

Tax reform to hit development

The newly proposed revision of the U.S. tax code, passed by the Senate Finance Committee, will severely affect new real estate development and construction projects, according to an area tax expert.

"The incentive for investing in real estate development has been removed by the Packwood proposal," said Walter J. Roney, an accountant and attorney heading Grant Thornton's metro Detroit tax department. Grant Thornton is a nationwide accounting and management consulting firm.

"Under the present code, a real estate limited partner can claim a deduction on the amount of capital he invests in a new project against income earned from another source.

developers will have to sweeten the pot by promising more return on investment to investors and by offering a greater return on equity.

This will leave less capital for expansion in other areas, and force owners to either cut costs in construction or raise rents to tenants, he said.

"COMPOUNDING these 'problems,' Roney added, "will be the predicament of the building contractor.

"The new code not only eliminates the investment tax credit for new construction equipment, but also substantially does away with the

"completed contract" method of accounting for tax deferral purposes." "Completed contract" indicates a method of accounting that allows a builder to defer a significant portion of his income until the project has been completed.)

"Now a contractor will have to borrow money just to pay his increased tax liability, an additional cost which will have to be passed along. Certainly, the cost of real estate is going to go up, and this will have a negative effect not only on the housing market, but also on business expansion."

Often overlooked by tax reformers is the fact that there will not be a

similar rate change at the state and local levels as there will be at the federal level.

"Both the State of Michigan and local municipal governments figure their revenues on the basis of the taxpayer's adjusted gross income on their federal tax forms," he said. "It stands to reason that, if the feds disallow certain deductions, both the state and municipalities levying an income tax will see an increase in revenue, since they probably will not drop their rates and more of the taxpayer's income is exposed to the liability."

"The net result is probably going to be inflationary," cautioned Roney.

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Business index softened in July

Michigan's Business Activity Index edged upward by one point in July to a level of 124, according to Manufacturers Bank.

This places July 1986 activity 4.6 percent lower than July 1985. But on a year-to-date basis, Michigan's economy is 2.2 percent ahead of the comparable seven months last year, according to bank economist David Littmann.

In July, the steel and automotive sectors gained, but there was a sub-

stantial decline in the average hourly work week in manufacturing. This may be a prelude to weakness in what has been the strength in Michigan employment, Littmann said.

Confirming this weakness, average hourly earnings in manufacturing also reached their lowest level of the year during July. Both labor-market indicators suggest a slowdown in the state's manufacturing sector.

Gage leads trial judges

The National Conference of State Trial Judges has elected Oakland Circuit Judge Hilda R. Gage its president — the first woman to head the group since it was formed in 1958.

The conference includes trial judges from all 50 states, the District of Columbia and Puerto Rico. It is an arm of the judicial division of the American Bar Association.

She took office at the close of the ABA annual meeting last month in New York. Gage will lead a group of about 1,600 judges in developing policy proposals for consideration by the ABA and in overseeing projects to improve the administration of justice.

Elected to the Oakland bench in 1979, the West Bloomfield resident is a graduate of Wayne State University Law School. Her bachelor's and master's degrees were earned at the University of Michigan.

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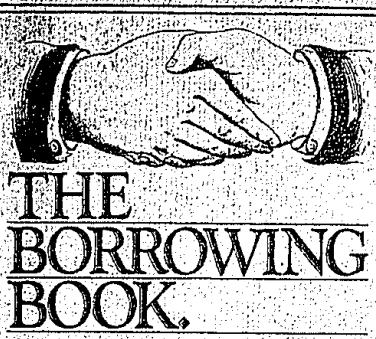


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