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States, Cities Ask Congress to Save Tax Deduction, Muni Exemption.

A coalition of nonpartisan groups representing state and local governments is asking Congress to preserve a popular income tax deduction, as well as an exemption on interest earned from municipal bonds.

The coalition, known as the Big 7, consists of the National Governors Association, the National Association of Counties, the Council of State Governments, the National League of Cities, the National Conference of State Legislatures, the U.S. Conference of Mayors and the International City/County Management Association.

The Big 7 sent members of Congress a joint letter late April 4, explaining that the deduction for state and local taxes and the exemption of municipal bond interest are “essential tools for states and local governments across the country.”

They 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 letter said.

The deduction and exemption have been around since the federal tax code’s inception in 1913, but Republicans are under pressure to make sweeping changes to the tax code while they have control of Congress and the White House.

The exemption and deduction have many defenders in Congress. Early last month, more than 150 lawmakers asked the House Ways and Means Committee leadership in a letter to preserve the municipal bond exemption.

Recurring Target

Controversy over municipal bonds comes up every few years, said Charles Henck, an attorney and partner in the Washington office of Ballard Spahr LLP who specializes in tax matters.

The bonds are the primary method used by states and local governments to finance public projects, including roads, bridges, schools, hospitals and water infrastructure. They could become an important method for financing some of the \$1 trillion worth of infrastructure spending advocated by President Donald Trump.

The exemption “reduces the cost of issuing municipal bonds,” the Big 7 letter said.

Commerce Secretary Wilbur Ross, prior to joining Trump’s cabinet, criticized the exemption, calling municipal bonds an inefficient way of paying for projects. Trump, however, reportedly told a group representing the U.S. Council of Mayors in December that he had no plans to end the exemption.

However, some tax attorneys and policy experts warn that Republicans might end or limit the

exemption as a way to provide tax relief elsewhere. Some have said the exemption may be more in peril if Affordable Care Act taxes are targeted or Congress fails to pass a border adjustment business tax, which taxes imports while exempting exports.

Jim Febeo, senior vice president of government relations at Fidelity Investments, told Bloomberg BNA in March that if border adjustability, “which raises close to a trillion dollars,” is not enacted, then “everything is on the table.”

Bloomberg BNA

By Che Odom

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Text of the letter is at <http://src.bna.com/nEO>.

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