

(The statement referred to follows:)

ARCHITECTS' RENEWAL COMMITTEE IN HARLEM, INC.,
New York, N.Y., February 21, 1966.

One very effective way of dealing with slumlords in New York City (and in other urban centers) who own and maintain buildings in a condition continuously dangerous to their tenants would be to deprive such owners of their depreciation allowance under section 167 of the Internal Revenue Code. In many cases, the reason why landlords purchase slum buildings and operate them so profitably without taking care of them is because of the depreciation allowance. If they were deprived of that economic benefit because the buildings they owned were certified by the appropriate city agency to be in a deteriorating condition, this would be a most effective incentive for them to keep the buildings in good repair.

The economics of the situation can be shown in the following example:

A real estate operator may purchase a slum building for \$200,000. Of this, \$80,000 may be in cash and the other \$120,000 may be by mortgage. In any given year he would have the following expenses:

Interest on mortgage-----	\$12,000
Taxes-----	8,000
Heat, water, etc-----	5,000
Total-----	25,000

The owner may take in yearly rents up to \$45,000 on property of this kind. Deducting the expenses listed above, he would have total income of \$20,000 on his original cash investment of \$80,000. Moreover, because of the depreciation allowance, he may end up by paying no taxes whatsoever on the \$20,000 income. If the useful life of a building is 20 years, under straight line depreciation, he could deduct \$10,000 against his income and pay taxes on only \$10,000. Thus (depending on what income the owner derives from other sources), he could save anywhere from \$2,200 to \$4,800 on his tax bill. In addition, if he takes advantage of the accelerated depreciation provisions of section 167 of the code, he can deduct as much as \$20,000 in the first year after his purchase (in the second year his depreciation allowance would be \$18,000; in the third \$16,200, etc.), thus, in the above case, he could end up by paying no taxes whatsoever although he earned \$20,000 income on an \$80,000 cash investment. It is for this reason that investments in slum tenements are so profitable.

If a slumlord were deprived of the depreciation allowance, he would have to pay taxes on the entire \$20,000 income, which would mean a tax bite of up to \$9,600. Slumlords faced with the difference between paying no tax and a tax of \$9,600 in any given year would be more likely to invest \$2,000-\$3,000 or more to fix up their buildings.

An amendment could be made to section 167 of the Internal Revenue Code adding a new subsection (j) which would read as follows:

"(j) No depreciation deduction shall be allowed to any taxpayer owning a housing accommodation (other than a single-family residence occupied by the owner thereof) if at any time during the tax year such accommodation is certified by any governmental agency having jurisdiction to be a fire hazard or in a continued dangerous condition or detrimental to life or health."

Section 2(f)(9) of the rent, eviction, and rehabilitation regulations of the New York City Rent and Rehabilitation Administration uses similar language with respect to putting otherwise exempt housing accommodations under rent control. The same kind of test could be applied with respect to the depreciation allowance. Regulations issued by the Secretary of the Treasury might provide that any violation of a city's criminal code or administrative code for maintaining a housing accommodation in a continued dangerous condition should be transmitted to the local Internal Revenue Service office so that they would have a record of such violations for checking against the tax return of the owner of the building.

There should be no constitutional difficulties in such an amendment. Deductions are a matter of legislative grace and can be conditioned by Congress in any reasonable way it chooses.

Moreover, such an amendment fits within the theory of the depreciation allowance. The allowance is appropriate only where a building is kept in normal repair and gradually loses its value over a period of time. In that situation, an owner should not be required to take his loss only in the year when the building