

JUN 17 1986

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June 5, 1986

The Honorable Mickey Edwards
Rayburn Building - Room 2434
Washington, D. C. 20500

Dear Mr. Edwards:

We write this letter to voice our support for a tax bill that will require everyone, individuals and corporations alike, to pay their fair share of taxes while returning the basic incentives that made our economic system so productive and competitive for our society. You are to be congratulated in your efforts thus far, but be forewarned that if the present bill is passed without amendment, you will have to accept the responsibility of ushering in a recession that will be almost impossible to reverse without the appearance that your tax bill failed.

The overwhelming majority of our citizens want a tax bill to succeed without the danger of unemployment and the country can least afford a recession at this time.

Everyone will agree that the present bill places a disproportionate share of the tax liability on the construction and real estate industries. It appears that these industries must pay the price for the abusive tax shelters that everyone opposed, but was legal by the system. But you must understand that all limited partnerships were not abusive. They were the natural tool for raising equity capital for the construction of nursing homes, retirement villages, housing for the elderly, housing for the low income, multi-family housing, shopping centers, office buildings, out-patient facilities and almost all forms of income producing real estate. All of these properties serve our societies needs, provide jobs during and after construction, and generate enormous taxes for local governments. We believe in your haste to enact a tax bill you have proposed something politically expedient not something in the best long range interest of the public.

Consider for a moment that all of the above initially and until substantial rent up lose money and that the proposed legislation will cap or not allow these losses unless offset with "like" income. Would you invest in something that taxes your gains but does not allow your losses? Doesn't this eliminate new competition and leave future development to only those partnerships that already have established taxable gains?

Everyone related with the industry will tell you that it will immediately stop 75% or more of this type development until one of two things happen or a combination of both, a substantial decrease in interest rates or

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a substantial increase in rental income. We propose that this will eventually happen, but after "your" recession and substantial loss of tax revenue.

We agree that these industries should be weaned from tax incentives but not thrown over the cliff because of the abusers. Consider that you have increased the depreciable life from 19 years to 31½ years. Consider that you have increased long term gains from 20 to 27%. Consider that there is no longer a differential between ordinary income and long term gain brackets which made a non-liquid investment in real estate more attractive. Consider that a decrease in the tax bracket from 50% to 27% decreases the tax benefits to that investor. In addition to these consequences, you want to make this tax proposal retroactive. How can you in good conscience call this tax legislation fair?

Please let me explain an investment made purely for tax consequences. A CPA will back into numbers whereby a taxpayer in a 50% bracket will receive a 15% return on investment by receiving \$2.30 of losses for every \$1.00 contributed in capital. The investor receives a \$1.15 tax savings less the \$1.00 he contributed giving him a 15% return on investment. This is a typical investment for low income housing that Congress encouraged when it wanted to give incentive to private investors to provide housing rather than fund public housing directly.

Your proposed legislation will destroy any market value of this investment and at best the investor could eventually retrieve 50% of his capital. The decrease in the bracket which this investor himself will support has decreased his return from 15% to 7 3/4%. But your current proposal does not stop here. You want to retroactively disallow or put a cap on these losses offsetting other income when it was Congress's encouragement that caused private investors to get involved in providing housing for low income families. We cannot imagine how a liberal can endorse penalizing investors that provided this need for a reasonable return on investment or a conservative that would renege on a commitment once he has received what he wanted. Remember you got your housing for the low income and elderly but now you want to take away or cap the investor losses. This part of your proposal is immoral, unethical, unjust, unfair and unprecedented in the history of tax legislation. To not exempt these investments in your proposal would be a travesty. We predict that losses generated from foreclosures on income producing properties financed by mortgages guaranteed by FHA or FmHA will more than offset the income you expect to derive from such action. Someone has misinformed you that this is justifiable since the bracket for these investors will be decreased from 50% to 27%. The current bracket would be 50% only in the case that an investor would sell his partnership interest before a 15 year holding period, something very few investors would ever do because of the tax consequences. For most investors it will actually result in an increase from a 20% capital gains tax rate to a 27% ordinary income tax rate, not a decrease.

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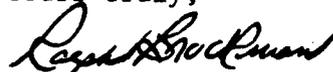
In summary, we appeal to you to consider the following possibilities:

- 1) To have three brackets for individuals - 15%, 23%, & 31% to offset income lost for being fair and equitable to all industries.
- 2) Increase the minimum tax to 23% for corporations and individuals if the income is needed and allow dividends for corporations to be deductible. This will encourage corporations to declare dividends and recycle hundreds of millions of dollars in the economy.
- 3) Amend your proposed legislation to stop abusive tax shelters, not viable ones that serve society in a multiplicity of ways.
- 4) Stay the course on giving everyone an IRA or pension fund, not both. However, give the individual whose pension contribution is not equal to the maximum IRA the opportunity to deduct his IRA rather than his pension contribution. This will encourage all corporate pension funds to at least equal the IRA maximums.
- 5) Exempt existing limited partnerships from the tax proposal or at least exempt limited partnerships that provide housing for the elderly and low income families.
- 6) Eliminate phasing out lower brackets that make upper middle income taxpayers pay a higher effective rate than the highest bracket.
- 7) Remember the consequences of substantially shutting off future development of income producing properties. You are playing with fire in this regard. Consider a long term capital gain break for investments of this type that are held for seven years or more. Also consider allowing the losses of partnerships that are not considered "abusive".

In closing, we make our claim that the tax bill pending in the Senate is grossly unjust to the construction and real estate industries while containing "special goodies for Bermuda, Times Square, United Telecommunications, Inc. and the movie and television industries". (Quote from Wall Street Journal May 16, 1986 according to congressional aides) And in fact the same limited partnership can charge off losses in oil and gas but not real estate, and you can say this is fair?

We remain in hopes that your distinguished body will meet the challenge for a fair tax law to all and that this letter will help improve the tax proposal by properly drafted amendment. We are too close to what everybody wants to be too hasty and turn our heads to badly needed improvements to the bill.

Yours truly,



Ralph Brockman
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RB/pe