

Federal Update

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Federal Affairs Update



Timeline

- March 1 - Sequester
- March 27 - FY 2013 CR Expires
- April 15 - Each Chamber must pass budget resolution or, no pay
- May 19 - Treasury must use extraordinary measures on debt ceiling
- August - Extraordinary measures exhausted

Debt Ceiling



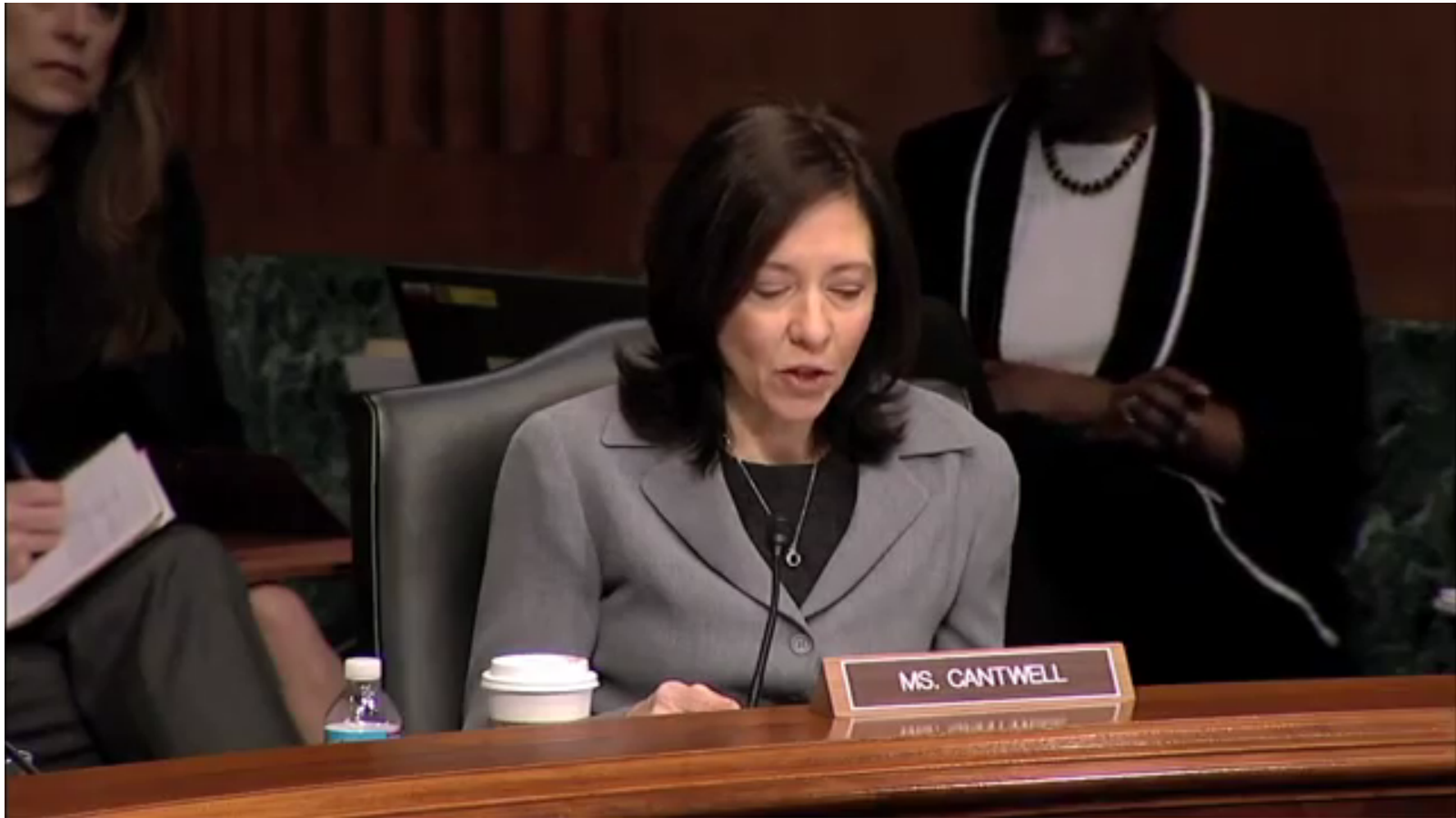
Conflicting Dynamics

- Legislation by trigger – debt ceiling, no pay, sequestration, CR
- Legislation by regular order – budget reconciliation process, tax reform

Tax Reform



28% Limit on Deductions/ Exemptions



Messages

- Rs: Tax revenues are only to bring down tax rates; spending cuts only, please
- Ds: More revenue is needed to bring down deficit

BUT...Where's the grand bargain?

Watch For:

- WH Budget – 28% Cap; America Fast Forward Bonds
- Cranky Washingtonians afflicted by sequestration
- Replace sequestration – with what?
- Policy in a blender – spreading pain/avoid accountability; who is willing to “own” a deal?
- Where are the rating agencies – are revenue increases enough?
- GDP numbers

CBO Analysis

- The federal budget deficit, which shrank as a percentage of GDP for the third year in a row in 2012, will fall again in 2013, if current laws remain the same.
- At an estimated \$845 billion, the 2013 imbalance would be the first deficit in five years below \$1 trillion; and at 5.3 percent of GDP, it would be only about half as large, relative to the size of the economy, as the deficit was in 2009.

Table 8.—Largest Tax Expenditures, Individual and Corporate, 2010-2014

INDIVIDUAL TAX EXPENDITURES		CORPORATE TAX EXPENDITURES	
Individual Tax Expenditure and Function	Total Amount (2010-2014) (Billions of dollars)	Corporate Tax Expenditure and Function	Total Amount (2010-2014) (Billions of dollars)
Exclusion of employer contributions for health care, health insurance premiums, and long-term care insurance premiums	659.4	Deferral of active income of controlled foreign corporations	70.6
Deduction for mortgage interest on owner-occupied residences	484.1	Exclusion of interest on public purpose State and local government debts	45.3
Reduced rates of tax on dividends and long-term capital gains	402.9	Deduction for income attributable to domestic production activities	43.2
Net exclusion of pension contributions and earnings: Defined benefit plans	303.2	Inventory property sales source rule exception	38.0
Earned income credit	268.8	Depreciation of equipment in excess of alternative depreciation system	37.1
Deduction of nonbusiness State and local government income, sales and personal property taxes	237.3	Inclusion of income arising from business indebtedness discharged by the reacquisition of a debt instrument	28.8
Net exclusion of pension contributions and earnings: Defined contribution plans	212.2	Tax credit for low-income housing	27.0
Exclusions of capital gains at death	194.0	Expensing of research and experimental expenditures	25.6
Deductions for charitable contributions, other than for education and health	182.4	Inventory methods and valuation: Last in first out	20.0
Exclusion of untaxed social security and railroad retirement benefits	173.0	Reduced rates for first \$10,000,000 of corporate taxable income	15.9

Municipal Bonds for America

- Unites Issuers and Municipal Bond Professionals
- Defending the Municipal Tax Exemption
- Issuer led supported by data from a Technical Advisory Committee
- Growing in Membership
- www.munibondsforamerica.org

Messages for Policymakers

- Cost-Shift
- Federally Imposed Local Tax
- 100-year Precedent
- Competitiveness
- Starving Infrastructure
- Market Impacts
- Perpetual tax risk for investors
- Problems inherent with models like direct-pay