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Washington, DC 20036

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Donna Fisher
Director of Tax and
Accounting

Tel: 202-663-5318
Fax: 202-828-4548
dfisher@aba.com

January 10, 2005

The Honorable John W. Snow
Secretary
United States Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

Dear Mr. Secretary:

The American Bankers Association (ABA) appreciates the opportunity to submit comments on the Report of the President's Advisory Panel on Federal Tax Reform. The Report, which was delivered to the Treasury on November 1, 2005, contains recommendations for a Simplified Income Tax Plan (SITP) and a hybrid Growth and Investment Tax Plan (GITP). The ABA brings together all categories of banking institutions to best represent the interests of the rapidly changing industry. Its membership – which includes community, regional, and money center banks and holding companies, as well as savings associations, trust companies and savings banks – makes the ABA the largest banking trade association in the country.

The ABA commends the efforts of the Panel members, who clearly worked diligently to tackle the complex issue of tax reform. It is our understanding that the recommendations contained in the Report serve as a starting point for a dialogue to simplify the tax code and that Treasury will review the recommendations in depth and consider them carefully before providing any proposals to the President. The ABA urges careful and full evaluation in Treasury's review and deliberations, and hopes that the concerns raised in this letter will be considered during this review process as coming from an industry eager to join with the Administration in seeking improvements that will promote continued strong economic growth.

We believe that there are several proposals in the Report that merit strong support, especially those promoting saving and investment and encouraging charitable giving. We discuss these later in these comments. There are other proposals that we believe would be counterproductive to economic growth and prosperity. In particular, the ABA has very serious concerns about the following proposals contained in the Report: (1) replacing the current mortgage interest deduction with a limited credit and eliminating the home equity interest deduction; (2) eliminating the current state and local tax deduction; (3) limiting the employee exclusion for employer-provided health care; and (4) eliminating the business interest deduction under the GITP.

Mortgage Interest Deduction

The proposal would replace the current mortgage interest deduction with a “home credit” of up to 15 percent of the interest paid on mortgages related to a primary residence for all taxpayers. The credit would be limited, based on the maximum average cost of homes within a taxpayer’s area – home costs currently ranging from about \$227,000 to about \$412,000. No deduction or credit would be allowed for interest on mortgages on second homes or interest on home equity loans.

While the ABA understands the rationale for limiting the home mortgage interest deduction, we believe that it runs counter to a longstanding national policy to promote home ownership, a policy that we have long supported. Housing is a basic need, but home *ownership* provides an important quality of life in American society, where ownership is a powerful incentive to a variety of other social virtues that build our communities. The deduction for home mortgage interest provides a tax subsidy that has made it possible for the average American to invest in housing. As you have said, what you tax less you get more of, and what you tax more you get less of. We support continued efforts to expand home ownership, an effort in which bankers have been proud to play a key role.

We are aware that currently tax benefits of home ownership are limited to those who itemize deductions, so we support the proposal to expand to non-itemizers the ability to deduct mortgage interest. We believe that this extension can be accomplished without reducing inducements to home ownership for others. Retaining current deduction rules for mortgage interest and home equity loan interest and extending its application to non-itemizers will preserve this valuable tool and extend it to those who cannot take advantage of this opportunity because they do not itemize their deductions.

We believe that if the mortgage interest deduction – the single most important tax provision for many American families – is diminished or jeopardized, the housing market would be harmed, with powerful negative consequences for the entire economy. Further, notwithstanding the provision stating that the credit limitation would be phased in over a five-year period for existing primary mortgages, this proposal nevertheless could lead to a material decline in the value of homes, including an unfair impairment in the value of investments people have already made in their homes. We cannot dismiss worries of repeating the widespread financial dislocation that ensued when mortgage interest deductions were limited in the 1986 tax legislation, even if a brief transition period is provided this time.

The ABA also has very serious concerns about the proposal to eliminate the deduction for interest on home equity loans. Home equity loans are an important and useful tool for homeowners. Many homeowners build equity in their homes with the knowledge that a home equity loan and the corresponding deduction will be a good source of funding for future needs, including making home improvements, starting a business or paying for children’s education. Home equity loans are often favored by homeowners over refinancing because of

expense efficiencies for the homeowner. The investments made by homeowners with home equity loans are typically good for local communities. Elimination of the deduction would greatly reduce the utility and desirability of home equity loans and the advantages they provide. We believe that the home equity deduction should continue to be provided to America's homeowners.

State and Local Tax Deduction

The proposal would disallow the deduction of property taxes for all filers. Individuals who itemize deductions are currently allowed to deduct taxes assessed on their real property by state and/or local governments (i.e., primary residence and vacation home property taxes). One of the most significant existing disincentives to home ownership is the tax on real estate, assessed by communities throughout the nation. One of the few forms of relief that homeowners receive from such taxes is the current income deduction for them. Removing that deductibility again adds to the cost of home ownership and can place it just out of reach for many potential homeowners.

Business Interest Deduction

Under the GTP, the deduction for interest is eliminated for businesses (except for financial institutions). The problem with this provision is that it is unfair, and its effect is far-reaching. Interest on debt is as much of a business expense as are the purchase of raw materials, payment of salaries, maintenance of inventory, and the myriad of other costs of business that are allowable business expenses under the tax code. Debt is an important part of business financing (and about the only one readily available for small businesses that have little ability to raise funds in equity markets). Disallowing the business expense for interest will raise the cost of business financing, and therefore slow business expansion. This will in turn have a negative effect on jobs and economic growth.

Employer-Provided Health Insurance

The proposal would limit employee exclusion for employer-provided health care to \$11,500 for families and \$5,000 for single individuals. The Report recommends that workers be allowed to purchase health insurance either through their employers or on their own with pretax dollars up to the average cost for health insurance. Taxpayers who purchase insurance on their own will be allowed a deduction up to a limit in the same way that a taxpayer is allowed to exclude up to a limit if insurance is purchased through an employer.

The ABA supports the proposal to allow a deduction for the purchase of health insurance by an individual with pretax dollars, but has some concern about the proposal to limit the amount an employee can exclude from income for employer-provided health care. The current system of employer-provided health insurance is the primary source of health insurance for many Americans. This system provides many benefits, and the result is that a higher percentage of the population has health insurance. For instance, employer-provided group coverage greatly reduces transaction costs and allows individuals to pay lower premiums by pooling risks. A lowering of this benefit could adversely affect a large number of Americans if the ceiling were set too low. The Report presumes that reducing subsidies for employer-provided health insurance would lower private spending

on healthcare. Assuming this to be true, great care must be taken to allow for – and even encourage – the benefits of group pricing while removing barriers to greater market discipline on the price for healthcare, or there could be a reduction in the number of people with health insurance.

Personal Savings and Investment

The Report would provide improved clarity and simplicity – and usability – for programs to encourage personal savings and investment. In place of the often confusing assortment of existing federal savings and investment incentives, the Report proposes three new savings vehicles – a “Save at Work” account; a “Save for Retirement” account, and a “Save for Family” account – and a refundable saver’s credit.

The ABA supports proposals that encourage the American people to save for their future and retirement. These proposals would provide more viable and flexible options, unlike the current assortment of savings vehicles that are burdensome and bewildering for the average American. We also believe that these proposals would increase saving and investment by being more accessible to more people, and by removing fears that funds in tax protected programs become too hard to reach for when needed.

While we agree with the need for clarity and simplicity, we also have a certain level of concern about constant changes to laws relating to existing savings vehicles. Such changes often require significant changes to the infrastructure needed to support the related savings products, which serves as a disincentive to banks and other intermediaries to invest significant resources. We agree with the proposed improvements, and we hope that the Administration will reaffirm its commitment to these savings vehicles so that the infrastructures can be established and relied upon for a sufficient period of time.

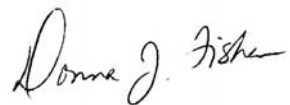
Charitable Giving

The Report would allow taxpayers over age 65 to make tax-free gifts from their traditional IRAs directly to qualified charities. Currently, a taxpayer who donates assets from an IRA to a charity must include the amounts in income and then separately claim a charitable deduction. The taxpayer may not be able to claim a charitable deduction for the entire amount. Under this proposal, a taxpayer would not include the amounts donated to charity in income; instead, the taxpayer would be able to claim a charitable deduction for the entire amount donated. This would encourage more taxpayers to contribute their IRA assets to charity.

We appreciate the opportunity to provide our views to you. We applaud the Administration’s attention to the need to bring reform to the tax code and are eager to work with you in this effort. Inasmuch as many of the issues raised in the proposals involve some of the most significant elements of existing tax law – with profound economic and social consequences, we urge you to proceed on these

issues with care and full deliberation. If you would like to discuss our comments further, please feel free to contact me at 202-663-5318.

Sincerely,

A handwritten signature in cursive script that reads "Donna J. Fisher". The signature is written in black ink and is positioned below the word "Sincerely,".

Donna J. Fisher