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# Tax Priorities in the 119th Congress

## Tax-Exempt Status of Municipal Bonds

### NATaT supports maintaining the tax-exempt status of municipal bonds as a critical tool for generating investments in vital public infrastructure for localities, saving state and local governments hundreds of billions of dollars in interest costs over the last century.

Nearly three-quarters of the country’s core infrastructure investment has been financed by state and local government bonds. Since the creation of the federal income tax in 1913, interest on government-purpose municipal bonds has been exempt from federal income tax, just as federal bonds are exempt from state and local taxes. There is currently nearly $3.3 trillion in outstanding municipal bonds. The federal government has taken steps to regulate municipal bonds, including taxing the interest on bonds determined to be for “private,” not governmental use, and to limit the ability to use tax-exempt debt to refinance existing debt (see advance refunding below).

Municipal bonds are popular with investors because the interest is exempt from federal income tax. These savings are used to make further investments or are passed on to residents in the form of lower rates. Investors also value municipal bonds for their ability to generate a steady stream of revenue for fixed-income households. Individual households own roughly 70 percent of municipal bonds either directly or through bond funds. And, for more than 60 percent of these households, tax-exempt interest is earned by taxpayers over 65 years old. Municipal bonds are also a safe option. This market is well-established with a robust and comprehensive federal legislative and regulatory oversight system, and the default rate is significantly lower than other bonds.

Prior to the enactment of the *Tax Cuts and Jobs Act* of 2017, states and localities could issue tax-exempt advance refunding bonds. Such bonds were used to refund debt to lock in rates or restructure debt prior to a bond’s typical 10-year call date. As a result of the *Tax Cuts and Jobs Act*, issuers now must either wait for a bond’s call date to refund it or issue an advance refunding bond as taxable debt – no longer tax exempt; combined this can mean higher costs and less flexibility. NATaT supports preserving tax-exempt municipal bonds and reinstating tax-exempt advanced refunding bonds.

## Tax-Exempt Status of 501(c) Organizations

### NATaT supports maintaining the tax-exempt status of 501(c) organizations.

NATaT and the state associations we represent are concerned about the threat of across-the-board taxes on associations and other nonprofits. More specifically, there are serious concerns that Congress will tax the association community at the corporate rate, which is an unprecedented threat to the way the tax code views the nonprofit and association community.

There is a proposal that would tax the net of all non-donation revenue streams of tax-exempt organizations, including membership dues, sponsorships, investment income, and educational program revenue. This demonstrates a fundamental lack of understanding of the association community, the good that we do, and the constraints we operate under to maintain our tax-exempt status.

Congress first exempted associations from most taxes largely in recognition of their public benefits. The IRS broadly defines associations as “a group of people banded together for a specific purpose.” Associations earn their tax-exempt status because they exist to serve the public good rather than to benefit private individuals or generate profit. This tax-exempt status allows associations, like ours, to focus on their unique and important missions without the constraint of profit maximization, ensuring that they can continue to serve their members and broader communities effectively. Any change to the tax-exempt status of nonprofit associations would be woefully disruptive to the critical work NATaT and our member state organizations are doing on behalf of towns and townships across the country. NATaT supports maintaining the tax-exempt status of associations and other 501(c) organizations.

## State and Local Tax Deductions

### Support efforts to eliminate or increase the cap on state and local tax (SALT) deductions.

The impacts of the 2017 federal tax cuts affected individuals in a variety of ways due to personal circumstances and financial decisions. However, the inclusion of a $10,000 cap on taxpayers’ ability to deduct state and local taxes (SALT) from their federally taxable income raised concerns among state and local governments, as those revenues support a variety of services, including funding for transportation, infrastructure, and public safety. Given the significant appreciation in home values nationwide, the $10,000 limit on the SALT deduction for federal income taxes poses a substantial hardship for many families. NATaT supports eliminating or substantially increasing the SALT cap.

## Low-Income Housing Tax Credit Program

### NATaT supports actions to strengthen and expand the federal Low-Income Housing Tax Credit (LIHTC) Program, which plays a key role in financing affordable housing, to increase available credits and make tax credit equity usage more efficient.

Millions of affordable homes have been constructed, preserved, or rehabilitated utilizing the LIHTC program. The ability to encourage private investments in affordable housing through tax credits is critical to helping meet the demand in our communities and to increase the number of affordable homes nationally.

There are two primary housing credit rates: 4% and 9%. The 4% credit subsidizes approximately 30 percent of eligible low-income unit costs. This credit is mainly used for the acquisition of existing properties and for new development or rehabilitation projects financed with tax-exempt private-activity bonds. The 9% credit provides a more substantial subsidy, covering around 70 percent of eligible low-income unit costs. This credit primarily aims at new construction projects and substantial rehabilitation efforts not involving tax-exempt bond financing.

NATaT supports efforts to increase allocations of 9% housing tax credits to states by 50 percent. These credits provide an extremely successful and efficient way to facilitate the production and rehabilitation of affordable housing across the country. On average, 50 percent of the total financing for 9% LIHTC projects comes from the equity derived from the credit. NATaT supports expanding access to the 9% LIHTC.

However, NATaT opposes any effort to limit local authority. Current law requires state agencies to notify the chief executive officer (or equivalent) of a local jurisdiction in which a proposed building would be located. In some states, developers are required to demonstrate local support for Housing Credit developments as part of a competitive scoring process for developments. Legislation introduced in the 118th Congress that expands access to the 9% LIHTC also challenged local authority citing the “unintended consequence” of giving local government officials veto power over developments because withholding support could result in the development not getting funded. More specifically, the bill included language that local approval or any local contribution shall not be considered. It is imperative that local governments maintain authority relative to zoning and land use decisions. Local government is actively engaged in helping increase housing stock in a fair and locally sensitive way, and federal preemption of this local authority would have a devastating impact on our communities.