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Senate Finance Panel Takes Step Toward Comprehensive Tax Reform.

WASHINGTON -The Senate Finance Committee took a step toward comprehensive tax reform on Thursday by launching five bipartisan working groups charged with issuing a report with recommendations by the end of May.

Several municipal market participants and tax experts suggested the recommendations could include changes to municipal bonds.

The groups will examine current tax law, policy trade-offs and options for reform. They will work with the Joint Committee on Taxation to come up with an in-depth analysis of options and possible legislative solutions in their subject areas, according to a release issued by Senate Finance Committee chairman Orrin Hatch, R-Utah, and ranking minority member Ron Wyden, D-Ore.

The groups' recommendations "will serve as a foundation for the development of bipartisan tax reform legislation," the release said.

Frank Shafroth, director of the Center for State and Local Government Leadership at George Mason University, said muni changes are "more likely than not" to be part of the recommendations, since Congress is still looking to find ways to offset lowering tax rates.

Dustin McDonald, director of the Government Finance Officers Association's federal liaison center, also said that the groups will be looking at ways to raise revenue that could be used to lower rates. "I think they'll be no stone unturned," he said.

The tax reform plan released by former House Ways and Means Committee Chairman Dave Camp, R-Mich., would have capped the value of tax-exemption at 25% and eliminated the tax exemption for new private-activity bonds. McDonald said it is unclear if the working groups will use Camp's plan as a guide, but "the same concerns remain for us" that any tax-reform plan would include changes to bonds.

While John Godfrey, government relations director for the American Public Power Association, agreed that the working groups are unlikely to stay silent on bonds, he said that the groups won't necessarily make changes that would hurt bonds.

If the groups focus on improving the tax code and do not have to come up with a certain amount of money that can be used to lower rates, there are "some opportunities to make improvements," such as updating private-activity bond rules to make it easier for public power utilities to finance electric power transmission investments using PABs, Godfrey said.

Tax experts pointed out that the House Ways and Means Committee similarly had tax reform working groups in 2013. They had mixed views on how these new groups would impact the chances for tax reform.

Howard Gleckman, a resident fellow at the Urban Institute, said the groups “can’t hurt” the chances for tax reform, and it’s always good to have members engaged in a topic. But he acknowledged that Camp’s working groups didn’t necessarily help him move tax reform, and Camp only used a little of the groups’ product in his bill.

Godfrey suggested the groups will create subject-matter experts, which could help efforts to do piecemeal tax reform.

But Shafroth said the groups will have to collect a lot of information, which will “bog down” the tax-reform process.

Micah Green, chair of the financial services and tax policy practice group at Squire Patton Boggs, said “irrespective of these bipartisan working groups, it will remain a difficult task to develop a consensus on broad based comprehensive individual and business tax reform.”

However, “this process will surely serve as a significant framework for the debate on the various major topics of focus for each group,” Green said. “The municipal bond community should take this as a very serious opportunity to have meaningful and timely input.”

Michael Decker, Securities Industry and Financial Markets Association managing director and co-head of municipal securities, said, “We’re glad to see that Congress is working in a bipartisan manner to address the important issue of tax reform. We look forward to working with these groups on issues important to the municipal bond community, such as preserving the tax exemption for muni bonds.”

The working groups will have Democratic and Republican co-chairs. The community development and infrastructure working group will be co-chaired by Sens. Dean Heller, R-Nev., and Michael Bennet, D-Colo.

Mike Nicholas, chief executive officer of the Bond Dealers of America, called the senators “two good choices.”

In 2009, Bennet and other senators sent a letter to then-Treasury Secretary Timothy Geithner urging the department to backstop municipal debt during the financial crisis.

Bennet “has been an advocate for municipal debt in the past,” Nicholas said.

Also, Bennet previously served as superintendent of the Denver public schools and as chief of staff to a former mayor of the city.

The senator “understands municipal issues and capital expenditures for school construction. That background will certainly be important in analyzing these issues in the context of this particular working group,” Green said.

Speaking about Heller, Nicholas said, “We’ve always found him to be reasonable and open-minded to discussions.”

Gleckman said that Bennet and Heller have reputations for reaching across the aisle.

In addition to infrastructure, the groups will focus on individual income tax, business income tax, international tax and savings and investment.

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