2017 POLICY BRIEF

OPPOSE EFFORTS TO ELIMINATE OR LIMIT THE TAX-EXEMPT STATUS OF MUNICIPAL BONDS

QUICK FACTS

- Tax-exempt bonds have been a feature of the federal tax code since 1913 and are a critical financing tool for counties nationwide
- Counties, localities, states and state/local authorities financed $3.2 trillion in infrastructure investment using municipal bonds from 2003-2012
- 45 percent of long-term state and local tax-exempt bonds funded the building of schools, hospitals, roads and jails
- 75 percent of all national infrastructure projects are completed using bond financing

ACTION NEEDED:

Urge your members of Congress to oppose any legislation that would eliminate or limit the tax-exempt status of municipal bonds.

BACKGROUND:

Tax-exempt bonds were written into our nation's first tax code in 1913 and are a well-established government financing tool. These bonds are predominantly issued by state and local governments for governmental infrastructure and capital needs purposes and help governments pay for public projects such as the construction or improvement of schools, streets, highways, hospitals, bridges, water and sewer systems, ports, airports and other public works.

Over the past half century, state and local governments have increasingly borne the cost of infrastructure and public improvements. For example, according to the Congressional Budget Office, about 75 percent of public funding for transportation and water infrastructure is supplied by state and local governments. Tax-exempt bonds are a critical tool for counties in the budgeting and financing of these long-term investments in the infrastructure and facilities necessary to meet public demand. Without the tax-exemption, counties would pay more to raise capital, a cost that would ultimately be borne by taxpayers through means such as reduced spending on the roads and bridges that counties are responsible for, decreased economic development, higher taxes or higher user fees.

As congressional leaders have placed increased focus on comprehensive tax reform as part of larger efforts to reduce our nation's deficit, elimination or reduction of tax-exempt municipal bond interest remains on the table as one of several means of achieving lower overall tax rates. With tax reform efforts likely to resume in the 115th Congress, counties face the risk of losing a low-cost, market-driven means of financing to support local infrastructure and public improvement needs.

Eliminating the tax-exempt status of municipal bonds was first entertained by President Obama's National Commission on Fiscal Responsibility and Reform (Simpson-Bowles Plan). A derivative of that proposal – a 28 percent cap on the benefit of the exemption – was included in the President's five most recent budget requests. In March of 2013, the Senate FY 2014 Budget Resolution (S. Con. Res. 8) suggested the possibility of a cap on tax expenditures, which could include the exemption for interest earned on state and local municipal bonds.

Similar proposals have continued to surface in the ongoing debate on tax reform in the Senate Finance Committee and House Ways and Means Committee. In 2014, former Ways and Means Chairman Dave Camp (R-Mich.) included a provision in his comprehensive reform discussion draft that would have placed a surtax on otherwise tax-exempt bond interest earned by high income taxpayers. All of these proposals would have the effect of imposing an income tax on otherwise tax-exempt interest earned by investors.

Although tax reform efforts stalled in the 113th Congress, the work resumed in the 114th. House Ways and Means Chair Kevin Brady (R-Texas) held several committee hearings in early 2016, providing representatives with opportunities to provide comments and proposals for tax reform. Much of the feedback received was used to shape the tax reform blueprint released in June 2016 by House Speaker Paul Ryan (R-Wis.) as part of the GOP's "A Better Way" campaign. The blueprint is largely focused on lowering tax rates and simplifying the tax code, but lacks specific details on how these objectives would be achieved. It remains unclear how the tax-exemption for municipal bond interest would be treated under the reform plan.

With the start of 2017, conditions appear favorable for major reform legislation to advance, since the 115th Congress and White House are now controlled by the same party. Ways and Means Committee members in the U.S. House have been busy since the latter part of 2016 in drafting comprehensive reform language. Draft text could be released in the coming months as Congress and the new administration prepare to tackle other major priorities in addition to tax reform, like healthcare reform and infrastructure investment.

KEY TALKING POINTS

- A fundamental feature of the first federal tax code written in 1913, tax-exempt financing is used by state and local governments to raise capital to finance public capital improvements and other projects, including infrastructure facilities that are vitally important to sustained economic growth.
- Between 2003 and 2012, counties, localities, states and state/local authorities financed $3.2 trillion in infrastructure investment through tax-exempt municipal bonds.
- If municipal bonds were fully taxable during the 2003-2012 period, it is estimated that the financing for the 21 largest infrastructure purposes would have cost state and local governments an additional $495 billion of interest expense. If the 28 percent cap were in effect, the additional cost to state and local governments would have been approximately $173.4 billion.
- For 2012, the debt service burden for counties would have risen by $9 billion if municipal bonds were fully taxable over the last 15 years and roughly $3.2 billion in the case of a 28 percent cap. Americans, as investors in municipal bonds and as taxpayers securing the payment of municipal bonds, would have borne this burden.
- The municipal bond tax-exemption represents a fair allocation of the cost of projects between federal and state/local levels of government. Through the use of tax-exempt municipal bonds, state and local governments invested 2.5 times more in infrastructure than the federal government.
- Tax-exempt bonds are vital for infrastructure, justice and health needs because counties own and operate 45 percent of public roads and highways, own almost a third of the nation's transit systems and airports, own 961 hospitals, manage 1,943 health departments and own many of the nation's jails.

For further information, contact: Deborah Cox at 202.942.4286 or dcox@naco.org

COMMITTEES OF JURISDICTION

U.S. House Ways and Means Committee

MAJORITY:

Kevin Brady (R-Texas), Chairman

Sam Johnson (R-Texas)
Devin Nunes (R-Calif.)
Pat Tiberi (R-Ohio)
Dave Reichert (R-Wash.)
Peter J. Roskam (R-Ill.)
Tom Price (R-Ga.)
Vern Buchanan (R-Fla.)
Adrian Smith (R-Neb.)
Lynn Jenkins (R-Kan.)
Erik Paulsen (R-Minn.)
Kenny Marchant (R-Texas)
Diane Black (R-Tenn.)
Tom Reed (R-N.Y.)
Todd Young (R-Ind.)
Mike Kelly (R-Pa.)
Jim Renacci (R-Ohio)
Patrick Meehan (R-Pa.)
Kristi Noem (R-S.D.)
George Holding (R-N.C.)
Jason Smith (R-Mo.)
Tom Rice (R-S.C.)
David Schweikert (R-Ariz.)
Jackie Walorski (R-Ind.)
Carlos Curbelo (R-Fla.)

MINORITY:

Richard Neal (D-Mass.), Ranking Member

Sander Levin (D-Mich.)
John Lewis (D-Ga.)
Xavier Becerra (D-Calif.)
Lloyd Doggett (D-Texas)
Mike Thompson (D-Calif.)
John Larson (D-Conn.)
Earl Blumenauer (D-Ore.)
Ron Kind (D-Wis.)
Bill Pascrell, Jr. (D-N.J.)
Joseph Crowley (D-N.Y.)
Danny Davis (D-Ill.)
Linda Sanchez (D-Calif.)
Brian Higgins (D-N.Y.)
Terri Sewell (D-Ala.)
Suzan DelBene (D-Wash.)

U.S. Senate Finance Committee

MAJORITY:

Orrin Hatch (R-Utah), Chairman

Chuck Grassley (R-Iowa)
Mike Crapo (R-Idaho)
Pat Roberts (R-Kan.)
Michael B. Enzi (R-Wyo.)
John Cornyn (R-Texas)
John Thune (R-S.D.)
Richard Burr (R-N.C.)
Johnny Isakson (R-Ga.)
Rob Portman (R-Ohio)
Patrick J. Toomey (R-Pa.)
Dean Heller (R-Nev.)
Tim Scott (R-S.C.)
Bill Cassidy (R-La.)

MINORITY:

Ron Wyden (D-Ore.), Ranking Member

Debbie Stabenow (D-Mich.)
Maria Cantwell (D-Wash.)
Bill Nelson (D-Fla.)
Robert Menendez (D-N.J.)
Thomas Carper (D-Del.)
Benjamin Cardin (D-Md.)
Sherrod Brown (D-Ohio)
Michael Bennett (D-Colo.)
Robert Casey Jr. (D-Pa.)
Mark Warner (D-Va.)
Claire McCaskill (D-Mo.)