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Obama Budget Would Cap Deductions for Municipal Bond Interest.

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Obama's budget would place a 28 percent cap on the value of itemized deductions and other tax preferences for high-income taxpayers in the 33 percent, 35 percent, and 39.6 percent brackets. It would apply to all itemized deductions, tax-exempt interest, and tax exclusions for retirement contributions.

Mike Nicholas, CEO of the Bond Dealers of America, said that research shows that the policy will result in increased taxes, borrowing costs, and infrastructure costs.

"We know that the president is highly committed to infrastructure given recent pledges to fix the nation's crumbling roads, rails, and bridges," Nicholas said. "Yet we are disappointed that . . . the administration continues to propose a 28 percent limit on the municipal tax exemption."

House Ways and Means Committee Chair Dave Camp, R-Mich., in his comprehensive tax code overhaul released February 26 proposed a 10 percent surtax on municipal bond interest and other sources of income for high-income earners. Some state and local groups said his plan would also result in higher capital costs and could cause higher property or income taxes.

The president's budget also would create America Fast Forward bonds, modeled after the now-expired Build America Bonds program. The taxable, direct-pay municipal bonds would include private-activity bonds and relax some limitations on how state and local governments can use municipal bonds.

The president proposed boosting private investment for the purpose of infrastructure investment with the creation of an independent national infrastructure bank, an idea that has been floated for nearly three decades. The budget proposal says the entity would have the "ability to leverage private and public capital to support infrastructure projects of national and regional significance."

by Jennifer DePaul