

# Congress of the United States

Washington, DC 20515

September 30, 2002

The Honorable Paul O'Neill  
Secretary  
Department of Treasury  
1500 Pennsylvania Ave, NW  
Washington, D.C. 20220

The Honorable Charles O. Rossotti  
Commissioner  
Internal Revenue Service  
1111 Constitution Ave, NW  
Washington, D.C. 20224

Dear Secretary O'Neill and Commissioner Rossotti:

We are writing out of deep concern for our constituent victims of the terrorist attacks of September 11, who subsequently received some of the \$772 million in federal grants awarded to businesses and individuals formerly and currently located near ground zero. A report in this morning's *New York Daily News* indicates that these grants may be treated as taxable income by the IRS. We believe this tax treatment totally violates the intent of these grants and will do severe damage to the effort to restore lower Manhattan.

The grants in question, that were intended by Congress to help to rebuild the economy of lower Manhattan, are being distributed to businesses and individuals who were located or lived in lower Manhattan. These are people whose lives were torn apart by September 11, but because of their desire to help rebuild the area, many have bravely chosen to remain in lower Manhattan. At the time these grants were distributed, it was incomprehensible that the grants would later be considered taxable income. If the IRS had thought such tax treatment was a possibility at the time, it should have indicated to policymakers such a concern. Taxing this as income will have the direct opposite of the intended effect of these grants and will drive businesses and residents from the disaster zone or into bankruptcy.

Accordingly, we are writing to strongly urge you not to treat these grants as taxable income. Doing so will have a devastating impact on our constituents and significantly damage the recovery effort. Take for example the situation cited by Meyer Feig, the President of the World Trade Center Tenants Association in today's press report. A former tenant company of the World Trade Center that received a \$70,000 grant could be liable for taxes on the money of up to 35%. Given that the grant likely fell well short of the funding needed to recoup losses from the attack, this new tax liability will likely drive such a business to bankruptcy.

We thank you for your immediate attention to this urgent matter. Given the uncertainty created by the possibility that these grants could be treated as taxable income we request that you resolve this situation expeditiously. Please contact Ben Chevat with Rep. Maloney (225-7944)

## **NY Daily News**

### **Feds taxing**

### **WTC grants**

By GREG GITTRICH

DAILY NEWS STAFF WRITER

Wednesday, September 25th, 2002

Cash-strapped businesses trying to hang on in lower Manhattan expect to take another financial hit - this time from the IRS.

Every penny of the \$772 million in federal grants being given to struggling small businesses near Ground Zero is taxable, the Daily News has learned.

"This will put more people out of business," said Meyer Feig, president of the World Trade Center Tenants Association, a coalition of 80 companies that were in the twin towers.

"They say here's a \$20,000 grant, here's a \$30,000 grant. It never entered into my mind that it would be taxable," said Feig, head of Intera Corp., an information technology firm.

The IRS has been reviewing the matter but has not declared the grants tax-free, agency spokesman Kevin McKeon said.

Sens. Chuck Schumer and Hillary Clinton, both New York Democrats, and Rep. Carolyn Maloney are furious about the hidden costs and have been lobbying the Treasury Department to do away with the taxes.

"This is Uncle Sam giving with one hand and taking away with other," said Schumer. "We are going to push the IRS to not tax them. If that doesn't work, we will introduce legislation."

Maloney (D-Manhattan) said it's "ridiculous to consider these recovery funds as taxable income."

"All sorts of disaster relief aid is exempted from taxation," she said. "So the argument that these funds might be any different makes no sense."

The tax hit varies significantly depending on how much grant money a business has received since the Sept. 11 attacks.

Feig used his situation as an example.

"Say you got about \$70,000 in grants, which doesn't begin to cover all your losses. ... Now you have to pay back about 35% of that money in taxes," Feig said. "The bureaucratic machinery is so slow. I don't know if it's going to be fixed by March 15 when [businesses] have to pay taxes."

Kevin Curnin, legal counsel for From the Ground Up, a nonprofit group that helps small businesses, said taxing the grants violates the spirit of the federal aid.

"This makes recovery much more difficult," said Curnin, a lawyer with the firm Stroock & Stroock & Lavan.

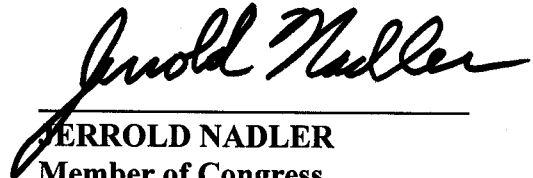
The federal money is being distributed through the state and city economic development corporations. When asked, both agencies confirmed the money is taxable. But state officials said they have asked federal Treasury Department officials to make changes.

"We are hoping to get a favorable response. If not, I will take this up with senior officials at the Treasury," said Charles Gargano, chairman of the Empire State Development Corp. "This is such an extraordinary situation, and hopefully the Treasury will take another look at it."

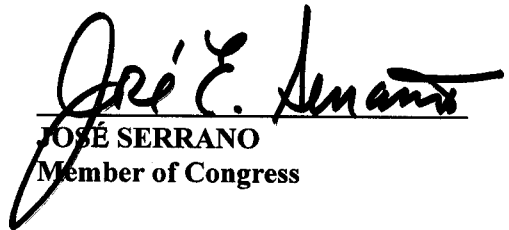
as liaison for this matter.

Sincerely,

  
CAROLYN B. MALONEY  
Member of Congress


  
FERROL NADLER  
Member of Congress

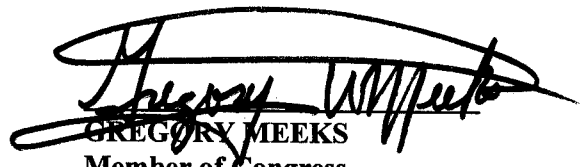
  
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