



City of Chicago
Richard M. Daley, Mayor

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The Honorable Charles Grassley
Chairman
US Senate Committee on Finance
219 Dirksen Senate Office Building
Washington D.C. 20510

VIA FAX: (202) 228-0554

Dear Chairman Grassley:

On behalf of the City of Chicago, I welcome this opportunity to submit comments on S.4026, the "Technical Tax Corrections Act of 2006". Our comments discuss issues relevant to the application to the City of a new excise tax enacted by Section 516 of the Tax Increase Prevention and Reconciliation Act of 2005 ("TIPRA"). I will first mention some general concerns about the excise tax and then suggest some technical corrections to Section 516, which would alleviate a portion of our concerns. We respectfully request that these corrections be included in S.4026.

In general, the City is concerned that the excise tax enacted by Section 516 of TIPRA may be applied retroactively to transactions that were entered into prior to the Internal Revenue Service issuing any guidance or stating any concern that certain transactions may be tax shelters. Such retroactivity can be inherently unfair given that state and local governments have endeavored to enter into financial transactions in accordance with the law. Furthermore, the excise tax appears to be a way of taxing state and local government income, which is contrary to long-established practice and may invoke constitutional issues.

To turn to more technical concerns and some possible technical corrections, the Act and its legislative history do not provide a clear definition of "proceeds," on which the excise tax imposed under Section 516 of TIPRA is partly based. As a result, the City is concerned that the Treasury and the Internal Revenue Service have insufficient guidance in defining this term during the regulatory process and may promulgate regulations with an overly broad definition of this key term. Therefore, the City asks the Committee to focus on the economics of the transaction to the City and provide a technical clarification of the definition of proceeds that is



consistent with the fact that the City's only economic benefit from the transaction is received on the closing date of the transaction. Similarly, the City requests that the Committee consider adding a provision to S.4026 that would clarify the meanings of "net income" and "proceeds" as such terms are used in Section 516 of TIRPA, and would provide guidance on the allocation of both "net income" and "proceeds" that is consistent with the fact that the City's only economic benefit from the transaction is received on the closing date of the transaction.

Thank you for your consideration of our views. If you have any further questions, please feel free to contact me at (312) 744-7100.

Sincerely,



Dana R. Levenson
Chief Financial Officer