

POLICY POSITION

15. Revision of Tax-Exempt Status for State Bonding (Section 103)

Background

The President's tax reform proposal calls for the elimination of the tax exempt status of state and local bonds, if more than one percent of the proceeds from the issuance is used for the benefit of a private concern, either directly or indirectly. This one percent restriction is unrealistic and would eliminate the tax exemption for a variety of issuances that benefit the general public. For instance, bonds for roads, sewers, water lines and other capital improvements that benefit the public, but also tie into the project of a private developer, could be in jeopardy.

Eliminating the tax-exempt status for many of the bonds issued by states and local governments will not eliminate the need for the facilities financed by the bonds. It will, instead, increase the amount state and local governments must pay for facilities. The proposal will have the effect of increasing the costs that must be born by state and local governments at a time when federal funds to the state and local sector are being targeted for further reduction.

Recommendations

The Congress should not limit the activities for which tax-exempt financing can be used by the inclusion of some activities or the exclusion of others, either directly or implicitly. Rather, the Southern Legislative Conference recommends that states provide a central clearinghouse operation in each state to evaluate and review bonding requests. The states should establish statewide criteria governing the eligibility of bonds for a tax exempt status. These statewide criteria should also be acceptable to the U.S. Treasury. Under these terms, which would enhance state fiscal responsibility, SLC urges Congress to continue the tax exempt status for section 103 bonds.

Adopted by the Southern Legislative Conference on July 24, 1985.

SO-85-RR33