Lawmakers Seek to Boost Tax Incentives for Infrastructure

By Alan K. Ota, CQ Roll Call

Rep. **Mike Kelly**, R-Pa., and other tax writers in both parties plan to push sweeteners aimed at encouraging broader bond financing for infrastructure projects as both Hillary Clinton and Donald Trump emphasize similar incentives on the campaign trail.

Kelly told CQ Roll Call that he hoped to build support with Rep. **Earl Blumenauer**, D-Ore., for a proposal (**HR 5361**) that would allow for tax-exempt bond financing for projects involving government buildings that are financed by public-private partnerships. Sens. **Dean Heller**, R-Nev., and **Bill Nelson**, D-Fla., have a companion bill (**S 3177**) in the Senate.

Kelly and other lawmakers are betting that tax incentives for buildings, roads and bridges — echoing promises by Clinton and Trump — could gain traction as add-ons to a potential bipartisan tax package in a post-election session or early in the 115th Congress.

"What we are doing is we are incentivizing good works or good investments by people. We think we should expand it where it would actually do even more things for the people that we serve. And it wouldn't be that heavy a burden for taxpayers," Kelly said.

Some in Congress hope there will be a tax package at the end of this session that would include extensions of **tax incentives for renewable energy** and for other businesses. Those extensions expire at the end of 2016. "It is bipartisan and bicameral. In an end-of-the-year tax package, people may say this is a commonsense thing to do," Kelly said.

Clinton has proposed $275 billion in infrastructure funding, which the Democratic presidential nominee says would be financed with funds from reshaping taxes on multinational corporations, including the repatriation of tax-deferred, offshore corporate profits. Trump outlined a plan that would provide $1 trillion for infrastructure, and has offered a similar vision for using bonds to raise funds for infrastructure projects.

Both parties are exploring bond financing to make up for flat revenue in the Highway Trust Fund and the dearth of additional federal funds for infrastructure projects after enactment of the five-year highway reauthorization (**PL 114-94**).

Lawmakers in both parties are taking a hard look at new ways to finance infrastructure projects, such as by expanding the nation's $3.7 trillion municipal bond market. Besides broader use of tax-exempt bonds, other options include tax credits for buyers of taxable infrastructure bonds and other tax breaks for corporations that buy such bonds, including a potential reduction in the 35-percent tax rate on offshore profits that are repatriated and are invested in these financial instruments.

Robert Puentes, president and chief executive officer of the Eno Center for Transportation, a non-partisan think tank, said that bond financing proposals were gaining attention because of support not only from Clinton and Trump, but from state and local governments and investors, who want to take part in public-private partnerships on infrastructure projects.

"In the new environment, with the new federalism, states, cities and counties are looking for new ways to raise funds for infrastructure. They know that the calvary's not coming," Puentes said.

Caution About National Subsidies

Scott Greenberg, an analyst for the Tax Foundation, a conservative think tank, said it was unclear whether lawmakers could reach agreement on new legislation to provide additional support to state and local transportation projects. He estimates that the overall tax expenditure by the federal government on the exemption for interest income on state and local bonds would cost more than $600 billion over the next 10 years, based on the Treasury Department's fiscal 2017 budget projections.

"We should be cautious about expanding provisions in the tax code that subsidize municipal investment. A lot of such provisions end up delivering higher benefits to the wealthy. And the basic justification of having a national subsidy for state and local projects is suspect," Greenberg said.

Robert P. Inman, a professor of finance and business economics at the University of Pennsylvania, said lawmakers should look for ways to provide federal subsidies for projects that go beyond helping a single state and have difficulty attracting local, state or private financial support, and contribute to improved worker productivity and safety.. “You need a national program to identify high-return public investment projects,” he said.

Some Republicans have been cool to Clinton’s idea of providing $25 billion in federal funds for infrastructure bank loans and loan guarantees, citing concerns about potential future government liability for loan defaults, cost overruns and financial losses.

For Democrats, Rep. **Richard E. Neal**, D-Mass., has taken the lead in promoting a proposal (**HR 2676**) to renew the Build America bond, which was created by the 2009 stimulus law (**PL 111-5**) and expired in 2010. The program provided a 35 percent tax credit for taxable interest payments received by bond buyers.