

Bond Case Briefs

Municipal Finance Law Since 1971

BDA Analysis of White House Budget Proposal.

Today President Obama has released his \$3.9 trillion FY2015 budget proposal. The President's plan in totality does not have a path forward in Congress, but serves as a key platform for Democratic principles heading into the mid-term elections. As in previous budgets, this release underscores the priority of income inequality, which is addressed through several proposed changes to the tax code. A detailed summary of Treasury Department provisions, known as the "Green Book," is available.

Based upon our very preliminary review of these two documents, we wanted to call your attention to budget provisions of interest to the municipal market. The budget proposal would:

- As in previous budgets, impose a 28% cap on itemized deductions and other benefits, including tax-exempt interest, for individuals earning more than \$186,350 and families earning more than \$227,850.
- Impose the "Buffett Rule," a 30% minimum tax on income, after charitable donations, for households earning more than \$1 million a year.
- Establish a National Infrastructure Bank as a Government entity intended to leverage private and public capital to support infrastructure projects of national and regional significance. The entity would be able to invest through loans and loan guarantees in a broad range of infrastructure, including transportation, energy, and water projects.
- As in previous budgets, create an America Fast Forward (AFF) Bonds program based on the Build America Bonds program. AFF Bonds are described as attracting new sources of capital for infrastructure investment — including from public pension funds and foreign investors that do not receive a tax benefit from traditional tax exempt debt. (Note that the Budget also proposes changes to the Foreign Investment in Real Property Tax Act aimed at enhancing the attractiveness of investment in U.S. infrastructure and real estate to a broader universe of private investors).
- Use one-time repatriation revenue from US-based multinationals to fill the Highway Trust Fund funding shortfall and make infrastructure investments as part of a four-year transportation reauthorization proposal.
- Remove the volume cap on private activity bonds for water projects.
- Impose a "financial crisis responsibility fee" of 17 basis points for financial institutions with over \$50 billion in worldwide consolidated assets. A 50% discount would be provided for "more stable sources of funding" and this fee would also be deductible from corporate income tax.
- Require current inclusion in income of accrued market discount for bonds, in the same manner as original issue discount, subject to certain limits.
- Simply arbitrage investment restrictions for tax-exempt bonds, and increase the small issuer exception to arbitrage rebate requirements.
- Reform and expand the Low-Income Housing Tax Credit.
- Continue the "responsible implementation" of Dodd-Frank. The Budget also provides funding increases for the Commodity Futures Trading Commission and the Securities and Exchange Commission, whose funding in the Budget increases 30% and 26%, respectively, over their 2014 enacted levels.

Other items that will generate attention include proposals to:

- Expand the earned income tax credit to taxpayers without children.
- Expand the child tax credit to more than 1.7 million low-income families.
- Tax carried interest as regular income.
- Enact the “myRA” retirement account first mentioned during his State of the Union Address — while also preventing additional tax-preferred savings by individuals who have already accumulated tax-preferred retirement savings sufficient to finance an annual income of over \$200,000 per year in retirement — more than \$3 million per person.
- Provide \$56 billion in new stimulus spending above the aforementioned budget deal, which would be entirely offset by cuts to other programs and tax increases.
- Increase the minimum wage to \$10.10 an hour.
- Maintain the budget parameters outlined in the bi-partisan budget agreement from December, including maintaining current sequestration levels.