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H.R. 10412

EXTENSION OF REMARKS
OF
HON. EUGENE J. KEOGH
Of New York
IN THE HOUSE OF REPRESENTATIVES
Monday, March 16, 1964

MR. KEOGH. Mr. Speaker, our colleagues will be interested in the bill (H.R. 10412) I introduced to amend the Internal Revenue Code of 1954 to deny deduction for rent, taxes, or interest incurred for the use or occupancy of an industrial plant financed by tax-exempt obligations.

The objective of my bill is to put a stop to a very clear case of abuse in using tax-exempt industrial development revenue bonds for financing industrial plants and facilities for lease to private persons. I refer to the arrangements between a corporation and a municipality under which the corporation which leases the facility from the municipality itself buys the tax-exempt bonds issued in the name of the municipality to finance the acquisition of the industrial plant. Such a corporation is obviously able to do its own financing without governmental aid. It uses the municipality as a go-between to gain access to tax-exempt financing. This devious route enables it to enjoy both a rental reduction reflecting the interest savings derived from the tax exemption of the bonds and tax-exempt interest income, despite the fact that its investment in the bonds is subject only to the risk inherent in its own business.

My bill embodies the recommendation of the Advisory Commission on Intergovernmental Relations, created by the Congress in 1959, on which the gentleman from North Carolina, Congressman Fountain, the gentlewoman from New Jersey, Congresswoman Dwyer, and I have the honor to represent this House. The Advisory Commission is composed of members actively representing both executive and legislative branches of all levels of Government in our Federal system which gives its recommendations a balanced quality.

The Advisory Commission on Intergovernmental Relations, in its report on Industrial Development Bond Financing, has identified a variety of abuses which require urgent attention and has outlined for the States some guidelines for keeping industrial development bond financing within tolerable limits. Hopefully, the States will act promptly. I know that the financial officials of a number of States are actively at work on this problem under the able leadership of the comptroller of the State of New York, Arthur Levitt. However, when the leasing corporation itself buys the tax-exempt bonds, the misuse of the municipal tax exemption privilege is so brazen, that the remedy cannot wait for action by numerous State legislatures. It is for this reason that the Advisory Commission urged the Congress to act at once in this limited area. This explicitly is the purpose of my bill.

The abuse of the tax exemption privilege of municipal bonds has concerned many Members of this House for several years, and increasingly so. The financing technique, invented just a quarter century ago by a Southern State for the purpose of attracting industry, has now spread to nearly half of the States and is under consideration in several others. If competition for industry subsidized by the Federal income tax exemption is allowed to spread unrestrained, State and local governments will neutralize one another's efforts and the public investment, including the substantial loss of Federal income tax revenue, will have been largely wasted. In short, the entire development is potentially self-defeating.

Mr. Speaker, there is nothing radically new or revolutionary in a community's efforts to attract business and industry within its borders to provide employment and help to support local government. When, however, it seeks to achieve these ends at the expense of other communities, and the U.S. Treasury, to the detriment of its own fiscal stability, the practice cannot be allowed to continue unregulated. I am hopeful, Mr. Speaker, that despite our crowded calendar my bill will receive early attention.