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MAR 24 1983

MEMORANDUM

THE WHITE HOUSE

WASHINGTON

March 23, 1983

MEMORANDUM FOR FRED F. FIELDING

FROM: JOHN G. ROBERTS *JGR*

SUBJECT: Donation of Ten Percent of Contributions
to May 12 Senate-House Dinner to James
S. Brady Presidential Foundation

Last Friday, March 18, we were asked to review draft Presidential remarks to the Republican Leadership Council. Those remarks contained a statement that ten percent of the contributions to the May 12 Senate-House Republican dinner would go to the James S. Brady Presidential Foundation. I checked with Peter Wallison on this proposal, and he advised that the scheme would subject the funds going to the Foundation to a 46 percent tax, payable by the Committee holding the dinner, under 26 U.S.C. § 527 (copy attached). That provision imposes a tax on non-exempt function political organization income, defined as income to the political organization not used for political purposes. In light of Wallison's concern, and the short turn-around time for reviewing the draft remarks (four hours), I advised the Speechwriter's Office, with RAH's concurrence, to delete the reference to the ten percent scheme. They did so, retaining the unobjectionable statement that the dinner would honor Mr. Brady.

I have now called Larry Halloran, counsel to the committee holding the May 12 dinner, to alert him to the concern raised by Wallison. Halloran was familiar with 26 U.S.C. § 527, and indicated that it would be considered in planning the dinner. There is no need for any further action on our part, but I wanted to advise you of what had transpired.

pls keep me advised

ferred to as agent buyers, constituted purchases for the use of nonmembers-nonproducers which, when added to other purchases sold outright to nonmembers-nonproducers, exceeded the statutory 15 percent limitation concerning purchases from nonmember producers; furthermore, the transactions with agent buyers fell outside those authorized for an exempt cooperative for the reason that the retailer made a profit on each transac-

tion. *Land O'Lakes, Inc. v. U. S. C.A. Minn.* 1975, 514 F.2d 134, certiorari denied 96 S.Ct. 271, 423 U.S. 928, 48 L.Ed.2d 253. On remand 470 F.Supp. 238.

Taxpayer breached the rules for retaining its status as an exempt farmers' cooperative by treating its wholly owned subsidiary as a patron and paying it patronage dividends on the margins earned from marketing certain products. *Id.*

PART V—SHIPOWNERS' PROTECTION AND INDEMNITY ASSOCIATIONS

1969 Amendment. Pub.L. 91-172, Title I, § 101(a), Dec. 30, 1969, 83 Stat. 492, substituted "Part V" for "Part IV" as the Part designation.

PART VI—POLITICAL ORGANIZATIONS

Sec. 527. Political organizations.

§ 527. Political organizations

(a) **General rule.**—A political organization shall be subject to taxation under this subtitle only to the extent provided in this section. A political organization shall be considered an organization exempt from income taxes for the purpose of any law which refers to organizations exempt from income taxes.

(b) **Tax imposed.**—

(1) **In general.**—A tax is hereby imposed for each taxable year on the political organization taxable income of every political organization. Such tax shall be computed by multiplying the political organization taxable income by the highest rate of tax specified in section 11(b).

(2) **Alternative tax in case of capital gains.**—If for any taxable year any political organization has a net capital gain, then, in lieu of the tax imposed by paragraph (1), there is hereby imposed a tax (if such a tax is less than the tax imposed by paragraph (1)) which shall consist of the sum of—

(A) a partial tax, computed as provided by paragraph (1), on the political organization taxable income determined by reducing such income by the amount of such gain, and

(B) an amount determined as provided in section 1201(a) on such gain.

(c) **Political organization taxable income defined.**—

(1) **Taxable income defined.**—For purposes of this section, the political organization taxable income of any organization for any taxable year is an amount equal to the excess (if any) of—

(A) the gross income for the taxable year (excluding any exempt function income), over

(B) the deductions allowed by this chapter which are directly connected with the production of the gross income (excluding exempt function income), computed with the modifications provided in paragraph (2).

(2) **Modifications.**—For purposes of this subsection—

(A) there shall be allowed a specific deduction of \$100,

(B) no net operating loss deduction shall be allowed under section 172, and

(C) no deduction shall be allowed under part VIII of subchapter B (relating to special deductions for corporations).

(3) **Exempt function income.**—For purposes of this subsection, the term "exempt function income" means any amount received as—

(A) a contribution of money or other property,

(B) membership dues, a membership fee or assessment from a member of the political organization,

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VI—POLITICAL ORGANIZATIONS

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(D) proceeds from the conducting of any bingo game (as
defined in section 513(f)(2)),
to the extent such amount is segregated for use only for the exempt
function of the political organization.

(d) Certain uses not treated as income to candidate.—For purposes of
this title, if any political organization—

(1) contributes any amount to or for the use of any political or-
ganization which is treated as exempt from tax under subsection (a)
of this section,

(2) contributes any amount to or for the use of any organization
described in paragraph (1) or (2) of section 509(a) which is exempt
from tax under section 501(a), or

(3) deposits any amount in the general fund of the Treasury or
in the general fund of any State or local government,
such amount shall be treated as an amount not diverted for the personal
use of the candidate or any other person. No deduction shall be allowed
under this title for the contribution or deposit of any amount described in
the preceding sentence.

(e) Other definitions.—For purposes of this section—

(1) Political organization.—The term "political organization"
means a party, committee, association, fund, or other organization
(whether or not incorporated) organized and operated primarily for
the purpose of directly or indirectly accepting contributions or mak-
ing expenditures, or both, for an exempt function.

(2) Exempt function.—The term "exempt function" means the
function of influencing or attempting to influence the selection, nomi-
nation, election, or appointment of any individual to any Federal,
State, or local public office or office in a political organization, or the
election of Presidential or Vice-Presidential electors, whether or not
such individual or electors are selected, nominated, elected, or ap-
pointed.

(3) Contributions.—The term "contributions" has the meaning
given to such term by section 271(b)(2).

(4) Expenditures.—The term "expenditures" has the meaning giv-
en to such term by section 271(b)(3).

(f) Exempt organization which is not political organization must include
certain amounts in gross income.—

(1) In general.—If an organization described in section 501(c)
which is exempt from tax under section 501(a) expends any amount
during the taxable year directly (or through another organization)
for an exempt function (within the meaning of subsection (e)(2)),
then, notwithstanding any other provision of law, there shall be in-
cluded in the gross income of such organization for the taxable year,
and shall be subject to tax under subsection (b) as if it constituted
political organization taxable income, an amount equal to the lesser
of—

(A) the net investment income of such organization for the
taxable year, or

(B) the aggregate amount so expended during the taxable
year for such an exempt function.

(2) Net investment income.—For purposes of this subsection, the
term "net investment income" means the excess of—

(A) the gross amount of income from interest, dividends,
rents, and royalties, plus the excess (if any) of gains from the
sale or exchange of assets over the losses from the sale or ex-
change of assets, over

(B) the deductions allowed by this chapter which are directly connected with the production of the income referred to in subparagraph (A).

For purposes of the preceding sentence, there shall not be taken into account items taken into account for purposes of the tax imposed by section 511 (relating to tax on unrelated business income).

(3) **Certain separate segregated funds.**—For purposes of this subsection and subsection (e)(1), a separate segregated fund (within the meaning of section 610 of title 18 or of any similar State statute, or within the meaning of any State statute which permits the segregation of dues moneys for exempt functions (within the meaning of subsection (e)(2))) which is maintained by an organization described in section 501(c) which is exempt from tax under section 501(a) shall be treated as a separate organization.

(g) **Treatment of newsletter funds.**—

(1) **In general.**—For purposes of this section, a fund established and maintained by an individual who holds, has been elected to, or is a candidate (within the meaning of section 41(c)(2)) for nomination or election to, any Federal, State, or local elective public office for use by such individual exclusively for the preparation and circulation of such individual's newsletter shall, except as provided in paragraph (2), be treated as if such fund constituted a political organization.

(2) **Additional modifications.**—In the case of any fund described in paragraph (1)—

(A) the exempt function shall be only the preparation and circulation of the newsletter, and

(B) the specific deduction provided by subsection (c)(2)(A) shall not be allowed.

(h) **Special rule for principal campaign committees.**—

(1) **In general.**—In the case of a political organization, which is a principal campaign committee, paragraph (1) of subsection (b) shall be applied by substituting "the appropriate rates" for "the highest rate".

(2) **Principal campaign committee defined.**—

(A) **In general.**—For purposes of this subsection, the term "principal campaign committee" means the political committee designated by a candidate for Congress as his principal campaign committee for purposes of—

(i) section 302(e) of the Federal Election Campaign Act of 1971 (2 U.S.C. 432(e)), and

(ii) this subsection.

(B) **Designation.**—A candidate may have only 1 designation in effect under subparagraph (A)(ii) at any time and such designation—

(i) shall be made at such time and in such manner as the Secretary may prescribe by regulations, and

(ii) once made, may be revoked only with the consent of the Secretary.

Added Pub.L. 93-625, § 10(a), Jan. 3, 1975, 88 Stat. 2116, and amended Pub.L. 94-455, Title XIX, § 1901(b)(33)(C), Oct. 4, 1976, 90 Stat. 1801; Pub.L. 95-502, Title III, § 302(a), Oct. 21, 1978, 92 Stat. 1702; Pub.L. 95-600, Title III, § 301(b)(6), Nov. 6, 1978, 92 Stat. 2821; Pub.L. 97-34, Title I, § 128(a), Aug. 13, 1981, 95 Stat. 203.

1981 Amendment. Subsec. (h). Pub.L. organization taxable income by the highest rate of tax specified in section 11(b)"

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WHITE HOUSE CORRESPONDENCE TRACKING WORKSHEET

☐ O - OUTGOING☐ H - INTERNAL☐ I - INCOMINGDate Correspondence
Received (YY/MM/DD) _____Name of Correspondent: RICHARD DARMAN☐ MI Mail Report

User Codes: (A) _____ (B) _____ (C) _____

Subject: Draft Presidential Remarks before
National Republican Leadership Council

ROUTE TO:

ACTION

DISPOSITION

Office/Agency (Staff Name)	Action Code	Tracking Date YY/MM/DD	Type of Response	Code	Completion Date YY/MM/DD
<u>OVHolland</u>	ORIGINATOR	<u>83.03.18</u>			<u>1 1</u>
<u>CWAT18</u>	Referral Note: <u>C</u>	<u>83.03.18</u>		<u>S</u>	<u>83.03.18</u>
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ACTION CODES:

A - Appropriate Action
 C - Comment/Recommendation
 D - Draft Response
 F - Furnish Fact Sheet
 to be used as Enclosure

I - Info Copy Only/No Action Necessary
 R - Direct Reply w/Copy
 S - For Signature
 X - Interim Reply

DISPOSITION CODES:

A - Answered
 B - Non-Special Referral
 C - Completed
 S - Suspended

FOR OUTGOING CORRESPONDENCE:

Type of Response = Initials of Signer
 Code = "A"
 Completion Date = Date of Outgoing

Comments: _____

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MAR 18 1983
2:00 pm

JGR

Document No.

WHITE HOUSE STAFFING MEMORANDUM

DATE: 3/18/83 ACTION/CONCURRENCE/COMMENT DUE BY: 6:00 P.M. TONIGHT

SUBJECT: DRAFT PRESIDENTIAL REMARKS BEFORE NATIONAL REPUBLICAN LEADERSHIP COUNCIL

	ACTION	FYI		ACTION	FYI
VICE PRESIDENT	<input type="checkbox"/>	<input type="checkbox"/>	GERGEN	<input checked="" type="checkbox"/>	<input type="checkbox"/>
MEESE	<input type="checkbox"/>	<input checked="" type="checkbox"/>	HARPER	<input checked="" type="checkbox"/>	<input type="checkbox"/>
BAKER	<input type="checkbox"/>	<input checked="" type="checkbox"/>	JENKINS	<input type="checkbox"/>	<input type="checkbox"/>
DEAVER	<input type="checkbox"/>	<input checked="" type="checkbox"/>	MURPHY	<input type="checkbox"/>	<input type="checkbox"/>
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DARMAN	<input type="checkbox"/> P	<input checked="" type="checkbox"/> SS	WILLIAMSON	<input type="checkbox"/>	<input type="checkbox"/>
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FELDSTEIN	<input checked="" type="checkbox"/>	<input type="checkbox"/>	BRADY/SPEAKES	<input checked="" type="checkbox"/>	<input type="checkbox"/>
FIELDING →	<input checked="" type="checkbox"/>	<input type="checkbox"/>	ROGERS	<input type="checkbox"/>	<input type="checkbox"/>
FULLER	<input checked="" type="checkbox"/>	<input type="checkbox"/>	BAKSHIAN	<input type="checkbox"/>	<input checked="" type="checkbox"/>
			HENKEL	<input checked="" type="checkbox"/>	

Remarks:

Please forward any edits/comments directly to Aram Bakshian, with a copy to my office, no later than 6:00 P.M. tonight. Thank you.

Richard G. Darman
Assistant to the President
(x2702)

Response:

(Elliott/AB)
March 18, 1983
12:00 p.m.

PRESIDENTIAL REMARKS: NATIONAL REPUBLICAN LEADERSHIP COUNCIL
MONDAY, MARCH 21, 1983

It's wonderful to see so many of you again, and to welcome those of you who were not here last year to the White House. You know, you make me remember a story. One evening when Winston Churchill was addressing a crowd in America, a woman cornered him and said, "Doesn't it thrill you, Mr. Churchill, to know that every time you make a speech the hall is packed to overflowing?" "It is quite flattering," Sir Winston replied, "but whenever I feel this way I always remember that if, instead of making a political speech, I was being hanged, the crowd would be twice as big."

Well I must say -- you all look great. Might that be an indication that things are looking up for our Republican Party around the country?

Before I dwell on all the heavy business, I just want to say, we wouldn't be where we are today, starting to turn this country around, if it hadn't been for your support, and the support of your two great leaders -- Guy Vander Jagt and Rich DeVos.

In the last two elections it was your generosity and commitment that enabled us to direct \$4 million to Republican incumbents and challengers. That's made a tremendous difference in helping us to pass and defend our program in the Congress. All that just to underline how important you are and how much we're counting on you for support in 1983 and 1984. Now I'd say

I'm counting on you too, but then somebody would say I announced for President but forget to invite the press, so you better forget I said it.

I understand you've had some illustrious speakers today, and I just wanted to ask you -- isn't it great having a smart, bright Texan named Phil Gramm as a soldier on our side, not theirs?

When I spoke to you last year at this time I said our challenge was to turn around the legacy of years of Government blundering. And I admitted that the opposition was partially right -- we hadn't succeeded. They left us inflation at 12.4 percent. We'd only brought it down to 8.9. Well, the last time I looked, inflation over the last 6 months has been running at 1.4 percent. That's not quite zero but we're getting pretty darn close. I'll never forget all those people saying how we'd never get inflation below double digits in this decade, without wage and price controls. Well, look around the world. The countries that have wage and price control policies have higher inflation than we do in our free market country.

Last year I also admitted we hadn't ended the interest rate problem our opponents left us. We'd only brought that 21½ percent prime rate we inherited down to 16 percent. Well, we're doing a little better there, too. The prime has dropped to 10½ and I think we can get it down lower than that.

Two years ago we accelerated the deregulation of crude oil. You remember the great hue and cry in the media that we were going to send inflation skyrocketing. Funny isn't it that you

can buy gasoline now in most places for 25-30 cents less than when we took office.

Tax rates have been cut. Real wages are improving. Personal savings and productivity are growing again. The stock market has hit a record high. Venture capital investments have also reached record levels. Production in housing, autos and steel is gaining strength. And new breakthroughs in high technology are busting out all over -- Katie bar the door, we're on our way back. I just have one question, now that our program is doing what we predicted, how come they no longer call it Reaganomics?

We're not going to give in on the third year of the tax cut; we're not going to give in on indexing. We're going to keep our program intact and we're going to march forward and make America great again like she was always meant to be.

The one thing standing in our way is that catastrophic Democratic budget in the House of Representatives. They really haven't changed a bit -- just more of that same old snake oil of tax and tax and spend and spend that got us into this mess in the first place. We need your help to fight that budget and to shout from the housetops that it would ruin all the progress we've made so far in solving those fundamental problems that were crippling America.

And I need your help to keep America strong. Nothing could give greater joy to the rulers in the Kremlin than to see us abandon our defense rebuilding efforts after only 1 year. But

that's what the liberals clearly are determined to do, if we don't stop them.

You know, the other day I came across a statement Harry Truman made in 1945 after he had studied the reports on Pearl Harbor. He said, ". . . I came to the conclusion that the whole thing is the result of the policy which . . . [our] country itself pursued." We were "not ready for preparedness. Every time the President made an effort to get a preparedness program through the Congress, it was stifled. Whenever the President made a statement about the necessity of preparedness, he was villified for doing it." That same mentality exists in America today, and it's the most serious threat to our security and safety.

We have a program that is rebuilding America. That program will succeed if we stick with it. With your all-out support we can do the job. So I want to thank you one more time for everything you're doing. I hope to see you on May 12th at the Senate-House dinner. Incidentally, in addition to helping our candidates, this year's dinner will pay special tribute to my press secretary, Jim Brady. ~~Ten percent of each attendee's contribution will go towards the James Brady Presidential Foundation.~~ We hope that will convince you to come. I think I've gone on too long, so I'm going to get down from here and shake your hands.

Thank you and God bless you.

ferred to as agent buyers, constituted purchases for the use of nonmembers-nonproducers which, when added to other purchases sold outright to nonmembers-nonproducers, exceeded the statutory 15 percent limitation concerning purchases from nonmember producers; furthermore, the transactions with agent buyers fell outside those authorized for an exempt cooperative for the reason that the retailer made a profit on each transac-

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PROTECTION AND INDEMNITY ASSOCIATIONS

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means a party, committee, association, fund, or other organization
(whether or not incorporated) organized and operated primarily for
the purpose of directly or indirectly accepting contributions or mak-
ing expenditures, or both, for an exempt function.

(2) Exempt function.—The term "exempt function" means the
function of influencing or attempting to influence the selection, nomi-
nation, election, or appointment of any individual to any Federal,
State, or local public office or office in a political organization, or the
election of Presidential or Vice-Presidential electors, whether or not
such individual or electors are selected, nominated, elected, or ap-
pointed.

(3) Contributions.—The term "contributions" has the meaning
given to such term by section 271(b)(2).

(4) Expenditures.—The term "expenditures" has the meaning giv-
en to such term by section 271(b)(3).

(f) Exempt organization which is not political organization must include
certain amounts in gross income.—

(1) In general.—If an organization described in section 501(c)
which is exempt from tax under section 501(a) expends any amount
during the taxable year directly (or through another organization)
for an exempt function (within the meaning of subsection (e)(2)),
then, notwithstanding any other provision of law, there shall be in-
cluded in the gross income of such organization for the taxable year,
and shall be subject to tax under subsection (b) as if it constituted
political organization taxable income, an amount equal to the lesser
of—

(A) the net investment income of such organization for the
taxable year, or

(B) the aggregate amount so expended during the taxable
year for such an exempt function.

(2) Net investment income.—For purposes of this subsection, the
term "net investment income" means the excess of—

(A) the gross amount of income from interest, dividends,
rents, and royalties, plus the excess (if any) of gains from the
sale or exchange of assets over the losses from the sale or ex-
change of assets, over

(B) the deductions allowed by section 527(c) connected with the production of the newsletter, paragraph (A).

For purposes of the preceding sentence, the account items taken into account for purposes of section 511 (relating to tax on unrelated business income) shall be treated as a separate fund.

(3) Certain separate segregated funds.—For purposes of section 527(c)(1), a separate segregated fund, within the meaning of section 610 of title 26, or within the meaning of any other law, or segregation of dues moneys for exempt purposes (within the meaning of subsection (e)(2)) which is described in section 501(c) which is described in section 501(a) shall be treated as a separate fund.

(g) Treatment of newsletter funds.—

(1) In general.—For purposes of this section, a fund which is and maintained by an individual who is a candidate (within the meaning of section 527(c)(1)) for election to, any Federal, State, or local office, for use by such individual exclusively for the production of such individual's newsletter, shall be treated as if such fund were a separate fund.

(2) Additional modifications.—In the case of a fund described in paragraph (1)—

(A) the exempt function shall be the circulation of the newsletter, and

(B) the specific deduction shall not be allowed.

(h) Special rule for principal campaign committee.—

(1) In general.—In the case of a principal campaign committee, paragraph (1) shall be applied by substituting "the appropriate rate".

(2) Principal campaign committee.—

(A) In general.—For purposes of this section, the term "principal campaign committee" means a committee designated by a candidate for election to, any Federal, State, or local office, for purposes of the production of such individual's newsletter.

(i) section 302(e) of the Internal Revenue Code of 1971 (2 U.S.C. 432(e)).

(ii) this subsection.

(B) Designation.—A candidate shall be designated as a principal campaign committee in effect under subparagraph (A) if—

(i) shall be made at the discretion of the Secretary may prescribe the rate.

(ii) once made, may be made at the discretion of the Secretary.

Added Pub.L. 93-625, § 10(a), Jan. 13, 1975.
Pub.L. 94-455, Title XIX, § 1901(b)(1),
1801; Pub.L. 95-502, Title III, § 301(a)(1),
Pub.L. 95-600, Title III, § 301(b)(6),
L. 97-34, Title I, § 128(a), Aug. 13, 1981.

1981 Amendment. Subsec. (h). Pub.L. 97-34 added subsec. (h).

1978 Amendment. Subsec. (b)(1). Pub.L. 95-600 substituted "Such tax shall be computed by multiplying the political