

Congress of the United States
Washington, DC 20515

December 9, 2009

The Honorable Charles B. Rangel
Chairman
Committee on Ways and Means
1102 Longworth House Office Building
Washington, D.C. 20515

Dear Chairman Rangel,

As Representatives from states across the nation that stand to see the negative consequences of such a deal, we ask that you renew your effort to limit “Reverse Morris Trust” (RMT) transactions, a tax avoidance loophole that continues to be utilized by companies, including publicly regulated utility companies. RMT transactions regularly allow companies to avoid paying millions of dollars in taxes while having adverse consequences for consumers, workers and the Federal Treasury.

Under an RMT, a parent company can spin off a subsidiary that merges into an unrelated company tax free if the shareholders of the parent company control more than 50 percent of the voting rights and economic value of the resulting merged company. The result deprives the federal treasury of hundreds of millions of dollars. And all too frequently, the new entity is loaded up with debt and lacks the capital needed to maintain services and perform system upgrades that it depends on to provide quality services to its customers and create good paying jobs.

Presently, for example, Verizon is seeking to utilize the RMT provisions to avoid taxes on \$3.3 billion in its proposed sale of landlines to Frontier Communications. Verizon proposes to create a subsidiary for the sole purpose of merging it into Frontier Communications. Verizon shareholders will end up with nearly 70 percent of Frontier’s stock while Frontier will be loaded up with more than \$ 3.4 billion in new debt. This RMT transaction will result, if unchecked, in Verizon dumping landlines in the 14 states that we represent. The motivation behind this transaction is tax avoidance, not consumer benefit.

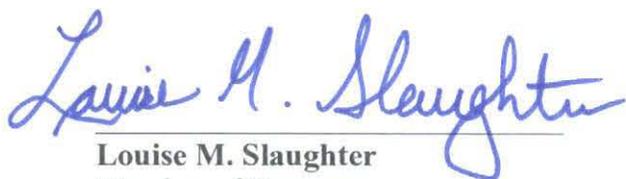
We are concerned that consumers and workers will face the same consequences as those encountered by their counterparts in several Northeastern states where Verizon engaged in a similar tax avoidance scheme with FairPoint Communications two years ago. Numerous news articles have laid truth to the claims made during the review of those transactions regarding the detrimental impact that would ensue for consumers, communities and workers. On October 26, 2009, FairPoint, which had assumed a massive debt load, declared bankruptcy. As a result, its consumers are suffering from deteriorating service, delayed build-out of broadband

infrastructure, and its workers must now attempt to protect their collectively-bargained compensation and jobs.

We know that you authored and included in the Tax Reduction and Reform Act of 2007 a provision that would have effectively dealt with the monetization aspects of RMT transactions. We respectfully ask that at the first opportunity similar action be taken in the 111th Congress. We do not want consumers and workers in our states to share the same future as those who have been victimized by similar transactions in the past.

Thank you for your consideration of this important matter, and we look forward to working with you to obtain a smart and reasonable solution.

Sincerely,



Louise M. Slaughter
Member of Congress



Nick J. Rahall II
Member of Congress



Alan B. Mollohan
Member of Congress



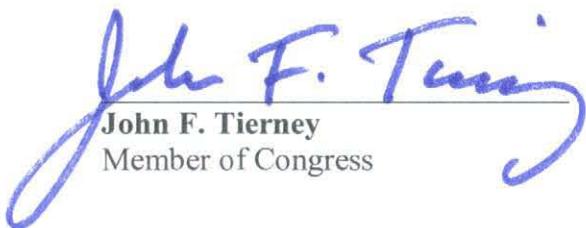
Thaddeus G. McCotter
Member of Congress



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John F. Tierney
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Eric Massa
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John P. Murtha
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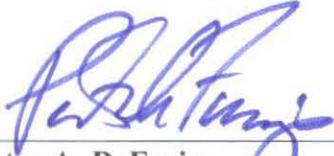
James L. Oberstar
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Marcy Kaptur
Member of Congress



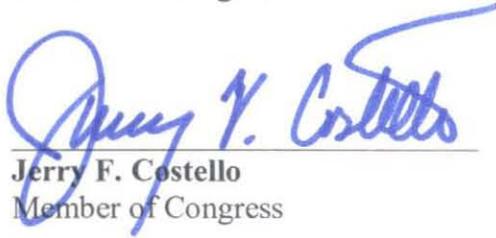
Steve Kagen
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Peter A. DeFazio
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Timothy J. Walz
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Jerry F. Costello
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Baron P. Hill
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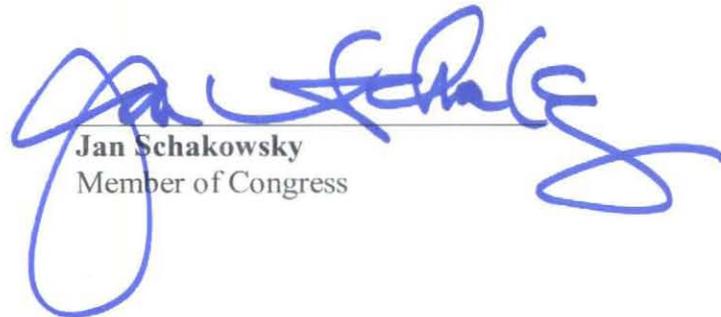
Keith Ellison
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