



DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

February 23, 2006

The Honorable Charles Grassley  
Chairman  
Committee on Finance  
United States Senate  
Washington, DC 20510

Dear Chairman Grassley:

As you work through the conference on tax relief reconciliation, I write to offer the Administration's views on major issues raised by this important legislation. In particular, I would like to reaffirm the position expressed in our Statements of Administration Policy to the House and Senate of the Administration's strong support for the extension in this legislation of dividends and capital gains tax relief included in the House-passed bill.

Since the dividends and capital gains tax relief was enacted in 2003, it has contributed directly to the strengthening of our economy, helping to create over four and a half million new jobs and raise living standards. Business investment has rebounded and grown for 10 straight quarters, and, since higher investment brings jobs, it is not surprising that we have also had 10 straight quarters of steady job growth. And most of these jobs are paying above the median wage. With the unemployment rate now at 4.7%, there can be little doubt that this tax relief has benefited American workers, families, and businesses. This is in addition to the direct benefit seen by the 50% of American households that own equities, many of whom are seniors and approximately 40% of whom earn less than \$50,000 per year. It is essential that this tax relief be extended for as long as possible and that Congress prevent a tax increase on the American people that would damage the very engine of job creation.

The Senate-passed bill contains a number of provisions that are consistent with the President's objective to promote charitable giving. Enactment of charitable giving incentives, such as those included in the President's FY 2007 Budget, is a high priority for the Administration. We look forward to working with the conferees on these provisions.

The Administration has significant concerns with a number of revenue offset provisions in the Senate-passed bill, especially those that increase the complexity of the tax code or target taxpayers in specific industries. For example, the Administration has strong concerns with the provision in the Senate-passed bill that would codify the "economic substance" doctrine and urges Congress to eliminate this provision from the final legislation. The Administration also opposes the provision in the Senate-passed bill that would disallow use of the last-in, first-out (LIFO) method of accounting for certain taxpayers. This provision would result in a retroactive

tax increase by changing a long-accepted accounting practice. As we have stated previously, the President's senior advisors would recommend that the President veto the legislation if this provision remains in the final legislation.

The Administration supports the extension of a number of important expired or expiring tax provisions, as provided for in both the House and Senate-passed bills. The Administration strongly supports extension of the Research and Experimentation tax credit for as long a period of time as possible. We will work with the conferees to ensure that any extension of this important provision is properly crafted and improves the effectiveness of the credit. The Administration also strongly supports extension of increased expensing for small businesses, which would provide a number of benefits to small business taxpayers and the economy.

Both the House and Senate have passed measures that would provide relief from the alternative minimum tax (AMT) for 2006. As outlined in the FY 2007 Budget, the Administration supports a one-year "patch" for the AMT. We urge Congress to enact an AMT patch this year.

Finally, the Administration has serious concerns with non-tax-related items in the Senate-passed tax relief bill that are unrelated to the purposes of the bill and strongly urges that such items not be included in the final legislation.

On behalf of the Administration, let me express our willingness to provide assistance during the deliberations of the conference committee. I look forward to working with you to enact legislation that will ensure that the tax relief for dividends and capital gains passed in 2003 continues to be an engine for economic growth.

Sincerely,

A handwritten signature in black ink that reads "John W. Snow". The signature is written in a cursive, flowing style.

John W. Snow