PSATS

PENNSYLVANIA STATE ASSOCIATION OF TOWNSHIP SUPERVISORS

July 26, 2013

The Honorable Robert Casey, Jr.
U.S. Senate
393 Russell Senate Office Building
Washington, DC 20510

Dear Senator Casey:

On behalf of the Pennsylvania State Association of Township Supervisors and the National Association of Towns and Townships, I am writing to express our organizations' strong support for continuing the current federal tax exemption for municipal bond interest, as well as our concern over other tax proposals being considered that would have dire consequences for taxpayers in Pennsylvania and across the country.

It has come to our attention that Senate Finance Committee Chairman Max Baucus and Ranking Member Orrin Hatch have proposed "blank slate" tax reform that would eliminate all tax breaks. In turn, Senators are being asked to submit proposals to have provisions added back into the draft tax plan. We urge you to make the request to preserve the following items:

Tax-exempt municipal bonds. Local governments have used tax-exempt municipal bonds to build public infrastructure for more than 200 years. It is the key feature that provides the access necessary for private investment in critical infrastructure projects, such as the construction or improvement of roads, bridges, water and sewer systems, parks and playgrounds, public buildings, and other public works. In fact, 75 percent of all national infrastructure projects have been completed using this low-cost, market-driven financing tool. Over the last decade, municipal bonds were used to finance $1.65 trillion in state and local infrastructure investments.

To impose a new federal tax on interest income from state and local government debt obligations would cripple the $3 trillion municipal bond market and increase borrowing costs for both state and local governments. For example, if the tax exclusion for municipal bond interest was nonexistent in the past decade, it would have cost local governments $495 billion and stalled essential infrastructure projects. The result of a repeal of tax-exempt bonds, or even a more limiting cap, would lead to an increase in local taxes, a reduction in infrastructure spending nationwide, and a significant unsettling of the bond market with ripple effects in the economy.

Deductions for state and local taxes. Allowing taxpayers to deduct state and local taxes from their federal taxable income is a fundamental statement of the long-standing historical right of state and local governments to raise revenues and prevent taxpayers from being double taxed. It has been the law since the Revenue Act of 1862.

In addition to being the most-established, the deduction for state and local taxes paid is also the most widely used benefit in the tax code. For corporations and business filers, taxes paid to state and local governments are regarded as a cost of doing business and reduced from income. And virtually all among the approximately 47 million individuals filing itemized returns nationally claimed a deduction for state and local taxes paid. Eliminating this deduction will result in a significant tax increase to American taxpayers.

Deduction for property taxes. The repeal of the real property tax deduction would affect the finances of nearly every homeowner. Local communities directly benefit from homeownership, as homeowners are active in the civic and political organizations of the community and more likely to work with local officials to solve problems facing the community. This long-standing deduction also prevents our citizens from facing double-taxation of their limited resources.

All of these tax provisions are strongly rooted public policies that the government has deemed beneficial to Americans and to the economy. Eliminations or reductions are <u>not</u> “closing loopholes” or revenue raisers that lead to deficit reduction. Instead, they would pass the buck, and undermine the federal partnership with state and local governments that further the national interest.

Repealing or even limiting these deductions will weaken our economic recovery and significantly increase federal taxes for Pennsylvanians, which would result in harmful effects on Pennsylvania’s townships, as our residents and businesses would have a more difficult time paying their local and state taxes. Please protect our jobs, our economy and our communities, and make the request to preserve tax exemptions for municipal bond interest and these other important deductions.

Sincerely,

David M. Sanko
Executive Director