

# 20<sup>th</sup> Annual WHEFA Workshop

## WASHINGTON UPDATE The Future of Tax Exempt Financing March 20, 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

# Preparation for Tax Reform

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- 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?

# 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?

- ✓ Strengths and vulnerabilities
- ✓ 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

# WHEFA ECONOMIC IMPACT STUDY

- 1979-2014, WHEFA's \$9 billion in new money capital projects supported more than 5300 jobs annually in Badger State; \$360 million in Wisconsin GDP
- FY 2014 – 199 new jobs, 678 construction jobs
- FY 2015 – 829 new jobs, 2134 construction jobs
- FY 2016 – 113 new jobs, 1051 construction jobs

# Your Advocacy Arguments

- ✓ Special nature of non-profit health and education and your access to capital
- ✓ New construction and modernization benefits
- ✓ Economic/jobs impact
- ✓ Infrastructure
- ✓ Speaker Ryan
- ✓ Rep. Kind

# GOOD NEWS!

It's almost baseball season and  
Brewers are tied for first place!



Thank you!

Questions?

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