

IDB



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

ASSISTANT SECRETARY

Dear Mr. Perkins:

This is in response to your September 26 1983 request on behalf of your constituent, Mr. James L. Pyles, Route 2, Box 308, Marysville, Kentucky. Mr. Pyles, in his letter to you, stated that the "income and principal" from tax-exempt bonds no longer contribute to the tax base. He requested an estimate of the loss in tax payments from this source. He indicated a special interest in the revenue loss due to tax-exempt industrial bonds.

Of course, the principal of any bond, including a tax-exempt bond, is money taken from after-tax income. That is, tax is paid from income and, with the remaining income, the investor buys the bond. For this reason, repayment of principle on any bond is exempt from tax. The only revenue loss from tax exemption is a result of exempting the payment of interest on the bond.

I include estimates, by type of bond, of the revenue loss from tax-exempt bonds. These are shown by purpose of the bond. The estimates are taken from Special Analysis G of the President's January 1983 Budget Submission.

Some caution is appropriate in using these figures. First, these are estimates of the difference in Federal tax receipts that would have occurred if these bonds had never been tax exempt. They are not an estimate of the additional revenue that would occur if the tax exemption were to be eliminated, either on new issues or on outstandings, as of a future date.

Second, these figures cannot simply be added to give a total revenue loss from all tax-exempt bonds. Each estimate is constructed assuming only that category is eliminated. Eliminating all of them would have a broader effect on the decisions of taxpaying investors. If, for example, several types of bonds were eliminated, rather than just one, taxpayers in progressively higher brackets would be affected, causing a loss larger than the sum of the categories. The Treasury has not made estimates of the total revenue loss from tax-exempt bonds.

-2-

I hope this information is helpful to Mr. Pyles. If I can be of any further assistance please do not hesitate to ask.

Sincerely,

Charles E. McLure
Deputy Assistant Secretary
(Tax Policy)

The Honorable
Carl T. Perkins
House of Representatives
Washington, D. C. 20515

Enclosure