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Dynamic Scoring Could Make Tax Reform Easier.

WASHINGTON – New House rules on dynamic scoring could make tax reform easier to do, said municipal and tax experts who differed on whether such scoring would benefit or hurt municipal bonds.

Dynamic scoring is when the macroeconomic activity that would or wouldn't occur if legislation went into effect is taken into consideration for revenue estimates. The House rules package adopted Tuesday require the Congressional Budget Office and the Joint Committee on Taxation, when possible, to take the macroeconomic effects of "major legislation" into consideration in cost estimates.

"Major legislation" is defined as a bill that causes a budgetary effect of at least 0.25% of the projected gross domestic product in any fiscal year covered by the budget resolution. The House Budget Committee chairman and the top House member on JCT can also designate bills to be major legislation.

Ken Kies, managing director of the Federal Policy Group and a former JCT chief of staff, said that dynamic scoring may slightly improve the chances for tax reform "at the margin." The dynamic scoring models assume that lowering tax rates improves economic growth. As a result, dynamic scoring could make tax-reform plans less costly. Still, he warned that dynamic scoring doesn't make tax reform easy.

Tax experts said that JCT would probably do macroeconomic analyses for whole bills but continue to produce revenue estimates for specific provisions of the bill using static scoring.

Kies said that when JCT does an overall dynamic analysis of a bill, he would expect a favorable treatment of bonds to be a plus. Tax-exempt bonds make capital cheaper and more readily available, he said.

Mike Nicholas, chief executive officer of the Bond Dealers of America, said "we think that tax legislation scored dynamically benefits the municipal market."

Michael Decker, Securities Industry and Financial Markets Association managing director and co-head of municipal securities, said he hopes dynamic scoring would lead to "more realistic estimates of revenue effects."

In theory, dynamic scoring "provides some flexibility to the tax-writers" and could make tax reform easier, said Chris Mauro, director of municipal bond research at RBC Capital Markets. However, munis are most likely to be hurt by comprehensive tax reform, and in order for that to be accomplished, there needs to be cooperation between both parties, both chambers of Congress and the president. That cooperation doesn't exist right now, Mauro said.

Congress is likely to focus on corporate tax reform this year, since they won't have time to do comprehensive tax reform before the 2016 presidential election gets into full swing, said Frank

Shafroth director of the Center for State and Local Government Leadership at George Mason University. Dynamic scoring could show that cuts to corporate tax rates will produce revenue because the lower rates will lead to corporations stimulating the economy, he said.

"Moving from static to dynamic scoring will positively impact tax reform," he said. While it's unclear to what extent any tax reform will get done, "if anyone can do it, it's Paul Ryan," the new Republican chairman of the House Ways and Means Committee, Shafroth said.

Under dynamic scoring, Congress does not need to cut as many tax preferences in order to pay for lowering rates. However, Shafroth thinks that tax-exempt bonds are still likely to be on the menu of preferences to cut, since the White House hasn't supported them. President Obama's last few budget proposals have included capping the value of the muni exemption at 28%.

Howard Gleckman, a resident fellow at the Urban Institute, also said that tax preferences for bonds could still be cut even with dynamic scoring. JCT did dynamic scoring for former House Ways and Means Committee Chairman Dave Camp's tax reform proposal, and it found that by using this method, Camp's bill would have raised an additional $50 billion to $700 billion over 10 years. The low end of that range is essentially revenue neutral, meaning that a lot of tax expenditures would still have to be cut, he said.

If dynamic scoring makes it easier for tax reform to be enacted, "it will increase pressure on tax-exempt bonds," Gleckman said. "Any cut in tax rates makes munis less attractive to investors. And tax-exempts are always a potential target if Congress is looking to curb tax preferences."

The House rules package that included dynamic scoring passed Tuesday, hours after the 114th Congress began, by a vote of 234 to 172. The vote was partisan, with most Republicans favoring the measure and Democrats primarily opposing it. House Democrats accused Republicans of supporting dynamic scoring so that they can use "voodoo economics" to cut taxes for the wealthy.

"They are changing House rules to be able to cook the books to implement their long-held, discredited notion that tax cuts pay for themselves," said Sander Levin, the top Democrat on the House Ways and Means Committee.

John Buckley, former chief tax counsel for the Democrats on the House Ways and Means Committee, said Democrats in Congress won't support tax reform under "dubious" economic scoring and that Republicans don't have enough support for tax reform within their own caucus to do it without some Democratic votes.

Dynamic scoring "turns tax reform, regrettably, into a partisan issue," he said.

House Republicans, on the other hand, argue that dynamic scoring provides more accurate estimates.

"This change will give members of Congress and the American people an accurate idea of the real-world effects of proposed legislation designed to grow the economy and create jobs," House Rules Committee Chairman Pete Sessions, R-Texas, said in a statement.

The House rules do not apply in the Senate, though Senate Finance Committee Chairman Orrin Hatch, R-Utah, supports using dynamic scoring for major reforms, a spokeswoman for the senator said.

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