NATIONAL CONFERENCE *of* STATE LEGISLATURES

The Forum for America's Ideas

November 16, 2017

The Honorable Mitch McConnell
Majority Leader
United States Senate
Washington, D.C. 20510

The Honorable Chuck Schumer
Democratic Leader
United States Senate
Washington, D.C. 20510

Speaker Paul Ryan
Speaker of the House
U.S. House of Representatives
Washington, D.C. 20510

The Honorable Nancy Pelosi
Democratic Leader
U.S. House of Representatives
Washington, D.C. 20510

Dear Senator McConnell, Senator Schumer, Speaker Ryan and Leader Pelosi:

On behalf of the National Conference of State Legislatures (NCSL), the bipartisan organization representing the legislatures of the nation's states, commonwealths and territories, we write to express our concerns regarding the negative impact the tax reform bills would have on state and local governments. Specifically, we are concerned about the provisions that would modify or eliminate the State and Local Tax deduction, that would eliminate the tax-exempt treatment of interest received from private activity bonds, would subject the interest on advance refunding bonds to taxation, and would jeopardize the ability of the federal government to maintain its financial commitment to state-federal programs.

Therefore, we urge Congress to reject any tax reform legislation that modifies or eliminates the SALT deduction, makes it harder for state and local governments to invest in infrastructure, and that would further jeopardize the ability of the federal government to meet its financial commitments for state-federal programs.

The State and Local Tax Deduction

The State and Local Tax (SALT) deduction has existed in the federal tax code since its inception, which coincidentally was also when the federal tax code was at its simplest, because federal tax writers have always been cognizant to not tax an individual's income twice. Eliminating or significantly modifying this deduction will lead to higher tax burdens for tens of millions of middle-class taxpayers of every political affiliation, an outcome contrary to the stated goal of providing meaningful relief to taxpayers.

Proponents of eliminating the SALT deduction are painting an incomplete picture of how the federal government collects and spends tax dollars and are cherry-picking details to support the narrative that repealing the SALT deduction will equalize federal spending across the states. However, this viewpoint fails to consider how the federal government redistributes tax dollars from "high tax" states and "low tax" states, and will further exacerbate the gap between the amount of money states remit to the federal government and the amount of federal dollars that they receive. Therefore, any discussion of federal subsidies to the states must entail a broader analysis of tax remittance and federal direct and indirect spending.

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Private Activity Bonds
State and local governments issue private activity bonds to attract private investment for projects that provide benefits to the public. Subjecting these bonds to taxation will eliminate the opportunity for tax-exempt financing for hospitals, airports, ports, and nonprofit colleges and universities, just to name a few. As Congress and the Trump administration have signaled that they would like to encourage infrastructure investment, it should not eliminate a tool that facilitates capital investment.

Advance Refunding Bonds
State and local governments employ the tool of advance refunding to obtain the benefit of lower interest rates when their outstanding bonds are not currently callable. These bonds provide savings on interest costs that translate to savings for governments and for taxpayers. Eliminating advance refunding bonds will prevent state and local governments from taking advantage of lower interest rates, which will ultimately result in increased government spending from higher borrowing costs.

Financial Commitment of State-Federal Programs
In FY 2017, the federal government spent $666 billion more than it collected in revenue and the federal debt now exceeds $20 trillion, which is 105 percent of the nation's gross domestic product (GDP). The tax measures in both chambers of Congress, as currently drafted, will exacerbate this problem and will widen the gap between the federal government's revenues and its spending obligations. This acceleration of federal debt threatens the ability of the federal government to maintain its guaranteed financial commitment to state-federal programs and will ultimately result in higher costs for both the federal and state governments.

As Congress continues the process of reforming the federal tax code, NCSL reminds Congress that because the federal and state tax systems are inextricably linked, any federal reform will likely have serious fiscal and administrative ramifications on the states and on taxpayers. If these provisions remain in the final tax reform bill, a "yes" vote will be recorded as a vote against state sovereignty and NCSL will inform state lawmakers of how their congressional delegations voted.

Sincerely,

Senator Deb Peters, South Dakota
NCSL President

Toi W. Hutchinson

Senator Toi Hutchinson, Illinois
NCSL President-elect