

April 8, 2014

The Honorable Dave Camp
Chairman, Ways and Means Committee
1102 Longworth House Office Building
Washington, DC 20515

Dear Chairman Camp,

On behalf of its members, the Bond Dealers of America (BDA) is pleased to submit this letter in response to your proposed Tax Reform Act of 2014, which contains provisions that would significantly affect our members and the fixed income markets as a whole.

As background, the BDA is the only DC-based organization that represents mid-market securities dealers and banks focused on the U.S. fixed income markets. While BDA is encouraged by your serious effort to rewrite the tax code, we have real concerns with some aspects of your initial draft, the combination of which will restrict access to capital and raise borrowing costs for state and local governments.

First and foremost, even though the bill preserves the municipal bond interest exemption for the 10% and 25% tax brackets, I am discouraged to see that the exemption is essentially capped at 25%. The additional 10% tax that applies to a modified adjusted gross income (MAGI) above \$400,000 for singles and \$450,000 for married couples that would, among other deductions and exemptions, apply to interest on tax-exempt bonds - both new issues and outstanding bonds. Similar to President Obama's proposed 28% cap on municipal bond interest, such a tax is tantamount to an entirely new tax on previously untaxed income.

This draft bill also proposes the repeal or modification of several important municipal financing programs that are vital to state and local governments. For example, the bill repeals bank-qualified bonds and the interest exclusion for future issuances of private activity bonds and advance refunding bonds. What's more, the proposed Tax Reform Act of 2014 would add new tax burdens for "market discount" accrued on municipal bonds, which would raise borrowing costs and create needless volatility in an otherwise historically stable market.

In sum, the municipal market and tax-exempt municipal bonds are the backbone of state and local government finance and a key component of a vibrant economy, and your proposed plan does acknowledge the need to finance infrastructure. But

generally, the context of this draft of the bill appears to be the elimination of or limitations on the way state and local governments – using local control and decision making – can access capital markets, thereby raising borrowing costs on state and local governments and taxpayers.

Ensuring that issuers can continue to fund capital projects by uncomplicated means well understood by investors and issuers alike - such as tax-exempt bonds that were part of the nation's original, 27-page tax code - reduces the burden on every taxpayer and all levels of government. Therefore we look forward to discussing these concerns and working with you and your Committee staff as tax reform unfolds. Again, thank you for the opportunity to submit this letter.

Sincerely,



Mike Nicholas
Chief Executive Officer