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COMMITTEE ON FINANCE

WASHINGTON, DC 20510-6200

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February 10, 2006

Dr. Donald Marron
Acting Director
Congressional Budget Office
Second and D Street, SW
Washington D.C. 20515

Dear Dr. Marron:

The Congressional Budget Office (CBO) is responsible for the development of the revenue baseline utilized by the Joint Committee on Taxation to estimate the effects of legislative changes in the tax code. Capital gains realizations are an important component of the revenue baseline.

Since the enactment of the capital gains tax rate reduction in 2003, there has been a significant increase in capital gains realizations. Based on subsequent changes in CBO's baseline, capital gains taxes are now projected to exceed the amount originally projected under the higher capital gains tax rate that prevailed before 2003.

It would appear from the latest baseline that capital gains realizations are more responsive to a reduction in the capital gains tax rate than CBO projected in 2004 or 2005. This change has significant implication for extending the capital gains tax rate reduction beyond its scheduled expiration date at the end of 2008.

As the Finance Committee continues to consider this issue, it would be helpful to better understand CBO's latest assumptions. Thus, I would like to request that CBO provide the Committee with a more detailed explanation of the recent changes in its assumptions and methods for projecting capital gains realizations.

If you have any questions regarding this request, please contact Mark Prater or Steve Robinson at 224-4515.

Sincerely,



Chuck Grassley
Chairman

cc: Dr. Tom Barthold
Acting Chief of Staff
Joint Committee on Taxation

Enclosures (2)