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

December 21, 2017

Presenters

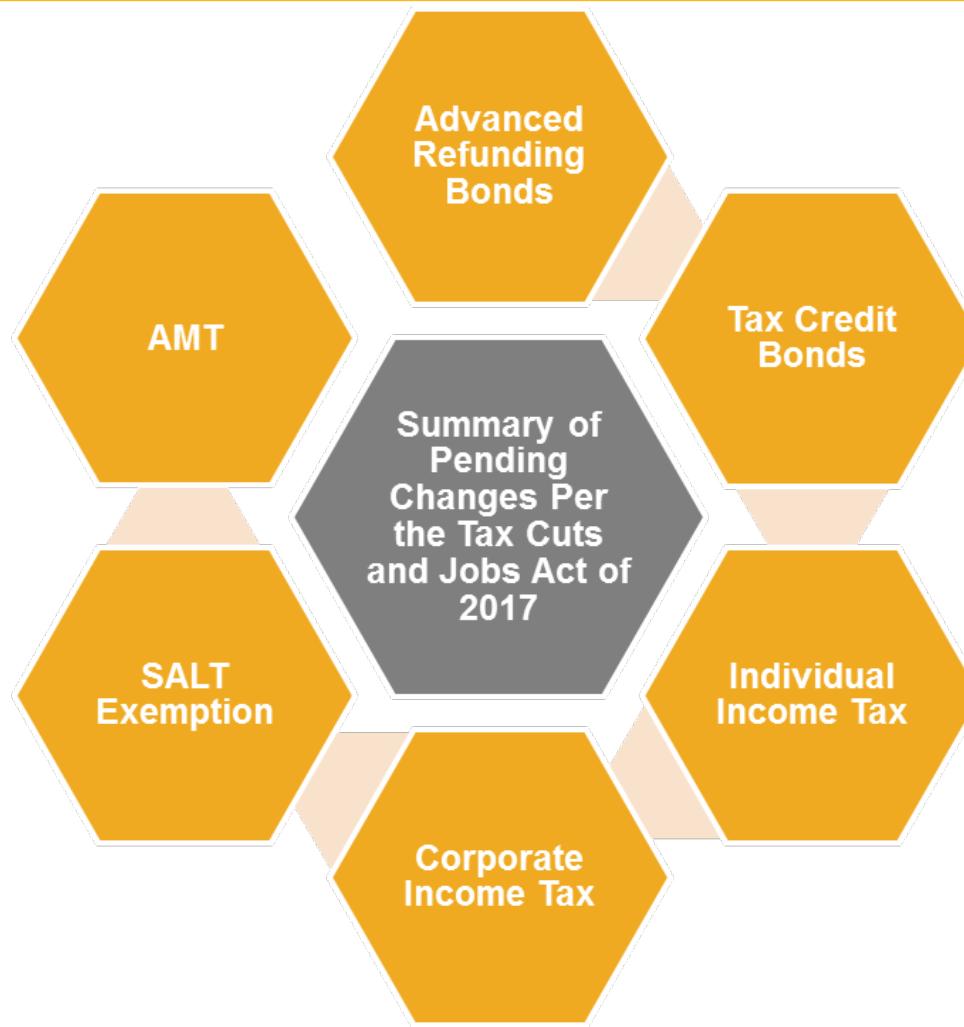


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Summary of Pending Changes per the Tax Cuts and Jobs Act of 2017



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

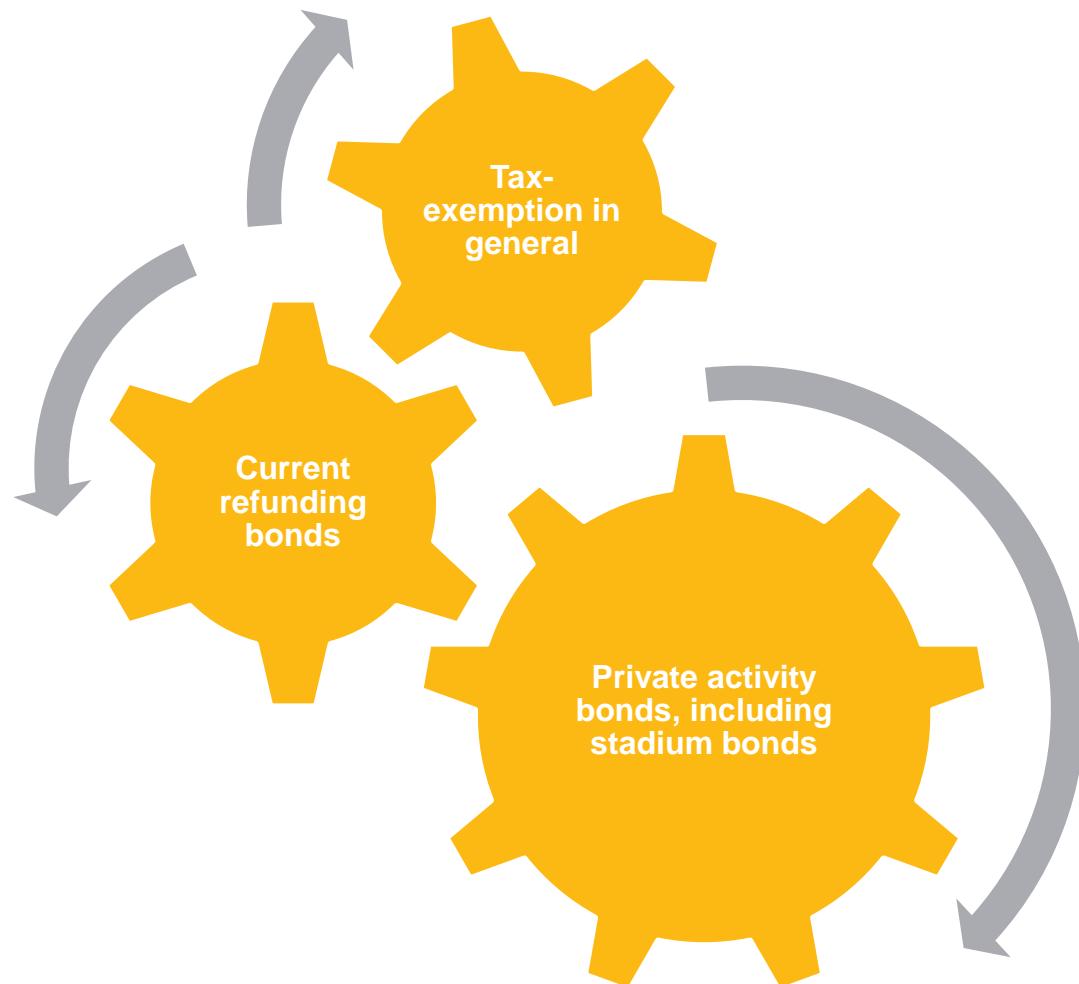
State and Local Government Securities (“SLGS”)

- 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
JANUARY 2018						
	1	2	3	4	5	6
7	8	9	10	11	12	13
14	15	16	17	18	19	20
21	22	23	24	25	26	27
28	29	30	31			

Questions & Answers

