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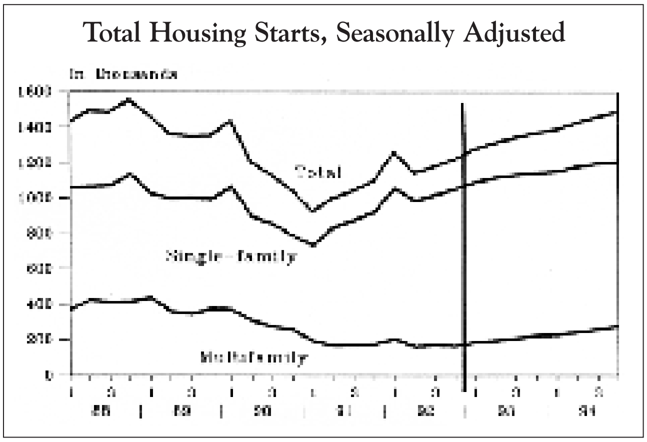
Clinton Plan Favors Construction

While the upper-income tax hikes proposed by President Clinton may hurt contractors already pulling down six figures, the rest of his economic-stimulus plan may revive the nation's slumbering construction industry. Clinton and his advisers have identified the construction industry as a key component in getting the economy going again. The policies he has outlined, say observers, answer some of the construction industry's most pressing demands.

Lower interest rates. Reducing long-term interest and mortgage rates would help stimulate both new home starts and remodeling activity, and lower interest rates have emerged as a clear priority in Clinton's plans. Clinton cannot directly lower interest rates, of course. But if his plan reduces the federal deficit and the government has to borrow less money, more money will be available for private borrowing, and that will help lower interest rates. Even the psychological promise of lower federal deficits has already had its effect. Interest rates on bonds — which generally precede movements in long-term interest rates — dropped immediately after Clinton presented his plan in February. In addition, Clinton's plan has received the backing of Federal Reserve Chairman Alan Greenspan. Greenspan suggested that as long as the federal deficit is being reduced and inflation doesn't run too high, he will try to keep interest rates down. The Federal Reserve Board can directly affect interest rates, since it sets the rate at which the government loans money to banks.



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Low interest rates and pent-up demand have set the stage for a sustained housing recovery — if Clinton's plan can stir the economy. National Association of Home Builders (NAHB) projections show housing starts rising steadily through the next two years.

Ending the credit crunch. Clinton also seems determined to ease some of the less reasonable credit restrictions that federal banking regulators put into place following the S&L defaults of the late 1980s. While some of these regulations were needed to tighten overly lax lending practices that had developed during the boom days of the mid-1980s, most observers agree that the restrictions often prevent worthy borrowers from getting financing for viable construction projects. In late February, Clinton told the U.S. Chamber of Commerce that he plans to alter lending restrictions so that lending decisions can be based not strictly on the borrower's balance sheets, but also on his or her character and the quality of the proposed project. As with other aspects of his plan, this will likely be aimed especially at smaller and start-up companies.

Tax relief to real estate investors. The construction industry may also receive a boost from tax relief to investors in real estate. This may mean removing some "disincentives" for such large funding sources as pension funds to invest in real estate ventures, providing tax incentives for investment in "enterprise zones," and perhaps a cut in the capital gains rates for smaller or start-up companies. A typical small contractor won't feel any of this directly, but may profit from the general stimulus it could give the construction industry.

The benefits of growth. Finally, the construction industry will profit if Clinton's efforts to stimulate the economy can create a more vigorous,

continued

IAQ Legislation May Lose Teeth Before It Passes

If members of Congress ever pass the indoor air quality (IAQ) legislation they've proposed, it could have far-reaching implications. But most sources say that the first round of IAQ legislation, presently under consideration by the House and Senate, will probably be watered down before it passes.

The Senate has already passed its version of an Indoor Air Quality Act three times, while the House has not managed to get its version out of committee. The main difference, according to Elissa Feldman, chief of the Implementation Branch in the Environmental Protection Agency's (EPA) Air Division, is that the House version "has teeth."

Both versions address the same issues — that is, the many known pollutants found in public, commercial, and residential buildings, including radon, asbestos, and volatile chemicals such as formaldehyde and benzine, as well as any other substances later found by research to be toxic. Both the Senate and House bills also establish the EPA as the overseeing agency.

The difference between the two bills is in what they charge the EPA with doing about IAQ problems. The Senate version, introduced by Sen. Mitchell of Maine, would stress public education and more research. The EPA would be responsible for developing and distributing health "advisories" on specific pollutants; administering state grants for the development of IAQ assessment and mitigation programs; and developing a program to test and demonstrate technology that "would lead to cleaner indoor air quality."

The House version, introduced by Rep. Joe Kennedy of Massachusetts, included these elements but went farther. It would have authorized the EPA to *regulate* indoor air quality. This could include setting national indoor ventilation standards, requiring manufacturers of products emitting known pollutants to label their products, or requiring OSHA to reevaluate its indoor air quality protection of workers in the workplace. It was these controversial regulatory elements, says Feldman, that kept the bill from making it to the House floor.

A Kennedy aide said he will be introducing another IAQ bill this session "that resembles much more closely the Mitchell bill." The new bill will omit the ventilation requirements, possibly the most controversial element of the failed House version.

Without these, the bill is more likely to pass. If so, the immediate result will be more research, more technology transfer, and increased public awareness. Some construction industry observers, however, fear that passage would open the door to future legislation mandating ventilation or mitigation standards, with the cost to be borne by the construction industry.

— Kathleen O'Brien

STATE BY STATE

New Hampshire: A law designed to reduce workplace injuries is being largely ignored by employers, according to a report in *New Hampshire Business News*. The state law, which first took effect in 1991, requires all employers with more than ten workers to file a safety plan with the state. But in 1992, only 275 of the 8,041 businesses required to do so filed a plan. Workers comp rates went up 18.3% last year in New Hampshire, the largest rise in 15 years, as New Hampshire workers filed more medical claims than all but three other states. The safety-plan requirement was passed largely in response to these high injury and comp rates.

Vermont: Both legislators and Governor Howard Dean are indicating support for revisions to Act 250, the state's comprehensive planning law. While many developers and property owners have criticized Act 250 for being overly restrictive and unwieldy, a number of businesspeople have praised it for saving the state from the sort of ruined landscapes that hurt tourism, and the housing oversupplies that have busted real estate values in neighboring states.

But most agree the law needs streamlining to speed the permitting process, which now takes over five years for some controversial projects. Among the changes being considered are limiting appeal privileges only to parties who have been involved in hearings on a project from its beginning; limiting participation in appeals to parties with a "direct interest" in the project's impact; and prohibiting appeals from raising issues that have been addressed in previous stages of the permitting process. □

National Low-Flow Law to Take Effect in '94

As of January 1, 1994, all toilets made and sold in the U.S. will have to be of the 1.6 gallons per flush variety. All showerheads and faucets will also have to be low-flow (2.5 gallons per minute at 80 psi water pressure) as well. These regulations, part of the Comprehensive National Energy Policy Act signed into law last fall, create a national standard similar to standards already enacted in states such as California and Massachusetts.

In general, manufacturers have expressed appreciation for the one-year warning, and anticipate no problems having full product lines available by next January. Because many states and localities currently require them, all the major manufacturers already produce low-flow toilets and fixtures. While some debate still exists over flushometer versus gravity toilets, for instance, it is generally accepted that low-flow fixtures can work well, and that their quality has improved as manufacturers have adjusted to the new demand for them.

As of next January, all new toilets will have to use 1.6 gallons or less per flush. This Kohler "Rialto" model uses 1.5 gallons.

The national standard will actually make it easier for the manufacturers, since they can focus their product lines on the low-flow products and deal with one standard. As a result, low-flow product choices will probably greatly expand. □

Clinton Plan, *continued*

confident economy and job growth. Indeed, the rest of the plan won't help construction unless efforts at stimulating the economy bring results. Interest and mortgage rates have been low for some time, for instance, but have still not sparked a sustained surge in home building.

Yet the rest of the economic picture bodes well for construction if the new administration can kick the economy out of its rut. Americans have actually reduced their debt and increased their savings over the last three years, so in many cases it is insecurity — over one's particular job or over the economy in general — that has kept people from remodeling or purchasing a new home. This lack of consumer confidence stems mainly from the stubbornly high unemployment rate (and constant news of layoffs) and from stagnation in income growth.

If the proposed stimulus plan creates new jobs and causes real incomes to rise, consumer confidence should rise as well. If, at the same time, interest rates remain low, the construction industry may finally get the healthy meal it needs to shake off the long hangover it has suffered since the late 1980s. □

Women in Construction: What the Numbers Tell Us

Despite efforts to bring more women into the construction trades, women still hold only a tiny percentage of the jobs in this relatively lucrative field, according to a recent report from the National Association of Home Builders' *Housing Economics* newsletter. And very few of them are in the trades, which offer, at a median weekly salary of $483 a week, the highest wages of any nonprofessional, nonmanagerial job. The fact is, if a woman is in construction, she's likely to be either the secretary or — in a growing trend — the boss.

In 1991, women made up 8.5% of the total construction industry work force. However, they held only 42,000, or 1.2%, of the 3.82 million field jobs (that is, tradespeople or laborers). This is actually *down* from the 44,900 (1.3%) of 1982. Women hold only 1.3% of all carpentry jobs, down from 1.7% in 1982.

In white collar construction-related jobs, however, women are taking an increasing role. They account for 24% of all managerial and professional personnel, for instance, and 17% of all architects. And they have long been a dominant force in real estate sales, holding about half of those jobs.

Women in Construction

Construction Trades	1982	1991
Carpenters	1.7%	1.3%
Brick/stone masons	0.7	0.2
Cement/concrete	– –	0.4
Electricians	1.6	1.4
Painters	5.5	5.5
Plumbers/pipefitters	0.8	1.0
Roofers	0.8	0.4
Drywall lathers	1.1	1.9
Helpers, etc.	3.2	3.2
Construction Firms		
Managerial/professional	14.1%	24.1%
Construction sales	1.6	2.2
Surveyors	1.9	10.1
Real estate sales	50.2	51.5
Clerical	68.4	56.5

Source: Bureau of Labor Statistics

The one promising trend for women is ownership. Between 1982 and 1991, the number of construction firms owned by women rose by 60%, to 94,300, with the number of female general builders nearly doubling, to 21,300.

Why the disparity between growth in ownership and declining numbers in the trades? Mary Beth Jones, who authored the report in *Housing Economics*, cites "the perceived hostility in the construction workplace" as the "greatest single barrier" to women entering the field. Most construction sites continue to be uncomfortable places for women to work. In addition, writes Jones, "a young woman searching for career opportunities isn't likely to be able to get good 'inside' information on programs and hirings because she's highly unlikely to have female friends in the trades."

At the same time, a woman wanting to start a business can find construction a promising field, for the same reason many young men do (mainly low capital requirements), but without the obstacles and prejudices presented by a job as an employee and field worker: You're not so likely to be hassled by wolf whistles and lewd comments when you're the one writing the checks. □

From What We Gather

Vaulted ceilings rank high on the wish lists of first-time home buyers, according to a recent survey conducted by Masco Corp. Eighty-six percent of first-time buyers think vaulted ceilings should be standard in new homes. They also look for bay windows (82%) and fireplaces (74%). Among the move-up market, buyers want to see separate tubs and showers (89%), walk-in pantries (78%), and his-and-her closets (62%), as well as plenty of bedrooms and both group spaces and private spaces. The luxury crowd goes for double vanities in the master bath (82%), matching cabinet and appliance fronts (79%), French doors (66%), and dedicated rooms like sun rooms, libraries, and exercise and storage rooms.

Over a third of homeowners who hold home warranties do not fully understand the warranties, according to a recent survey by Home Buyers Warranty (HBW). More than 40% said they did not know exactly what was and wasn't covered by their warranties, and over half said they did not feel they received sufficient information on coverage and usage. HBW hopes to counter this lack of knowledge with a 12-minute videotape, to be distributed to every new HBW homeowner, that describes the range and limitations of the warranty and what is expected of homeowner, builder, and warranty company.

Makita "dumped" some of its tools in the U.S. at unfairly low prices, the U.S. Commerce Department ruled in December. A final ruling is due sometime this month. In the meantime, Makita must establish a bond to make restitution should the International Trade Commission determine that the dumping hurt the American tools industry. American tool makers have charged that Makita and other Japanese tool makers have gained their large market share partly by selling their products at artificially low prices.

Eight states now require full disclosure forms for all house sales. Alaska, California, Kentucky, Maine, New Hampshire, Rhode Island, Virginia, and Wisconsin require sellers to fill out defect-disclosure forms revealing their knowledge of structural problems, mechanical component condition, hazardous conditions, and the age and condition of other key systems and components. More than 20 states are considering passing similar laws, which are backed by The National Association of Realtors. □

TAX TALK

IRS Clarifies Home Office Ruling

by Milton Zall

In light of the Supreme Court's recent decision limiting home office deductions in *Commissioner v. Soliman* ("Eight-Penny News," 3/93), the IRS is updating its home office guidelines. The IRS stated that it would still allow home office deductions claimed on pre-1992 tax returns where taxpayers reasonably followed previously existing guidelines in Publication 587, "Business Use of Your Home." More importantly, the IRS also explained that taxpayers who would have qualified for a home office deduction on their 1992 returns (based on previously existing guidelines in Publication 587) will not have to pay estimated tax penalties if the 1992 tax underpayment is attributable to the loss of the deduction under the new guidelines.

Although the 1992 version of Publication 587 was printed before the *Soliman* decision was made, the new guidelines were inserted in the publication at the end of February.

The revised guidelines focus on the principal place of business test used in determining home office deductions. In the *Soliman* decision, the Court set forth two factors taxpayers must consider to determine their principal place of business:

- the relative importance of activities conducted at each business location; and
- the amount of time spent at each location.

According to the *Soliman* decision, "great weight" must be given to the location where required meetings with clients are usually held, or where goods or services are delivered to clients. The IRS said this means that taxpayers who must meet with their clients or who must deliver goods or services to customers can usually claim that their principal place of business is where those meetings or deliveries occur.

Taxpayers who meet clients in more than one location or who have businesses involving no customer meetings need to determine which activities are the most important to the conduct of their business and where those activities take place.

Taxpayers should also look at the time spent in each business location, especially where a comparison of activities performed at each business location provides no clear answer as to the location of the most important activity.

In addition to the test for principal place of business, taxpayers still need to use their home office regularly and exclusively for business in order to qualify for a deduction. ■

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