

January 16, 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 Hotel and Lodging Association  
American Insurance Association  
American Trucking Associations  
Arizona-New Mexico Cable Communications Association  
Associated Builders and Contractors, Inc  
Associated Equipment Distributors  
Association of Equipment Manufacturers  
Business Roundtable  
Federation of American Hospitals  
Financial Services Roundtable  
International Council of Shopping Centers  
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 Federation of Independent Business  
National Multi Housing Council  
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  
Travel Industry Association  
U.S. Chamber of Commerce