Republican Tax Bill Seeks Elimination of Some Municipal Debt.

CHICAGO — The U.S. House Republican tax bill released on Thursday would put an end to tax-exempt debt issuance by state and local governments for an array of health care, education, and economic development financing, which took municipal market participants by surprise.

The proposed elimination of low-cost funding through private activity bonds, which many in the $3.8 trillion U.S. municipal market were not expecting, would raise nearly $39 billion for the federal government over the next nine years, according to a summary of the legislation.

“This came as quite a shock,” said Barbara Thompson, executive director of the National Council of State Housing Agencies, noting that there had been assurances from Congress that private activity bond issuance would be retained.

Thompson said it would be devastating for the country’s production of affordable housing.

“The bill will increase borrowing costs and harm the ability of state and local governments to build and to maintain the infrastructure,” needed for critical health, education, ports, airports, and low-income housing, Sandy MacLennan, president of the National Association of Bond Lawyers, said in a statement.

Non-profit hospitals, which are major issuers of tax-free bonds to fund capital projects, would also be hit.

“For many communities, tax-exempt financing, such as private activity bonds, has been a key to maintaining vital hospital services,” Tom Nickels, executive vice president of the American Hospital Association, said in a statement.

“If hospital access to tax-exempt financing is limited or eliminated, hospitals’ ability to make investments in new technologies and renovations in the future will be challenged.”

Also on the chopping block are advance refunding bonds, which issuers in the U.S. municipal bond market use to take advantage of lower interest rates before outstanding bonds can be called.

“Current-law advance refunding bonds provide state and local governments with incentives to issue two sets of federally subsidized debt to finance the same activity,” the House bill’s summary stated.

Tax-credit bonds, which never really caught on with investors, would be repealed but federal tax credits for existing bonds would remain in place. Bonds issued for professional sports facilities would be subject to federal taxation under the bill.

The Alternative Minimum Tax would end under the legislation. That tax is applied to earnings from a small percentage of muni bonds sold by issuers such as airports and housing authorities that have substantial private-activity components in their deals.

The proposals are not a sure thing. The bill has a long legislative process ahead with changes expected before it could be voted into law.

Bill Gale, co-director of the Urban-Brookings Tax Policy Center, said the likelihood of the final bill including the elimination of private activity bonds was “not high.”

“It is hard to get support. There are an enormous number of revenue raisers in here and every one of them is politically going to be hard,” Gale said.

By REUTERS

NOV. 2, 2017, 9:30 P.M. E.D.T.

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