2018 INTERNATIONAL CONFERENCE ON MUNICIPAL FISCAL HEALTH

U.S. Tax Reform and Its Impact on State and Local Government Finance

Presented by Jane L. Campbell ; Director NDC Washington Office

National Development Council

Partners in Community Development Since 1969

NDC's work focuses on HOMES, JOBS and COMMUNITY. Founded as a national nonprofit in 1969, NDC has worked for almost 50 years fulfilling its mission to increase the flow of capital for investment in low-income communities. NDC directs capital to support the development and preservation of affordable housing, the creation of jobs through training and small business lending and the advancement of livable communities through investment in social infrastructure.

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The NDC Difference
Investing in: Homes, Jobs Community

NDC is a non-profit – proceeds are reinvested in the communities we serve

NDC provides capital for community-based projects – from small businesses to large infrastructure

NDC takes a holistic approach to economic development – and that includes infrastructure such as parking garages that are critical to a city's economic revitalization

Homes, Jobs, Community

IMPACT AT A GLANCE

$579M Affordable Housing	**$704M** New Markets Tax Credit Allocation	**$2.5B** New Markets Tax Credit Allocation	**$210M** Small Business Loans	**70K+** Practitioners Trained	**100+** TA Client Communities

Federal Tax Reform: 2017 Timeline

June 24, 2016	-	House GOP released their vision for tax reform (the "Blueprint").
April 26, 2017	-	President Trump released his overall vision for business tax reform.
Sept. 27, 2017	-	The White House and Congressional Republicans released the Unified Framework for Fixing Our Broken Tax Code.
Nov. 2, 2017	-	The House Ways and Means Committee released legislation, the "Tax Cuts and Jobs Act" (H.R.1) ("TCJA"), which totaled 429 pages.
Nov. 9, 2017	-	The Senate released its tax reform proposal.
Nov. 16, 2017	-	The House passed its tax reform bill 227-205
Dec. 2, 2017	-	The Senate passed its tax reform bill 51-29
Dec. 15, 2017	-	Reported by Joint Conference Committee
Dec. 20, 2017	-	Final bill passed both chambers
Dec. 22, 2017	-	**President Trump signs the TCJA (H.R. 1) into law. (P.L. 115-97)**

Highlights of the new law

Individual:

Rates and Brackets
Standard deduction
Personal exemptions
Itemized deductions
Estate tax

Passthroughs:

New 20% deduction regime
Losses limited
Carried interest rule

H.R.1

(P.L. 115-97)

Corporate:

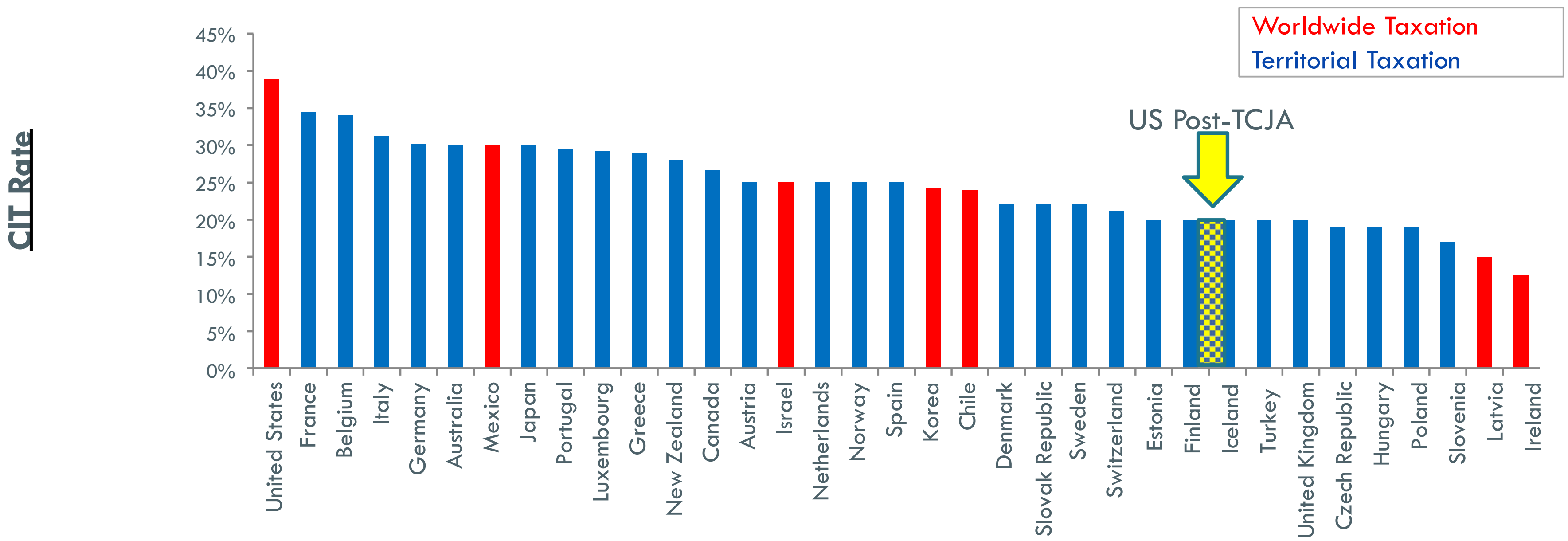
Rate reduction
Expensing
NOL limitation
Interest limitation
Contributions to capital

International:

Participation exemption system
Mandatory repatriation
Minimum tax
BEAT

What were the drivers of federal tax reform?

Improve the International Competitiveness of the US Corporate Income Tax System



Tax Cuts and Jobs Act	Current Law	House	Senate	Conference Report
Historic Rehabilitation Tax Credit (HTC)	20 percent credit claimed when certified historic property is placed in service	Subject to transition rules, **REPEALED** after 2017	20 percent credit **retained**, but **claimed over 5 years**, after 2017, subject to transition rules	20 percent credit **retained**, but **claimed over 5 years**, after 2017, subject to transition rules
New Markets Tax Credit (NMTC)	$3.5 billion annual allocation for 2018 and 2019, 39 percent credit, slated to expire after 2019	2017 round **retained**, 2018 and 2019 rounds **REPEALED**	2017, 2018 and 2019 rounds **retained**	2017, 2018 and 2019 rounds **retained**
Private Activity Bonds (PAB)	$100 per capita/$305 million small state minimum (2017)	All **PAB**, including residential rental, **REPEALED** after 2017	All **PAB**, including residential rental, **Retained**	All **PAB**, including residential rental, **Retained**
Alternative Minimum Tax	20 percent for corporations 28 percent for individuals	**Repealed** for corporations and individuals	**RETAINED** for corporations; **Increased** exemption and phase-out thresholds for individuals until Dec. 31, 2025	**Repealed** for corporations; **Increased** exemption and phase-out thresholds for individuals until Dec. 31, 2025
Corporate Rate	Top corporate rate of 35 percent	Top corporate rate of **20 percent** tax years beginning **after Dec. 31, 2017**	Top corporate rate of **20 percent** tax years beginning **after Dec. 31, 2018**	Top corporate rate of **21 percent** tax years beginning **after Dec. 31, 2017**

State and local tax deduction

- TCJA limits state and local tax deduction for individuals to $10,000 annually ($5,000 married filing separately) (amended IRC §164)

  House version completely eliminated it

  Part of federal income tax law since 1913

  - U.S. Supreme Court rejected "Intergovernmental immunity" doctrine (i.e., federal government can't tax states) in *South Carolina v. Baker*, 485 U.S. 505 (1988)

  Still available for taxes "on a trade or business"

  - Corporation still entitled to deductions

State and local tax deduction

- Recent responses?
  - NY Gov. Cuomo – “deductible payroll tax”
  - CA legislators – “charitable entities” for government services
  - IRS ruling on prepaid property tax (not allowed unless assessed)

State Personal Income Tax: Starting Points

State Personal Income Tax: Conformity to Federal Tax Code

MAP LEGEND

- Rolling Conformity
- Static Conformity
- No Conformity
- Does not Levy Personal Income Tax

**MA- Conforms the the IRC as of Jan. 1, 2015. However, for some provisions, Massachusetts conforms automatically to the Code for the taxable year.*

**MS- Mississippi does not have a federal conformity law, but the IRC is incorporated by reference throughout the Mississippi tax code.*

Source: Bloomberg BNA, IRC Conformity; Federation of Tax Administrators 2016 State Tax Collection by Source

State Corporate Income Tax: Conformity to Federal Tax Code

MAP LEGEND

- Rolling Conformity
- Static Conformity
- No Conformity
- Does not Levy Corporate Income Tax

NV-Nevada levies a Modified Buisness Tax*
OH- Ohio does not impose a corporate income tax, instead levies a Commerical Activites Tax*
OR-Oregon has a rolling conformity when related to taxable income, but for items other than taxable income, Oregon has a static IRC conformity.*
TX- Texas levies a Margins Tax*
WA- Washington imposes a Business & Occupation Tax*

Source: Bloomberg BNA, IRC Conformity; Federation of Tax Administrators 2016 State Tax Collection by Source

OPPORTUNITY ZONES: A NEW INCENTIVE FOR INVESTING IN LOW-INCOME COMMUNITIES

Temporary Deferral

A temporary deferral of inclusion in taxable income for capital gains reinvested into an Opportunity Fund. The deferred gain must be recognized on the earlier of the date on which the opportunity zone investment is disposed of or December 31, 2026.

Step-Up In Basis

A step-up in basis for capital gains reinvested in an Opportunity Fund. The basis is increased by 10% if the investment in the Opportunity Fund is held by the taxpayer for at least 5 years and by an additional 5% if held for at least 7 years, thereby excluding up to 15% of the original gain from taxation.

Permanent Exclusion

A permanent exclusion from taxable income of capital gains from the sale or exchange of an investment in an Opportunity Fund if the investment is held for at least 10 years. This exclusion only applies to gains accrued after an investment in an Opportunity Fund.

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OPPORTUNITY ZONES:
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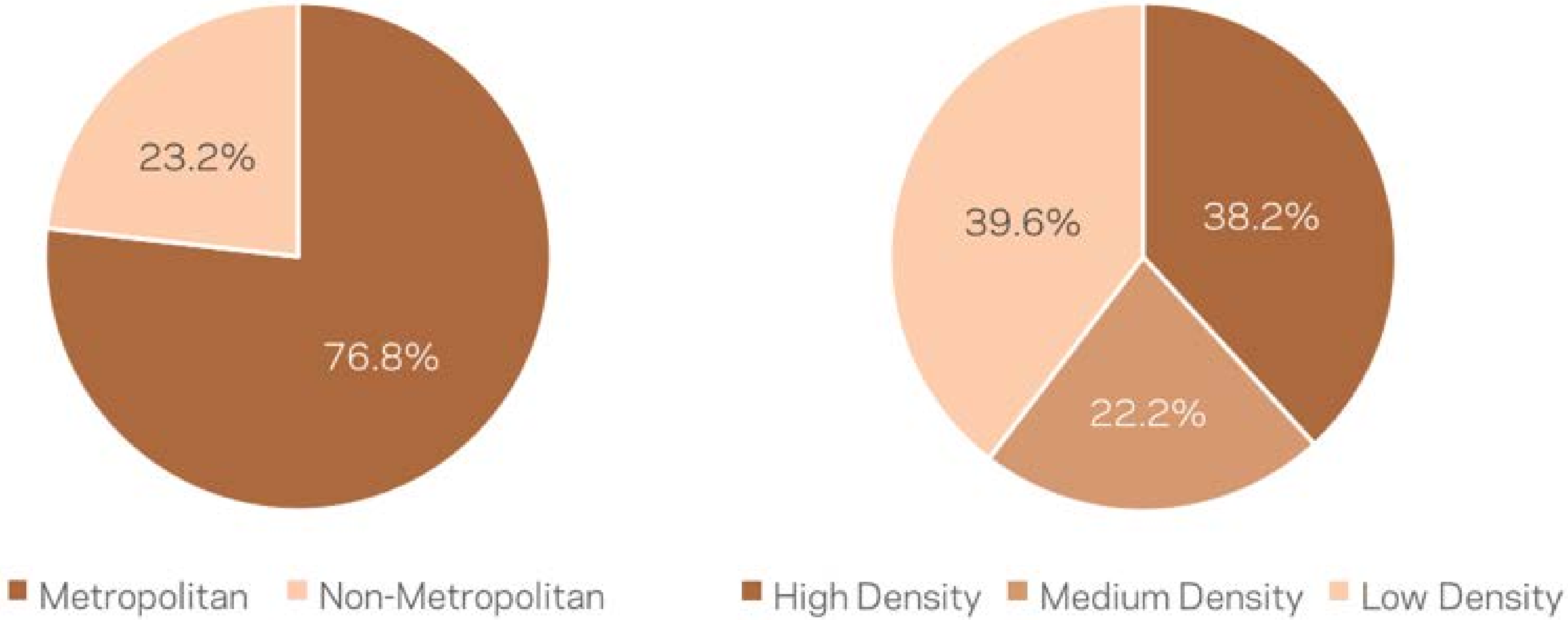
Population Density of OZ Tracts



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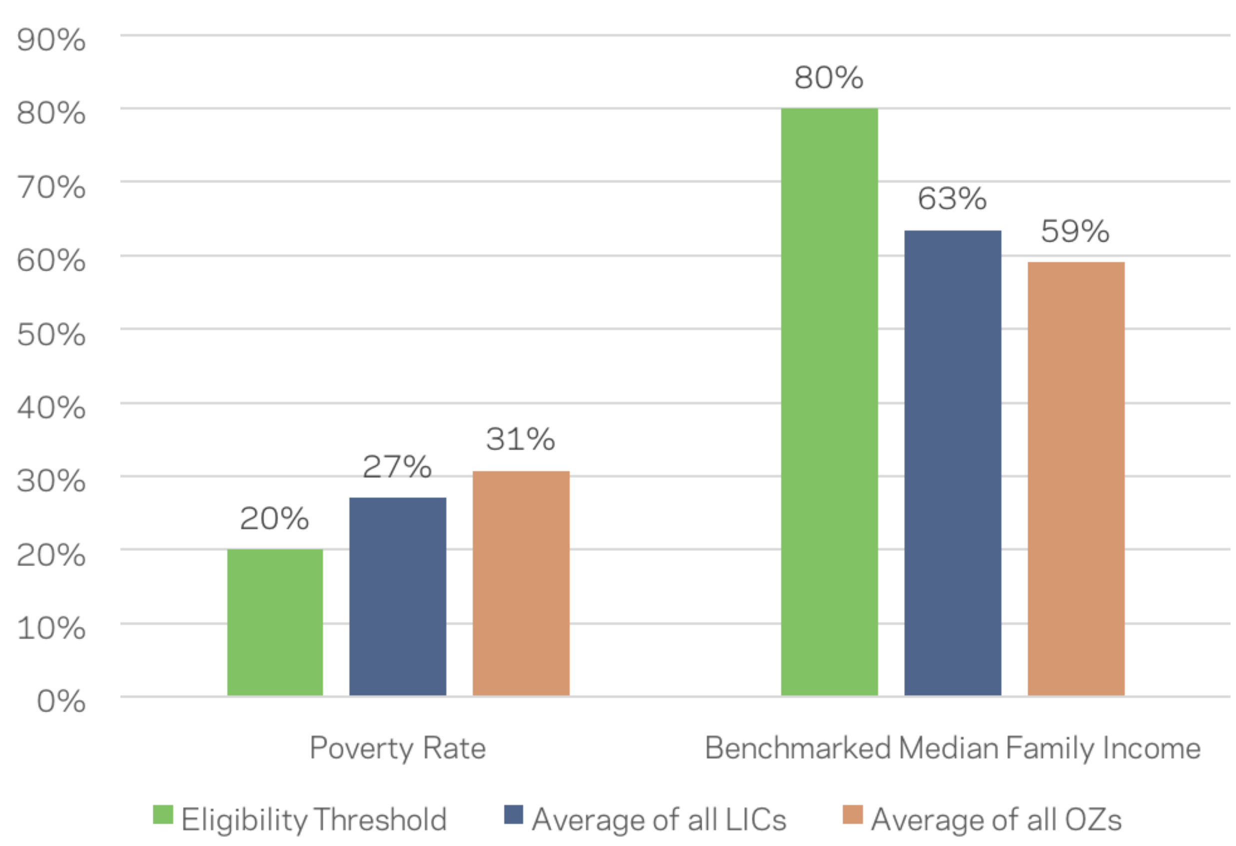
Median Family Income



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