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Taxation

Bill on Bank-Qualified Bonds Introduced in the House

by Naomi Jagoda
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WASHINGTON - Rep. Tom Reed, R-N.Y., has reintroduced legislation that would increase the annual issuance limit for issuers of bank-qualified bonds to $30 million from $10 million.

The Municipal Bond Market Support Act of 2015, H.R. 2229, was introduced on Friday. It is co-sponsored by Reps. Richard Neal, D-Mass., Todd Young, R-Ind., John Larson, D-Conn., Randy Hultgren, R-Ill., and Ron Kind, D-Wis. The bill, which is similar to a measure that was offered in July of last year, has been referred to the House Ways and Means Committee.

Currently, banks can buy the bonds of issuers who issue $10 million or less of tax-exempt bonds per year and deduct 80% of their carrying costs, the interest expense they incur from purchasing or carrying an inventory of tax-exempt bonds. The $10 million limit was temporarily increased to $30 million under the American Recovery and Reinvestment Act, but that expired at the end of 2010. Outside of that temporary increase, the bank-qualified limit has never been raised or indexed to inflation.

The bill would raise the bank-qualified limit to $30 million and index it to inflation.

Additionally, it would apply the limit at the borrower level for 501(c)(3) nonprofit bonds. As a result, bonds issued for nonprofits that borrow no more than $30 million in bond proceeds in a year could be bank-qualified even if the issuer sells more than that amount of bonds annually.

"Municipal bonds are a lifeline to local communities looking to expand a high school or repair their infrastructure," Hultgren said in a release. "These tools of 'fiscal federalism' allow municipalities to raise their own funds tax-free, using their own expertise and avoiding the heavy bureaucracy of the federal government. We should expand this Main Street financing tool for municipalities intimately connected to the needs of their communities."

Larson said that under the Municipal Bond Market Support Act, "bank-qualified bonds will enable smaller communities to finance these vital improvements, which in turn will create jobs, improve local economies, and ensure the safety of our citizens through much needed upgrades."

Reed and some of same co-sponsors introduced the similar bank-qualified bond bill last year, but it failed to gain traction.

A version of the Municipal Bond Market Support Act was introduced in the Senate in 2011. The Senator who introduced it - Jeff Bingaman, a Democrat from New Mexico - retired from the Senate in 2013.

Updating the bank-qualified bond rules is a priority for a number of municipal market groups. Associations including the Bond Dealers of America, the Government Finance Officers Association and the Independent Community Bankers of America lobbied for changes to the bank-qualified bond rules in recent letters to the Senate Finance Committee tax reform working group on community development and infrastructure.

"The increased limit and other fixes in the bill will give more opportunities particularly to the smaller issuers that our regional and middle market dealers serve," said Mike Nicholas, BDA's chief executive officer.
