – Earlier this year the staff of the Financial Accounting Standards Board (FASB) proposed Statement of Financial Accounting Standards No. 150 (FAS 150), which would require companies to classify mandatorily redeemable shares as a liability. This standard would be devastating to many closely held construction companies that have provisions requiring them to buy back shares of owners who leave the company. AGC held a meeting last month to inform other associations of the severe problems FAS 150 may create and is working to arrange a meeting with FASB. AGC is also encouraging members of Congress to write to FASB. For more information contact Heidi.

Congress Defers Action on Highway Taxes; Mobile Machinery Bill Introduced – Congress passed and President Bush signed a five-month extension of Highway Trust Fund provisions, maintaining all taxes without change through Feb. 29. The authorizing committees for transportation spending have yet to consider their portion of a 6-year replacement for “TEA-21,” the highway and transit bill that expired Sept. 30. As a result, the tax committees are unlikely to take up a revenue title for several months. Yesterday Rep. Paul Ryan (R-WI) and 80 cosponsors introduced H.R. 3246, to put into law the longstanding regulatory exemption from highway taxes for “mobile machinery” that the IRS proposed to repeal. AGC first contacted Rep. Ryan about the issue last year and is working with a coalition to preserve the exemption. For more information contact the editors.

State Tax Changes Take Effect Oct. 1 – Illinois, Kansas and North Dakota began tax amnesties, joining amnesties that end Oct. 31-Nov. 3 in Arizona, Florida, Maine, Missouri, and Virginia. New York City will join the parade on Oct. 20. For links and updates on state-local amnesties, go to the Federation of Tax Administrators’ website, www.taxadmin.org. Nevada imposed a new payroll tax on employers and Clark County, Nevada, raised its sales tax 0.25 cents per dollar to fund highway improvements and bus purchases in greater Las Vegas. For details go to gov.state.nv.us and www.leg.state.nv.us. Nebraska began imposing sales tax on the full value of remodeling and repair contracts.

Last Chance to Register for AGC-CFMA Construction Financial Management Conference – The 7th annual version of this acclaimed conference will be held at Caesar’s Palace in Las Vegas Oct. 23-24. For full program and online registration go to https://www.agc.org/Member_Resources/agccfma.asp. Attendees can receive up to 17 continuing professional education credits. For more information contact Heidi.

The Data DIGest

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Construction employment, value put in place rise; overall jobs grow after 7 declines

Reports in the past three days paint an unusually consistent picture of the economy: widespread expansion but not in manufacturing or inventories. Today the Bureau of Labor Statistics (BLS) reported that seasonally adjusted nonfarm **payroll employment** grew by 57,000 in September, the first rise in eight months, although the unemployment rate remained at 6.1%. The job-loss estimate for August was halved from 93,000 to 41,000. *BLS commented, "Construction employment continued to trend up. Since February, the industry has added 137,000 jobs, with most of the gains among special trade contractors"; those firms added 4,000 jobs for the month and 83,000 since September 2002. Employment in the "construction of buildings" segment rose by 7,000 and 28,000 for the two periods. Heavy and civil engineering construction rose by 2,000 for the month but fell 2,000 from September 2002. In all, the industry added 14,000 for the month and 109,000 (1.6%) over 12 months, while the rest of the nonfarm economy added 43,000 for the month but lost 536,000 (0.4%) since September 2002.*

Average weekly hours worked by construction workers slipped to 38.4 in September, seasonally adjusted, from 38.6 in August and 38.7 in September 2002. Seasonally adjusted **average hourly earnings** in construction climbed 2% over the year to \$19.02, 23% above the average for all private industry production workers.

The Institute for Supply Management (ISM) reported today that its index of **non-manufacturing** purchasing managers remained strong in September at 63.3, the second-highest number in the survey's six-year history after the record 65.1 set in July and tied in August. Fourteen sectors reported increased business activity, two were unchanged, and none shrank. *Construction was listed second among industries reporting growth in employment, third among those reporting the highest rates of increase in prices paid, and fourth among those reporting the highest rates of growth in backlog of orders. "Construction materials" were listed among items reported higher in price but "building materials" were among those with reported price declines.*

Record residential construction pushed up the overall value of construction put in place by 0.2% in August to a seasonally adjusted annual rate of \$882.7 billion, just shy of January's record rate of \$883.2 billion and 4% above the August 2002 mark, the Census Bureau reported Wednesday. Private residential construction surged 1.4% for the month and 7% for the 12-month period. Public construction was up 0.6% and 3.2%, respectively. But private nonresidential construction fell 2.7% and 1.2%, respectively.

New construction starts in August retreated 1% and was level for the first eight months of 2003 compared to the same period of 2002, McGraw-Hill Construction Dodge reported Wednesday. Dodge measures the entire value of new contracts, while Census counts the amount spent each month. Dodge's residential building total rose 2% and 9% for the two periods. Nonresidential building was down 1% and 5%, respectively, while nonbuilding construction was off 12% and 16%, respectively.

New orders for manufactured goods, seasonally adjusted, declined 0.8% in August following three straight increases, including 2% and 1.9% rises in July and June, respectively, Census reported Thursday. Inventories of manufactured durable goods fell for the 30th time in 31 months, hitting the lowest level since 1995. *Orders for construction materials and supplies fell 1.6% in August and in the January-August 2003 period compared to January-August 2002. Orders for construction machinery tumbled 14% in August after a 22% leap in July; year-to-date, those orders are up 2.1% compared to January-August 2002.*

The ISM survey of **manufacturing** purchasing managers showed the manufacturing sector improved in September for the third month in a row, though at a slightly more gradual pace (53.7) than in August (54.7).

Personal income rose a seasonally adjusted 0.2% in August, down from 0.3% in July and 0.4% in June, the Bureau of Economic Analysis reported Monday. **Personal consumption expenditures** climbed 0.8%, following rises of 0.9% and 0.7%. Spending in June-August was boosted by cuts in withholding and federal tax "rebate" checks, the last month of which was mailed in August.

President Bush signed a bill Tuesday that extends **federal spending** through October, generally at the same rate as in fiscal 2003 (which ended September 30). *Highway grants to states continue at a \$31.6 billion rate, although the full-year appropriations bill that Congress is working to finish is expected to raise that total to \$33.8 billion for fiscal 2004 as a whole.*

Health insurance costs will vary widely in 2004, the *Miami Herald* reported Wednesday. "After getting hit with 70% increases last year, the average FPL [parent of Florida Power & Light] employee will see only a 5.1% increase, including premiums and co-payments....those choosing the least expensive FPL health maintenance organization will see only a 2% cost rise....Meanwhile, Miami-Dade County, which employs 31,000, has told workers with families that they will face brutal increases...ranging from 10 to 40%, depending on the plan".



From the Chief Economist—

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Construction Spending Approaches Record in August Despite Nonresidential Slump As Housing Soars, Public Construction Rebounds, AGC Economist Says

“Construction put in place came within a whisker of setting a record in August but remains a tale of three markets,” said Kenneth D. Simonson, chief economist for the Associated General Contractors of America (AGC), the nation’s leading construction trade association. “In August, housing continued to streak ahead, public construction rebounded, but private nonresidential construction slipped again.”

Simonson commented on the Census Bureau’s release today of data on the value of construction put in place, which showed that the total amount spent on construction projects in August reached a seasonally adjusted annual rate of \$882.7 billion, 0.2% above the upwardly revised July total of \$880.8 billion (initially estimated at \$879.8 billion) and less than 0.1% shy of the record \$883.2 billion put in place in January 2003. Seasonally adjusted spending in August was 4% higher than a year before; for the first eight months of 2003, spending totaled 2.1% more than in January-August 2002.

“Private residential spending surged by 1.4% to a record in August,” Simonson observed. “Both the August-to-August and year-to-date growth rates are around 7%, with new single-family construction up by 12% and 14% in the two comparisons. Perhaps more surprising, multi-family construction grew 3% in both measures, despite higher vacancy rates now than a year ago.

“Public construction produced another pleasant surprise,” Simonson noted. “It rebounded 0.6% from a dip in July to match June’s record level. The August 2003 level was 3% higher than a year before and the year-to-date total was 2% above the sum for January-August 2002, in spite of spending cutbacks by state and local governments.

“Private nonresidential construction continues to be a trouble spot,” Simonson said. “In August it fell 2.7% from the upwardly revised July mark and was 1.2% lower than in August 2002. The year-to-date total was 7% lower than in the same period of 2002. Still, that is much less of a drop than the double-digit declines that occurred from 2001 to 2002.

“Several positive indicators have emerged this week,” Simonson remarked. “Last night, President Bush signed a five-month extension of highway spending that will boost the federal contribution by 7% to an annual rate of \$33.8 billion. That will help struggling state budgets as well the commuters caught in worsening congestion, as noted by yesterday’s urban mobility report from the Texas Transportation Institute. AGC applauds the passage of this temporary patch but urges Congress to press ahead with a full six-year highway and transit reauthorization bill as soon as possible.

“On the housing front, the Mortgage Bankers Association reported this morning that mortgage rates retreated another 0.1 to 0.2 percentage points this week, bringing them closer to the historic lows of last June. That will help both new home construction and remodeling to remain hot,” Simonson commented.

“A good omen for eventually stanching the negative figures on industrial construction comes from this morning’s report from the Institute for Supply Management,” Simonson said. “Its monthly survey of manufacturing purchasing managers had a positive reading (53.7) for the third straight month. That will eventually help factory, warehouse and other construction. Meanwhile, the strong report Monday from the Bureau of Economic Analysis on consumer spending (+0.8% for August, following gains of 0.9% for July and 0.7% for June) augurs well for retail and other consumer-related construction.”

Note: The new Census data are at www.census.gov/const/www/c30index.html. The Texas Transportation Institute’s Urban Mobility Report is at <http://tti.tamu.edu/>.