SIFMA

Securities Industry and Financial Markets Association

January 12, 2009

The Honorable Harry Reid
Senate Majority Leader
528 Hart Senate Office Building
Washington, D.C. 20510

The Honorable Mitch McConnell
Senate Minority Leader
361-A Senate Russell Office Building
Washington, D.C. 20510

Dear Majority Leader Reid and Minority Leader McConnell:

The Securities Industry and Financial Markets Association (SIFMA)[1] applauds your efforts to develop a fiscal stimulus package to create jobs and revitalize our economy. We respectfully request that any economic stimulus package considered by Congress include a permanent exclusion of private-activity bond interest from the alternative minimum tax (AMT), as provided in S.138, introduced by Sen. John Kerry (D-MA), Sen. Olympia Snowe (R-ME) and Sen. Blanche Lincoln (D-AR), and H.R.425, introduced by Rep. Richard Neal (D-MA) and Rep. Paul Ryan (R-WI).

SIFMA strongly supported a provision in the *American Housing and Economic Recovery Act of 2008*, which permanently repealed the AMT with respect to tax-exempt housing bonds. This provision helped lower the costs for state and local housing authorities to implement housing programs. Extending the repeal of the AMT to other types of private-activity bonds will lower borrowing costs for state and local governments and their constituents at a time of critical fiscal and budgetary constraint. To be effective, the exemption should also apply to outstanding bonds, and refinancings, conversions, and remarketings of outstanding bonds.

Individual investors are the primary buyers of municipal securities, either directly or through mutual funds. Most municipal bond interest earned by individual investors is exempt from individual income tax. As a result, investors are willing to earn a lower rate of return on their municipal bonds holdings, thereby lowering the cost of borrowing for state and local governments.

However, not all municipal bond interest is exempt from income taxation. Under current law, private-activity bond interest is subject to the individual and corporate AMT. In other words, interest on private-activity bonds can push taxpayers into the AMT or increase their AMT liability. As a result, private-activity bonds must be issued at higher yields to compensate investors for this risk. The higher yield translates into higher borrowing costs for states and localities.

Historically so-called “AMT bonds” have paid a premium of 25-30 basis points more than non-AMT bonds. This premium has grown as high as 100 basis points because of the turmoil in the

[1] SIFMA brings together the shared interests of more than 650 securities firms, banks, and asset managers. SIFMA’s mission is to promote policies and practices that work to expand and perfect markets, foster the development of new products and services, and create efficiencies for member firms, while preserving and enhancing the public’s trust and confidence in the markets and the industry. SIFMA works to represent its members’ interests locally and globally. It has offices in New York, Washington, D.C., and London. Its associated firm, the Asia Securities Industry and Financial Markets Association, is based in Hong Kong. More information may be found on our website: http://www.sifma.org.

credit market generally, and municipal securities market specifically. The AMT premium has made it difficult for state and local issuers to meet the financing needs of their communities.

Eliminating the AMT for private-activity bonds would spur demand for these bonds and lower the financing costs for state and local issuers. In a time of severe fiscal and budgetary challenges, repealing the AMT for private-activity bonds, including outstanding bonds, and refinancings, conversions, and remarketings of outstanding bonds, is a sensible and efficient way to help state and local governments work within existing markets and regulations to access affordable financing for projects, which not only serve a public purpose, but also create jobs for communities. We strongly urge you to consider including this provision in any economic stimulus package considered by Congress.

Thank you for your consideration. We look forward to working with you as you develop this important legislation.

Sincerely,

Scott DeFife

Scott DeFife
Senior Managing Director
Government Affairs