# NLC Update of "The Tax Cuts & Jobs Act"

The proposed tax reform plan aims to streamline the U.S. tax code and create the impression of lowering tax rates, by reducing the number of tax brackets, reducing corporate and marginal personal tax rates, and expanding family tax credits. Unfortunately, these come at the cost of eliminating key deductions and tax credits that many middle and low income Americans rely on, and that help cities build strong, vibrant and economically sound communities. Below, is a sectioned breakdown of how the tax plan effects cities nationwide.

Read our press statement on the plan here.

## State and Local Tax (SALT) Deduction —

**CAPS/RESTRICTS the Property Tax Deduction**

- NLC successfully walked back congressional leadership from proposing a complete elimination of the local property tax deduction. The plan now proposes permitting a deduction of property taxes up to $10,000. For certain cities in high cost of living areas, this cap will directly impact the bottom lines of middle class homeowners.

**ELIMINATES the Deductions for State and Local Income and Sales Taxes**

- The plan proposes eliminating these key deductions that incentivize many cities to diversify their sources of revenue and not rely solely on property taxes, which are heavily subject to dips in housing prices. For countless other cities, their state's respective budgets will feel the pressure of the elimination of state income and sales tax deductions. This will have implications for revenue sharing between states and cities across the country. NLC views this as an affront to local control in taxing authority.

## Bonds —

**PRESERVES The Tax-Exemption on Municipal Bonds**

- A key priority for cities nationwide, the tax-exemption for municipal bonds was not altered in the proposed bill.
- **NLC will continue to fight to ensure this remains the case.**

**ELIMINATES the Tax-Exemption on Private Activity Bonds (PABs)**

- NLC and the Municipal Bonds for America Coalition oppose the elimination of the tax-exemption for Private Activity Bonds. Tax-exempt private activity bonds ("PABs") represent a critical source of financing for important qualified projects and programs, including infrastructure, affordable housing, economic development, the funding and refinancing of student loans, and much more. PABs help spur private investment and allow state and local governments to harness the private sector's experience and expertise toward public projects and initiatives, and therefore should be preserved and enhanced.

- Under the House tax reform bill, interest on newly issued PABs would be included in income and thus subject to tax. The provisions would be effective for bonds issued after 2017. The provisions would not apply to any previously issued bond, nor would the provisions prevent state and local governments from issuing PABs in the future; the provisions would merely remove the Federal tax subsidy for newly issued bonds.

**REPEALS Advance Refunding Bonds**

- Repealing the advance refunding authorization is a direct hit to cities' budgets, because advance refunding's are specifically and exclusively done by governmental issuers to achieve debt service cost savings. Losing the authority to do advance refunding's strips away one tool cities have for responding to a sharp economic downturn, because the lower interest rates that make an advance refunding feasible and attractive are typically sparked by a broader slowdown in the economy. In that scenario, cities will lose economically-sensitive revenues like sales taxes, so having the ability to manage otherwise fixed costs like the debt service bill is particularly valuable.
- Under the House tax reform bill, interest on advance refunding bonds (i.e., refunding bonds issued more than 90 days before the redemption of the refunded bonds) would be taxable. Interest on current refunding bonds would continue to be tax-exempt. The provision would be effective for advance refunding bonds issued after 2017.

## Status of Key Tax Credits for Cities —

**PRESERVES Earned Income Tax Credit (EITC)**

**PRESERVES Low-Income Housing Tax Credit**

**ELIMINATES Historic Tax Credit (HTC):** (Sec. 3403. Repeal of Rehabilitation Credit)

- The HTC encourages the redevelopment of historic and abandoned buildings. According to analysis from the National Trust for Historic Preservation, HTC's have been used to renovate more than 40,000 structures and channel leveraged $117 billion in private investment since being enacted by the Reagan administration in 1981.
- Under the House tax reform bill, the historic tax credit would be repealed. Under a transition rule, the credit would continue to apply to expenditures incurred through the end of a 24-month period of qualified expenditures, which would have to begin within 180 days after January 1,2018.

**ELIMINATES New Markets Tax Credit (NMTC):** (Sec. 3406. Termination of new markets tax credit)

- The NMTC is designed to increase the flow of capital to businesses and low income communities by providing a modest tax incentive to private investors. Over the last ten years, the NMTC has proven to be an effective, targeted and cost-efficient financing tool valued by businesses, communities and investors across the country. The NMTC expires on December 31, 2019. The New Markets Tax Credit Extension Act of 2017, introduced by Reps. Tiberi (R-OH), Neal (D-MA), and Reed (R-NY), would extend the NMTC indefinitely. Senators Blunt (R-MO) and Cardin (D-MD) introduced S. 384, which is nearly identical to its House counterpart.

- Under the House tax reform bill, no additional new markets tax credits would be allocated after 2017; however, credits that would have already been allocated may be used over the course of up to seven years as contemplated by the credit's multi-year timeline.

# Other Provision —

**DOES NOT MENTION "Cadillac Tax"**

- NLC remains concerned by the potential financial burden that the Cadillac Tax, a 40% excise tax on high-cost employer-sponsored health plans, poses to cities nationwide who offer their employees higher-end health insurance policies. Should this tax be imposed, cities will be forced to choose between absorbing the financial burden of the tax or altering the healthcare options offered to their employees.
- Additionally, proposals placing a dollar cap on the income tax exemption for employer-sponsored health coverage would likely impose a disproportionate financial burden on cities and municipal employees. NLC supports the repeal of the Cadillac Tax and efforts to find replacement sources of revenue that would not burden city budgets or negatively impact access to healthcare for individuals in our local communities.

# Topline Findings —

**REDUCES the Number of Tax Brackets**

- The plan limits the number of marginal tax brackets from seven to **five: (0%; 12%; 25%; 35% and 39.6%)**. We've outline the new proposed tax structure for a married couple filing jointly and how it compares to the existing one, below:

**Existing Plan**

| Income | Marginal Rate |
|---|---|
| $0 – 19,050 | 10% |
| $1,950 – 77,400 | 15% |
| $77,400 – 156,150 | 25% |
| $156,150 – 237,950 | 28% |
| $237,950 – 424,950 | 33% |
| $424,950 – 480,050 | 35% |
| More than $480,050 | 39.6% |

**Proposed Plan**

| **Income** | **Marginal Rate** |
|---|---|
| $0 – 90,000 | 12% |
| $90,000 – 260,000 | 25% |
| $260,000 – 1 mil | 35% |
| More than $1 mil | 39.6% |

<table>
<tr><th colspan="2">Existing Plan</th><th colspan="2">Proposed Plan</th></tr>
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**NEARLY DOUBLES the Standard Deduction and Eliminates Exemptions**

- The standard deduction will increase from $6,350 to **$12,000 for single filers**, and from $12,700 to **$24,000 for married couples filing** jointly.

**REFORMS Tax Credits for Families**

- Tax credits for children increase from $1,000 to **$1,600 per child**. In addition, there will be a new **tax credit for families of $300** and another **credit for non-child dependents for $300**.