KAY LUTHER

Speak

May 8
7 hrs

NVBA
NORTHERN VIRGINIA BUILDERS ASSOCIATION

George

May 2, 1986

Contact: Suzanne Karam
893-9805

VIA COURIER

The Honorable Robert J. Dole
The United States Senate
141 Hart Senate Building
United States Capitol
Washington, D. C. 20510

Dear Senator Dole:

RE: NVBA MEMBERS DINNER MEETING: 8 MAY 1986

Thank you most sincerely for your gracious acceptance of our invitation to address NVBA members and guests on the occasion of the May dinner meeting.

Among the many service-oriented special events NVBA offers members, the dinner meetings are deemed quite important. The 1986 platform has at its base a significant theme, "Builders of America", which lauds those special Americans who have undergirded the growth of our country with their ongoing contributions to various facets of American enterprise and leadership. Your leadership has eminently affected the Virginia citizenry and we are honored that you will be a part of the memorable "Builders of America" series.

It has been a pleasure working with Betty Meyer in the coordination of your visit, and, in reiteration of discussions we have had, these are the specificities of the May program:

SCHEDULE OF EVENTS

6:00pm - 7:00pm	Reception on the mezzanine
7:00pm - 8:00pm	Dinner service
8:00pm - 8:15pm	Awards presentation; announcements
8:15pm - 9:30pm (*)	Dinner address; panel questions and answers

(*) The length of this phase of the program is your privilege to determine.

PANEL QUESTIONS & ANSWERS

The panel is comprised of NVBA member bankers who would like to have the opportunity to pose several questions concerning the economy and current legislation which affects our membership.

Some of the topics are:

- Tax Reform Act -- What is the current status; how will it affect depreciation.

- Allowable deductions for home mortgage interest including vacation homes

- Chairman of the Federal Reserve, Paul Voelcker -- Coordinating the United States monetary policy with other nations

- Gramm-Rudman-Hollings Act -- NVBA members have opined that this new legislation is counterproductive in that it has negative impact on VA and FHA loan refinancing. Defaults which are occurring would be eliminated if the 14% interest rate was not imposed.

Your address to NVBA members during the breakfast for Congressman Wolf has been applauded time and again and several gentlemen who were present then have expressed an interest in your proffering the same talk at the May dinner.

GROUND TRANSPORTATION & ESCORT

NVBA would be pleased to provide limousine service for you -- please let us know what is preferable.

HOTEL ESCORT & PRESIDENT'S TABLE SEATING

On arrival at the Crystal Gateway Marriott, I will greet you and introduce you to NVBA's Chief Executive Officer, Sam Finz, and the Director of Legislative Services, Scott McGeary, who will escort you into dinner.

PRESIDENT's TABLE SEATING

Fulton R. (Sandy) Gordon, III (NVBA President, 1986)
Samuel A. Finz (NVBA Chief Executive Officer)
Scott McGeary (NVBA Director of Legislative Services)
George Shafran (President, Homes for Living Network)
Tom Shafran (President, Better Homes Realty)
Bill Detty (President, Detty-Anderson, Inc.)
Giuseppe Cecchi (President, International Developers, Inc.)
Mercedes Cecchi (Wife of Giuseppe Cecchi)
Suzanne Karam (Editor, Action Magazine/Dinner Meeting Administrator)

At dinner you will be seated with Sandy Gordon to your left and Sam Finz to your right. The dinner table is round which promotes comfortable table discussion.

DINNER MEETING AGENDA

The invocation and Pledge of Allegiance is followed by dinner at 7:00pm. A finalized agenda will be couriered to your office on Monday, 5 May.

PHOTOGRAPHY SESSION

It is customary that photographs are made immediately following dinner. Please specify your preferences for this element and the time you will allow the photographers to complete taking pictures.

PANEL MEMBERS

United Virginia Mortgage -- Bill Harris
Kissell Mortgage -- Jim Ca-ps
Dominion National Bank -- Pat Gunther (Mr.)
Sovran Bank -- Dennis Griffith

(First American Bank may participate; we will provide this information to you as soon as we know who will represent that organization).

Enclosed for your perusal is a copy of the dinner meeting announcement which was disseminated to the membership last week. The attendance is expected to be between 800 and 900. The ballroom will seat only 1,100, but with a stage, we are limited to 920/pp.

Also enclosed is the March/April edition of Action Magazine. Please note page 49, "Quote of the Month." With your permission I would like to print one of your quotes in the July/August edition. I will discuss this with your staff later.

Thank you, Senator Dole, for giving NVBA members and guest this memorable opportunity -- I look forward to meeting you Thursday evening.

Respectfully,

NORTHERN VIRGINIA BUILDERS ASSOCIATION

Suzanne Karam

Suzanne Karam
Editor, Action Magazine
Administrator for Special Events & Functions

Enclosures

BOB DOLE
KANSAS

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

May 8, 1986

TO: Senator Dole

FROM: George Pieler

SUBJECT: Talk to Northern Virginia Builders Association

In addition to general remarks on tax reform and the budget (materials attached) the NVBA expressed an interest in these issues:

(1) Depreciation. For real estate, the Finance Committee bill provides for 30-year depreciation. All property in the 5 and 10 year classes gets 200% double declining balance, switching to straightline--the so-called productivity property distinction was dropped.

(2) Mortgage interest deduction. The full mortgage interest deduction is retained for both first and second homes.

(3) Fed/monetary policy coordination. The main achievement of the Tokyo economic summit was to reach an accord on coordinating macroeconomic policies among the major industrial nations: primarily fiscal and monetary policy. That means interest rates, borrowing, budget deficits, and trade and capital imbalances. But so far all we have is an agreement to have a process: an agreement to talk. Hopefully that will be followed up on, and coordination certainly seems consistent with the Volcker view of the world economy.

(4) Gramm-Rudman/VA and FHA loans. NVBA is concerned about the impact of the first (1986) sequester on VA and FHA loan refinancing.

Attachments

5/8/86

Tax Reform in the Senate

- The Senate Finance Committee has done the country proud by producing the most far-reaching tax reform bill in history: and approving it by an overwhelming 20-0 vote. They said we couldn't beat the special interests--they were wrong.

- Tax reform in the Senate means the lowest income tax rates since 1931. The new rates are 15% up to $29,300 in income (joint returns), and 27% above that income level. On the corporate side, the rate is 33%.

- It also means significant tax reductions for working people in America, particularly the lowest-income wage-earners. 6 million low-income Americans will be taken off the tax rolls completely as a result of tax reform. The personal exemption will go up to $1,900 in 1987 and $2,000 in 1988. The standard deduction will go up to $5,000 for joint returns.

- Taxpayers with incomes of $10,000 or less get a 62% tax reduction; between $10,000 and $20,000, an 18% tax reduction; between $30,000 and $40,000, a 5% reduction; and between $40,000 and $50,000, a 6.5% reduction.

- These low, low tax rates are made possible by a major crackdown on unjustified tax shelters for the rich, and by eliminating many deductions, exemptions, credits, and the like. But mortgage interest, charitable contributions, and State and local income and property taxes remain deductible.

- A stiff new minimum tax ensures that no wealthy individual or corporation can avoid paying their fair share of tax.

Productive for the economy

- This bill achieves, in a big way, the major economic goal of tax reform: establishing a 'level playing field' by taking the juice out of special tax breaks. If we can get this bill signed into law, people will be able to make their financial and economic decisions without worrying so much about tax consequences--and that's a very healthy thing for the economy.

- In addition, the Senate bill creates a much healthier climate for investment and productivity than the House-passed bill. Depreciation allowances are more realistic, and more neutral among various industries than under the House bill.

• Simply put, lower tax rates for <u>all</u> taxpayers are bound to the premium out of planning your finances for the purpose of tax avoidance. And getting rid of some long-standing tax differentials--like capital gains rates, deductions for most interest payments, and dropping the investment credit--advances the same goal. From now on, straight marketplace judgment is what counts most--not creative tax accounting.

<u>Last step in the process</u>

• The new high-water mark on tax reform represented in the Finance Committee bill is the culmination of years of hard work in reducing and stabilizing tax rates and broadening the tax base. The groundwork for tax reform was laid in 1981 when, under my Chairmanship, the Finance Committee led the way for President Reagan's tax-rate cuts and initiated tax indexing to <u>keep</u> those lower rates in place, regardless of inflation.

• The next step was to resort to closing loopholes, improving compliance, and removing special preferences as a way to raise revenue, rather than re-imposing high tax rates on working Americans. That was done in both 1982 and 1984 under the Dole Finance Committee.

• The net effect of this was to point the way to a lower-rate, broader-based, fairer and more productive tax system. Tax indexing and accelerated depreciation were sort of like the Gramm-Rudman of the tax code: they force us to make choices we <u>ought</u> to have been making all along, and to face the fact that our tax code had become a maze of special preferences and privileges that had outlived their usefulness.

• Now let's finish the job: and achieve <u>true</u> tax reform for all Americans.

May 8, 1986

Real Estate Talking Points

- The tax reform bill reported by the Finance Committee will be very effective in reducing tax considerations as a part of investment decision making.

- With a 27 percent maximum tax rate, individuals will have little incentive to invest in tax shelters. For that reason alone the limitation on the deduction of passive losses will be much less important than it would be if rates were left where they are under present law or under the House bill.

- In addition, with the capital cost recovery period for residential real estate increased to 27 1/2 years and the recovery period for commercial real estate increased to 31 1/2 years, there is little artificial incentive left in depreciation deductions.

- That does not mean that some individuals who have invested in recent years will not be disadvantaged by the new rules.

- Whether it is good policy or not, it has been completely legal for individuals to offset other income by deductions derived from real estate and other investments. It would not be fair to change the rules without giving these individuals some time to rearrange their investments.

- For that reason, although I was a member of the so-called "core group", I refused to support the Chairman's package until a transition rule was included. We were able to convince Senator Packwood to adopt first a 3-year phase-in of the passive loss limitation and later a 4-year phase-in. I tried to extend the phase-in to 5 years, but there were not enough votes for additional relief. Perhaps some additional relief will be possible on the floor, but at least we were able to moderate the immediate short-term effect of the passive loss limitations.

May 2, 1986

BUDGET TALKING POINTS

o At one o'clock in the morning on May 2, the Senate fulfilled its obligation under Gramm-Rudman-Hollings and approved a spending blueprint for fiscal 1987 that meets the $144 billion deficit target.

o The onus is now on the House. Several weeks ago, Speaker O'Neill said the House would produce a budget resolution 72 hours after the Senate completed action. If the House is smart, it could save a lot of time and energy by approving a budget just like ours. Then both the House and Senate could push ahead with business -- pass our fiscal 1987 appropriations bills, adopt the reconciliation savings, and perhaps even clear tax reform.

o After all, ours was a bipartisan effort. 38 Republicans and 28 Democrats voted for the revamped Domenici-Chiles budget.

o And the budget we approved is an honest, straightforward attempt to deal with economic realities -- not by making defense a whipping boy and not by tax overkill.

o The Senate faced up to the commitment it made to deficit reduction when it passed Gramm-Rudman-Hollings. We did not turn our back on the budget process, we were not willing to roll the dice and hope that the Gods will save us from sequester. Now, it's up to the House to be responsible as well.

o This budget, though far from perfect, addressed some of the basic concerns I, and a number of senators had with the Senate Budget Committee's resolution.

o First, the revenue increase is substantially lower than the Senate Budget Committee's plan. Over three years revenues would be increased $45 billion, rather than the $74.3 billion in the SBC budget.

o Second, we added reasonable, but essential funds for defense. For fiscal 1987, defense spending authority would be $301 billion -- $6 billion more than the SBC's resolution.

o Finally, we were able to accomplish these changes because we went back and made substantial reductions in non-defense spending. In 1987 alone, we saved an additional $8.7 billion in these programs -- and over the next three years, these program reforms will yield $25 billion in savings.

The Deficit and the Average American

- o Unless we follow a deficit reduction path like that mandated under Gramm-Rudman, American families will face either higher interest rates or higher inflation: not to mention the risk of a disastrous new recession throwing millions of breadwinners out of work. That is what the Gramm-Rudman-Hollings initiative is all about.

- o Most economists believe that enactment of deficit reduction measures that eliminate the deficit by the end of the decade will produce a drop of at least 1 percent in interest rates over the short run and 2 to 3 percentage points over the long term: relative to what they <u>otherwise</u> would be.

  -- With a 2% drop in interest rates, the monthly payment on a median priced home ($80,000) would go down by about $100 a month.

  -- Conversely, if we don't reduce the deficit to <u>keep</u> rates as low as they are now, homeowners could face that large an <u>increase--or more--</u> in monthly payments.

  -- A 2% drop in interest rates would mean an additional $4,000 in income for the average wheat farmer with a 1,000 acre operation.

  -- In 1985, the Federal Government overspent to the tune of $1,000 for every man, woman, and child in America.

  -- This $1,000 per head of additional federal debt will be one more burden for our children to repay in higher taxes or higher inflation in the future.

Interest on the Debt

The massive increase in debt has itself created one of the largest and fastest growing components of Federal spending--interest on the debt. Constant deficits have put fiscal policy on an endless treadmill of paying for the irresponsibility of previous decades:

- In 1965, interest on the national debt cost $9 billion and consumed 1.4% of GNP. By 1980, annual interest costs rose to $52 billion--2% of GNP. But the worst was yet to come.

- In 1985, interest on the national debt cost taxpayers $130 billion--almost three times the level of five years ago. This represents 3.8% of GNP, 13.5% of the entire 1985 budget, and a 1,450% increase in costs over 1965.

- $130 billion is equal to the sum total of all Federal spending from 1789--the founding of the republic--to 1936. It also equals total Federal outlays in 1966, the entire defense budget in 1980, and twice the level of medicare funding today.

But <u>if</u> we can adhere to the deficit-reduction goals we've set for ourselves, I am very, very optimistic about the course of the economy. I think we take too much for granted what we have achieved so far: strong growth <u>without</u> inflation. We can keep that going if we reduce the deficit substantially. The way is open to economic performance unprecedented in the postwar period if we have the will to find it.

THE WALL STREET JOURNAL THURSDAY, MAY 8, 1986

Rewriting the Tax System: How the Plans Compare

	CURRENT LAW	REAGAN PLAN	HOUSE PLAN	SENATE FINANCE
Individual tax rates	14 rates: 11% to 50%	3 rates: 15, 25, 35%	4 rates: 15, 25, 35, 38%	2 rates: 15, 27%
Personal exemption	$1,080	$2,000	$1,500 for itemizers; $2,000 for nonitemizers	$2,000*; phased out for incomes above $145,320
Mortgage interest	Fully deductible	Principal residence deductible	Principal and second residence deductible	Principal and second residence deductible
Other interest deductions	$10,000 plus amount equal to investment income	$5,000 plus amount equal to investment income*	$20,000 plus amount equal to investment income*	Limited to amount equal to investment income*
Charitable contribution	Fully deductible	Deductible, but only for itemizers	Deductible for itemizers; limited for nonitemizers	Deductible only for itemizers
State and local taxes	Fully deductible	No deduction	Fully deductible	Deductible except sales tax
Long-term capital gains	20% top rate	17.5% top rate	22% top rate	27% top rate
Short-term capital gains	50% top rate	35% top rate	38% top rate	27% top rate
Individual retirement accounts	$2,000; $250 for nonworking spouse	$2,000; $2,000 for nonworking spouse	$2,000, except for taxpayers with 401(K)s; $250 for nonworking spouse	Eliminates deduction for contributions, except for workers with no pension plan
Corporate tax rate	46% top rate	33% top rate	36% top rate	33% top rate
Investment tax credit	6% to 10%	Repealed	Repealed	Repealed
Depreciation	Accelerated	Somewhat accelerated; less generous than current law	Slower depreciation; least generous	Accelerated; more generous for equipment, less generous for real estate than current law

*Provision is phased in

Who Takes the IRA Deduction

(Percentages rounded)

ADJUSTED GROSS INCOME (1983 figures)	PERCENT OF ALL TAX RETURNS	PERCENT OF ALL IRA DEDUCTIONS
Below $10,000	36.0%	3.2%
$10,000-$19,999	25.6	11.2
$20,000-$29,999	16.8	18.7
$30,000-$39,999	10.8	21.1
$40,000-$49,999	5.3	17.4
$50,000-$74,999	3.7	18.0
$75,000-$99,999	.8	5.2
$100,000 and up	.8	5.1

Source: Internal Revenue Service

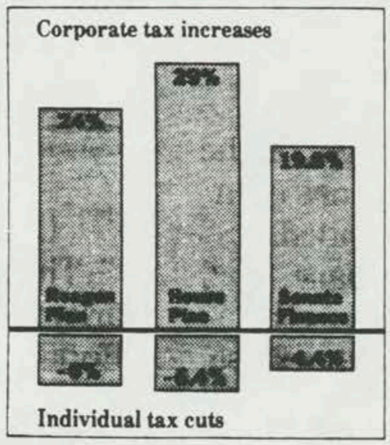
How Senate Plan Affects Income Classes

PERSONAL INCOME CLASS (1986 dollars)	AVERAGE REDUCTION IN 1988 INCOME TAX LIABILITY
Below $10,000	62.2%
$10,000-$20,000	18.0
$20,000-$30,000	8.0
$30,000-$40,000	5.0
$40,000-$50,000	6.5
$50,000-$75,000	3.7
$75,000-$100,000	3.2
$100,000-$200,000	3.6
$200,000 and above	4.7

Source: Joint Committee on Taxation

Changing Tax Burdens

First five years under the three plans



Source: Based on Senate Finance Committee revenue estimates