



# Governors' Principles for Federal Tax Reform

As Congress and the Administration consider federal tax reform proposals, governors offer the following principles that will help guide that work. The Principles focus on the broader issue of ensuring that federal tax reform does not limit or preempt state authority over budget and revenue systems. More specifically, the Principles address federal deductibility of state and local taxes and the interest exclusion on municipal bonds because these topics are top priorities for all states.

## **PRINCIPLES:**

### **State Sovereignty**

- No federal law or regulation, including their interpretation and implementation, should preempt, limit, or interfere with the constitutional or statutory rights of states to develop and operate their revenue and tax systems.

### **Public Finance**

- The preservation of public financing – notably tax-exempt financing – is necessary because it is the primary method for states to raise capital for a wide range of public projects.
- Federal statutory and regulatory policies should neither increase bond issuance costs to states and local governments, directly or indirectly, nor diminish retail and institutional market demand for bonds issued by states and local governments.

### **Federal Reforms**

- Federal tax reforms should deliver simplicity, adopt innovation, promote certainty, and produce savings for both federal and state governments.
- Federal tax policies and expenditures serve public policy purposes not necessarily captured in revenue and spending numbers. To help avoid unintended consequences from federal tax reform, federal and state partners should work together to determine whether the policy benefits of particular federal tax expenditures exceed their budgetary costs before making final decisions.

### **Proportionality**

- Federal tax reforms should not simply shift costs or impose unfunded mandates onto the states.

### **Economic Growth and Efficiency**

- Federal tax reforms should strive to achieve flexibilities for states that help create efficiencies and stimulate economic growth.