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United States Senate
OFFICE OF THE MAJORITY LEADER
WASHINGTON, DC 20510

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TO: Senator Dole

FROM: George Pieler

SUBJECT: Talk to Rural Housing Council

For your stop-by Monday morning at the Council for Rural Housing meeting, attached are a brief discussion of the budget proposals on the rural housing program, and updated materials on tax reform issues that Rich prepared.

They would like, if possible, to hear some sympathetic word from you on rural housing programs--that you helped work out a budget plan that is more lenient than what the administration and the Budget Committee proposed, for example. Note that the House budget saves very little in rural housing, however (a 20% cut).

Attachments

COUNCIL FOR RURAL HOUSING

TAX TALKING POINTS

Effective Date of Capital Cost Recovery System and Binding Contracts

- The President's proposal would apply the new depreciation schedules to property placed in service after 1985. No binding contract rules are specified. The reason for this is that the Administration believes that grandfather and transition rules generaly are the perogative of Congress. They also believe that saying that the effective date will be in the future and there will be a binding contract rule would cause a rush to get binding contracts before the effective date.

- It is impossible to predict now what the effective date will be and what transition rules such as binding contract rules will apply. It is likely, however, that there will be an effort to avoid having a "window period" between date of Committee action and the general effective date to get binding contracts signed.

Low Income Housing

- The President's proposal puts low income housing in the same cost recovery class as other real property. It is too early to say whether there will be a successful effort to get more generous treatment for low income housing.

At-risk Exception for Real Estate

- Generally, the total amount of deductions which a taxpayer may take with respect to an investment is limited to the amount he has invested, including debt on which he is personally liable.

- However, investors in real estate (and certain equipment leases) may also take deductions equal to their share of debt on which they are not personally liable.

- The President's proposal would extend the at-risk limitation to real estate.

- The at-risk exception allows real estate investors a substantial benefit which is not available to other investors. It is difficult to justify and is a testament to the political power of the real estate industry in past years. As you may recall, the Moynihan minimum tax proposal in 1984 would have effectively

Rural Housing

• The Senate-passed budget resolution assumes outlay savings of $5.2 billion over the next three years in rural housing programs. While this is a substantial reform--cutting the program level by half--it is substantially more lenient than the original Senate-White House budget, which would have cut $8.7 billion by terminating the FmHA rural housing program and transferring its responsibilities to HUD.

• Under the Senate-passed plan, FmHA would retain funds sufficient to finance a total of about 35,000 units of single family and multifamily housing. In addition, the program would be more targeted toward relying on existing housing stock, including use of rental assistance and rehabilitation funding.

• All in all the final Senate compromise worked about with the administration, the Budget Commitee, and interested members strikes a good balance and is considerably less onerous than the original administration proposals.

• The House budget, on the other hand, does rather little--it assumes just a 20% reduction in rural housing programs, saving only $1.7 billion over three years.

repealed the at risk exception for minimum tax purposes. The Finance Committee decided to extend the ACRS recovery period for real estate instead.

- It would not be surprising if the at-risk exception for real estate were, in fact, repealed as part of the tax reform effort.

- <u>Deductibility of Interest</u>

- The President's proposal is tougher on investment interest paid then the original Treasury proposal. The Treasury proposal would have limited net interest paid over $5,000 to interest adjusted for inflation. The new proposal would deny the deduction for investment interest paid completely to the extent it exceeds investment income plus $5,000.

- So far, this change has not received much attention but it is still very early in the process.