

United States Senate

October 31, 2018

The Honorable Steven T. Mnuchin
Secretary
U.S. Department of Treasury
1500 Pennsylvania Avenue NW
Washington, DC 20220

The Honorable Charles P. Rettig
Commissioner
Internal Revenue Service
1111 Constitution Avenue NW
Washington, DC 20224

Dear Secretary Mnuchin and Commissioner Rettig:

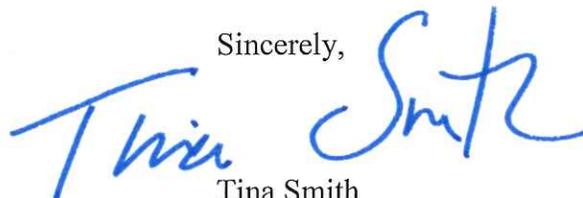
As I have traveled throughout Minnesota, I have heard from rural telephone and electric cooperatives with concerns about how recent changes to the tax code could unintentionally cause cooperatives to lose their tax-exempt status if they receive certain government grants, including FEMA emergency assistance or grants to expand rural broadband. I am asking you to use your administrative authority, to the extent you are able, to address this issue.

Cooperatives are important to expanding and providing telecommunications services in rural areas, and for nearly a century, the tax code has recognized these cooperatives as tax-exempt entities if, among other things, at least 85 percent of the cooperative's income is from members. Unfortunately, last year's tax law has created uncertainty about whether certain grants that cooperatives regularly receive must be taken into account when determining if a cooperative complies with the member income requirement. This uncertainty has caused cooperatives significant concern and frozen some of their grant applications, as a cooperative may be at risk of losing their tax-exempt status if they accept FEMA emergency assistance, broadband expansion grants, or other government grants, and it is determined that those grants must be treated as non-member income.

I believe that, in the long run, Congress should take legislative action to modernize paragraph 501(c)(12) of the Internal Revenue Code to provide that grants received from government entities don't imperil the tax-exempt status of a cooperative, and address other outdated or burdensome tax rules that are holding back rural broadband development. I am currently crafting legislation on this matter, and I look forward to working with you on it. However, in the short term, given that the issue described above is creating immediate planning problems for many cooperatives and stalling broadband expansion, I urge you to use your administrative authority to mitigate this problem.

Thank you for your consideration of my request, and I look forward to working with you. Please feel free to contact me with any questions.

Sincerely,



Tina Smith
U.S. Senator