



June 9, 2006

VIA FACSIMILE and Email

The Honorable Donald L. Korb
Chief Counsel
Internal Revenue Service
1111 Constitution Ave, NW Room 3026
Washington, DC 20224

The Honorable Eric Solomon
Acting Deputy Assistant Secretary (Tax Policy)
The United States Department of the Treasury
1500 Pennsylvania Ave., NW, Room 3120
Washington, DC 20220

RE: Income Attributable to Domestic Production (71 Fed. Reg. 31268, June 1, 2006)

Dear Sirs:

We are writing commend the U.S. Department of the Treasury (Treasury) and Internal Revenue Service's (IRS) recent rule finalizing proposed rules (70 Fed. Reg. 67220, November 4, 2005) under section 199 of the Internal Revenue Code. The proposed rule provided for a simplified deduction method calculation for employers that generated \$25 million or less in annual gross receipts. Under the final rule the accessibility of the simplified deduction method calculation is expanded to include employers that generate annual gross receipts of \$100 million or less.

The expansion in the final rule allows approximately 2.2 million employer firms engaged in the permitted production activity to use a far less complicated method to determine their deduction. The exact amount of regulatory savings this provides is not known at this time, but increasing the simplified deduction method availability to 99.5 percent of the employer firms engaged in the permitted activities should amount to a great savings to those firms.

In particular, the Office of Advocacy appreciates the efforts of George Manousos, Tax Specialist in Treasury's Office of Tax Legislative Counsel; Heather Maloy, IRS Associate Chief Counsel (passthroughs and special industries) and Acting Deputy Chief Counsel (technical); Paul Handleman, Senior Technician Reviewer (passthroughs and special

industries); David Schneider, Special Counsel to the Associate Chief Counsel (passthroughs and special industries) and all of the staff of the Treasury and IRS who worked hard to ensure that smaller companies are not overly burdened in taking advantage of the section 199 domestic production activity deduction.

The Office of Advocacy looks forward to working closely with the IRS and Treasury on issues of concern to small businesses. Please do not hesitate to contact Candace B. Ewell, Assistant Chief Counsel for Tax for additional information on my office or our involvement in tax regulatory issues at (202) 401-9787 or Candace.Ewell@sba.gov.

Sincerely,

/s/

Thomas M. Sullivan
Chief Counsel for Advocacy

/s/

Candace B. Ewell
Assistant Chief Counsel for Tax