FRIDAY, APRIL 25, 1986

Wrong info. for Credit Union Mtg

6:30 p.m. 51st Annual Meeting - KANSAS CREDIT UNION LEAGUE

Overland Park 1st Marriott - 450 people - Duane Nightengale, Kansas Republican State ~~Chairman~~ TREASURER (and also with NEKAN Bell Credit Union where our office used to be, is the contact on this

Dinner when?

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CREDIT
UNION

RECENT DEVELOPMENTS IN BANKING AREA

- Congress and bank regulators worked in tandem this year to effect changes which will have the effect of forestalling some bank closings. Legislation introduced, hearings held, bill ready to be passed - then regulators adopted by regulatory fiat principles embodied in legislation.

- The key elements of the package can be explained by the following example:

  - Farmer has original loan of $100,000. At some point when the loan is past due and chances of repayment are slim, the bank simply writes off the loss. Under current practices, when the bank acknowledges the loss, it is charged off against reserves which have been set aside for that purpose. Losses over and above whatever loan loss reserves there are must be covered by the bank's capital. Thus, excessive losses have served to impair a bank's capital.

  - The problem has been that the bank must maintain a minimum capital to asset ratio of 6%. In some cases, the excessive losses have caused the capital ratio to fall below 6%, thus causing bank regulators to close the bank.

  - Our plan encourages the bank and the lender to renegotiate the terms of the loan. The bank has an incentive to renegotiate because whatever amount he loses in the renegotiation doesn't have to be called a loss for accounting purposes. The test is that the renegotiated loan qualifies for this treatment if, after the renegotiation, the total amount of cash receipts which can be reasonably anticipated exceed the original principal amount of the loan.

  - On the $100,000 loan which has been in arrears, the total amount which is due and owing may be far more than the original $100,000 due to interest which is accruing. In renegotiation of this loan, all the bank and borrower have to concern themselves with is the $100,000. And all they have to do in the restructuring is write a new loan which will allow the bank at some point in time to recoup the $100,000. It can be done at any speed - e.g., $5000 per year over 20 years - as long as the principal is recovered. This will have the effect of forcing a lot of zero-interest loans.

- This treatment is available to a bank where energy and/or agriculture loans account for 25% or more of its outstanding loans. In addition, the bank's capital can drop below 6% - to as low as 4% in some cases.

TAX ISSUES AFFECTING CREDIT UNIONS

- For the past several years there has been serious discussion about eliminating the tax-exemption for credit unions.

- Historically, the tax-exemption was granted for credit unions and cooperatives because they were small in size and comprised of people who otherwise had no access to banking services. Now the Navy Credit Union rivals Citicorp in assets so the size argument no longer holds.

- The President's proposal would repeal tax-exemption for credit unions with assets of $500 million or more.

- Taxable credit unions would then have been subjected to the same general tax rules as now apply to thrift institutions.

- The House bill has no provision on credit unions, and Sen. Packwood's proposal also suggests that we retain present law.

- In summary, nobody is seriously talking about taxing credit unions at this point. And if such a proposal did resurface, the tax-exempt status would be undoubtedly be retained for credit unions of $500 million or less, which would encompass all Kansas credit unions.

- Reminder: Judy Kay was told that this group has heard about credit unions for the past three days, and they are looking forward to hearing about something besides credit unions.

BOB DOLE
KANSAS

United States Senate

OFFICE OF THE MAJORITY LEADER
WASHINGTON, DC 20510

April 18, 1986

TO: SENATOR DOLE

FROM: RICH BELAS

SUBJECT: IMPACT OF YOUR DEPRECIATION AND FARMER AMENDMENTS ON KANSAS

Depreciation

The Roth-Heinz modification of the Packwood proposal on cost recovery essentially gave back about $25 billion of the $145 billion gained from repealing the investment tax credit. Because of you, airplanes were included in the most favored class of assets -- those that can be depreciated over five years using the 200 percent declining balance method.

The general aviation manufacturers, especially Beech, mounted a mail campaign to save the investment tax credit. You did what you could to help them.

Farmers

When a creditor writes down the principal on a loan, the amount of this "debt forgiveness" is considered to be income to the debtor. It is treated as though the creditor wrote the debtor a check in the amount of the debt forgiven and the debtor endorsed it back.

Under present law, if a taxpayer is insolvent, the amount forgiven is not considered income. However, the taxpayer has to reduce the basis in his property and reduce the amount of his other tax attributes such as NOL's and ITC carryforwards first.

The Grassley-Dole amendment extends this treatment to farmers who are not quite insolvent if they have a high debt to asset ratio.

Individuals would be treated as engaged in the trade or business of farming for purposes of the amendment, if at least 50 percent of their average annual gross receipts during the three taxable years preceding the year of the debt write-down was derived from the trade or business of farming. Only those individuals having a debt-equity ratio of at least 70-30 immediately before the write-down would be eligible for this treatment.

BOB DOLE
KANSAS

United States Senate

OFFICE OF THE MAJORITY LEADER
WASHINGTON, DC 20510

April 23, 1986

M E M O R A N D U M

TO: SENATOR DOLE

FROM: RICH BELAS

SUBJECT: STATUS OF TAX REFORM

I have spent some time today visiting with the Finance Committee tax LA's, the Committee minority staff and Dave Brockway. The discussions have confirmed that

1. there is no consensus to continue tax reform,

2. Senator Packwood does not seem to have a strategy to get the bill back on track, and

3. there does not seem to be a willingness to raise the revenues necessary to reduce rates to 35 percent and to meet the Administration's other requirements.

Brockway thinks he can get a rate structure based on the short list of revenue raisers I sent you previously by early next week. However, you might want to consider using the information only to get an idea of an optimistic range of possible rate reduction, given the current attitude of the Committee. It might also help get an idea of what items the Committee might be willing agree upon. However, unless the Administration shows a willingness to compromise, you would risk being blamed for undercutting the Administration's position if you initiated a compromise now. It might be useful simply to be supportive of Senator Packwood and tax reform generally and to continue pointing out that the Administration needs to work to convince the rest of the Committee and the Senate.

As a separate matter, I understand the minority staff is working on a short-form bill based primarily on raising less than $100 billion in corporate taxes. Bill Wilkins, the new minority staff director, thinks it would be difficult at this point to get Democratic support for any significant limitations on itemized deductions.

BOB DOLE
KANSAS

United States Senate

OFFICE OF THE MAJORITY LEADER
WASHINGTON, DC 20510

April 23, 1986

M E M O R A N D U M

TO: SENATOR DOLE

FROM: RICH BELAS

SUBJECT: POSSIBLE LIMITED TAX REFORM PACKAGE

In anticipation of the first members-only meeting on tax reform, I have prepared the attached "bare bones" tax reform package for your consideration.

I have asked Dave Brockway to estimate how much rates could be lowered if the package were enacted.

The Committee has tentatively agreed to additional items which I did not include in this package. The reasons I did not include every agreed-upon item are that: (1) there was not consensus on all the items in the title (e.g., accounting), (2) they lose revenue compared with present law (e.g., tax-exempt bonds), or (3) they were likely to bog down the bill on the floor.

Keeping the package short should give you an idea of how much rates can realistically be lowered by tax reform rather than by enacting new taxes. It also leaves some more difficult potential base broadeners for the Committee to discuss if they want to reduce rates further.

It may not be possible to do anything on itemized deductions at all. However, the floor or percentage denial approach may be considered less unattractive than other approaches.

The package does not include any increase in personal exemptions. If exemptions are doubled for any significant percentage of taxpayers, the revenue impact would be substantial. Either rates would have to be raised or additional revenue raisers adopted.

As a strategy to keep some semblance of tax reform alive, it might be reasonable for the Committee now to start with the corporate and individual minimum taxes. If there is a consensus on anything, there is a consensus that there is a perception problem which could be addressed by expanding the minimum tax.

Also, if Congressman Matsui's response last weekend to the President's radio address is any indication, Senators will have to refute the argument that they let tax reform die because they were more interested in special interest tax breaks than tax reform. Expanding the minimum tax could be a reasonable response.

Then, if the President wanted more rate reduction, he could make his position clear to the Committee.

Attachment

April 14, 1986

Superfund Status

• We are committed to keeping the Superfund program going, as we demonstrated by passing a 60-day extension to keep the EPA's cleanup projects in operation while the conferees on the Superfund extension bill continue to meet. That extension expires at the end of May, keeping the pressure on the conference to reach a sensible agreement.

• In addition, it is absolutely clear that both Congress and the President are determined to see a major increase in Superfund cleanup projects. Even the President's benchmark of $5.3 billion over five years is 3 1/2 times the funding level over the past five years. The Superfund conference seems to be gravitating towards a figure of over $8 billion: the Senate conferees have proposed $8.4 billion, and the House conferees have proposed $8.9 billion.

• At the same time, I know there is a lot of frustration with the slow progress of the conference. Chairman Stafford, for the Senate, has floated the 'last resort' idea of extending the current law governing Superfund if the House and Senate remain at loggerheads on the program issues, but with a much higher funding level. That is something we may have to consider, but it wouldn't solve the issue of how to raise the money.

• In short, there are still no easy answers to the problem of getting agreement on a Superfund extension. The House wants to get the money in large part by socking the oil industry, which may not need that kind of help these days. The Senate proposes a new broad-based VAT-type tax, which I have opposed on the ground that it would grow beyond bounds once it was put in place. But somewhere between the two--by giving a little even where we find the options unpalatable--we ought to be able to the job. All of the types of revenue sources that have been suggested may have to play some role in the end.

• I must say that we could have resolved this whole matter in late 1984, had it not been for the House playing political games with the program. As you recall, the House passed that year an irresponsible proposal, spending over $10 billion on Superfund and taking it out of the hide of the chemical and oil industries. As Chairman of the Finance Committee at that time, I tried to put together an alternative: but we ran out of time.

CP

FACT SHEET ON TERRORISM BILL

ELEMENTS OF THE BILL:

o Defines terrorism as an act of aggression by a foreigner, aimed at U.S. citizens and corporations, with the purpose of influencing our policy.

o Gives the President clear-cut authority to deal with specific acts of terrorism with all appropriate means, including deadly force.

o Gives the President authority to act to preempt as well as respond to specific acts of terrorism.

o Makes clear terrorists include not only actual "bomb throwers" but also those who organize, lead, fund and support terrorists.

o Requires the President to report to Congress within ten days of utlizing his authority, specifying in detail the terrorist threat or terrorist act that justified his action.

o Supercedes the War Powers Resolution by: (1) imposing no time limit, such as the 60 and 90 day time limits in the resolution, on the President's use of force in a terrorist situation; (2) requiring no prior consultation with Congress; (3) and extending the reporting period from 48 hours to 10 days..

PROTECTIONS IN THE BILL

o Limits the authority to terrorist situations.

o Insures, through the reporting requirement, that the authority will be used only to combat specific acts of terror.

o Does not expand the President's traditional powers to conduct foreign policy -- only to react to terrorism.

o Applies only to acts by foreigners and has no impact on the rights of Americans.

TALKING POINTS ON ANTI-TERRORISM BILL

Justification for bill

-- PURPOSE OF BILL: TO CLARIFY AND STRENGTHEN PRESIDENT'S AUTHORITY TO DEAL WITH TERRORISM.

-- TERRORISM IS AN ACT OF AGGRESSION AGAINST THE UNITED STATES.

-- WHEN THERE IS A CLEAR-CUT CASE OF TERRORISM, PRESIDENT MUST HAVE AUTHORITY TO REACT: QUICKLY, DECISIVELY AND WITHOUT A BUNCH OF SECOND GUESSING.

-- PERSONALLY BELIEVE PRESIDENT ALREADY HAS THAT AUTHORITY.

-- BUT RECOGNIZE OTHERS VIEW THIS CONSTITUTIONAL MATTER DIFFERENTLY.

-- IMPORTANT THAT IT BE CLARIFIED AS SOON AS POSSIBLE.

-- ALSO IMPORTANT THAT WE HAVE POLITICAL AUTHORITY OF CONGRESS CLEARLY BEHIND PRESIDENT. WILL IMMEASURABLY STRENGTHEN HIS HAD.

Protections in Bill

-- LIMITED TO TERRORISM SITUATIONS.

-- DOES NOT EXPAND PRESIDENT'S TRADITIONAL POWERS TO CONDUCT FOREIGN POLICY -- ONLY TO REACT TO TERRORISM.

-- REPORTING REQUIREMENT TO FURTHER INSURE WILL BE USED ONLY TO COMBAT SPECIFIC ACTS OF TERROR.

-- APPLIES ONLY TO ACTS BY FOREIGNERS.

-- DOES NOT IN ANY WAY IMPACT ON RIGHTS OF AMERICAN CITIZENS.
-- EXCEPT FOR INSURING THE RIGHT TO FREEDOM FROM TERRORISM.

Packwood Handout at Members' Only Meeting

Joint Committee on Taxation
April 24, 1986

25% Top Individual Rate Analysis

1. 25% top individual rate, and 33% top corporate rate.

2. Individual rate structure (15%/25%)

	JOINT	HEAD	SINGLE
Standard ded.	$ 4,650	$ 3,850	$ 2,850
25% break point	$ 35,000	$ 30,000	$ 27,000

   Disallowance of benefit from 15% bracket for high income taxpayers (phase out between $75,000 and $150,000 AGI).

3. $2,000 personal exemption; $150,000-200,000 phase out.

4. Repeal all itemized deductions. (Investment interest limited to investment income.)

5. Repeal capital gains exclusion.

6. Repeal IRA deduction.

7. Adopt principal revenue raising sections approved by Committee (depreciation, ITC, accounting, and foreign)

8. Generally adopt compliance, insurance, and 20% alternative minimum tax proposals in Chairman's package.

9. Revenue effect: Fiscal years 1987-1991 (Billions of dollars)

Individual	Corporate	Net Excise
-95	+70	+25

PRELIMINARY

ESTIMATED REVENUE EFFECTS OF POTENTIAL VARIATIONS OF THE POSSIBLE OPTION for Fiscal Years 1986-1991

[Billions of Dollars]

	1986-1991
A. Personal Exemption and Dependency Deductions	
1. Present law personal exemption and dependency deduction ($1,120 in 1987)............	135
2. Allow $1,500 personal exemption and dependency deduction..............................	62
B. Itemized Deductions	
1. Retain deductions for home mortgage interest and real property taxes.........................	-87
2. Charitable	
a) Allow deductibility against the 15% bracket..	-28
b) Allow full deductibility....................	-36
3. Income tax	
a) Allow deductibility against the 15% bracket..	-31
b) Allow full deductibility....................	-46
4. Sales and personal property	
a) Allow deductibility against the 15% bracket..	-16
b) Allow full deductibility....................	-18

Joint Committee on Taxation
April 23, 1986

April 23, 1986

Bradley-Gephardt Base-Broadeners

The table below sets forth rough order-of-magnitude estimates of the major individual tax base-broadening provisions of the Bradley-Gephardt tax reform proposal. Estimates are for the fiscal year period 1986-1991 and are measured in billions of dollars.

	Bradley-Gephardt Provision	Included in Chairman's Proposal
1. Increase personal exemption by $600; no change in dependency exemption.......	-50	-156
2. Fringe benefits........................	140	-0-
3. Sales and personal property tax deduction............................	20	20
4. Itemized deductions other than investment interest limited to first bracket................................	80	14
5. Capital gains at 30%....................	35	-0-
6. Repeal indexing of brackets and personal exemption.....................	70	-0-
7. Deduction for non-mortgage interest limited to investment income...........	20	10
8. 10% floor on medical deduction..........	5	-0-
9. Tax investment income of life insurance policies............................	25	-0-
	+ 345	- 112