ASSET PRESERVATION ADVISORS

BIPARTISAN TAX FAIRNESS AND SIMPLIFICATION ACT OF 2010

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Overview

- Senators Ron Wyden, D-OR, and Judd Gregg, R-NH, recently unveiled the Bipartisan Tax Fairness and Simplification Act of 2010, which would fundamentally remake the tax code, including how the federal government subsidizes debt issued by state and local governments.
- The bill's major provisions include: a) halving the amount of individual tax brackets, b) making the top individual tax rate 35%, c) eliminating the alternative minimum tax, d) establishing a flat corporate tax rate at 24% and e) making all municipal debt taxable by providing individual investors with a tax credit equal to 25% of interest costs and eliminating any advance refundings of municipal bonds.
- In late February, the senators issued a joint statement and explained the rationale for the provisions, stating that their proposal will change tax-exempt bonds to tax-credit bonds in an effort to lower tax rates and broaden the tax base. They further stated that the proposed bill would make the tax code more equitable because, unlike a tax exemption, a tax credit allows taxpayers at all income levels to realize the same tax benefits. In their opinion, the reduction in tax rates would allow a more favorable tax climate that would encourage job creation and economic growth.
- The proposed bill has drawn strong opposition from several municipal market groups that point out the existing tax-credit bond programs have never really taken off in the market for many reasons, including administrative costs and investors' need for tax credits which varies from year to year.
- Under the tax-exempt model, investors in the highest tax brackets get the biggest benefit from buying bonds; whereas, under the tax-credit proposal, investors in the lowest brackets would reap the most benefit. However, market participants believe issuers need to entice the higher-bracket investors to be able to bring their deals to the market successfully.
- At APA, we believe that Congress will not approve the proposed bill since it will lead to significantly higher borrowing costs for states and local governments at a time when municipalities are under considerable fiscal stress.

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