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Taxation

Congress Members Urge House Leaders to Protect Muni Exemption

by Naomi Jagoda
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WASHINGTON — Reps. Randy Hultgren, R-Ill. and Dutch Ruppersberger, D-Md., sent a bipartisan letter to House leaders urging them to reject proposals that make changes to the tax exemption for municipal bonds.

The letter was dated Wednesday and was sent to House Speaker John Boehner, R-Ohio, and Minority Leader Nancy Pelosi, D-Calif.

In addition to Hultgren and Ruppersberger, 122 other Congress members signed the letter. About half of the signers were Democrats and about half were Republicans. The letter specifically expresses concerns with the proposal in President Obama's fiscal 2016 budget to cap the value of the muni exemption at 28%. And the tax-reform proposal that former House Ways and Means Committee Chairman Dave Camp, R-Mich., released last year would impose a 10% surtax on muni interest for high earners.

"Eliminating or capping the current deduction on municipal bonds would severely curtail state and local governments' ability to invest in themselves," the letter said. "It would increase borrowing costs to public entities and shift costs to local residents through tax or rate increases."

Hultgren and Ruppersberger authored a nearly-identical letter in 2013 that had slightly more signers but was similarly bipartisan.

Also on Wednesday, the Securities Industry and Financial Markets Association, the Council of Development Finance Agencies and the National Conference of State Legislatures sent Senate Finance Committee members letters about the muni exemption and other issues. The Finance Committee has five tax-reform working groups assigned to make recommendations by the end of May.

"The tax exemption lowers the cost of financing [infrastructure] projects and encourages more infrastructure investment," SIFMA said. The group also said most munis are held by individuals.

SIFMA said that direct-pay bonds would be "useful supplement" to tax-exempt bond financing, and that the Obama administration's proposal for qualified public infrastructure bonds is "a creative idea worthy of serious congressional consideration." The group opposes full or partial taxes on muni interest and replacing tax-exempt bonds with traditional tax-credit bonds.

CDFA recommended that Congress preserve the muni exemption and update law governing private-activity bonds.

While Camp last year proposed repealing the tax exemption for new PABs, CDFA said the arguments in favor of elimination the exemption for PABs are "short-sighted."

Any federal savings from repealing the PAB exemption "would come at the expense of leveraging $1.4 trillion in private investment for projects that have been considered to be serving the public good for decades, and these costs would actually be passed on to small manufacturers, low-income housing, and local taxpayers," CDFA said.

CDFA recommended that Congress expand the use of industrial development bonds, which benefit manufacturers. CDFA wants Congress to increase the maximum size of an IDB issue to $30 million from $10 million and increase the capital expenditure limitation for IDBs to $40 million from $20 million. It also would like Congress to allow IDBs to finance facilities that produce intangible property, such as software, and facilities that are functionally related to and subordinate to the production of property.

Additionally, CDFA would like Congress to explicitly allow exempt-facility bonds, a type of PABs, to be used for clean-energy projects.

NCSL said it wants the committee to "support provisions in the federal tax code that preserve the fiscal viability and sovereignty of state governments." One of the principles the working groups should adhere to is preserving the tax-exempt status of state and local government bonds for capital projects.

"If the current status of municipal bonds is either modified or eliminated, economic development would be suppressed through increased costs and less investment activity," the group said.

NCSL also said it wants Congress to "work closely with states to develop a shared, long-term vision for financing and funding surface transportation systems that will enhance the nation's prosperity and the quality of life of all Americans."

Additionally, NCSL is calling for Congress to preserve the exemption from federal taxation for state pension and benefits plans and to not enact legislation that imposes annual federal reporting and funding requirements regarding plans. And the group wants Congress to preserve the deductions for state and local taxes.

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