

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220
MAR 14 2006

Mr. Timothy R. Kenny
Executive Director
Nebraska Investment Finance Authority
200 Commerce Court
1230 O Street
Lincoln, NE 68508-1402

Dear Mr. Kenny:

Thank you for your letter to Secretary Snow regarding tax-exempt private activity bonds and the new markets tax credit (NMTC). Because your letter relates to a matter of tax policy, it was referred to me.

Your letter recommends two changes to the Internal Revenue Code with respect to tax-exempt private activity bonds: (1) increasing the \$10 million qualified small issue bond limit to \$25 million and indexing it for inflation; and (2) expanding the permissible scope of financing to include land and depreciable property for the processing of agricultural products. Your letter suggests that these changes would assist states in their efforts to spur economic development and, due to the overall volume limits on private activity bonds, would not result in additional revenue loss to the Federal government.

Your letter also contains two proposals relating to the New Markets Tax Credit (NMTC). First, your letter recommends that the Internal Revenue Code be amended to create a minimum amount of NMTC authority (for example, \$50 million) to be allocated to each state on an annual basis. This change would address a concern, expressed in your letter, that states with smaller populations are finding it difficult to compete with more populated states for NMTC allocations. Second, your letter recommends that the Treasury Department consider appointing a study panel to review the compliance rules of the NMTC program in order to determine changes that might expand the program to assist small start-up businesses and other entities. Your letter expresses concern that the effect of the current compliance rules has been to discourage investment in businesses other than real estate.

Thank you for your interest in these important issues. We will certainly keep your views in mind as we consider future legislative proposals about private activity bonds and as we continue to evaluate ways to improve the NMTC program.

Sincerely,

Eric Solomon
Acting Deputy Assistant Secretary (Tax Policy)