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National Association
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December 7, 2005

The Honorable John W. Snow
Secretary
United States Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

Re: Federal Tax Reform

Dear Secretary Snow:

On behalf of the National Association of Bond Lawyers (NABL), I am writing to comment on the recently released report of the President's Advisory Panel on Federal Tax Reform (Panel). Thank you for your invitation encouraging interested groups to submit comments to Treasury to assist in your deliberations.

The municipal bond market has played a vital and unique role in financing infrastructure needs across this country. The United States is the only nation that permits local governments to have direct access to the capital markets to finance local infrastructure. This public financing mechanism underpins our federal system of local self-government, and has resulted in over $2 trillion of valuable local infrastructure that, in the absence of the municipal bond market, would have either required federal financing or would have been deferred or foregone entirely. Moreover, this locally financed infrastructure has a direct and dramatic impact on economic development and job creation and, thus, the health of our national economy.

We commend the Panel for its efforts to simplify the tax laws. However, certain aspects of the "Simplified Income Tax Plan" and the "Growth and Investment Tax Plan," each of which would treat all business interest income – taxable and tax-exempt – the same, will likely increase the cost of capital for state and local governments. The "Simplified Income Tax Plan" would tax the interest on all otherwise tax-exempt municipal bonds held by businesses. The "Growth and Investment Tax Plan" eliminates tax on all interest received by businesses. It is estimated that corporations currently hold over 30% of outstanding tax-exempt bonds. Both proposals would significantly reduce demand for tax-exempt bonds and thus dramatically increase interest costs for state and local governments. The proposals would also adversely affect individual investors who hold the remainder of the $2 trillion of outstanding tax-exempt bonds, as the value of their bonds will decline in response to a decline in their attractiveness to business.

Any tax reform proposal should promote a more efficient municipal bond market. In June 2002, NABL submitted the attached report to the Department of the Treasury regarding tax simplification recommendations for tax-exempt bonds. In the 2002 Report, NABL focused on three aspects of the tax-exempt bond rules: ways to simplify the boundary for traditional tax-exempt governmental bonds under the private activity bond definition; ways to reduce the administrative impact of the arbitrage investment restrictions; and ways to simplify the common restrictions on most tax-exempt private activity bonds in recognition of the effectiveness of the private activity bond volume cap.

NABL believes that these recommendations are as relevant today as they were in 2002. Accordingly, NABL respectfully requests that the 2002 Report be reviewed and considered for inclusion in the Department of the Treasury's tax reform proposals.

Thank you for your consideration.

Respectfully submitted,

Walter J. St. Onge III
President
National Association of Bond Lawyers

Attachment

cc: Eric Solomon
Donald L. Korb