

Joint Committee on Taxation
June 6, 1984
JCX-14-84

The attached items were provided for the information of the conferees only and does not necessarily reflect any decisions made in the conference.

TENTATIVE RECOMMENDATIONS--TAX-EXEMPT ENTITY LEASING ISSUES

9. Definition of domestic tax-exempt entity. (p. 18)
- (a) Co-ops: the House recedes but adds a requirement that the lessee-coop be taxed on any arbitrage profits resulting from tax-exempt bonds issued for the co-op to finance the property which is leased to it.
- Exempt Freddie Mac from 5-year lookback rule if made taxable.
- (b) Definition of governmental instrumentality: Senate recedes.
10. Personal property (p. 18)
- (a) Recovery period: House recedes.
- (b) Treasury--new midpoint lives: Senate recedes.
11. Tax-exempt use real property. (p. 18)
- (a) Threshold: Senate recedes but increases the 20 percent figure to 35 percent.
- (3) Lease term: House recedes.
- (d) Rehabilitation credit.
- (d) No recommendation spending resolution of item 110 (relating to rehabilitation credits generally).
- 12.(a) Foreign tax-exempt entity users. (p. 20)
- (a) Threshold: Senate recedes but adds its Subpart F rule.
- Restrictions: House recedes to special rule for 1983 property. Senate recedes on special rules for 1984 and later property--so except for

1983 property, foreign tax-exempt use property treated the same as domestic tax-exempt use property. Other transitional issues dealt with in connection with the general transitional rules.

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| (b) Sound recordings. | (b) House recedes. |
| 13. Short-lived property.
(p. 22) | (a) Exemption from depreciation provisions: Senate recedes with amendment applying bill's general depreciation rule to high-tech property used predominantly outside the U.S. |
| | (b) Ineligibility for exemption: Senate recedes. |
| | (c) Treasury authority: House recedes but adds high-tech telephone station equipment. |
| 14. Short-term lease exception. (p. 22) | (a) Senate recedes. |
| | (b) House recedes. |
| 15. Lease term. (p. 22) | House recedes |
| 16. ITC for thrift institutions. (p. 22) | House recedes. |
| 17. General services contracts. (p. 24) | All Code purposes: House recedes with technical clarifications. |
| 18. Special service contracts. (p.24) | No recommendation. |
| Other. | |
| Passthru entities including Intelsat and Inmarsat. | Eliminate special Intelsat and Inmarsat rule and replace with generic rules |

that would (i) clarify rules proscribing allocation of tax benefits away from tax-exempt entity partners or other beneficiaries of pass-through entities owning property, and (ii) prevent avoidance of general bill provisions by leasing to pass-through entities having tax-exempt entity partners or other beneficiaries.

19. Effective dates:
transitional rules.

No recommendation.

C. Treatment of Bonds and Other Evidences of Indebtedness

21. Discount obligations (page 30)

(a) Market discount

(a) House recedes with a technical amendment to apply the rule for leveraged purchases of bonds to cases where short sales are used to generate funds for the purchase of bonds.

(b) Discount on short-term obligations

(b)(1) Senate recedes with an amendment to apply the mandatory accrual rule to mutual funds and certain partnerships and other pass-through entities. Include the optional accrual rules for mutual funds, which are in both bills but are unnecessary except for past years, in a non-Code provision.

(b)(2) House recedes with a technical amendment to apply the leveraged purchase rule to short sales where funds are made available to purchase short-term discount obligations.

Effective date.--Senate recedes with modifications of transitional rule: (i) a five-year spread, and (ii) technical amendments to ensure that taxpayers cannot use the rule to be better off than under present law.

X. D. EXCISE TAX PROVISIONS (items 206-210)

206. Sport-fishing equipment excise tax (p. 300)

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| (a) Expansion of items subject to 10-percent tax | (a) Senate recedes |
| (b) Items subject to to 3-percent tax | (b) House recedes with the following modifications:
3-percent rate applies to all sonar devices suitable for finding fish (maximum tax of \$30) and to electric outboard motors |
| (c) Point of taxation | (c) Senate recedes with the following modifications:

Impose the tax a second time, on the sale by any wholesaler or retailer who (1) is a related party to the manufacturer or importer of the article sold, and (2) acquires the article from an unrelated party (i.e., a party other than the manufacturer or importer). A credit for prior tax would be available if amount paid were documented by the wholesaler or retailer. |
| (d) Time of payment | (d) House recedes with a modification to excuse all taxpayers from deposit requirements (rather than just small manufacturers). |

Effective date - House recedes (i.e., October 1, 1984)

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| 207. Aquatic-resources trust fund provisions (p. 302) | (a)-(d) House recedes, including naming the fund, the Wallop-Breaux Fund. |
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| 208. Excise tax on arrows (p. 306) | House recedes. |
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209. Exemption of certain
helicopter operations
from aviation excise
taxes (p.306)

House recedes.

210. Superfund excise tax
correction (p. 306)

House recedes.