Volume Title: Tax Changes and Modernization in the Textile Industry

Volume Author/Editor: Thomas M. Stanback, Jr.

Volume Publisher: NBER

Volume ISBN: 0-870-14483-9

Volume URL: http://www.nber.org/books/stan69-1

Publication Date: 1969

Chapter Title: Appendix A: Questionnaire for Textile Mill Interviews

Chapter Author: Thomas M. Stanback, Jr.

Chapter URL: http://www.nber.org/chapters/c1195

Chapter pages in book: (p. 106 - 111)

Appendix A

QUESTIONNAIRE FOR TEXTILE MILL INTERVIEWS

(THE INTERVIEW was prefaced by a statement such as the following.) This study is part of a larger study of the effect of taxation on economic growth. Our interest in interviewing textile firms is to determine whether or not changes in the tax laws to date have helped the textile industry to modernize plant and equipment and, further, to try to find out the effect of various types of possible tax reform upon the pace of modernization within the industry. The questions below are designed to shed light on these matters. It is understood that all information will be treated as strictly confidential.

Initiation of Requests for Capital Expenditure

1. At what level is the request for capital expenditure initiated?
2. In initiating requests for expenditures is the executive guided by any rule of thumb as to how much he may reasonably request (e.g., may he request up to the amount of annual depreciation; may he request any and all projects that meet some given pay-back or return on investment test)?
3. Is there a review of past estimates of profitability of capital expenditure to ascertain their accuracy? If so has this affected future decisions?

The Investment Formula

4. a. What pay-back or return on investment formula do you use as a guide to determining the economic desirability of an investment?

b. What levels of operation are assumed in making the computation?
c. Is the computation before-tax or after-tax?
d. If after-tax, on what basis are depreciation charges computed in order to derive tax estimates (e.g., fifteen year life SYD, fifteen year life straight-line)?
e. Is any attempt made to show cost of capital in the computation? To discount the cash flow?
f. Has investment credit been recognized by the computatation? Explain.

5. a. Is the same criterion (i.e., same pay-back period or return on investment requirement) used in considering all types of projects? Please explain.
b. What is the cutoff point beyond which projects will not be considered?

Other Factors Influencing the Investment Decision

6. In addition to pay-out period (or net return) what factors importantly determine acceptance or rejection of specific projects for capital expenditures for (a) new products or processes, (b) established product expansion, (c) replacement or modernization of equipment, (d) necessity type projects?

7. Are there frequently cases in which the pay-back (or rate of return) prospects for new equipment meet your investment criteria but you do not undertake investment because of uncertainty as to whether the equipment will be fully utilized?

8. What are the major sources of uncertainty as to full utilization of proposed new equipment?
a. Change in domestic demand for the product produced
b. Increased foreign competition
c. Increased domestic competition
d. Other (specify)

9. a. Do you consider that the rate of technical advance in the textile industry in the last five years has resulted in more rapid obsolescence of equipment than in the previous period?

b. Has it made for greater uncertainty as to the economic service life of equipment?

10. If answer to 9b is "yes":

a. How do you take account of this uncertainty in making the decision to buy or not to buy equipment?

b. Has this uncertainty caused you to retain equipment which you otherwise would have replaced?

Modification of Old Equipment Versus Purchase of New

11. a. In considering proposals for modernization are you confronted with the alternative of modifying existing equipment versus purchasing entirely new equipment?

b. Where such alternatives exist is it typical that new equipment offers substantially greater efficiency than modification (do not consider costs and dollar returns in answering this question)?

12. Where the decision has been in favor of modification what factors other than pay-out have influenced your firm to modify old equipment rather than purchase new?

13. Is it your impression that liberalized depreciation laws have altered, or could alter, a decision in favor of purchasing new equipment rather than modifying old equipment?

Please explain your position.

Financial Considerations: Internal and External Financing

14. Are there modernization projects which meet your investment criteria but which you do not undertake because of financial limitations? If not, is there a shortage of desirable projects?

15. Does your company maintain a cash budget?

a. Annual?

b. Long-term?

16. Does your company have a systematic policy of working toward modernization of all plant and equipment?

17. Are depreciation allowances in any way earmarked or used as a guideline in determining the amount to be spent for replacement (i.e., modernization)? Discuss.

18. Under what conditions or for what purposes is your com-

pany willing to finance capital expenditures by use of outside funds?

19. What is the corporate policy with regard to the financial structure of the company?

  a. Debt? How much debt will the management accept at a given moment in time?
  b. Preferred stock?
  c. Equity capital?

Depreciation

20. Are the depreciation accounts you keep for tax purposes different or are they the same as those you keep for your own books?

21. a. Did you change depreciation policy as a result of the liberalized treatment permitted by the 1954 Revenue Act? In what year?
  b. Did you make use of the shorter lives permitted in the schedule revised by the Treasury for the textile industry in the fall of 1961?
  c. Are you currently making use of the provisions of the Revenue Act of 1962 (i.e., the "guidelines")?

22. If yes (to the above), had you made use of shorter lives prior to October 1961 by special arrangement or did you institute the new lives upon revision of the regulation?

23. If you made use of shorter service lives prior to October 1961 did the October 1961 schedule make possible even shorter lives? If so, how much shorter?

24. a. Is it your understanding that you can use shorter service lives for tax purposes than those provided by the October 1961 schedule?

Would you state briefly your interpretation of the Treasury's policy regarding individual firms electing to take shorter than guideline lives for tax purposes?

  b. Would you go to ten year service lives if they were offered you without the reserve ratio test?
  c. To five year service lives without the reserve ratio test?

25. What is your understanding of the benefit you derive from more liberal depreciation provisions?
   a. Increased cash flow?
   b. Shorter pay-back period after taxes or higher rate of return? Please discuss.

26. Has your firm increased (or does it plan to increase) modernization outlays as a result of
   a. More liberalized depreciation provisions of 1954 Revenue Act?
   b. Shorter service lives (1961 and 1962 provisions)?

If yes in either a or b, do increases approximate the full amount of tax reduction?

Investment Credit

27. Is it your impression that you can effect significant savings in the purchase of capital equipment by taking advantage of the new 7 per cent tax credit?

Would you state your understanding of the extent of the saving in practice?

28. a. Has your firm increased (or does it plan to increase) capital expenditures as a result of the investment credit? Please comment.
   b. Are there features in the investment credit which make it unattractive?

Corporate Income Tax

29. a. Assume a reduction of the marginal corporate tax rate to, say, 40 per cent. What proportion of the increased tax flow would go to modernization expenditures?
   b. Would your dividend increase?

Effect of Cyclical Fluctuations

30. In what way is your investment policy different in periods of expansion during the textile cycle from that followed during periods of depressed business?

31. Is this due to (a) change in cash flow, (b) change in cur-

rent rate of utilization, (c) change in outlook for profitable use of equipment?

Summing Up

32. To sum up, what do you consider to be the most important factor which has stood in the way of more rapid modernization in your company in the past three years? The second most important factor? The third?

Please treat anything you feel we have failed to cover.