Legislation Text

File #: 17-1000, **Version:** 1

TO: Honorable Mayor & Members of the North Port Commission

FROM: Peter D. Lear, CPA, CGMA, Interim City Manager

TITLE: Resolution 2017-R-14 Opposing Reduction or Removal of Federal Tax Exemption on Municipal Bond Interest.

Recommended Action

Approve Resolution 2017-R-14 Opposing Reduction or Removal of Federal Tax Exemption on Municipal Bond Interest.

Background Information

The President and Congress are considering, as part of their deliberations on a tax overhaul of the income tax code, a reduction or repeal of the federal tax exemption on interest earned from State and Municipal Bonds.

The history of the tax exemption of municipal bonds started in 1895 when the U.S. Supreme Court held that the federal government had no power under the U.S. Constitution to tax interest on municipal bonds. However, in 1988, the Supreme Court stated the Congress could tax interest income on municipal bonds if it so desired on the basis that tax exemption of municipal bonds is not protected by the Constitution.

The Revenue Act of 1913 first codified exemption of interest on municipal bonds from federal income tax.

Internal Revenue Code Section 103(a) is the statutory provision that excludes interest on municipal bonds from federal income tax. As of 2004, other rules, such as those pertaining to private activity bonds, are found in sections 141-150, 1394, 1400, 7871.

A municipal bond is a bond issued by a state or local government or territory, or one of their agencies. It is generally used to finance projects such as roads, utilities, schools, airports, seaports, parks, governmental buildings and infrastructure-related improvements and repairs. Currently, there is over $3.8 trillion dollars in outstanding municipal bonds held by a variety of investors.

Nearly two-thirds of core infrastructure investments in the United States are financed with municipal bonds. In 2016 alone, more than $440 billion in municipal bonds were issued to finance the projects that touch the daily lives of every American citizen and business. They are the roads we drive on, schools for our children, affordable family housing, water systems that supply safe drinking water, courthouses, hospitals and clinics to treat the sick, airports and ports that help move products domestically and overseas, and, in some cases, the utility plants that power our homes, businesses and factories. These are the pro-growth investments which spur job creation, help our economies grow, and strengthen our communities.

A reduction or elimination of the tax-exempt status on municipal debt will result in either fewer resources available to finance these projects or increased costs which will be passed on to the public through higher taxes or fees.

Strategic Plan

Financially Responsible City Providing Quality Municipal Services

Financial Impact

An example of the fiscal impact would be if $25 million were issued today for an AA rated credit, the interest cost would be $9.4 million over twenty (20) years. If that same debt would be issued at taxable rates, the interest cost would be $12.1 million over twenty (20) years or an increase of $2.7 million or a 28.7% increase in interest costs that would be passed on to the residents of the entity issuing the bonds.

Procurement

N/A

Attachments:

1. Resolution 2017-R-14
2. Draft letter to Congress

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