

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date April 6, 1938.To Chairman EcclesSubject: HousingFrom Lauchlin Currie*LAC*

Attached is a draft of the proposal to exempt the rental and profits from new low-cost building construction from Federal taxation for a limited period. It does not contain the provision to limit the exemption, partly because the Bureau of Internal Revenue has stated that the necessary discrimination as between corporations and individuals would involve administrative difficulties, and partly because since we are anxious to get construction under way and the very wealthy would presumably not build at all without the exemption, therefore the Treasury would not really lose anything.

An interesting suggestion has come to hand that on the limited dividend rental housing projects the R. F. C. be empowered to lend ten percent of the appraised cost over and above the 80 percent F. H. A. mortgage, taking in exchange a first lien on the income over and above the mortgage and the amortization payments. The R. F. C. could do this under its new amendment. This proposal would solve the problem of getting equity money, as presumably the land would be worth at least ten percent of the appraised cost of the project. I think the proposal has merit, since Guy Greer has told me often that the main stumbling block in the progress of their program was the difficulty of raising equity money.

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Section _____. Section 22 (b) of the Revenue Act of 1938 is amended by adding thereto the following numbered paragraphs:

(9) Amounts received as rental of any single or multiple unit dwelling, if such dwelling (a) is constructed after the enactment of this Act and not later than January 1, 1940, (b) costs not more than \$7,500 per dwelling unit (including cost of land on which dwelling was erected), and (c) is rented by the person who constructed same.

(10) Gains and profits accruing from the sale of any single or multiple unit dwelling, sold by the person who constructed same, if the construction of such dwelling is begun during the calendar year 1938 (after the enactment of this Act) or 1939, and the dwelling is sold before January 1, 1941, and such dwelling is sold for not more than \$7,500 per dwelling unit.