



October 31, 2006

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

Dear Chairman Grassley:

The Washington Metropolitan Area Transit Authority (WMATA) is the largest public transportation provider in the Washington, D.C. metropolitan area and the second largest subway and fifth largest bus system nationally. On average, we provide 720,000 rail trips, 439,000 bus trips, and 4,400 paratransit trips every weekday, and almost half of Metrorail's peak period riders are federal employees. I write to you today to express WMATA's concerns regarding the application of the new section 4965 of the Internal Revenue Code following the enactment of the Tax Increase Protection and Reconciliation Act (TIPRA) in May of 2006 (P.L. 109-222).

WMATA believes that neither TIPRA nor its legislative precedents provide a clear definition of the term "proceeds" and "net income," particularly for the application of Internal Revenue Code 54965 (excise taxes). As a result, the U.S. Department of the Treasury and the Internal Revenue Service (IRS) may have insufficient guidance to define these terms during the regulatory process and could promulgate regulations with an overly broad definition of these key terms.

WMATA is deeply concerned that unless these terms are defined with more precision, the IRS could impose an excise tax on proceeds of Sale In/Lease Out (SILO) or Lease In/Lease Out (LILO) transactions completed by WMATA prior to the passage of TIPRA. Between 1998 and 2003, WMATA was the lessee in several LILO and SILO transactions.

**Washington
 Metropolitan Area
 Transit Authority**

600 Fifth Street, NW
 Washington, DC 20001
 202/962-1234

By Metrorail:
 Judiciary Square—Red Line
 Gallery Place-Chinatown—
 Red, Green and
 Yellow Lines
 By Metrobus:
 Routes D1, D3, D6, P6,
 70, 71, 80, X2

4 District of Columbia,
 Maryland and Virginia
 Transit Partnership

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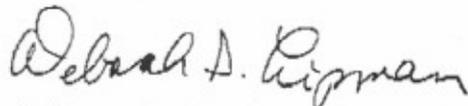
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Consequently, if these terms are not clearly defined, the IRS may impose substantial excise tax on those transactions, which could have a material adverse impact on WMATA's ability to serve our riding public, including over 360,000 federal employees.

Therefore, WMATA respectfully requests your consideration of a technical clarification of the definitions of "proceeds" and "net income" that are also consistent with the position taken by the IRS in revenue rulings and court filings. Specifically, WMATA suggests that for purposes of assessing excise taxes, all proceeds and net income be considered to have been received at the closing of the transaction when the tax exempt entity received a cash payment. We would suggest that such a clarification could be made in the recently introduced Tax Technical Correction bill (H.R. 6264) or in other legislation, as you deem appropriate.

Thank you for your consideration of this issue, which is of great concern to WMATA. If you or your staff have any further questions, please do not hesitate to contact me at 202-962-1003 or Mark R. Pohl, WMATA Associate General Counsel at 202-962-2541.

Sincerely,



Deborah S. Lipman
Director, Office of Policy and Government Relations