

Provision: Under the provision, the credit allocation process would be clarified and a new credit transfer provision would be added with respect to certain public entities. Beginning after January 1, 2021, the Secretary of the Treasury would re-allocate any national megawatt capacity that remains unused under the cap, first to qualifying facilities to the extent such facilities did not receive an allocation equal to their full capacity and then to facilities placed in service after such date in the order in which such facilities are placed in service. In addition, certain public entities would be eligible for an election to transfer advanced nuclear production tax credits to specified project participants that are persons participating in design or construction, persons providing nuclear steam supply systems or nuclear fuel, persons with an ownership interest, and partners in a partnership with an ownership interest. The clarification to the credit allocation process would be effective on the date of enactment, and the change related to credit transfers would be effective for tax years beginning after date of enactment.

Considerations:

- The legislation would ensure that the 6,000 megawatt national capacity is fully utilized as intended by Congress. That limitation would remain in place, and no new credits would be available.
- Although current partnership rules allow for some allocations of credits, the updated transfer mechanism would ensure that the credits can be fully utilized as intended by Congress.

JCT Estimate: According to JCT, the provision would reduce revenues by \$0.4 billion over 2018-2027.

Subtitle G – Bond Reforms

Sec. 3601. Termination of private activity bonds.

Current law: Under current law, interest on both governmental bonds and private activity bonds (PABs) is excluded from gross income (and thus exempt from tax). Governmental bonds typically are issued to finance projects that constitute public goods (*e.g.*, roads, schools, and parks). By contrast, the proceeds of PABs finance the activities of, or loans to, private parties, with indirect benefits accruing to the State or locality that issues the bond. The exclusion of interest on PABs generally is disallowed under the alternative minimum tax (AMT), meaning that AMT payers pay tax on such interest. Only specific categories of PABs qualify for the tax preference. Those categories include exempt facility bonds, qualified mortgage bonds, qualified veterans' mortgage bonds, qualified small issue bonds, qualified student loan bonds, qualified redevelopment bonds, and qualified 501(c)(3) bonds. Most PABs are subject to a single, aggregate national volume cap that is allocated annually among States by population, while other PABs have separate volume caps. For calendar year 2017, the per-State volume cap is the greater of (1) \$100 multiplied by the State population, or (2) \$305,315,000. These amounts are indexed for inflation.

Some State and local governments issue PABs to finance owner-occupied residences. In lieu of issuing such bonds, State and local governments may provide homebuyers a Federal tax credit for interest on certain home mortgages by providing them with mortgage credit certificates.

Provision: Under the provisions, interest on newly issued PABs would be included in income and thus subject to tax. The provisions would be effective for bonds issued after 2017.

Considerations:

- The Federal government should not subsidize the borrowing costs of private businesses, allowing them to pay lower interest rates while competitors with similar creditworthiness but that are unable to avail themselves of PABs must pay a higher interest rate on the debt they issue.
- The provisions would not apply to any previously issued bond, nor would the provisions prevent State and local governments from issuing PABs in the future; the provisions would merely remove the Federal tax subsidy for newly issued bonds.

JCT estimate: According to JCT, the provisions would increase revenues by \$38.9 billion over 2018-2027.

Sec. 3602. Repeal of advance refunding bonds.

Current law: Under current law, a refunding bond is any bond used to pay principal, interest, or redemption price on a prior bond issue (the refunded bond). A current refunding occurs when the refunded bond is redeemed within 90 days of issuance of the refunding bonds. An advance refunding is issued more than 90 days before the redemption of the refunded bond. Interest on current refunding bonds is generally not taxable. Interest on advance refunding bonds is generally not taxable for governmental bonds but is taxable for PABs.

Provision: Under the provision, interest on advance refunding bonds (*i.e.*, refunding bonds issued more than 90 days before the redemption of the refunded bonds) would be taxable. Interest on current refunding bonds would continue to be tax-exempt. The provision would be effective for advance refunding bonds issued after 2017.

Considerations:

- Current-law advance refunding bonds provide State and local governments with incentives to issue two sets of Federally subsidized debt to finance the same activity.
- The provision would not affect the taxation of interest on refunding bonds issued within 90 days of the redemption of the refunded bond.

JCT estimate: According to JCT, the provision would increase revenues by \$17.3 billion over 2018-2027.

Sec. 3603. Repeal of tax credit bonds.

Current law: Under current law, State and local governments and other entities may issue various categories of tax credit bonds to finance specific types of projects. Each category of tax credit bond has its own set of rules regarding volume cap, if any, and allocation. Holders of tax