



NAHEFFA SPRING 2017 CONFERENCE WASHINGTON UPDATE April 4, 2017

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Elections Matter

- But how?
- Chaotic/confused political order
- Personnel is policy
- Mixed messages, including on tax reform, even tax-exempt bonds
- When in doubt, do the right thing!
- Advocate for non-profit financing

Tax Reform

- Widespread support for "tax reform"
- Border tax, interest expense deduction, and revenue neutrality divides House, Senate and Administration
- Priorities – keeping government open, ACA repeal and replace, Immigration, regulatory reform
- ACA repeal and replace – Epic Fail?
- Now what and what does it mean for tax reform?

Preparation for Tax Reform

- Feb 2014 ○ **Tax Reform Act of 2014:** A comprehensive draft proposal for tax reform which was released by then-House Ways and Means Committee Chair, Rep. Dave Camp (R-MI); the bill would have lowered corporate and individual tax rates and simplified the tax code, but faced wide opposition and was only ceremonially put to the floor at the end of 2014.
- Sep 2014 ○ **Treasury Actions on Inversion:** Treasury Secretary Jack Lew put forward a series of measures designed to reduce benefits of tax inversions, including blocking inverted companies from transferring assets to parent companies and accessing foreign earnings.
- Jan 2015 ○ **Senate Finance Committee Tax Working Groups:** The Senate Finance committee created five tax reform ‘working groups’ on different issue areas to create proposals for tax reform in the
- Jul 2015 ○ **Portman-Schumer Plan:** Sens. Portman (R-OH) and Schumer (D-NY) proposed a framework to tax all US corporate profits abroad regardless of repatriation, but at a significantly lower rate. The plan is supported by Rep. Paul Ryan (R-WI), but opposed by Senate majority leader Mitch McConnell (R-KY), who prefers comprehensive tax reform.
- Dec 2015 ○ **Consolidated Appropriations Act, 2016:** Lawmakers dealt with a package of expiring tax credits known as “tax extenders” by making some provisions permanent. The deal was attached to a must-pass spending bill, ensuring swift passage.
- Feb 2016 ○ **President’s FY17 Budget Request:** The request proposed international tax reform in exchange for increased infrastructure spending; a similar provision was in last year’s request
- June 2016 ○ **House Republicans’ Tax Blueprint:** Ways and Means Chairman Kevin Brady released the House GOP’s tax reform platform, part of Speaker Ryan’s “A Better Way” plan.

Tax Reform – Timing and Process

- Hinge point? – Border adjustment tax
- Trump 2-28 address to Congress/Mnuchin comments
- Budget reconciliation
- 2017 or 2018?
 - ACA debacle accelerate schedule?
 - New Ryan/Brady commitment.

Alternatives to Border Tax

- Repatriation
- No offsets
- Many revenue raisers

Tax – Exempt Bonds – How Imperiled?

- Logic of tax reform include TEB's
- Trump/Mnuchin comments on TEB's
- Views of House R's and Senate Dems
- Role in Infrastructure

Contending with Ideology

The Bad News

- Conservative/libertarian thought leaders support taxing TEB's to dampen state/local spending
- Congressional agencies/staff oppose exclusion for bond interest as inefficient subsidy
- Offset revenue lost from lowering marginal rates

Arguments Against/For TEB's

Con



Inefficient, subsidize wealthy tax payers and wasteful government, hospital and college spending.

Pro



Highly successful, efficient, decentralized federal system for distributing targeted subsidies

- Critical to ability of charities to carry out their missions
- Direct subsidies unreliable, overly centralized and bureaucratic.

The Maybe Good News

What Does Trump Infrastructure Proposal Mean for TEB's?

- Ross/Navarro White Paper
 - Mix of private equity investment, tax credits and repatriation off-shore profits for infrastructure/tax credits
- Recognizes role of TEB's, fill in gaps where that is insufficient
- TEB community organized and active

Possible TEB Proposals

- Eliminate
- Eliminate categories
- Volume restrictions (private activity cap)
- Tax on preferences (28%)
- Alternative mechanisms
 - Direct pay
 - Tax credit
 - Education/health specific restrictions

What Works in Advocacy for 501(c)(3) Bonds?

- First emphasis on charitable mission
- Emphasis on role of "Eds and Meds" in local communities
- National and local economic impact studies
- Grass roots and coalition activities

501(c)(3) Bonds Economic Impact

- NAHEFFA National Study
 - 2003-2012 \$554 billion in capital spending
 - 28% cap would have increased interest expense by \$58 billion, lost 104,000 jobs annually
 - Complete elimination cost non profits \$166 billion, 300,000 jobs lost annually

SEC and MSRB Proposals

- SEC 15c2-12 and MSRB CUSIP Proposals

- What are they?

- How significant?

- Harmful?



Status of Actions Affecting Purchaser Appetite



HQLA



MMF

NABL Projects

- Legislative: Preserve the Tax Exemption
 - Papers: - Demystifying DTC
 - Direct purchase Bonds
 - Investor communication

SIFMA Projects

- Infrastructure finance. SIFMA's proposals to enhance infrastructure finance include:
 - Preserve the tax-exemption for municipal bond interest.
 - Expand the use of private-activity bonds for public-private partnership (P3) projects.
 - Reinstate direct pay municipal bonds.
 - Provide tax credits to equity investors in P3s.
 - Promote design-build as a procurement mechanism.
 - Encourage state and local governments to report infrastructure as assets on financial reporting statements.
- Municipal issuer disclosure. SIFMA's proposals to improve the municipal disclosure regime include:
 - Encourage updates and clarifications to SEC Rule 15c2-12.
 - Encourage states to take a more active role in supervising the disclosure practices of local governments.
- Municipal market structure.
 - Assist firms in implementing recent rule changes related to best execution and markup disclosure.

Thank you!

Questions?