

April 4, 2017



## State and Local Governments Urge Congress to Preserve the State and Local Tax Deduction and the Municipal Bond Exclusion in Tax Reform Efforts

Dear Members of Congress:

On behalf of the state and local elected and appointed officials that our national organizations represent, we urge Congress in any comprehensive federal tax reform package to maintain both the tax exemption for municipal bond interest and the deductibility of state and local taxes. These essential components of the tax code support vital investments in infrastructure, public safety and education, encourage economic growth and provide states and local governments with financial flexibility to meet our residents' needs.

### Protect State and Local Tax Deductibility

The deduction for state and local taxes paid was one of the six deductions allowed under the original tax code when it was enacted in 1913. Eliminating or capping federal deductibility for state and local property, sales and income taxes would represent double taxation, as these taxes are mandatory payments for all taxpayers. Elimination could also effectively increase marginal tax rates for certain taxpayers and shrink disposable income, potentially harming the U.S. economy. Finally, any alterations to the deduction would upset the carefully balanced fiscal federalism that has existed since the permanent creation of the federal income tax over 100 years ago.

We strongly believe that no federal law or regulation should preempt, limit or interfere with the constitutional or statutory rights of states and local governments to develop and operate our own tax systems. States and local governments deploy revenues from state and local property, sales and income taxes to help finance long term infrastructure projects, local law enforcement, emergency services, education costs and many other services. By eliminating the federal deductibility of these taxes, Congress would be shifting the intergovernmental balance of income taxation and could limit state and local control of our tax systems. Abolishing federal deductibility could also greatly constrain policy options available to states and local governments facing economic hardships and increased responsibilities due to the devolution of federal programs.

### Preserve the Municipal Bond Interest Tax Exclusion

Tax-exempt municipal bonds have also been a fundamental feature of the United States tax code since 1913. Municipal bonds remain the primary method used by states and local governments to finance public capital improvements and public infrastructure projects – including our roads, bridges, schools, hospitals, water infrastructure and much more – which are essential for creating jobs, sustaining economic growth and improving the quality of life for Americans in every corner of this country. Any tax reform bill should not sacrifice – and drive up the costs – of one of our nation's most effective methods of financing for critical infrastructure.

States and local governments own and operate the vast majority of our nation's infrastructure systems and invested \$3.8 trillion in infrastructure through municipal bonds from 2007 to 2016.



The federal tax exemption reduces the cost of issuing municipal bonds, which is vital to taxpayers across the country who pay the interest and principle on municipal bond debt in exchange for investing in public, community assets.

We do not believe it is the intent of Congress to undermine the ability of states and local governments to meet the needs of the citizens we all serve through comprehensive tax reform. We urge lawmakers to carefully consider any changes to the tax-exempt status of municipal bonds and the deductibility of state and local taxes, as both are essential tools for states and local governments across the country.

We appreciate your leadership and share your goal of ensuring the best use of American taxpayer resources.

Sincerely,



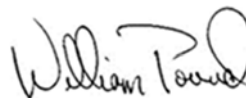
David Adkins  
CEO and Executive Director  
The Council of State Governments



Matthew D. Chase  
Executive Director  
National Association of Counties



Scott Pattison  
Executive Director  
National Governors Association



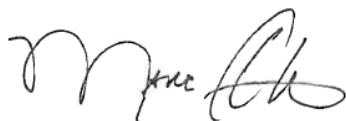
William T. Pound  
Executive Director  
National Conference of State  
Legislatures



Clarence Anthony  
CEO and Executive Director  
National League of Cities



Tom Cochran  
CEO and Executive Director  
The U.S. Conference of Mayors



Marc Ott  
Executive Director  
International City/County Management Association

CC: Senator Orrin Hatch, Chairman, Senate Finance Committee  
Senator Ron Wyden, Ranking Member, Senate Finance Committee  
Representative Kevin Brady, Chairman, House Ways and Means Committee  
Representative Richard Neal, Ranking Member, House Ways and Means Committee

INCOME TAX FOR 1862.

The Income Tax is imposed upon a certain proportion of the income of these two classes, viz:

1st. Every person residing in the United States; and every citizen residing abroad who is in the employment of the Government of the United States.

2d. Every citizen of the United States residing abroad, and not in the employment of the Government of the United States.

Every person in the *first* class will be taxed at the rate of *three* per cent. when his or her annual gains, profits, or income exceed \$600, and do not exceed \$10,000.

Every person in the *first* class will be taxed at the rate of *five* per cent. when the annual gains, profits, or income exceed \$10,000, after the following deductions are made from the gross amounts returned, (as per table, page 2,) viz:

1st. The \$600 allowed by law.

2d. Other national, State, and local taxes assessed for 1862, and paid.

3d. Rent actually paid for the dwelling-house or estate occupied as the residence of the person assessed.

4th. Necessary repairs to property yielding the income; or insurance thereon; or pay for hired laborers, and their subsistence, employed in conducting his business; or interest on incumbrances upon the property; or all, as the case may be.

Every person in the *second* class will be taxed at the rate of *five* per cent., whatever may be his or her annual gains, profits, or income from property, securities, and stocks owned in the United States, without other deductions than numbers 2 and 4 above stated.

Whenever the taxable income of a resident in the United States, ascertained as above, exceeds \$10,000, and upon a portion of said amount three per cent. has been withheld by the officers of companies, corporations, and associations, from interest or dividends therein due him, such income will be subject to a tax of *two* per cent. additional upon so much thereof as may have been previously subjected to a duty of three per cent. by the officers of the companies, corporations, or associations aforesaid.

But in no case, whether a person is subject to a tax of three or five per cent., is a higher rate of tax than  $1\frac{1}{2}$  per cent. to be collected from that portion of income derived from interest upon notes, bonds, or other securities of the United States.

Where a husband and wife live together, and their taxable income is in excess of \$600, they will be entitled to but one deduction of \$600, that being the average fixed by law as an estimated commutation for the expense of maintaining a family. Where they live apart, by divorce or under contract of separation, they will be taxed separately, and be each entitled to a deduction of \$600.

On the following pages will be found detailed statements to assist in making out returns.

35

# Original 1913 Federal Income Tax Includes Deduction for State and Local Taxes

TO BE FILLED IN BY COLLECTOR.

Form 1040.

TO BE FILLED IN BY INTERNAL REVENUE BUREAU.

List No. ....

## INCOME TAX.

File No. ....

..... District of .....

**THE PENALTY**  
FOR FAILURE TO HAVE THIS RETURN IN  
THE HANDS OF THE COLLECTOR OF  
INTERNAL REVENUE ON OR BEFORE  
MARCH 1 IS \$20 TO \$1,000.  
(SEE INSTRUCTIONS ON PAGE 4.)

Assessment List .....

Date received .....

Page ..... Line .....

**UNITED STATES INTERNAL REVENUE.**

## RETURN OF ANNUAL NET INCOME OF INDIVIDUALS.

(As provided by Act of Congress, approved October 3, 1913.)

**RETURN OF NET INCOME RECEIVED OR ACCRUED DURING THE YEAR ENDED DECEMBER 31, 191 .....**

(FOR THE YEAR 1913, FROM MARCH 1, TO DECEMBER 31.)

Filed by (or for) ..... of .....  
(Full name of individual.) (Street and No.)

in the City, Town, or Post Office of ..... State of .....

(Fill in pages 2 and 3 before making entries below.)

<b>1. GROSS INCOME</b> (see page 2, line 12) . . . . .	\$			
<b>2. GENERAL DEDUCTIONS</b> (see page 3, line 7) . . . . .	\$			
<b>3. NET INCOME</b> . . . . .	\$			
Deductions and exemptions allowed in computing income subject to the normal tax of 1 per cent.				
<b>4. Dividends and net earnings</b> received or accrued, of corporations, etc., subject to like tax. (See page 2, line 11) . . . . .	\$			
<b>5. Amount of income</b> on which the normal tax has been deducted and withheld at the source. (See page 2, line 9, column A)				
<b>6. Specific exemption</b> of \$3,000 or \$4,000, as the case may be. (See Instructions 3 and 19) . . . . .				
Total deductions and exemptions. (Items 4, 5, and 6) . . . . .	\$			
<b>7. TAXABLE INCOME</b> on which the normal tax of 1 per cent is to be calculated. (See Instruction 3) . . . . .	\$			

**8. When the net income shown above on line 3 exceeds \$20,000, the additional tax thereon must be calculated as per schedule below:**

	INCOME.				TAX.			
<b>1</b> per cent on amount over \$20,000 and not exceeding \$50,000 . . . . .	\$				\$			
<b>2</b> " " 50,000 " " 75,000 . . . . .								
<b>3</b> " " 75,000 " " 100,000 . . . . .								
<b>4</b> " " 100,000 " " 250,000 . . . . .								
<b>5</b> " " 250,000 " " 500,000 . . . . .								
<b>6</b> " " 500,000 . . . . .								
Total additional or super tax . . . . .	\$							
Total normal tax (1 per cent of amount entered on line 7) . . . . .	\$							
Total tax liability . . . . .	\$							

**GROSS INCOME.**

*This statement must show in the proper spaces the entire amount of gains, profits, and income received by or accrued to the individual from all sources during the year specified on page 1.*

DESCRIPTION OF INCOME.	<b>A.</b> Amount of income on which tax has been deducted and withheld at the source.				<b>B.</b> Amount of income on which tax has NOT been deducted and withheld at the source.			
1. Total amount derived from salaries, wages, or compensation for personal service of whatever kind and in whatever form paid	\$				\$			
2. Total amount derived from professions, vocations, businesses, trade, commerce, or sales or dealings in property, whether real or personal, growing out of the ownership or use of interest in real or personal property, including bonds, stocks, etc.								
3. Total amount derived from rents and from interest on notes, mortgages, and securities (other than reported on lines 5 and 6)								
4. Total amount of gains and profits derived from partnership business, whether the same be divided and distributed or not								
5. Total amount of fixed and determinable annual gains, profits, and income derived from interest upon bonds and mortgages or deeds of trust, or other similar obligations of corporations, joint-stock companies or associations, and insurance companies, whether payable annually or at shorter or longer periods								
6. Total amount of income derived from coupons, checks, or bills of exchange for or in payment of interest upon bonds issued in <i>foreign countries</i> and upon <i>foreign mortgages</i> or like obligations (not payable in the United States), and also from coupons, checks, or bills of exchange for or in payment of any dividends upon the stock or interest upon the obligations of foreign corporations, associations, and insurance companies engaged in business in foreign countries								
7. Total amount of income received from fiduciaries								
8. Total amount of income derived from any source whatever, not specified or entered elsewhere on this page								
9. TOTALS								
<b>NOTES.—Enter total of Column A on line 5 of first page.</b>								
10. AGGREGATE TOTALS OF COLUMNS A AND B	\$							
11. Total amount of income derived from dividends on the stock or from the net earnings of corporations, joint-stock companies, associations, or insurance companies subject to like tax (To be entered on line 4 of first page.)	\$							
12. TOTAL "Gross Income" (to be entered on line 1 of first page)	\$							

**GENERAL DEDUCTIONS.**

1. The amount of necessary expenses actually paid in carrying on business, but not including business expenses of partnerships, and not including personal, living, or family expenses . . . . .	\$			
2. All interest paid within the year on personal indebtedness of taxpayer . . . . .				
3. All national, State, county, school, and municipal taxes paid within the year (not including those assessed against local benefits) . . . . .				
4. Losses actually sustained during the year incurred in trade or arising from fires, storms, or shipwreck, and not compensated for by insurance or otherwise . . . . .				
5. Debts due which have been actually ascertained to be worthless and which have been charged off within the year . . . . .				
6. Amount representing a reasonable allowance for the exhaustion, wear, and tear of property arising out of its use or employment in the business, not to exceed, in the case of mines, 5 per cent of the gross value at the mine of the output for the year for which the computation is made, but no deduction shall be made for any amount of expense of restoring property or making good the exhaustion thereof, for which an allowance is or has been made . . . . .				
7. Total "GENERAL DEDUCTIONS" (to be entered on line 2 of first page) . . . . .				

**AFFIDAVIT TO BE EXECUTED BY INDIVIDUAL MAKING HIS OWN RETURN.**

I solemnly swear (or affirm) that the foregoing return, to the best of my knowledge and belief, contains a true and complete statement of all gains, profits, and income received by or accrued to me during the year for which the return is made, and that I am entitled to all the deductions and exemptions entered or claimed therein, under the Federal Income-tax Law of October 3, 1913.

Sworn to and subscribed before me this .....

day of ....., 191

.....  
(Signature of individual.)



.....  
.....  
(Official capacity.)

**AFFIDAVIT TO BE EXECUTED BY DULY AUTHORIZED AGENT MAKING RETURN FOR INDIVIDUAL.**

I solemnly swear (or affirm) that I have sufficient knowledge of the affairs and property of ..... to enable me to make a full and complete return thereof, and that the foregoing return, to the best of my knowledge and belief, contains a true and complete statement of all gains, profits, and income received by or accrued to said individual during the year for which the return is made, and that the said individual is entitled, under the Federal Income-tax Law of October 3, 1913, to all the deductions and exemptions entered or claimed therein.

Sworn to and subscribed before me this .....

day of ....., 191

.....  
(Signature of agent.)



.....  
.....  
(Official capacity.)

ADDRESS IN FULL { .....  
.....

**[SEE INSTRUCTIONS ON BACK OF THIS PAGE.]**

## INSTRUCTIONS.

1. This return shall be made by every citizen of the United States, whether residing at home or abroad, and by every person residing in the United States, though not a citizen thereof, having a *net income* of \$3,000 or over for the taxable year, and *also* by every *nonresident alien* deriving income from property owned and business, trade, or profession carried on *in the United States* by him.

2. When an individual by reason of minority, sickness or other disability, or absence from the United States, is unable to make his own return, it may be made for him by his *duly authorized* representative.

3. The *normal tax* of 1 per cent shall be assessed on the total net income less the specific exemption of \$3,000 or \$4,000 as the case may be. (For the year 1913, the specific exemption allowable is \$2,500 or \$3,333.33, as the case may be.) If, however, the normal tax has been deducted and withheld on any part of the income at the source, or if any part of the income is received as dividends upon the stock or from the net earnings of any corporation, etc., which is taxable upon its net income, such income shall be deducted from the individual's total *net income* for the purpose of calculating the amount of income on which the individual is liable for the normal tax of 1 per cent by virtue of this return. (See page 1, line 7.)

4. The *additional or super tax* shall be calculated as stated on page 1.

5. This return shall be filed with the Collector of Internal Revenue for the district in which the individual resides if he has no other place of business, otherwise in the district in which he has his *principal place of business*; or in case the person resides in a foreign country, then with the collector for the district in which his principal business is carried on in the United States.

6. This return must be filed on or before the first day of March succeeding the close of the calendar year for which return is made.

7. The *penalty for failure to file the return within the time specified by law* is \$20 to \$1,000. In case of refusal or neglect to render the return within the required time (except in cases of sickness or absence), 50 per cent shall be added to amount of tax assessed. In case of *false or fraudulent return*, 100 per cent shall be added to such tax, and any person required by law to make, render, sign, or verify any return who makes any false or fraudulent return or statement with intent to defeat or evade the assessment required by this section to be made shall be guilty of a misdemeanor, and shall be fined not exceeding \$2,000 or be imprisoned not exceeding one year, or both, at the discretion of the court, with the costs of prosecution.

8. When the return is not filed within the required time by reason of sickness or absence of the individual, an extension of time, not exceeding 30 days from March 1, within which to file such return, *may be granted* by the collector, *provided* an application therefor is made by the individual within the period for which such extension is desired.

9. This return properly filled out must be made under oath or affirmation. Affidavits may be made before any officer *authorized by law* to administer oaths. If before a justice of the peace or magistrate; not using a seal, a *certificate of the clerk of the court as to the authority* of such officer to administer oaths should be *attached to the return*.

10. Expense for medical attendance, store accounts, family supplies, wages of domestic servants, cost of board, room, or house rent for family or personal use, *are not expenses that can be deducted from gross income*. In case an individual owns his own residence he can not deduct the estimated value of his rent, neither shall he be required to include such estimated rental of his home as income.

11. The farmer, in computing the net income from his farm for his annual return, shall include all moneys received for produce and animals sold, and for the wool and hides of animals slaughtered, provided such wool and hides are sold, and he shall deduct therefrom the sums actually paid as purchase money for the animals sold or slaughtered during the year.

When animals were raised by the owner and are sold or slaughtered he shall not deduct their value as expenses or loss. He may deduct the amount of money actually paid as expense for producing any farm products, live stock, etc. In deducting expenses for repairs on farm property the amount deducted must not exceed the amount actually expended for such repairs during the year for which the return is made. (See page 3, item 6.) The cost of replacing tools or machinery is a deductible expense to the extent that the cost of the new articles does not exceed the value of the old.

12. In calculating losses, only such losses as shall have been actually sustained and the amount of which has been definitely ascertained during the year covered by the return can be deducted.

13. Persons receiving fees or emoluments for professional or other services, as in the case of physicians or lawyers, should include all actual receipts for services rendered in the year for which return is made, together with all unpaid accounts, charges for services, or contingent income due for that year, if good and collectible.

14. Debts which were contracted during the year for which return is made, but found in said year to be worthless, may be deducted from gross income for said year, but such debts can not be regarded as worthless until after legal proceedings to recover the same have proved fruitless, or it clearly appears that the debtor is insolvent. If debts contracted prior to the year for which return is made were included as income in return for year in which said debts were contracted, and such debts shall subsequently prove to be worthless, they may be deducted under the head of losses in the return for the year in which such debts were charged off as worthless.

15. Amounts due or accrued to the individual members of a partnership from the net earnings of the partnership, whether apportioned and distributed or not, shall be included in the annual return of the individual.

16. United States pensions shall be included as income.

17. Estimated advance in value of real estate is not required to be reported as income, unless the increased value is taken up on the books of the individual as an increase of assets.

18. Costs of suits and other legal proceedings arising from ordinary business may be treated as an expense of such business, and may be deducted from gross income for the year in which such costs were paid.

19. An unmarried individual or a married individual not living with wife or husband shall be allowed an exemption of \$3,000. When husband and wife live together they shall be allowed jointly a total exemption of only \$4,000 on their aggregate income. They may make a joint return, both subscribing thereto, or if they have separate incomes, they may make separate returns; but in no case shall they jointly claim more than \$4,000 exemption on their aggregate income.

20. In computing net income there shall be excluded the compensation of all officers and employees of a State or any political subdivision thereof, except when such compensation is paid by the United States Government.