EXPRESSING SORROW OF THE HOUSE AT THE DEATH OF THE HONORABLE CHARLIE NORWOOD, MEMBER OF CONGRESS FROM THE STATE OF GEORGIA

SPEECH OF

HON. HENRY E. BROWN, JR.

OF SOUTH CAROLINA

IN THE HOUSE OF REPRESENTATIVES

Wednesday, February 14, 2007

Mr. BROWN of South Carolina. Mr. Speaker, I join my colleagues in mourning the passing of CHARLIE NORWOOD. As a Member of Congress from the neighboring state of South Carolina, I was fortunate enough to serve with CHARLIE and see firsthand his dedication to public service. Coming to Congress with a medical background, CHARLIE championed issues regarding a patients' bill of rights which was designed to give people better access to healthcare. As a decorated Vietnam Veteran, CHARLIE was a fighter. He fought for 12 years as a member of Congress on behalf of his constituents. I worked with CHARLIE on a number of issues including education, military, and veterans' issues. As Subcommittee Chairman of Health on the Veterans' Affairs Committee, I had the pleasure of participating in a Town Hall meeting with the veterans from his district.

Diagnosed with cancer in 2006, CHARLIE continued to serve the people of Georgia bravely and honorably in the HOUSE OF REPRESENTATIVES despite his ill health. He fought to the end, and in his final days, he returned home to be with his family.

CHARLIE will be sorely missed, but his legacy will never be forgotten. My thoughts and prayers are with his wife Gloria and his two children during this sad time.

RECOGNIZING RUTH ELVIRA DOBBINS

HON. SAM GRAVES

OF MISSOURI

IN THE HOUSE OF REPRESENTATIVES

Friday, February 16, 2007

Mr. GRAVES. Madam Speaker, I proudly ask you to join me in recognizing Ruth Elvira Dobbins of Sibley, Missouri. Ruth celebrated her 80th Birthday on January 17th and it is my privilege to offer her my warmest regards on achieving this important milestone. Ruth is a fine citizen of Missouri and the Sibley community. It is an honor to represent Ruth in the United States Congress, and I wish her all the best on this birthday and many more in the future.

THE PRESIDENT'S FY 2008 BUDGET

HON. JAMES R. LANGEVIN

OF RHODE ISLAND

IN THE HOUSE OF REPRESENTATIVES

Friday, February 16, 2007

Mr. LANGEVIN. Madam Speaker, I rise today to express my disappointment with the President's budget proposal for Fiscal Year 2008. The President has said repeatedly that he wants to work with the new leadership in Congress, but his budget request tells a different story. It is clear evidence that he has little interest in making the hard choices facing our Nation and that he continues to favor tax cuts for the wealthy at the expense of working Americans.

One of the most notable changes in this budget as compared with those of previous years is the inclusion of supplemental spending requests for military operations in Iraq and Afghanistan. I do appreciate this development, as it will enhance Congressional oversight, which has been sorely lacking in the past. However, this improvement does not alter my deep opposition to the President's plan to augment existing force levels in Iraq by 21,500 troops, a number that could increase significantly once additional support forces are considered. It has become evident that the problem in Iraq cannot be solved by more U.S. troops. As the Iraq Study Group and other experts have concluded, it requires a diplomatic and economic solution, as well as a renewed commitment by the Iraqi government to take greater control of its own security situation. Consequently, Congress will carefully scrutinize the supplemental funding request so that we continue to provide our men and women in uniform with the resources they need to remain safe and effective while moving toward a swift conclusion of our military operations in Iraq. The American people have asked us to act, and we will do so in the coming months.

Sadly, the remainder of the budget demonstrates the President's misplaced priorities and inability to operate within realistic expectations. Once again, the President claims he can have it both ways by making permanent tax cuts for the wealthiest while reaching a balanced budget by 2012. However, the numbers just don't add up. The President doesn't balance his budget through responsible decision-making; he does it by hoping for economic growth that may or may not occur. In fact, the non-partisan Congressional Budget Office estimates that the President has overestimated revenue projections in 2012 by more than $150 billion, and that his budget would actually result in yet another deficit. One hundred and fifty billion dollars is more than a rounding error; it is wishful thinking.

What does the average Rhode Islander get from all of that deficit spending? Unfortunately, it's not much. The President's decision to extend tax cuts for the wealthiest Americans would cost hundreds of billions of dollars in lost revenue, necessitating drastic cuts to important services and resulting in a massive middle-class tax increase. By choosing to extend certain tax cuts expiring in 2010 instead of fixing the Alternative Minimum Tax, the President has made clear that his priorities are with the richest Americans and not the middle class.

Our Nation's most vulnerable populations would also be harmed by the proposed budget. The President has called for $78 billion in cuts to Medicare and Medicaid, venerable programs that provide vital health care services to the elderly, the disabled and the poor. Part of those cuts would come from an 8 percent reduction in Medicare reimbursement rates to physicians. Congress has blocked such cuts in the past because we know how devastating they would be to our health care system, yet the President appears oblivious to how dangerous they would be. When I am in Rhode Island, I hear constantly from doctors about how proposed cuts to Medicare reimbursement rates would result in their inability to treat Medicare patients. My State's 16 hospitals would not be able to meet the needs of the community, and our senior citizens would suffer as a result. While I agree that we need to address the long-term solvency of Medicare, any reforms should be implemented in a way that benefits, not damages, our Nation's health care system.

The budget would also threaten to repeal health insurance for Rhode Island children. Rhode Island is one of 18 States that have implemented the State Children's Health Insurance Program to exceed minimum federal standards. Rhode Island's program, Rite Care, has leveraged SCHIP funding to provide health insurance to children in families up to 250 percent of the poverty level, as well as to additional populations such as pregnant women and parents. We have worked hard to bring our insurance coverage rate for children to 94 percent—above the national average of 88 percent. The President's budget would penalize States that are succeeding under SCHIP and increase the uninsured rate among children when we should be going in the opposite direction.

As chairman of the Homeland Security Subcommittee on Emerging Threats, Cybersecurity and Science and Technology, I am concerned that the budget proposal does not invest appropriately in important homeland security initiatives. Despite tragedies experienced in Madrid and London, we continue to ignore the importance of rail security; the Transportation Security Administration budget contains only $41 million for surface transportation security. The Bush Administration has also proposed cutting biodefense-related programs and the Department of Homeland Security's Science and Technology Directorate, both of which will help protect our Nation from emerging threats. Additionally, the budget would reduce funding for programs important to State and local law enforcement in Rhode Island, including the State Homeland Security Grant Program, which awarded $45.2 million to Rhode Island from 2003 to 2006, and the Law Enforcement Terrorist Prevention Program, LETPP, from which Rhode Island received $11.5 million in funding from 2004 to 2006. Despite their proven effectiveness in reducing crime in our communities, the Community Oriented Policing Service, COPS, and Justice Assistance Grants, JAGs, would also experience cuts in this budget proposal. The COPS program helps Rhode Island's law enforcement agencies hire police officers, enhance crime fighting technology, and support crime prevention initiatives, while JAG supports State and local drug task forces, community crime prevention programs and prosecution initiatives. In 2006 alone, Rhode Island received $1.6 million in JAG funding and $790,000 in COPS funding that helped keep Rhode Island families safe. An important component of homeland security includes providing our state and local law enforcement with the resources they need to be effective, and I will fight to block these proposed cuts.

A budget is more than a simple ledger of revenue and spending. It is a demonstration of priorities. In this case, the President's priorities are out of touch with what the American people want. The new leadership in Congress is ready to craft a budget that will support strengthening our national defense and will carefully examine our ongoing commitment in Iraq while not losing sight of those priorities that need to be met here at home. Our budget will reflect the values and needs of working Rhode Islanders. I will fight to properly fund SCHIP so that Rite Care can continue to support our state's most vulnerable patients, and I will fight the drastic proposed physician payment cuts under Medicare so that we do not jeopardize the health and well-being of our Nation's seniors.

Working to put our Nation back on solid financial footing will take time and dedication, and I am up to the challenge. I will fight for a fair budget that benefits all Americans. I look forward to advocating for all Rhode Islanders in the coming months.

INTRODUCTION OF THE REIT INVESTMENT DIVERSIFICATION AND EMPOWERMENT ACT

HON. JOSEPH CROWLEY
OF NEW YORK
IN THE HOUSE OF REPRESENTATIVES

Friday, February 16, 2007

Mr. CROWLEY. Madam Speaker, along with my good friends and colleagues, Representatives CANTOR, POMEROY and REYNOLDS, I introduce the REIT Investment Diversification and Empowerment Act, RIDEA. This legislation will continue the tradition of Congress to periodically review and amend the tax rules governing REITs to ensure that they are able to operate within the competitive norms of the marketplace. In an effort to keep REITs competitive, this bill addresses several issues tied to REIT investment diversification and empowerment. The legislation would make several minor, but important, changes in the REIT tax rules to permit REITs on behalf of their shareholders to continue to compete with other real estate companies in international and domestic markets.

In 1960, Congress created the REIT rules to allow average investors to obtain the benefits of owning large-scale, income producing real estate such as shopping malls, apartment communities and office buildings. REITs are typically publicly traded companies that pass through their earnings to individual shareholders. The vision of Congress has come to fruition: The equity market capitalization of REITs as of December 31, 2006 was $438 billion—up from only $1.4 billion at the end of 1971. Investment professionals such as Burton Malkiel of Princeton University, Jeremy Siegel of the Wharton School at the University of Pennsylvania and David Swensen, the manager of the Yale Endowment, have recommended that individual investors should maintain a discrete allocation of REITs as part of a diversified portfolio to maximize performance while lowering investment risk.

Commercial real estate plays an essential part in the national economy, producing about 6 percent of the gross domestic product according to the Federal Reserve Board. REITs have grown to be an essential component of the real estate marketplace and provided investment opportunities for everyone to invest in where we work, live and shop. REITs own all types of income producing real estate, from community shopping centers to landmarks such as Roosevelt Field on Long Island, Tyson's Comer in Virginia, and Queens Plaza, in my home borough of Queens, NY.

REITs are subject to a number of rules to ensure their primary focus is commercial real estate activities. At least 75 percent of a REIT's assets must be comprised of rental real estate, mortgages, cash items and government securities. A REIT also must satisfy two income tests. First, at least 75 percent of a REIT's annual gross income must consist of real property rents, mortgage interest, gain from the sale of a real estate asset and certain other real estate-related sources. Second, at least 95 percent of a REIT's annual gross income must be derived from the income items from the above 75 percent test plus other "passive income" sources such as dividends and any type of interest.

For over three decades, the IRS has recognized that real estate investments abroad qualify as "good assets" and generate "good income" under the REIT tax rules. With that said, the treatment of foreign currency gains directly attributable to overseas real estate investment is not altogether clear, but its correct characterization is becoming increasingly important as REITs continue investing in the most attractive marketplaces for their shareholders. Similarly, as more and more countries begin to authorize REIT-like approaches to real estate investment, it is important that U.S. tax rules allow U.S. REITs to invest in these businesses without negatively affecting their own REIT status.

I do not believe this bill is controversial. The three previous changes to the REIT rules made over the past decade have been sponsored by many Members on both sides of the aisle, and we expect that RIDEA will follow in these bipartisan footsteps. It is also important to note that this bill is endorsed by the National Association of Real Estate Investment Trusts and the Real Estate Roundtable.

Madam Speaker, this is an opportunity for us to provide REITs the flexibility needed to remain competitive and to make other minor, but important, changes to the REIT rules. I urge my colleagues on both sides of the aisle to join me in supporting these changes.

Madam Speaker, I ask unanimous consent that the text of the bill and a detailed summary of its provisions be printed in the RECORD.

The REIT Investment Diversification and Empowerment Act ("RIDEA") includes five titles: Title I—Foreign Currency and Other Qualified Activities, Title II—Taxable REIT Subsidiaries, Title III—Dealer Sales, Title IV—Health Care REITs, and Title V—Foreign REITs.

As the REIT market develops and as REITs continue to expand their overseas investments, the issue of the correct characterization of foreign currency gains, and other types of non-specified income and assets, has become even more important. Title I would in effect codify existing law concerning the income derived, and assets held, by REITs in connection with their REIT-permissible activities outside of the U.S.

Specifically, Title I would treat as qualified REIT income foreign currency gains derived with respect to its business of investing in "real estate assets" outside of the U.S. Today REITs can achieve approximately the same results by establishing a "subsidiary REIT" in each currency zone in which it operates and securing a private letter ruling from the IRS. RIDEA would allow a REIT to obtain the same result by operating a qualified business unit that satisfies the 75 percent income and asset tests.

Title I also would provide the IRS with authority to determine whether certain types of foreign currency gains were qualifying income, as well as to provide that certain items of income not specifically listed in the REIT gross income provisions should not be taken into account in computing a REIT's gross income.

Under current law, even if a REIT were to earn a substantial amount of certain types of income that are not specified in the gross income baskets, the REIT could jeopardize its REIT status—even though these types of income may be directly attributable to the REIT's business of owning and operating commercial real estate. Examples include amounts attributable to recoveries in settlement of litigation and "break up fees" attributable to a failure to consummate a merger. The IRS has issued private letter rulings to taxpayers holding that the particular type of income should be considered either qualifying income or should be ignored for purposes of the REIT rules.

Under this provision, I would expect that the IRS would conclude, for example, that dividend-like items of income such as Subpart F income and income produced by holding stock of a passive foreign investment company either are considered qualified income for purposes of the REIT income tests are not taken into account for purposes of these tests.

Furthermore, Title I would conform the current REIT hedging rule to also apply to foreign currency gains, apply those rules for purposes of both REIT gross income tests and would make conforming changes to other REIT provisions reflecting foreign currency gains.

Title II would increase the limit on taxable REIT subsidiaries, TRS, securities from 20 percent to 25 percent, as originally contemplated in the REIT Modernization Act of 1999. The rationale for a 25 percent limit on TRSs remains the same today. The dividing line for testing a concentration on commercial real estate in the REIT rules has long been set at 25 percent, and even the mutual fund rule uses a 25 percent test. It is not too often that an industry requests Congress to increase the amount of income it can earn to a double level of taxation.

Title III updates the rules that require a REIT to be a long-term investor in real estate. A REIT is subject to a 100 percent tax on net income from sales of property in the ordinary course of business—"prohibited transactions" or "dealer sales". In 1976, Congress recognized the need for a bright line safe harbor for determining whether a REIT's property sale constituted a prohibited transaction. Congress further liberalized these rules in 1978 and 1986 to better comport with industry practice and to simplify a REIT's ability to sell long-term investment property without fear of being taxed at a 100 percent rate. The current safe harbor exceptions for rental property and timber provide that a sale may avoid being classified as a prohibited transaction if it meets several requirements, including that the REIT own the property for at least 4 years and that each year it sell either less than seven properties or 10 percent of its portfolio, as measured by tax basis.

Largely because commercial real estate is increasingly recognized as a separate asset class that provides substantial diversification