July 24, 2013

The Honorable Max Baucus
Chairman
Committee on Finance
United States Senate
Washington, D.C. 20510

The Honorable Orrin Hatch
Ranking Member
Committee on Finance
United States Senate
Washington, D.C. 20510

Dear Chairman Baucus and Senator Hatch:

On behalf of the state and local elected and appointed officials that our national organizations represent, we write to urge the Senate Finance Committee to preserve the federal tax exemption on municipal bond interest because it promotes job creation and improves the nation's infrastructure. We also urge the Committee to maintain state and local tax deductibility to preserve the authority of state and local governments to set their own tax policy.

Maintain the Federal Tax Exemption on Municipal Bond Interest

State and local governments provide three-quarters of the total investment in infrastructure in the United States, and tax-exempt bonds are the primary financing tools that more than 50,000 government entities and authorities rely upon to satisfy these infrastructure needs. Over the past 10 years, the tax exemption has enabled state and local governments to finance more than $1.65 trillion in infrastructure investment.

We oppose proposals to cap or repeal the tax exemption because such actions would harm the economy, chill national infrastructure development, breach the federalism principle of reciprocal tax immunity, and threaten the municipal market by raising costs for state and local borrowers. A 2013 joint report released by the National Association of Counties, the National League of Cities and the U.S. Conference of Mayors estimates that if the exemption on tax-exempt bond interest had not been in place over the last 10 years, the additional interest expense for state and local governments would have been $495 billion. Furthermore, if governments and entities had to issue only taxable bonds, as would happen if Congress repealed the exemption, smaller governments that do not issue large volumes of bonds or issue them infrequently would suffer the most through higher interest rate expenses. Additionally, if proposals to place a 28 percent cap on the tax exemption of municipal bond interest had been in place over the last decade, state and local governments would have faced an additional $173 billion in interest expense for infrastructure investment.

This proposed tax increase on state and local governments would also be retroactive in that it would apply to interest on bonds governments have already issued and investors have already purchased, and would be the first time in the 100-year history of tax-exemption Congress applied a retroactive tax to bonds already held by investors.

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At a time when investment in our local, state and national infrastructure is critical to our ongoing recovery and future prosperity, our nation cannot afford to change the tax treatment of municipal bonds.

Preserve State and Local Tax Deductibility

The long-standing deductibility of personal state and local income, property and sales taxes on federal tax returns recognizes that all levels of government work together to provide important services to our citizens. The elimination or reduction of state and local tax deductions would only increase state and local taxes for citizens.

We oppose the elimination or reduction of state and local tax deductions because of its anti-federalism effects. The federal tax code recognizes that state and local government tax structures are interconnected, yet independent. State and local tax deductibility has contributed to the stability of tax revenues that are reliable and flexible. As state and local governments must balance their budgets, any change that disrupts the stability of their tax structure could only harm their ability to provide programs and services. The deductibility of taxes levied by state and local governments supports their efforts to set tax rates at levels that efficiently match the service demands of their residents across a range of incomes and needs.

A strong and supportive federal-state-local partnership is critical for effectively delivering core governmental services to our citizens. We urge Congress to reaffirm the federal commitment to state and local governments by maintaining the federal tax exemption on municipal bond interest and the deductibility of personal state and local property, sales and income taxes.

We look forward to working with the committee as it continues its important work on comprehensive federal tax reform. If you have questions, please feel free to contact the lead staff representatives for each organization listed below.

Sincerely,

Dan Crippen, Executive Director
National Governors Association

William T. Pound, Executive Director
National Conference of State Legislatures

David Adkins, Executive Director
The Council of State Governments

Matt Chase, Executive Director
National Association of Counties

Clarence Anthony, Executive Director
National League of Cities

tom cochran

Tom Cochran, Executive Director
The U.S. Conference of Mayors

Robert J. O'Neill, Jr., Executive Director
International City/County Management
Association

Jeffrey Esser, Executive Director
Government Finance Officers
Association

cc. Senate Finance Committee members
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Association Contacts:

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