NATIONAL CONFERENCE *of* STATE LEGISLATURES

The Forum for America's Ideas

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April 15, 2015

The Honorable Orrin Hatch
Chairman
Senate Finance Committee
Washington, D.C. 20510

The Honorable Ron Wyden
Ranking Member
Senate Finance Committee
Washington, D.C. 20510

RE: Senate Finance Committee's request for recommendations on bipartisan tax reform

Dear Chairman Hatch, Senator Wyden and Members of the Senate Finance Committee:

The National Conference of State Legislatures (NCSL) urges the Senate Finance Committee to support provisions in the federal tax code that preserve the fiscal viability and sovereignty of state governments. Federal and state tax systems are inextricably linked, and any federal reform will likely have serious fiscal and administrative ramifications on states. NCSL believes that federal tax reform should preserve the ability of state and local governments to adopt fair and effective tax systems, and the framework should encourage work, savings, equity and simplicity.

As the Senate Finance Committee's working groups begin to formulate recommendations, NCSL urges the committee to adhere to the following principles:

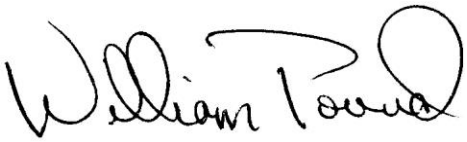
- **Protect the state and local income tax, sales tax and property tax deductions for federal income tax purposes:** The need to protect and preserve state and local tax deductibility is even more imperative when considering the adverse impact its elimination would have on state and local government fiscal conditions. Eliminating state and local income and sales tax deductibility could cause states harm by limiting abilities to fund vital programs to educate our children, maintain state infrastructure and ensure the health and safety of our citizens.
- **Maintain the tax-exempt status of state and local government bonds for infrastructure and capital projects:** State and local bonds are the most beneficial and productive instrument for governmental infrastructure and capital needs purposes. If the current status of municipal bonds is either modified or eliminated, economic development would be suppressed through increased costs and less investment activity.
- **Maintain and improve the Earned Income Tax Credit (EITC) and the Additional Child Tax Credit:** NCSL strongly supports the Earned Income Tax Credit (EITC) which provides needed financial support to low-income families while encouraging and rewarding work. NCSL is intrigued with your proposals to simplify the application process and to harmonize the EITC

program with the child care tax credit, and look forward to working with you to reauthorize and improve these programs.

- **Ensure the solvency of the Highway Trust Fund:** NCSL urges Congress to work closely with states to develop a shared, long-term vision for financing and funding surface transportation systems that will enhance the nation's prosperity and the quality of life of all Americans.
- **Preserve unique designs and protections inherent in state pension plans and avoid increased federal regulation:** NCSL believes the exemption of state pension and benefits plans from federal taxation is a sound component of federal policy that should continue. Congress should not enact any legislation that imposes annual federal reporting and funding requirements on state governments regarding aspects of their public employee pension plans.
- **Ensure that all federal tax law changes be prospective so that states do not suffer unexpected revenue losses that would emanate from a retroactive application:** NCSL asks that any reform provide adequate transition time – we recommend 3 to 5 years – for states to adapt to any changes in the federal tax code.

NCSL welcomes the opportunity to work collaboratively with you to ensure that tax reform benefits not only the national economy but our states' economies as well. For more information, please contact Jeff Hurley [redacted]

Respectfully,



William T. Pound
Executive Director
National Conference of State Legislatures