

January 7, 2009

TO THE MEMBERS OF THE UNITED STATES CONGRESS:

The undersigned organizations collectively represent hundreds of thousands of companies with tens of millions of employees throughout the country. Our member companies operate across all sectors of the economy, providing us with a comprehensive perspective of the economic challenges facing all Americans. As you know, this is an extremely difficult time for any business, and most economists predict that next year will be worse.

As Congress considers a stimulus package to jumpstart the economy, we encourage you to adopt provisions that will immediately provide businesses with the resources to grow and hire more employees, and at a minimum avoid unnecessary layoffs. In particular, we urge you to support a proposal for temporary tax relief for companies that purchase their own or related party debt at a discount. Under current law, if a company or related party purchases its own debt at a discount, the company is required to pay income tax on the difference between the purchase price and the original issuance price of the debt. Temporary suspension of this tax will create and preserve jobs, facilitate the “deleveraging” of the U.S. economy and strengthen financial institutions’ balance sheets.

Given the economic slowdown, companies are under great pressure to cut costs to remain viable. Companies are slashing capital expenditures, R&D and either slowing hiring or laying off employees in order to avoid defaulting on their debt obligations. Increasing incentives to purchase discounted debt would reduce a company’s debt payment obligations, which would enable it to put more cash towards saving and creating jobs. This temporary tax relief would allow many companies to restructure their balance sheets, reposition for positive growth and save tens of thousands of jobs across the country.

The tax relief would also facilitate the deleveraging of the U.S. economy and strengthen financial institution’s balance sheets. Economists agree that a massive deleveraging process needs to take place before the economy can begin to grow. Creating temporary incentives to reduce debt levels in the U.S. economy would facilitate the deleveraging process and help create the conditions for resumption of economic growth. Further, this tax relief would allow financial institutions to strengthen their balance sheets by selling distressed/or discounted debt. Reducing debt levels and thereby improving capital adequacy ratios would enable banks to use more of their capital to start lending money again to consumers and businesses. Indeed, temporary relief from income taxes related to cancellation of debt would fulfill the exact purpose originally envisioned for the TARP – reducing the amount of distressed or discounted debt held by financial institutions – but would do so by using private sector money.

Congress, the Treasury Department, and the Federal Reserve has each taken extraordinary steps to limit the negative impact of the financial and economic crisis. However, banks will not begin to lend again in earnest, and therefore the economy will not grow again, until companies and financial institutions can reduce the levels of debt on their balance sheets. Creating incentives for businesses to reduce their debt would help businesses effectively manage through the recession and save jobs. A temporary waiver of the income tax related to the cancellation of indebtedness would help get the U.S. economy back on track.

Thank you for your attention to this matter.

Sincerely,

American Farm Bureau Federation
American Forest & Paper Association
American Gaming Association
American Gas Association
American Trucking Associations
Arizona-New Mexico Cable Communications Association
Associated Builders and Contractors, Inc
Associated Equipment Distributors
Association of Equipment Manufacturers
Business Roundtable
Financial Services Roundtable
International Franchise Association
Mortgage Bankers Association
Motor & Equipment Manufacturers Association
National Apartment Association
National Association of Manufacturers
National Association of Home Builders
National Association of Real Estate Investment Trusts
National Association of Wholesaler-Distributors
National Electrical Contractors Association
National Electrical Manufacturers Association
National Paint and Coatings Association
National Roofing Contractors Association
National Sand, Stone and Gravel Association
Outdoor Power Equipment Institute
Real Estate Roundtable
The Associated General Contractors of America
U.S. Chamber of Commerce