

March 10, 1959

Dear Dr. Dixon:

Recently you wrote to us about a problem presented to you by Mr. William Kinard, which involved the municipal ownership of manufacturing companies. I want to take this opportunity to supplement our brief acknowledgement letter to you.

In 1954 the Ways and Means Committee examined at some length the tax-exempt status of bonds issued by local governments to finance the construction of industrial facilities for lease to private firms in programs designed to attract out-of-State industry. On that occasion the Committee considered terminating the tax-exempt status of such bonds and denying the deductibility of lease payments for properties constructed or purchased with funds obtained from the sale of tax-exempt bonds. On other occasions the Committee has scrutinized the tax-exempt status of the proprietary activities of State and local governments unrelated to essential governmental functions. Any one of these approaches, if adopted by Congress, would help to restrict trafficking in the tax-exemption privilege of governments, as in the Village of Deming case described by Mr. Kinard. The problem is a most delicate one, however, involving as it does the relations between the Federal Government and State and local governments.

As for the Deming case itself, I am told that the Revenue Service can do nothing about it under present law. If this sort of thing is to be stopped, the law will have to be changed. The Department would support appropriate legislation in this area.

I am glad that this matter has been called to your attention and that you are giving it some thought.

Sincerely yours,

Jay W. Glasmann
Assistant General Counsel

Honorable Henry Aldeas Dixon
House of Representatives
Washington 25, D. C.