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Bond Provisions in Camp Draft Warrant Attention.

It's important to pay close attention to the tax-exempt bond provisions in the tax reform discussion draft of House Ways and Means Committee Chair Dave Camp, R-Mich., because even if they are unlikely to pass anytime soon, they will likely be used as revenue raisers for future tax proposals, a Treasury official said March 27.

"While it is indicated in the press that the Camp reform bill is likely to go nowhere, I would encourage you to look at some of the provisions to view it as a scorecard of revenue offsets that can be used for other tax proposals," Vicky Tsilas, attorney-adviser, Treasury Office of Tax Legislative Counsel, said at the National Association of Bond Lawyers' Tax and Securities Law Institute in Boston. "I would not look at some of those proposals and discount them as not happening."

Several proposals, many contrary to President Obama's fiscal 2015 budget, could affect the bond market, including terminating the tax exemption for private activity bonds and advanced refunding bonds, repealing tax credit bonds, and repealing the alternative minimum tax, Tsilas said.

Perry Israel of the Law Office of Perry Israel agreed that the draft's provisions could end up in other bills. In the 1980s, there were tax reform bills almost every year, and many of the provisions in those bills made it into the Tax Reform Act of 1986, he said. "What you are seeing here are markers that we could very well be talking about in the very near future, so don't ignore them," Israel said.

Israel said the Joint Committee on Taxation estimates that the cost of tax-exempt bonds over a five-year period is about $190 billion. Some argue that the estimate is incorrect, but regardless, it's a large tax expenditure, Israel said. "Tax-exempt bonds are going to consistently be viewed as being a way to give rise to revenue to pay for other things in tax reform," he said.

Democrats, including Senate Budget Committee Chair Patty Murray, D-Wash., have shown an interest in culling revenue raisers from Camp's draft, but Republicans have said they remain committed to keeping those provisions intact as part of a comprehensive tax reform effort.

Also on Capitol Hill, discussions have resumed about national infrastructure banks, Tsilas said. The Partnership to Build America Act of 2014 (S. 1957) would create a $50 billion bank with taxable bonds. The administration's budget includes a proposal for a national infrastructure bank to invest in a broad range of infrastructure projects. Those measures could have significant effects on the tax-exempt bond market, she said.

Tsilas also highlighted a proposal in the administration's budget for providing a permanent America Fast Forward bond program with expanded eligible uses compared with Build America Bonds. Under the proposal, the bonds would have a 28 percent rate versus 35 percent for Build America Bonds.

Beyond Build America Bonds' financings for governmental projects, America Fast Forward bonds could be used for current re-fundings of prior capital projects, short-term governmental working capital financings, financing of section 501(c)(3) projects, and all the qualified private activity bond categories.

by William R. Davis