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# REMARKS OF SENATOR DOLE

## CENTURY 21 CONVENTION

Friday, April 27, 1984--2:30 p.m.--Orange County Convention Center

### Why worry about the deficit--What does it mean to the average American?

- If nothing is done to reduce deficit spending over the next five years, the total Federal debt will nearly double to over $10,000 for every man, woman and child in America.

- At this level, by 1989 it will take one-half of all Americans' personal income tax payments just to pay the Federal Government's interest bill.

- By 1989 the annual Federal interest cost will amount to $250 billion--about $1,100 for every American.

- That $1,100 per person interest cost is equal to 40% of each person's annual expenditure for food.

- Virtually all economists agree that the sustained enormous deficits that we are facing will be economically harmful.

- Many Americans will find home-buying more difficult with higher deficits. Consider a family purchasing a home at today's current interest rate, averaging about 12-1/2%, with a $55,000 mortgage. If the deficits push interest rates up, total interest costs over the 30 year term will be $15,500 more for each one percentage point increase.

- All Americans will directly feel the results of high deficits if they lose jobs as a result of a business slowdown resulting from a crowding out of private investment, or if they lose jobs to imported products made more competitive because of an abnormally strong dollar or if they end up paying higher prices because inflation is rekindled.

### What is the Federal deficit likely to be?

- The estimates of future Federal deficits are quite sensitive to one's economic assumptions. Yet even under the most optimistic of economic assumptions, the deficit will remain at historically high $200 billion levels over the foreseeable future, unless drastic action is taken.

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proposed spending cuts and revenue proposals are enacted, the deficits are still projected to be:

| FY 1985 | FY 1986 | FY 1987 | FY 1988 |
|---|---|---|---|
| $180 billion | $177 billion | $180 billion | $152 billion |

- If economic growth is not so strong (3% real GNP growth) and interest rates are slightly higher (9% T-bill rate), and Administration's spending cuts are not enacted, the projected deficits would be:

| FY 1985 | FY 1986 | FY 1987 | FY 1988 |
|---|---|---|---|
| $202.6 billion | $236.7 billion | $270 billion | $290.1 billion |

- If we have an economic downturn during this period, we may be facing $300 plus billion deficits.

Why should we act this year on the deficit

- If we fail to deal with the deficit now, the problem will become worse. Current projections showing deficits holding in the range of $200 billion probably are optimistic, as they are based upon assumption of steady economic growth through 1989. However, postwar experience suggests that the average recovery lasts only 3 years, making a recession in 1985 or 1986 likely.

- If we postpone action until 1985 and we do suffer another recession, the deficits would then hit the $300-$400 billion range. At that point, it may be difficult to cut the deficit without further weakening the economy. Our choices would become very difficult indeed.

- Of course, failure to reduce the deficit in 1984 makes a recession likely to come sooner, as interest rates are forced up by private credit demands clashing with Treasury borrowing needs.

- By postponing action of the deficit, we increase the risk of recession. The average increase in the unemployment rate during a postwar recession is about three points, or three million jobs. By acting to reduce the deficit, we can significantly lower the risk that three million workers will lose their jobs in 1985 and 1986.

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- The rise in interest rates will depress auto sales, housing starts, and capital goods orders. It is widely recognized that sustained economic recovery will be impossible unless these key sectors are healthy.

- Alternatively, the Fed could offset the deficits' impact on interest rates by "monetizing" the debt, leading to a resurgence of inflation in 1985. If we do nothing, we will force the Fed to choose between high interest rates and recession, or inflation.

- Failure to reduce the deficits in 1984 may also depress the stock market. A key factor in determining equity and bond prices is investors' confidence that Congress and the Administration can produce a sound fiscal policy. If we send the signal that the deficit problem is secondary to politics, equity and bond prices may fall.

- The exploding cost of servicing the Federal debt will make controlling spending more difficult each year, unless the deficits are reduced soon. Each year that we add $200 billion in new Federal debt adds about $15 billion to the next year's interest costs.

- The economy is now on a path where more and more of its resources go just to pay off the debt. According to economist Lawrence Summers, "It's a case where the miracle of compounding (interest) works against you."

- In 1976 net interest accounted for just 7% of total outlays <u>But if we do nothing</u>, by 1988 the total Federal debt will be more than half of total GNP, and the net interest cost of servicing this debt will reach 14% of all spending. Each year that we do nothing, the share of Federal spending that we can control gets smaller.

- Recent studies indicate that current and prospective budget deficits may have helped to overvalue the American dollar. If the deficits are not reduced, the problem of overvaluation could become worse, weakening the competitive position of American exports and costing the U.S. jobs in such industries as steel, electronics, and agriculture.

<u>Deficit downpayment in 1984</u>

- The President took the lead to begin a deficit-reduction effort in 1984 by calling for bipartisan negotiations on a package to reduce the deficit by $100 billion over 3 years. Now he has worked with congressional Republicans to outline a $150 billion package including defense savings ($40 billion), nondefense cut

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($43 billion), revenue increases ($48 billion), and debt service savings ($18 billion). As the President suggests, we can work with a variety of modest spending reductions, and tax reforms that raise revenue, to enact a significant deficit "downpayment" in 1984.

- Even though election-year politics makes it difficult to launch the kind of major assault on the deficit that we really need, that is no reason to do nothing. Making a noticeable dent in the deficit will make our job easier in the years ahead. Even more importantly, it will demonstrate that we can face up to the deficit problem even in an election year.

- The Senate has adopted the Finance Committee's proposals on spending and revenue options just within its jurisdiction that achieve about $74 billion of the "downpayment" goal. To do that we draw on a number of proposals that have been on the table for some time, including some that were already in the legislative "pipeline":

  -Items included in the FY 1984 reconciliation bill, S. 2062

  -Treasury-endorsed proposals on tax shelters and other abuses

  -Administration -proposed spending cuts that were not followed through on last year

  -Administrative savings and other proposals made by the Grace Commission

  -Additional proposals considered in the Finance Committee last fall

- Target. With an overall goal of $150 billion in savings, we can raise $48 billion in revenue, save $40 billion in defense, and save $43 billion in nondefense programs, including $24 billion in spending reduction from Finance Committee programs such as $3.1 billion from Grace Commission recommendations, and $9.6 billion in debt service savings. The remainder consists of additional spending changes and controls on appropriated funds.

- Feasibility. The key is to keep following the President's suggestion and concentrate on relatively non-contentious items, avoiding things like the third-year tax cut and indexing, mean-tested entitlements, social security, and the like. Our effort must be bipartisan and balanced to do the job: Democrats and Republicans alike will benefit by cooperating to take swift action on the deficit. Time is of the essence if we are to make a beginning this year.

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- Initial Action. On February 23, the Finance Committee began action to reduce the deficit. The Committee bill agreed to by the Senate includes changes in health care programs that save over $10 billion between now and 1987, the $3.1 billion in Grace Commission savings, and $9.6 billion in reduced debt service. In addition, the Senate agreed to tax reform and modest revenue raisers that generate about $48 billion between now and 1987. The House has also approved a $50 billion tax bill, so we are on our way.

## Recovery--What progress have we made

### Strength of recovery

- A strong recovery is on track and appears to be moderating to a pace that can be sustained in the years ahead. As an indication, look at the expansion of real gross national product. It grew by 9.7% in the second quarter of 1983, 7.9% in the third quarter, and an estimated 4.5% in the fourth quarter. By this measure, the recovery is the strongest since 1961.

- Housing starts are running at a rate of about 2.2 million units a year, and jumped 11.2 % in February.

- Industrial output in 1983 rose 6.5%, and factory utilization is up to 80.7%--the highest level in two years, and close to the normal capacity of 82%.

- The Commerce Department's survey of business plans for 1984 show that business plans to increase capital investment by 16%--this is higher than that seen at comparable points in previous postwar recoveries.

### Inflation

- The best news about this recovery is that it is noninflationary. In 1983 the producer price index rose just 0.6%--the lowest increase since 1964. The CPI for 1983 was 3.8%, the lowest since 1972. Continued moderation in producer prices indicates low inflation will continue.

### Creating Jobs

- People are going back to work, and the pace of job creation has been unusually high for a postwar recovery. On January 6 the Labor Department announced the civilian unemployment rate dropped from 8.4% last November to 7.8% in February. Overall, this means unemployment has dropped 2.9 percentage points over the past year.

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- The continued strength of the recovery shows that recent growth in employment has not just been a statistical fluke, but shows a real turnaround in the labor market. Unemployment fell 230,000 in December, and there have been 4.9 million jobs created in the last year.

- What is more, the growth in jobs is broad-based. While manufacturing industries showed the most dramatic gains, all industries other than government and agriculture showed dramatic drops in unemployment.

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# HIGHLIGHTS OF SENATE DEFICIT REDUCTION DECISIONS

(Savings estimates are for period 1984-87, and include outlay savings in S. 2062)

## Spending Restraint

- Medicare Part B Premium. Stablize the premium as a percent of program costs between 1985 and 1990. ($1.2 billion)

- Delay initial Medicare eligibility until month after an individual's 65th birthday. ($630 million)

- Working age. Non-working spouses age 65 to 69 could elect primary medical coverage under spouse's employer health plan rather than Medicare regardless of working spouse's age. ($1.1 billion)

- Physican freeze. Continue until July 1986 a freeze on physican's fees for those unwilling to accept assignment for all services to Medicare patients. ($2.8 billion)

- Fee schedule for lab services. Payments for clinical lab services would be held at 62 percent of prevailing charge levels through October 1987 ($1.0 billion)

- Limit on hospital costs. For FY 1985 and FY 1986 increases in hospital cost payments under Medicare would be limited to one-half percent less than the hospital wage and price index increase. ($1.1 billion)

- Grace Commission. Improved cash management techniques (e.g. faster deposits of receipts to the government), improving income verification procedures for benefit programs, and using IRS refund offsets to collect debts owed the government would be implemented. ($3.1 billion)

- Debt service. $9.6 billion.

## Revenue Increases

- Tax reform. New rules would be applied to limit tax shelters in such areas as partnership allocation of expenses and income interest deductions on discount obligations, transactions between related parties, current deductions for future liabilities, and corporate deductions for extraordinary dividends received. ($10.2 billion)

- Tax benefits. Where a taxpayer receives a refund or other recovery for State taxes or other situations that previously gave rise to a deduction, the tax benefit portion of the deduction would be brought back into income first. ($800 million)

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- Real Estate. Depreciation rules (20 years for all structures in FY 1984, 19 years in FY 1985, 18 years in FY 1986 and thereafter, new or used), and recapture rules for real property would be adjusted. ($4.4 billion)

- Freeze. Expensing for small business investment would be frozen at $5,000, the cost of used property eligible for the ITC would be frozen at $125,000, and the foreign earned income exclusion would be frozen at $80,000. ($1.9 billion)

- Distilled Spirits. Federal excise tax would be increased $2.00 per proof gallon ($1.0 billion)

- Income Averaging. The base period for determining the income averaging threshold would be reduced to 3 years and the formula slightly modified. ($1.6 billion)

- Earnings and Profits. The definition of earnings and profits would be modified so that it more closely reflects a corporation's economic income rather than its taxable income. This change will reduce a corporation's ability to pay tax-free dividends. ($1.7 billion)

- Add-Ons. In addition to miscellaneous items, the Committee agreed to phase in spousal IRAs; an R&D package; foundation tax changes; extend the targeted jobs credit for 3 years; enterprise zones; increase the earned income credit; Foreign Sales Corporations; energy credit extension with credit reordering; and others.

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March 23, 1984

PRELIMINARY ESTIMATES OF THE SENATE FINANCE COMMITTEE PACKAGE

| SPENDING | 1984-87 Total (Savings in $ billions) |
|---|---|
| Reconciliation (S. 2062) | |
| Finance Committee provisions | 3.8 |
| Additional Spending Reductions | |
| *Part B Premium | 0.4 |
| *Delay in Initial Eligibility for Medicare | 0.6 |
| Working Aged | 1.1 |
| *Physician Freeze | 0.8 |
| Hospital Market Basket | 1.1 |
| Lab Fee | 0.9 |
| Medicaid Reduction | 1.4 |
| Alcohol Rebate | 0.9 |
| Revaluation of Assets | 0.3 |
| Lesser of costs of charges | 0.3 |
| Competitive Bidding/Claims | 0.1 |
| Round Part B Payments | 0.2 |
| SNF Rates | (0.1) |
| Grace Commission | 3.1 |
| Debt Service | 9.6 |
| Total | 24.5 |

| | 1984-87 Total (In $ billions) |
|---|---|
| Reconciliation Tax Provisions (S. 2062) | 21.4 |
| Additional Revenue Items: | |
| Tax shelter, accounting abuse, and corporate reform | 10.2 |
| Tax Federal Home Loan Mortg. Corp. | 0.3 |
| Tax benefit rule | 0.8 |
| Alcohol and tobacco collections | 0.5 |
| Freeze ACRS expensing, ITC for used prop. and foreign income exclusion | 1.9 |
| Postpone finance lease rules | 2.7 |
| Extend telephone-excise tax | 3.2 |
| Modification of Sec. 1231 | 0.2 |
| Factoring of trade receivables | 1.4 |
| Source of shipping income | 0.2 |
| Recharacterization of U.S. income as foreign source income | 0.3 |
| Trust distributions | 0.7 |
| Income averaging modification | 1.6 |
| Delay in ESOP | 0.4 |
| Corporate preference exclusion increase | 0.5 |
| Increase distilled spirits tax | 1.0 |
| Deferred rent on real and taxable property | 1.7 |
| Repeal dividend reinvestment | 0.4 |
| Installment sale recapture rule | 0.2 |
| 20-year life for structures | 4.2 |
| Other miscellaneous revenue increase proposals | 2.6 |
| Major Revenue Loss Provisions: | |
| Spousal IRAs | -.9 |
| Enterprise zones | -1.3 |
| R&D credit extension and expansion | -2.0 |
| R&D foreign source allocation | -0.2 |
| Targeted jobs tax credit | -1.6 |
| Life insurance tax change | -1.3 |
| Earned income tax credit | -0.4 |
| Mortgage revenue bond extension-IDB package | -0.6 |
| Grand Total | $48.1 |

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## Fairness: Equity Improvement In the Deficit Reduction Act

The deficit reduction package approved by the Senate Finance Committee encompasses major improvements in the law designed to ensure more equitable treatment of all Americans, particularly those most in need. These provisions should not be overlooked as Congress focuses on the overriding goal of reducing the deficit.

- Tax Reforms and Limits on Tax Shelters.--The bulk of the revenue raised under the bill comes through real tax reforms: limits on tax shelters, changes in special corporate provisions and accounting rules, and measures to make the tax system fairer by reducing special benefits to a privileged few. The only impact on the average taxpayer, of a $48 billion total, is $1 billion from a $2 per proof gallon increase in the distilled spirits tax, and $3.2 billion from a 3-year extension (not an increase) in the telephone tax. Specifically:

  -The bill includes rules to limit the practice of taking large deductions for charitable donations of appreciated property. Some individuals have bought property, such as gems, at one price, but taken a deduction for a much higher value--and succeeded in doing so, because questions of valuation are complex. The bill includes new valuation and reporting requirements where a large valuation is claimed, an independent written appraisal, and a rule to disallow the charitable deduction where claimed value exceeds true value by at least 50 percent.

  -A number of provisions in the bill address one of the major failings of the tax code, which has been to disregard the time value of money and the mismatching of income and deductions when parties to a transaction use different accounting methods for tax purposes. One of the loopholes the bill addresses in this area is the treatment of deferred rent leases. Under current law an accrual basis taxpayer can enter into a lease with a cash basis lessor where the rent is not to be paid for several years. The lessee may be able to accrue rent each year although rent may not actually be paid for several years. The lessor need not take the rent into income until paid, but is able to claim ACRS deductions to offset other income. The bill forces the lessor and lessee to treat the lease in a similar manner to preclude this loophole: the lessor must accrue rental income annually and will be treated as having loaned the rent back to the lessee at interest. Payments of rent in later years will be treated

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in part as rent, and in part as payment of interest and principal on the loan.

-Several other provisions address various tax-motivated transactions involving buying and selling stock when companies pay large dividends. For example, last year Chrysler paid $110 million in back dividends on its preferred stock. It is estimated that dividends cost the Treasury $100 million because of the large number of tax-motivated trades in Chrysler preferred stock. This loophole would be closed by reducing for tax purposes the basis of a share of stock held by a corporate shareholder by the non-taxed portion of any nonliquidating extraordinary dividend for such share if the share is sold or exchanged before it has been held by the taxpayer more than 1 year.

-Another highly publicized tax gimmick whose advantages are eliminated by the bill is the oil and gas royalty trust, such as the one promoted for Gulf Oil by T. Boone Pickens. This is done generally by taxing a distributing corporation on any appreciation in value of property distributed in a non-liquidating distribution.

-The bill also eliminates the ability to defer tax through such transactions as stock option straddles and leveraged purchases of Treasury bills. These gimmicks are now widely used on Wall Street and elsewhere to achieve tax deferral.

-Another loophole addressed by the bill is the ability of partners to shift income and losses to a partner who has a lesser potential tax liability. This is done by providing a new rule governing allocations between partners when property is contributed to a partnership.

-A further loophole closed under the bill is a "sweetheart" deal between Puerto Rico and U.S. distillers. We have rebated excise taxes on liquor that was distilled elsewhere then shipped into Puerto Rico for a bit more distilling, with the claim that the product was of Puerto Rican 'manufacture'. The rebate has been split between Puerto Rico and the distillers involved, to the disadvantage of competitors.

-Another restriction on tax avoidance in the bill concerns cases where shareholders pay no tax on a portion of dividends in situations where the current earnings and profits rules understate economic income. This is addressed by modifying the definition of earnings and profits used for determining whether dividends are tax-free, so that the definition will more closely reflect a corporation's economic income rather than taxable income.

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-A major provision of the bill limits tax benefits available for property leased to or otherwise used by tax-exempt entities, whether units of government or foreign entities. There is little justification for letting tax benefits flow to entities that by definition are tax-free, while the rest of the taxpayers pick up the tab.

- Earned Income Credit.--The bill provides the first increase in the earned income tax credit (EITC) since 1978. The EITC is one of the few refundable credits in the tax code and is designed to help the lowest income taxpayers who are trying to make it on their own without government assistance, but who are faced with significant social security and income tax burdens as a result of being in the work force.

  The bill increases the EITC percentage from 10% to 10.5%, and raises the phase-out level of the credit from $10,000 to $11,000. This should help working families "at the margin", including working women who are heads of households.

- Targeted Jobs Tax Credit.--The bill extends the targeted jobs tax credit (TJTC) for 3 years, through 1987. The TJTC is available to employers of individuals from groups found to be particularly disadvantaged in the work force: handicapped participating in vocational rehabilitation, economically disadvantaged youth, economically disadvantaged Vietnam veterans, SSI recipients, general assistance recipients, economically disadvantaged cooperative education students and ex-convicts, AFDC recipients, and disadvantaged youth in summer employment. Currently 435,000 individuals are working under the TJTC program, and this 3-year extension should broaden employment opportunities for the disadvantaged in our society.

- Spousal IRA.--The bill would phase in rules to give nonworking spouses the same IRA privileges as working spouses have. As a matter of basic equity, the Finance Committee believed that spouses with no earned income should have the same advantage in saving for retirement as spouses with earned income, because they have the same need. Over a 7-year period, the bill would phase in a full spousal IRA deduction of $2,000 per year.

- Mortgage Credit Certificates.--The mortgage revenue bond (MCC) program was designed to aid homebuyers at the lower end of the income scale seeking to buy a home. The bill does extend MRBs, but the committee was concerned that the program has not been properly targeted to those most in need. To remedy this problem, the bill authorizes State and local governments to offer mortgage credit certificates (MCCs) in lieu of bond financing. The entire benefit would go to

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first-time homebuyers, and would be phased out for taxpayers above median income. The same Federal resources can in this way be targeted more effectively to those who most need assistance.

- Enterprise zones.--While economic recovery is proceeding at a fast pace, the committee recognized that some areas are always left behind, where development and jobs can't seem to get a foothold. To help these distressed areas help themselves, the bill authorizes 75 "enterprise zones" over 3 years, to be chosen based on degree of distress and State and local contributions to development. These areas will get Federal tax and regulatory relief, including new jobs and investment credits, capital gains relief and greater availability of IDB financing. The goal is to avoid the federally directed subsidy programs of the past, and give communities the tools to develop the inner cities and depressed rural areas in cooperation with the private sector.

- Architectural barriers to the handicapped.--The committee was concerned with the need to ensure that citizens who have a physical disability have an equal chance to participate in the workforce and in society. Accordingly, the bill reinstates the deduction for removing architectural and transportation barriers to the handicapped for 2 years, and increases the deduction from $25,000 to $35,000. Examples are providing access ramps, special entrances and exits, elevators, or special transportation services.

- Charitable use of autos.--To help those who give their time and energy in voluntary public service, the bill increases the amount that taxpayers can deduct for mileage costs for using their car in charitable service. The deduction would rise from 9 cents to 12 cents per mile.

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## Real Estate Is Not Asked to Bear An Undue Tax Burden

### Realtor Claims

- Some real estate lobbyists, notably the National Association of Realtors, have been running around the Hill trying to create the impression that the real estate industry is being asked to bear an undue burden by the Finance Committee bill.

- Specifically, the Realtors have made the assertion that 25 percent of the tax burden of the Committee bill in some way falls on "housing and real estate alone."

- This assertion is flatly wrong.

### The Facts

- At my request, the nonpartisan Joint Committee on Taxation reviewed the Realtor's list of provisions of the Committee that are purported to have some effect on real estate.

- The Joint Committee's analysis demonstrates that the Realtor's paper not only grossly overstates the revenue impact of the so-called real estate provisions, but they overlook a number of tax provisions in the bill beneficial to real estate.

- Thus, the provisions in the bill in any way related to real estate have a net revenue effect of approximately $6.9 billion which is far less than the $12.4 billion claimed by the Realtors.

- In TEFRA, the real estate industry was largely given a free ride.

- The real estate-related provisions account for only about $5.5 billion or 3% of the $196.1 billion expected to be raised by TEFRA over the period FY 1984 through 1987.

- In the Committee's current bill, the Deficit Reduction Act, real estate related provisions account for only about 14% of the net revenue of the legislation, far less than the 25% claimed by the Realtors.

- In TEFRA and the Deficit Reduction Act combined, real-estate provisions account for approximately $12.4 billion of the $244.1 billion total revenue increase. Hence, real estate amounts to only 5% of total revenues.

- Since private investment in structures accounted for about 8% of the GNP in 1983, a 5% tax burden on the real estate industry is hardly undue, disproportionate, or unfair.

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## The Average Realtors Will Not be Affected in Any Way by the So-called "Real Estate" Provisions in the Committee Bill

- The average realtor will not be affected in any way by the so-called "real estate" provisions of the Finance Committee, other than perhaps the depreciation changes.

- Indeed, the vast majority of the so-called "real estate" provision close egregious and indefensible tax shelter practices or corporate tax loopholes.

- For example, do you think the average realtor objects if we prevent abusive leaseback transactions by tax-exempt entities, such as the sale-leaseback deal proposed for the Bennington College campus? Based on the realtors that I have talked to, the answer is no.

- Will the average realtor be affected by the provisions designed to bring about better enforcement of the capital gains tax on foreigners who buy and sell U.S. real property? No.

- Are realtors concerned about the increase in the corporate preference disallowance, or the broadened definition of corporations earnings and profits, or reforms for real estate collapsible corporations. No.

- These are all tax avoidance tools used by corporations and ultra-sophisticated tax shelter promoters, not the realtors in Kansas or elsewhere trying to make a living.

## The Average Realtor Is First and Foremost Concerned About Interest Rates

- Some real estate lobbyists pay lip service to deficit reduction, at the same time they work to elminate any provisions affecting their industry from the package.

- Yet, interest rates are what the average realtor is concerned about--first and foremost.

- If mortgage rates continue to edge up beyond 13 1/2 to 14 percent, 15 percent and beyond, home sales will again take a nose dive.

- Thus, I believe that putting together and passing a deficit reduction package that reassures the markets and dampens the upward pressure on interest rates should be the highest priority of the realtors and all other groups dependent on real estate sales.

- The need to enact deficit reduction legislation far outweighs protecting tax shelter promoters and corporate loopholes.

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## Recent Tax Legislation Has Benefited Real Estate Professionals

- Every dollar of spending reduction and revenue increase was difficult to pass in Committee and on the Senate floor, both in the 1982 TEFRA bill and in the 1984 Deficit Reduction Act.

- But, even while most other industries were being asked to contribute to deficit reduction for economic recovery, real estate professionals were the beneficiaries of important tax reductions both in 1982 and 1984.

- In 1982, Congress permanently clarified the independent contractor status of independent real estate professionals. Although the Treasury Department and the House of Representatives strongly resisted general provisions dealing with the independent contractor disputes between realtors and the IRS, the Congress did agree to a proposal which I sponsored to provide a special, permanent rule for real estate professionals.

- In 1982, Congress liberalized the rules affecting mortgage subsidy bonds, in order to give a boost to have sales. And in 1984, the House and Senate both approved an extension of the mortgage subsidy bond program to keep first-time homebuyers afford homeownership.

- This year the Senate and House have also approved another homeownership assistance program which I sponsored that will allow first-time homebuyers to receive mortgage credit certificates or MCCs. These certificates will permit an increase of up to 50 percent of the amount of subsidy for homeowners, over the subisidies provided by mortgage bonds.

- These tax changes are costly. Mortgage bond extension alone will reduce revenues by $2 billion over the next 4 years.

- The Congress has shown its willingness to help real estate professionals in areas of vital interest to the industry even when the tax changes are costly. Real estate professionals should remember to look at this side of the ledger as well. Overall, even with the 1984 proposed changes, real estate professionals are still one of the favored groups in the Congressional tax writing process.

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## Industrial Development Bonds

- The Senate and House have both agreed to impose new restrictions on private purpose tax-exempt bonds. The House has chosen to impose a per capita volume limitation on a State-by-State basis. The Senate has rejected the concept of a per capita volume cap, and agreed instead to reduce depreciation deductions for property financed with Industrial Development Bonds. This disagreement must be resolved in conference.

- The Senate and House have similar provisions on a number of other IDB restrictions, including reforms of bond arbitrage rules, closing of loopholes in the small issue IDB program, and limitations on the use of small issue IDBs by large users of tax-exempt bonds.

- The Senate has also imposed restrictions not contained in the House bill, such as limitations on using IDBs for offices, office equipment, medical facilities, and parking facilities.

### Possible Resolution In Conference

- The Senate addressed itself clearly in opposition to the volume cap concept, and the Senate conferees will take seriously the sense of the Senate resolution passed on April 12, against a volume cap.

- The House conferees, however, can also be expected to fight hard for the volume cap, since it was achieved only after a series of difficult votes and maneuvers in the Ways and Means Committee, Rules Committee, and House floor.

- In the short run, the Senate provisions will raise about the same amount as the House volume cap. Indeed, some believe that the Senate bill will be more effective, since the House volume cap could act as a spur for States to issue more bonds, just to use their full allocation.

- The main argument in support of the House volume cap is that it may provide a long-term resolution of the IDB issue, at least on the Federal level. Unfortunately, the cap could create serious political and administrative problems on the State and local levels.

- It may be possible to reach a compromise by considering alternatives to the per capita volume cap that provide long-term control over the growth of IDBs without creating the problems of a cap.

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- Some alternatives that have been discussed include:
  - limiting IDBs to smaller companies;
  - limiting the permissible uses of IDBs, such as limiting use for retail or commercial facilities;
  - requiring local or State contributions to IDB-financed projects to "match" the Federal subsidy with a meaningful State or local subsidy.