THE BOND BUYER

Mnuchin: Administration wants to preserve muni bond tax exemption

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WASHINGTON – The administration "strongly" supports the preservation of the tax exemption for municipal bonds, Treasury Secretary Steven Mnuchin said during a Senate Finance Committee hearing on Thursday.

At a hearing on the fiscal 2018 budget and tax reform, committee member Sen. Sherrod Brown, D-Ohio, on tax reform, asked Mnuchin a series of questions on tax reform, including whether the administration supports the tax exemption for municipal bonds.

"Our preference is strongly to keep the interest deductibility of state and local bonds," Mnuchin said. The administration wants to maintain the mortgage interest deduction, he also said in response to Brown's rapid fire questions. But he declined to answer several other specific questions about what the tax reform plan would or would not include, saying negotiations are still ongoing.

Treasury Secretary Steven Mnuchin

The administration wants to maintain the tax exemption for state and local bonds.

Image: Bloomberg News

During the hearing, committee Democrats accused the administration of "double counting … Bernie Madoff math … anomalies … and fuzzy math" in its budget, which shows $2 trillion of revenues from 3% economic growth being used to pay down the deficit when administration officials have said those revenues are going to help pay for tax cuts in the forthcoming tax reform plan.

“Your budget assumes 3% growth, which you claim adds $2 trillion to revenues. That’s kind of a dubious proposition to me,” said Sen. Ron Wyden from Oregon, the top committee Democrat. “You told us last week that this economic growth is what pays for tax reform, but the Trump budget doesn’t include tax reform. So, unless you make this clear to us, aren’t you double counting the same $2 trillion to pay down deficits that you claim will pay for tax reform? I mean this is kind of Bernie Madoff math, but maybe I’m missing something. Tell me how it works.”

Mnuchin said, “We’re absolutely not double-counting. When the president’s budget was done, we were not ready to have a full-blown tax reform plan that we could model into the budget.”

Later Sen. Claire McCaskill, D-Mo., made the same point. “You can’t have tax reform paid for by growth and then count that growth against the deficit,” she said. “You can’t have both. That’s beyond fuzzy math, that’s double counting,” she said.

Mnuchin said economic growth comes from lots of things besides just tax cuts, such as regulatory reforms.

“It just defies understanding that you’re going to project what the growth is going to be based on a tax cut but you can’t put anything in the budget about what the lack of revenues are going to be because of the tax cut,” she said. “That doesn’t even make sense. How can this document even be taken seriously?”

Sen Mark Warner, D-Va., said the proposed fiscal 2018 budget would take discretionary funding down to 3% of gross domestic product -– the lowest it has ever been.
He also noted that the bipartisan Committee for a Responsible Federal Budget has projected the tax plan will result in a revenue loss of $5.5 trillion over a decade. If that’s the case, the administration will have to go after most of the big tax preferences, including the deductibility of employer health care plans.

Mnuchin said it is absurd for groups to score the revenue impacts of the tax reform plan since they have no details about it yet.