A Tax on Maintenance

Tax-and-spend initiatives are not new—spending resources that don't yet exist only to raise taxes to cover the loss. There are numerous, sound historical examples from the 18th century of the downside of these strategies. Today, what is often overlooked are the tax-and-spend strategies that catch many of our maintenance organizations off guard and undermine their best efforts. Beware of the "maintenance tax" and the unintended consequences.

A Lesson from History

In 1765, the British Parliament and King George III established a stamp tax on official document papers used in the British colonies in America. The British citizens in America saw this as taxation without representation, which led to a major revolt and intimidation of the tax collectors in the 13 colonies. The Stamp Tax Act was repealed in 1766. Still, needing money from the colonial residents, the British government then levied a tea tax in 1773 to penalize low-priced teas not previously approved by Parliament. That too failed. The Boston Tea Party made history in 1773 and ultimately led to the War of Independence between the American Colonies (the United States) and Great Britain from 1775 through 1783—surely unintended consequences of the tax levies.

Taxation flourished at home in 18th century England to raise much needed revenues to support their governmental expansion programs. Here too these often frivolous taxes turned into rebellion. Take for example the 1797 tax on watches and clocks. Yes, a tax on watches and clocks. In March 1798, the House of Commons heard proposals to repeal the watch and clock tax after just nine months on the books "on account of its lamentable effects on a very numerous class of mechanics involved in the manufacture of those articles (that) could not have been foreseen when the tax was proposed." Guess what? Merchants started publicly displaying their clocks. People stopped buying personal clocks and watches. Manufacturers and suppliers of timepieces were rapidly going out of business in 1797 and early 1798. Unemployment grew. And the governmental taxation authors could not have foreseen this? Another example of unintended consequences.

But the British monarchy and government had a history of unusual taxes. In England during 1696, there was a financial crisis created by growing inflation caused by the many conflicts both in Ireland and on the continent. One of the forms of taxation created to help pay the debt was known as the Window Tax, which would be paid by owners of a house having more than six windows. One way for a person to avoid paying the tax was to brick up the windows over the stated six. The Window Tax was repealed in 1851 after 155 years. Even today, some older houses still have bricked up windows—a lasting unintended consequence of taxation.

Maintenance Tax

Today, we sometimes inadvertently tax maintenance resources in our plants and facilities. We unwittingly penalize the very resources responsible for maintaining the revenue-generating assets of the business. And, as with the historically significant taxation levied by the British in the 18th century, the unintended consequences overshadow the original intent—maintenance labor and resources used for non-maintenance purposes.

How is the “maintenance tax” levied? Any time maintenance personnel and labor hours are diverted from maintenance work to perform non-maintenance work, we are taxing them. So why do we “tax” our maintenance resources? The practice is often a continuation of old habits that just don’t make sense in these competitive times. Who would do such a thing? Often, business decision makers, executives, managers, supervision, and yes, even hourly maintainers, with all the best of intentions, get distracted with special projects, odd jobs, (“government work” it used to be called) assigned to the maintenance workforce because they are already paid for in the budget. These “special interest groups” often have a subtle agenda to get their projects completed at the lowest possible cost. The assumption is that this internal labor force can be redirected to non-maintenance work at no additional cost to the business. Great deal? Absolutely not! This is an internal “tax on maintenance” that leads to reduced actual maintenance work. And there’s more.

Many businesses try to balance maintenance spending, trim maintenance costs, and assure that the maintenance budget is not being over spent. Often, maintenance budgets get cut back in the midst of a budget year. And, here are the unintended consequences of the “maintenance tax.” Real maintenance work has already been delayed, labor hours are diverted to non-maintenance work, but the cost still appears as a “maintenance expense” to the business’ bottom line. Then the required maintenance work, planned and preventive maintenance work, including the maintenance work order backlog remains untouched. And the unintended consequences continue.

Deferred planned and preventive maintenance often leads to unreliable equipment. Next, the diverted (taxed) maintenance resources are stretched even thinner as they are required to respond to breakdowns. The “maintenance tax” continues to benefit the special-interest projects at the expense of the very assets that generate revenue from reliable on-time production throughput and reliable facilities.

Tax and spend? Spending money that doesn’t exist is what happens after the “maintenance tax” is levied. The business goes into debt, funding emergency maintenance activities by “borrowing” from other budget line items and curtailing the planned and often needed spending of the donor organization budgets. The tax-and-spend strategy then results in much higher maintenance costs per unit produced, much higher maintenance cost per asset replacement value, and the maintenance organization takes the hit (again) to dramatically reduce their costs.

Avoid unfair taxation. Campaign for reductions of the “maintenance tax” in your organization by tracking and reporting non-maintenance work, special projects, and other un-budgeted activities that take direct hits on your maintenance resources. Encourage decision makers to contract with outside groups for this type of work. Make your own competitive bid at the current internal billing rates if your maintenance personnel have the time available. Help everyone in your business understand the true cost of real maintenance, an investment in capacity assurance, and the unintended consequences of over taxing maintenance resources.

Today’s business leaders must not underestimate the true role of maintenance in their business. Maintenance is not a service group, nor is maintenance a supplier to production but rather a true business partner. And a “tax” levied against maintenance is a burden on everyone in the organization. The unintended consequences of a "maintenance tax" include a more reactive, less predictable, less reliable, high cost, function of the business.

Another Maintenance Tax

Federal, state, and local taxes on maintenance exist, too. Many states and localities in the U.S. have a "tool tax" on mechanics and skilled trades' tools hidden in their personal property tax codes. Skilled maintenance workers and other trades people are required to pay annual property taxes on the very tools they use to earn wages (which are also taxed)—and we wonder why there are shortages of skilled trades people. In the state of Virginia, residents and property owners can take a tax credit for solar-powered equipment, facilities, and devices they can apply the solar tax credit to their personal taxes owed for "machinery and tools." So, it seems investing in "solar energy" is more important than tools for maintaining plants, facilities, and equipment.

Our neighbors to the north have a better idea. Ontario province passed a permanent employers' tax credit for 30 percent of salaries paid to apprentices in on-the-job training. And in 2006, Saskatchewan province passed a "tool tax credit" to help ease the skill shortage burden and attract more trades-workers to the province. New trade employees can write off a portion of their tools as a tax credit on their personal income taxes. Then each year, any tradesperson can take a tax credit for the amount spent on tool maintenance and replacement. Tax credits are much better than a deductable expense. Tax credits reduce the personal income taxes owed. These are a few of the ways that Canada is addressing their skilled trades shortages and encouraging people to enter skilled trade careers.

Back to the Lessons from 18th Century America

In 2005, historian Gary B. Nash wrote this about the British Stamp Tax revolt: "Both loyal supporters of English authority and well-established colonial protest leaders underestimated the self-activating capacity of ordinary colonists. By the end of 1765 … people in the streets had astounded, dismayed, and frightened their social superiors." This public outcry from ordinary citizens led to the repeal of the British Stamp Act and a significant cultural change in America.

These unintended consequences are part of what made these United States of America and our workforce the most productive in the world. Let's not forget our roots.

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