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# Tax Reform Impacts on State and Local Government Agencies – An Initial Viewpoint

December 21, 2017

# Presenters

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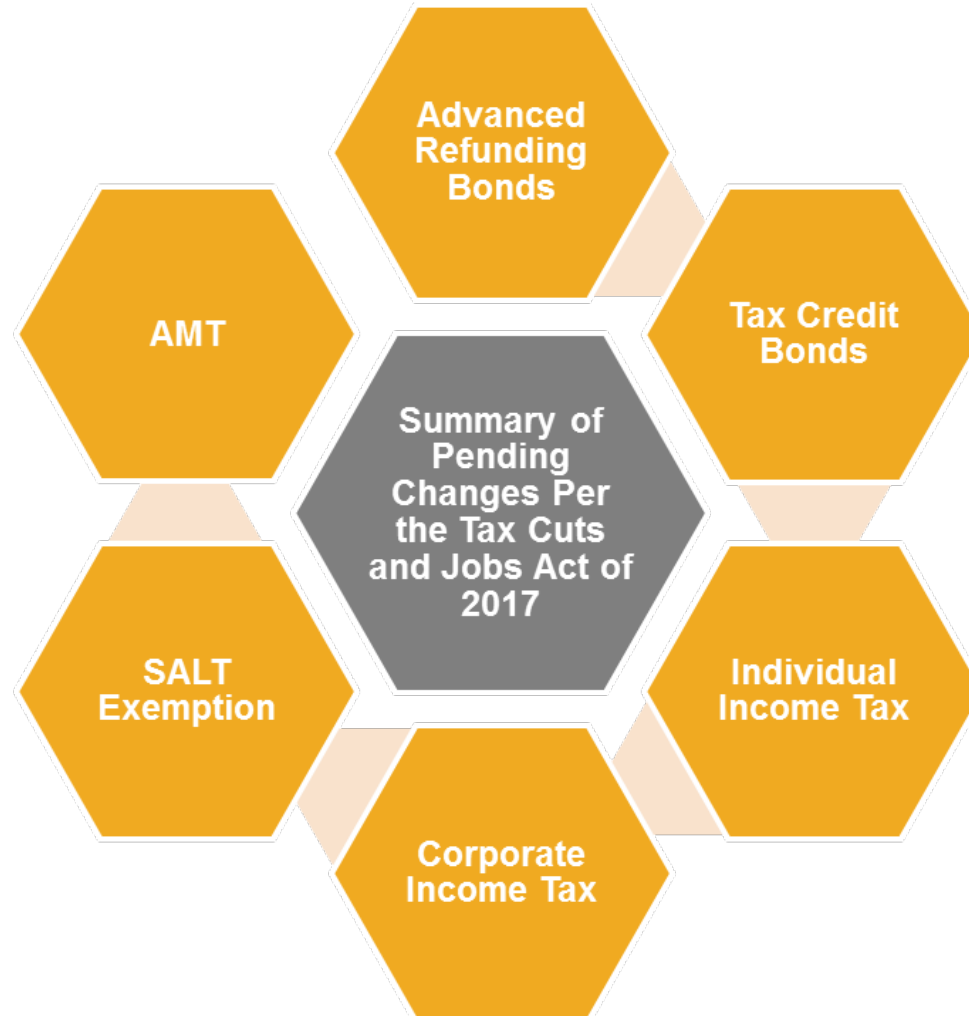
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# Summary of Pending Changes per the Tax Cuts and Jobs Act of 2017

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This information is being presented for information purposes only and is not advice. Please contact your registered municipal advisor to understand the impact to your organization.

# Municipal Bond Changes

## Advance Refunding Bonds

- Effective January 1, 2018
- Cannot be issued on a tax-exempt basis
- No change in definition (issuance more than 90 days before call date)
- Potential market reactions
  1. Shorter calls – i.e. less than ten years
  2. Taxable advance refunding bonds
  3. Structured product solutions like forward-settlement bonds, forward-starting interest rate swaps, etc.

## Tax Credit Bonds

- Effective January 1, 2018
- All tax credit bond programs eliminated, including Qualified Zone Academy Bonds, Qualified School Construction Bonds, Qualified Energy Conservation Bonds
- Does not impact bonds issued prior to January 1, 2018

# Income Tax Changes

## Individual Income Taxes

- Effective January 1, 2018
- Impacts tax brackets and applicable income levels
- Top tax bracket changed to 37.0% from 39.6%
- Reduces the relative value of tax-exemption, for example
  - 3.0% tax-exempt at 39.6% tax rate = 4.96% taxable equivalent
  - 3.0% tax-exempt at 37.0% tax rate = 4.76% taxable equivalent
- Sources estimate that individual investors own more than half of municipal bonds, either directly or indirectly

## Corporate Income Taxes

- Effective January 1, 2018
- Reduces corporate tax rate to 21% from 35%
- Pass-through income eligible for a 20% deduction
- May significantly reduce demand for tax-exempt bonds from corporate investors
- Particularly affects banks, property & casualty insurers and life insurance companies
- Bank loan impacts
  - Rates on new bank loans may increase
  - Rates on existing bank loans may increase if there is a “corporate gross-up” provision in the loan documents

# SALT Exemption and AMT Changes

## State and Local Taxes (SALT) Exemption

- Effective January 1, 2018
- Caps deduction for SALT at \$10,000
- SALT includes property, income and sales
- Potential to lower long-term property values, which could impact property tax revenue
- Potential impacts are greatest in “high tax” states like California, Connecticut, Illinois and New York

## Alternative Minimum Tax (AMT)

- Effective January 1, 2018
- Corporate AMT is eliminated
- Individual AMT reduced
- Some tax-exempt municipal bonds, including most PABs, are subject to AMT
- Spread between AMT and non-AMT bonds is already narrowing

# Other Considerations

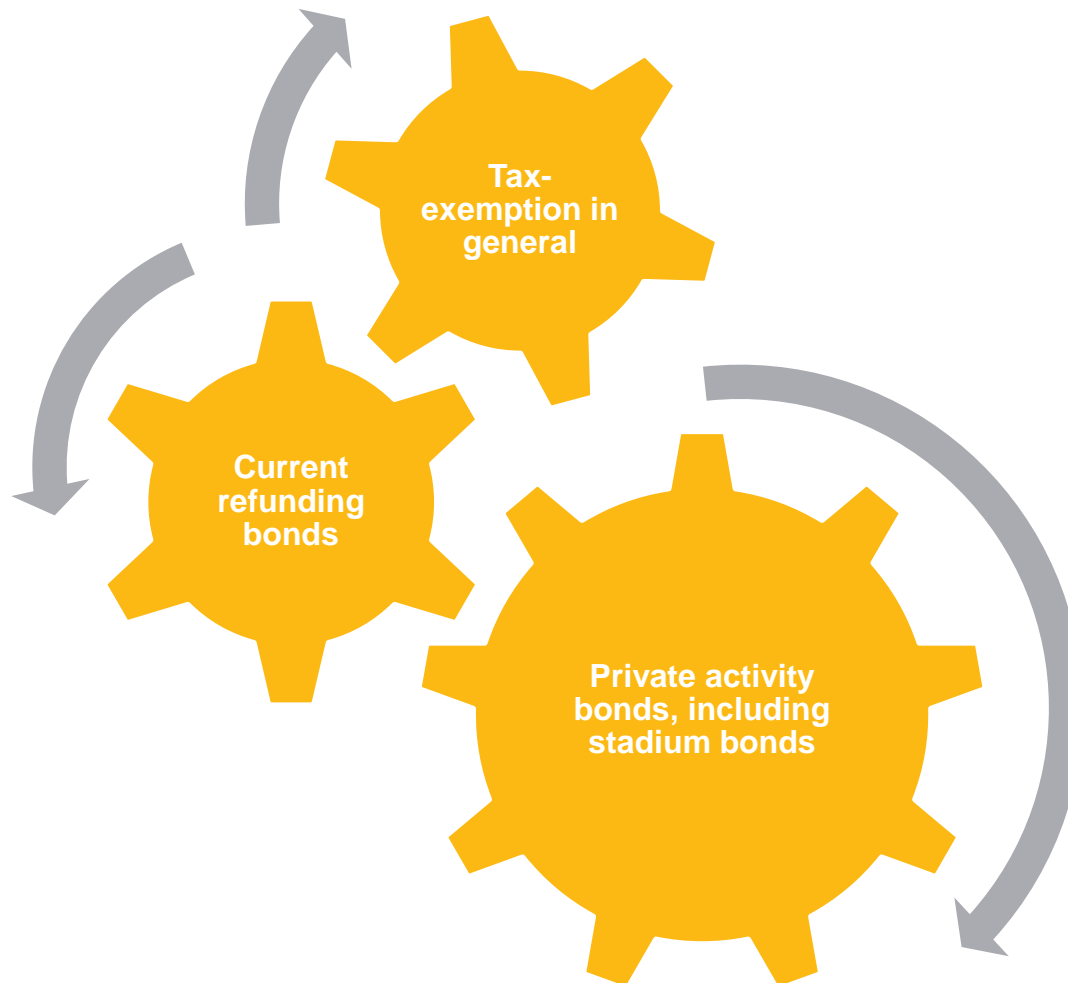
## State and Local Government Securities (“SLGS”)

- The SLGS program is administered by the Treasury to facilitate the investment of refunding escrows
- Program has been suspended since December 8, 2017, due to debt ceiling issues
- Are SLGS necessary given the Tax Bill prohibition on tax-exempt advance refunding bonds?

## General Market Thoughts

- Shift in mix of municipal debt investors
- Increase in the amount of taxable municipal debt
- Changes to the structure of municipal debt
- Impact on municipal bond market volume in 2018 and beyond
- Changes to the way communities approach economic development


# What Won't Change?





# Reminder

Don't forget to register for our more comprehensive follow-up discussion on the Tax Cuts and Jobs Act on January 11, 2018

SUNDAY	MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY	SATURDAY
<b>JANUARY 2018</b>						
	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>
<b>7</b>	<b>8</b>	<b>9</b>	<b>10</b>	<b>11</b> 	<b>12</b>	<b>13</b>
<b>14</b>	<b>15</b>	<b>16</b>	<b>17</b>	<b>18</b>	<b>19</b>	<b>20</b>
<b>21</b>	<b>22</b>	<b>23</b>	<b>24</b>	<b>25</b>	<b>26</b>	<b>27</b>
<b>28</b>	<b>29</b>	<b>30</b>	<b>31</b>			

# Questions & Answers

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