House Passes Tax Reform Package; Senate Work Continues

Special Report November 17, 2017

The U.S. House of Representatives voted to approve the tax reform bill, H.R. 1, Tax Cuts and Jobs Act. House GOP leadership was able to secure 227 votes in favor of the reform. The passage brings Congress one step closer to overhauling the U.S. tax code. In the Senate, the markup process continues for the Senate version of the bill, which differs substantially from the House version. The Senate is now the focus of remaining advocacy efforts.

Final House Bill | Passed 11/16/17

Earlier this month, PFM issued a Special Report outlining a number of provisions impacting state and local governments and non-profit institutions in H.R. 1. Although there are several aspects of the bill that could impact the finances of state and local governments and many non-profit entities, one area that may have a direct impact on our clients' finances is the section related to tax-advantaged bond reform. The House bill would scale back tax benefits related to certain types of municipal bonds and tax-exempt bonds issued on behalf of 501(c)(3) organizations. Specifically, the House bill:

- Eliminates the interest exclusion for Private Activity Bonds (PABs) after Dec. 31, 2017
- Terminates advance refundings & Tax Credit Bonds (TCBs) after Dec. 31, 2017
- Subjects interest on bonds issued for professional sports stadiums to federal tax as of Nov. 2, 2017

While some minor amendments were made during the committee process, the provisions related to bond reform remain the same.

Senate Version | Pending Committee Passage & a Full Senate Vote

On Monday, November 13th, the Senate released its version of a tax reform bill which contained a number of major differences to the subsequently-approved House version. Notably, the Senate bill did not contain language eliminating the interest exclusion for PABs or eliminating Tax Credit Bonds, both welcome developments for PFM's clients. Unfortunately, the Senate bill did mirror the House measure in terminating advance refundings. PFM continues to work with our municipal finance partners to ensure that lawmakers understand the negative impact that the advance refunding measure will have on our clients and their peers.

In addition to key differences from the House bill regarding the State and Local Tax (SALT) deduction, individual tax brackets and the mortgage interest tax deduction, the Senate bill introduced two controversial proposals into the debate - the repeal of the Affordable Care Act's individual mandate and a provision making tax cuts for individuals expire after 2025. Both measures are designed to reduce the overall price tag of the Senate bill over the next ten years to comport with the rules around the budget reconciliation process, but the provisions also broaden the universe of those who may have constituent concerns about the Senate bill.

Congress is proceeding with tax reform under the budget reconciliation process because it allows the Senate to pass a vote with a simple majority rather than the typically-required 60 votes. However, in order to utilize this process to enact new laws, the House and Senate versions of the bill must be similar and the overall price tag of the bill cannot add more than $1.5 trillion to federal deficits over the next ten years.

The Senate Finance Committee approved its version of the bill on Friday, November 17, and it is expected to go to the floor for debate next week. A number of Republican senators have expressed concerns with the bill and with a very narrow Republican majority it is unclear whether there are enough votes for passage. Even if the Senate approves this legislation, the process is far from over as the House and Senate need to convene a joint committee to reconcile the two different versions of the bill. As the mid-term elections in 2018 are getting increasing attention, GOP congressional leaders face political pressure to enact this legislation before the December holiday break.

Conclusion

As with attempts to repeal the Affordable Care Act, the fate of tax reform lies firmly in the hands of the Senate. There is intense pressure from within the Republican party to pass meaningful legislation prior to next year's midterm elections; yet it is unclear whether there is sufficient support to pass tax reform legislation in its present form. A number of Senate Republicans have publicly expressed concern with the plan and the perceived prioritization of corporate tax cuts over individual tax cuts. The Senate Republicans can only afford to lose two votes and still be able to pass the bill.

PFM continues to engage with key trade associations representing clients across the country to ensure lawmakers understand the potential impacts of the legislation to state and local governments, non-profit institutions, and future infrastructure funding. We continue to monitor developments as they arise and will provide additional updates as the package continues to evolve.

Given the market uncertainty resulting from the proposed tax legislation, we encourage you to reach out to your advisor at PFM to discuss any concerns you may have or to better understand the potential impact on your financing plans and financial condition. Of course, the most effective way to share any comments you may have on the proposed federal legislation is to reach out directly to your Congressional representatives.