

December 5, 2007

The Honorable Nancy Pelosi
U.S. House of Representatives
235 Cannon House Office Building
Washington, DC 20515

Dear Speaker Pelosi:

The Securities Industry and Financial Markets Association (SIFMA)¹ opposes the basis reporting revenue raiser included in the tax title of H.R. 6, the *Clean Renewable Energy and Conservation Tax Act of 2007*. Over the past two years, SIFMA (and its predecessor the Securities Industry Association) worked cooperatively with Hill staff to develop new basis reporting requirements that would simplify tax filing and reduce the misreporting of investment income. This constructive dialogue helped produce an effective basis reporting proposal that was included in H.R. 3996, the *Temporary Tax Relief Act of 2007*. This proposal passed the House of Representatives on November 9, 2007. We regret we cannot support the provision included in H.R. 6 because of two significant changes to the House-passed bill.

First, H.R. 6 would require brokers to send 1099 statements to customers that are S corporations. SIFMA has consistently opposed new corporate reporting requirements in the context of a basis reporting bill because the significant costs associated with this private-sector mandate would have a minimal effect on tax compliance. Corporations are currently exempt from reporting requirements because the information reported by brokers and corporate customers would often differ due to timing and accounting differences. These differences would lead to numerous mismatches, making it difficult for the IRS to identify actual noncompliance. Brokers should be allowed to focus their time and resources on implementing the new basis reporting requirements under the proposal, rather than diverting these resources to new reporting requirements that yield minimal tax compliance benefits.

Second, H.R. 6 delays the effective date of a revenue-neutral provision that would assist brokers in implementing the new basis reporting requirements. Basis reporting will create significant pressure on the year-end processing of 1099 statements and significantly increase the number of corrected statements. Issuing corrected 1099 statements is a costly process that translates into wasted time, confusion, and additional tax preparation costs for millions of taxpayers. As a result, SIFMA has consistently commented that an effective basis reporting proposal must include the provisions of S. 636, introduced by

¹ The Securities Industry and Financial Markets Association brings together the shared interests of more than 650 securities firms, banks and asset managers. SIFMA's mission is to promote policies and practices that work to expand and perfect markets, foster the development of new products and services and create efficiencies for member firms, while preserving and enhancing the public's trust and confidence in the markets and the industry. SIFMA works to represent its members' interests locally and globally. It has offices in New York, Washington D.C., and London and its associated firm, the Asia Securities Industry and Financial Markets Association, is based in Hong Kong.

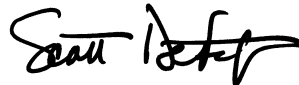
Sen. Charles Schumer (D-NY) earlier this year. S. 636 would extend the filing deadline for most 1099 statements by two weeks, from January 31 to February 15. Providing brokers with additional time to gather and process tax information would improve the accuracy of the original 1099 statement so taxpayers are burdened with fewer corrections. H.R. 6 includes a modified version of S. 636 effective two years *after* the general basis reporting requirements. The filing extension should take effect with the general basis reporting requirements because the number of 1099 corrections is expected to be highest during the start-up years. Moreover, the additional filing time will be most beneficial to brokers and taxpayers if it applies to all of the 1099 forms in a consolidated statement.

SIFMA appreciates Congress' willingness to work with affected industry members, and we commend many of the improvements made to the proposal. SIFMA members are willing to expend the necessary resources on basis reporting rules that will simplify tax filing for customers and reduce the tax gap. However, we cannot support burdensome mandates where the costs imposed on financial institutions and their customers far outweigh any possible gains in tax compliance. We hope these issues can be resolved before basis reporting requirements are enacted.

Sincerely,



Richard Hunt
Senior Managing Director
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Scott DeFife
Senior Managing Director
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