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Muni Pros Bemoan Lack of Detail in Tax Plans for Infrastructure, Muni Exemption.

WASHINGTON – As the presidential campaigns have become increasingly focused on personality and name calling, municipal finance pros are begging for more defined infrastructure spending plans and clarity on how the muni tax exemption will fare in the event of tax reform.

The Tax Foundation, in what may be its final evaluation] before Election Day, released its latest report, estimating Hillary Clinton's proposed tax plan would increase federal tax revenue by $1.4 trillion over the next decade.

But in the eight-page report, the think tank said that Clinton proposed several tax policies without indicating exactly how they would work, a criticism that has been made of both candidates.

"Because campaigns are not in the business of crafting legislative language, it is often the case that many proposals are too vague to model precisely," the report read. "As a result, it is necessary to make assumptions about how campaign proposals would operate."

In its report released on Oct. 12, the Tax Foundation said Clinton's plan would increase federal tax revenue by $1.4 trillion over the next decade on a static basis and $663 billion after accounting for the smaller economy and narrower tax base it would create.

The report is an update from the group's January analysis of the Clinton plan. The most recent report accounted for new policies the Democratic nominee introduced, which the Tax Foundation said "significantly" impacted its growth and revenue estimates. These included a 28% limit on the tax benefit from specified deductions and exclusions, leaving the muni exemption standing in question.

The Tax Foundation's January analysis assumed the 28% cap would only apply to itemized deductions but that the limitation would be identical to the cap President Obama has proposed in his last several budget requests.

Mike Nicholas, chief executive officer of Bond Dealers of America, stressed the importance of tax-exempts for infrastructure as uncertainty over the muni exemption lingers.

"If a concern of either candidate is in reducing fiscal burdens on localities, while simultaneously rebuilding the nation's infrastructure and putting people back to work, then maintaining the tax exemption should be of paramount importance," Nicholas said. "It is our hope that this tool is not compromised by placing any cap or limit on the value of the tax exemption."

Tax Foundation director of federal projects Kyle Pomerleau, who compiled the report, said most of the revenue gain is due to increased individual income tax revenue that the group projected to create roughly $817 billion over the next decade. Clinton's proposed estate tax changes will raise an additional $310 billion over the next decade, while increased corporate and payroll taxes would account for $300 billion in revenue, the group said.

The $1.4 trillion projection is in line with a Clinton plan estimate released this month by the Tax Policy Center, which also projected an additional $2.7 trillion in raised revenue over years 11-to-20 of implementation.

TPC also estimated that Donald Trump's plan would increase the federal debt by $7.2 trillion, which the Republican took exception to, calling it a "fraudulent analysis."

Trump's revised plan included reduced marginal tax rates and increased standard deduction amounts but lacked many "important details," TPC said, leaving analysts to make many assumptions.

Late last month, the Tax Foundation released an updated analysis of Trump's plan – which would reduce the current individual income tax brackets to three from seven with a 33% top rate. The planwould also reduce the corporate rate to 15% from 35%. The Tax Foundation analysis estimated Trump's plan would reduce federal revenues by $11.98 trillion over the next decade.

Many muni participants have pegged 2017 as the year for long-awaited tax reform legislation, leaving some eager for more detailed proposals as the presidential election nears.

Frank Shafroth, the director of the Center for State and Local Government Leadership at George Mason University, said Monday that estimates can be made with the plans in their current forms, but more detail would be welcome.

"It clearly makes it harder," Shafroth said. "But you get a general idea. The mainstream organizations that have evaluated Trumps plan have said would it would increase the debt and deficit. There's some consensus that the Clinton plan would modestly reduce the deficit."

He called the Trump plan a "double whammy" in its current form due to the fact that it would substantially lower rates and enhancing the benefits from capital gains. This could discourage investment in munis, he said.

The U.S. Conference of Mayors earlier this month called on both candidates to maintain the tax-exempt standing of munis in their tax plans or risk costing cities billions of dollars. Should the incoming president cap the muni exemption at 28%, as President Obama has proposed in his last several budget requests, cities would see roughly $200 billion in additional costs.

Should the exemption be removed entirely, the group said that figure could balloon to $500 billion and prohibit cities from making much-needed investments in infrastructure. Nicholas also stressed the economic effects of any limit or removal.

"We would hope that [Trump] views tax-exempt municipal bonds as a proven, economically efficient solution to the U.S. infrastructure problem," Nicholas said. "BDA urges both candidates to avoid eliminating or placing an unnecessary limit or cap on the value of the municipal bond interest exemption and we look forward to learning more about their individual tax plans in the coming days leading up to the election."

Using figures provided by the Tax Foundation and the Tax Policy Center, the Committee for a Responsible Federal Budget (CRFB) estimated that Clinton's infrastructure spending could cost up to $300 billion, while Trump's could cost between $500 and $600 billion.

Clinton has proposed allocating $25 billion to direct public investment as well as $25 billion to a new national infrastructure bank that would be leveraged to support additional loans as well as Build America Bonds, which would be renewed and expanded under her plan.

Still, CRFB said that both proposals lack the infrastructure spending details needed to make anything beyond a preliminary cost estimate, especially Trump's, which it said is "assumed to be insignificant." Trump's estimate was based on statements he made planning to double the cost of Clinton's infrastructure plan.

The Bond Buyer

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