
State and Local Governments Press Congress on Tax Reform Priorities.

Groups representing state and local governments on Tuesday urged Congress to preserve two tax preferences in tax reform legislation: the state and local tax deduction and the tax exemption for municipal bonds.

“These essential components of the tax code support vital investments in infrastructure, public safety and education, encourage economic growth and provide states and local governments with financial flexibility to meet our residents’ needs,” the groups wrote in a letter to lawmakers.

Tax reform is high on the agenda for congressional Republicans and President Trump.

House Republicans are working on legislation based on a blueprint they released last year, which would do away with the state and local tax deduction and does not explicitly mention the municipal bond tax exemption. Trump told a group of mayors in December that he supports the municipal bond tax exemption, and the most recent version of his campaign tax plan capped itemized deductions for high earners.

The state and local groups said that curbing the deductibility of state and local taxes would amount to double taxation. They also said that elimination of the deduction would reduce state and local governments’ control over their own tax systems.

“Abolishing federal deductibility could also greatly constrain policy options available to states and local governments facing economic hardships and increased responsibilities due to the devolution of federal programs,” they wrote.

The groups also said that the municipal bond tax exemption is important to them because it makes it less expensive for state and local governments to finance infrastructure projects.

“Any tax reform bill should not sacrifice – and drive up the costs – of one of our nation’s most effective methods of financing for critical infrastructure,” they wrote.

The groups that sent the letter were the Council of State Governments, the National Association of Counties, the National Governors Association, the National Conference of State Legislatures, the National League of Cities, the U.S. Conference of Mayors and the International City/County Management Association.

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