



THE UNITED STATES CONFERENCE OF MAYORS

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September 25, 2017

Dear Senators and Representatives:

On behalf of the nation's mayors and the people who live and work in our cities, we write to urge Congress to maintain the deductibility of state and local taxes and the tax exemption for municipal bond interest. These essential components of the tax code support vital investments in infrastructure, public safety, and housing and education; encourage economic growth; and provide state and local governments with financial flexibility to meet the needs of our residents - the same residents that we all serve together.

State and Local Tax Deduction (SALT)

As mayors from states with state and local income, property and sales taxes, we have grave concern regarding proposals to eliminate the state and local tax deduction (SALT), and how this would impact the people who live in our cities. According to a recent report by the Government Finance Officers Association, if the SALT deduction is eliminated, almost 30 percent of taxpayers - including individuals in every state and in all income brackets - would be adversely impacted. This would include over 43 million tax units representing well over 100 million Americans. By all accounts the elimination of SALT would disproportionately affect our cities, leaving large numbers of middle class Americans paying more in taxes on dollars they will never see in the first place. This is effectively double taxation. SALT lowers taxable income, and puts more money in the hands of American families. Eliminating the deduction will hit middle and upper-middle class workers the hardest, furthering the financial instability of many families.

A recent report completed by the National Realtors Association found that eliminating SALT could cause home values to fall by an average of more than 10 percent in the near term, and "in areas with higher property taxes or state income taxes, the drop could be even greater." With many communities already reliant on property taxes to pay for education and schools, elimination of the state and local tax deduction could drastically hurt American families and depress real estate markets.

Finally, any alterations to the deduction would upset the carefully balanced fiscal federalism that has existed since the permanent creation of the federal income tax over 100 years ago. We strongly believe that no federal law or regulation should preempt, limit or interfere with the constitutional or statutory rights of states and local governments to develop and operate our own tax systems. States and local governments deploy revenues from state and local property, sales and income taxes to help finance long term infrastructure projects, local law enforcement, emergency services, education costs and many other services.

Tax-Exempt Municipal Bonds

We strongly urge you to preserve the tax deductibility of municipal bonds. Tax-exempt municipal bonds have also been a fundamental feature of the United States tax code since 1913. Municipal bonds remain the primary method used by states and local governments to finance public capital improvements and public infrastructure projects – including our roads, bridges, schools, hospitals, water infrastructure and much more – which are essential for creating jobs, sustaining economic growth and improving the quality of life for Americans in every corner of this country. Any tax reform bill should not sacrifice - and drive up the costs - of one of our nation's most effective methods of financing for critical infrastructure.

State and local governments own and operate the vast majority of our nation's infrastructure systems and invested \$3.8 trillion in infrastructure through municipal bonds from 2007 to 2016. The federal tax exemption reduces the cost of issuing municipal bonds, which is vital to taxpayers across the country who pay the interest and principal on municipal bond debt in exchange for investing in public, community assets. Investors understand municipal bonds and are comfortable with them.

Nearly 75 percent of all public infrastructure funding is derived from tax-exempt bonds. State and local governments save, on average, approximately two percentage points on their borrowing to finance investment in public infrastructure, which translates into substantial savings to local taxpayers and more dollars directed to further public purposes and to build additional infrastructure. These public infrastructure investments remove barriers to commerce and make our communities more livable. For these reasons, we urge Congress to reject any proposals that would remove the exclusion of the interest earned on municipal bonds from federal income. Eliminating or even capping this exclusion would increase costs to state and local governments and, ultimately, to taxpayers.

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We appreciate your leadership and share your goal of ensuring the best use of American taxpayer resources. We stand ready to work closely with you on the priorities listed above - and other important existing tax incentives that spur economic growth - as any tax reform proposals are developed and move forward.

Sincerely,

Mitchell J. Landrieu
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President, The U.S. Conference of Mayors

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