Beverly Hills City Council Liaison / Legislative/Lobby Committee will conduct a Special Meeting, at the following time and place, and will address the agenda listed below:

CITY HALL
455 North Rexford Drive
4th Floor Conference Room A
Beverly Hills, CA 90210

Tuesday, November 28, 2017
3:00 PM

AGENDA - REVISED

1) Public Comment
   a. Members of the public will be given the opportunity to directly address the Committee on any item listed on the agenda.
2) Consideration of Federal Tax Reform
3) Regulation of Artificial Intelligence (A.I.)
4) Adjournment

Byron Pope, City Clerk

Posted: November 27, 2017

A DETAILED LIAISON AGENDA PACKET IS AVAILABLE FOR REVIEW IN THE LIBRARY AND CITY CLERK'S OFFICE.

In accordance with the Americans with Disabilities Act, Conference Room A is wheelchair accessible. If you need special assistance to attend this meeting, please call the City Manager's Office at (310) 285-1014 or TTY (310) 285-6881. Please notify the City Manager's Office at least twenty-four (24) hours prior to the meeting if you require captioning service so that reasonable arrangements can be made.

CITY OF BEVERLY HILLS

POLICY AND MANAGEMENT

MEMORANDUM

TO: City Council Liaison/Legislative/Lobby Committee

FROM: Cindy Owens, Senior Management Analyst

DATE: November 28, 2017

SUBJECT: Consideration of Federal Tax Reform

ATTACHMENT:
1. Summary of Federal Tax Reform from David Turch & Associates
2. Letters of Opposition (2)
3. Letters of Support (2)

INTRODUCTION

On November 16, 2017, the United States House of Representatives passed HR 1, the "Tax Cuts and Jobs Act". This bill would amend the tax code to dramatically reduce corporate and individual income taxes (Attachment 1); however, numerous items within the legislation would significantly impact local governments and their residents. These impacts include:

- the federal deficit increasing by $1.7 trillion over 10 years which could potentially impact federal funding for local programs;
- the elimination of the tax-exempt status for Private Activity Bonds, which are important tool to help state and local governments finance major public projects;
- limits on mortgage interest deductions;
- the repeal of the deduction for state and local income or sales tax which has been a part of the federal tax code since its adoption in 1913; and
- the repeal of the casualty loss deduction due to wildfires and earthquakes while leaving the deduction in place for those affected by hurricanes and other natural disasters.

DISCUSSION

HR 1 would amend the Internal Revenue Code to reduce tax rates and modify policies, credits, and deductions for individuals and businesses.

With respect to individuals, the bill:

- replaces the seven existing tax brackets (10%, 15%, 25%, 28%, 33%, 35%, and 39.6%) with four brackets (12%, 25%, 35%, and 39.6%);
- repeals the deduction for state and local income or sales taxes not paid or accrued in a trade or business;
- limits the mortgage interest deduction for debt incurred after November 2, 2017, to mortgages of up to $500,000 (currently $1 million);
- increases the standard deduction;
- repeals the deduction for personal exemptions;
- establishes a 25% maximum rate on the business income of individuals;

- increases the child tax credit and establishes a new family tax credit;
- repeals the overall limitation on certain itemized deductions;
- repeals the deduction for medical expenses;
- consolidates and repeal several education-related deductions and credits, including the elimination of student loan interest deductions;
- repeals the alternative minimum tax; and
- repeals the estate and generation-skipping transfer taxes in six years.

For businesses, the bill:

- reduces the corporate tax rate from a maximum of 35% to a flat 20% rate (25% for personal services corporations);
- terminates the exclusion for interest on private activity bonds, which includes bonds issued to support infrastructure development by schools and cities;
- allows increased expensing of the costs of certain property;
- limits the deductibility of net interest expenses to 30% of a business's adjusted taxable income;
- repeals the work opportunity tax credit;
- modifies or repeal various energy-related deductions and credits;
- modifies the taxation of foreign income; and
- imposes an excise tax on certain payments from domestic corporations to related foreign corporations.

HR 1 also repeals or modifies several other credits and deductions for individuals and businesses, including the repeal of the casualty loss for deduction for wildfires and earthquakes while allowing those affected by hurricanes to still claim this deduction.

In the proposed Senate version for this bill, the tax cuts for individuals would expire in 2025. The Senate version also includes repealing the individual mandate of the Affordable Care Act. The Congressional Budget Office (CBO) estimates that repealing this mandate would increase the number of uninsured Americans by 4 million in 2019 and 13 million in 2027 but reduce federal deficits by about $338 billion over ten years.

Many analysts believe that the proposed federal tax reform would dramatically reduce corporate and individual income taxes which would increase the deficit by $1.7 trillion over 10 years. The deficit may be offset by $338 billion with the repeal of the Affordable Care Act's individual mandate.

The United States Conference of Mayors, National League of Cities, California League of Cities, the American Public Works Association (APWA), and numerous government agencies oppose HR 1 and the proposed federal tax reform bill in the United States Senate (Attachment 2).

The United States Chamber of Commerce and the Business Roundtable have sent letters of support for HR 1 to the members of the United States House of Representatives (Attachment 3).

RECOMMENDATION

Staff recommends that the Committee provide direction as to whether the City should support, oppose or take no position on the proposed federal tax reform. This items has been placed on the City Council Study Session Agenda for the December 5, 2017 for full City Council consideration.

Attachment 1

CITY OF BEVERLY HILLS

POLICY AND MANAGEMENT

MEMORANDUM

FROM:	Jamie Jones, David Turch & Associates
DATE:	November 27, 2017
SUBJECT:	Summary of Federal Tax Reform
ATTACHMENT:	1. None

How does the plan affect individual taxpayers?

The legislation proposes the following changes:

- Increases the standard deduction from $6,350 to $12,000 for single filers and from $12,700 to $24,000 for married couples.
- Creates a larger "zero tax bracket" by eliminating taxes on the first $24,000 of income.
- Reduces the 7 tax brackets (10, 15, 25, 28, 33, 35, and 39.6 percent) to 4 tax brackets of 12 percent (up to $90,000), 25 percent ($90,000 to $260,000), and 35 percent ($260,000 to $1,000,000) , and 39.6 percent ($1,000,000 and above).
- Increases the Child Tax Credit from $1,000 to $1,600.
- Retains the Earned Income Tax Credit (EITC).
- Provides a non-refundable credit of $300 for non-child dependents to help defray the cost of caring for other dependents (this credit would expire after 5 years).
- Repeals the existing individual Alternative Minimum Tax (AMT).
- Eliminates most itemized deductions (except those listed below).
- Eliminates the personal exemption (currently $4,050 per person).
- Retains deduction for state and local property taxes up to $10,000 but eliminates state and local income tax deductions.
- Retains deduction for charitable contributions.

- Retains home mortgage interest for existing mortgages and maintains the deduction for newly purchased homes up to $500,000.

- Retains current 401(k) and IRA provisions

- Repeals the "death tax", the federal estate tax which applies to the transfer of property at death on estates worth $5,490,000 or more.

- Repeals the casualty loss deduction due to wildfires and earthquakes while leaving the deduction in place for those affected by hurricanes and other natural disasters.

How does the plan affect individual businesses?

The legislation proposes the following changes:

- Limits the maximum tax rate applied to the business income of small and family-owned businesses conducted as sole proprietorships, partnerships and S corporations to 25 percent from 39.5 percent.

- Reduces the corporate tax rate from 35 percent to 20 percent.

- Eliminates the existing corporate Alternative Minimum Tax (AMT).

- Allows businesses to immediately write off (or "expense") the cost of new investments in depreciable assets other than structures made after September 27, 2017, for at least five years.

- Preserves business credits for research and development (R&D) and low-income housing.

- Limits the debt that can be deducted to 30 percent of earnings before interest/taxes/depreciation/amortization (EBITDA).

- In an effort to bring overseas corporate profits back into the U.S., all overseas assets from US-owned companies will be considered repatriated and taxed at a one-time lower rate of 20 percent.

- Moves to a territorial tax system that no longer imposes the U.S. corporate tax on foreign profits of U.S. companies, though untaxed income currently held overseas will immediately be taxed at a fixed rate: 12 percent for money held in liquid assets like stocks and bonds, 5 percent for intangibles like buildings and factories.

Summary of key differences between the House bill and the modified Senate bill:

- ***Businesses***

    - The House bill would cut the corporate rate to 20% for tax years beginning after December 31, 2017; the Senate bill delays this reduction one year to 2019.

    - The Senate bill reduces the tax rate on pass-through business income with an individual above-the-line deduction of 17.4% (for a maximum effective rate of 31.80%), whereas the House bill provides for a maximum 25% rate for this type of income (or 9% for certain taxpayers below an income threshold). The Senate and House bills also differ in their determination of income eligible for the reduced rate, and the requirements for specified service businesses to qualify for the reduced rate, and only the Senate bill has an absolute cap on the amount deducted for W-2 wages paid. Significantly, under the modified Senate bill, the 17.4% deduction would sunset in tax years beginning after December 31, 2025.

- ***Foreign income***

    - The Senate and House bills propose different rates for the one-time tax on deemed repatriated earnings: 5% (non-cash) and 10% (cash) under the Senate bill compared to 7% and 14%, respectively, under the House bill.

    - The House bill would impose a 10% tax on the foreign high returns of U.S. corporations' foreign subsidiaries; the Senate bill would impose a 10% GILTI tax (increased to 12.5% for tax years beginning after December 31, 2025, unless the revenue condition is satisfied) based on a similar formula.

    - The Senate bill would introduce a 12.5% partial patent box regime for the deemed foreign intangible income of U.S. corporations (increased to 15.625% for tax years beginning after December 31, 2025, unless the revenue condition is satisfied).

    - The Senate bill would impose a 10% base erosion minimum tax on very large corporations (increased to 12.5% for tax years beginning after December 31, 2025 unless the revenue condition is met) with significant deductible payments to related foreign parties, whereas the House bill would impose a 20% excise tax on disproportionate deductible payments to related foreign parties.

- ***Individuals***

    - The modified Senate bill would repeal the ACA's individual mandate. The House bill does not contain this provision.

    - Apart from the ACA repeal and use of chained CPI-U to index for inflation, all changes to individual taxation would sunset for tax years after December 31, 2025, regardless of whether the revenue condition is met.

- The Senate bill would eliminate the deduction for state and local taxes in its entirety, while the House bill retains a deduction up to $10,000 for state or local property taxes. However, the Senate bill would retain individual deductions for student loan interest and qualified tuition expense that are eliminated under the House bill.
- The modified Senate bill would retain the current law cap on mortgage indebtedness eligible for an interest exemption at $1,000,000 while the House bill would reduce the cap to $500,000.
- The modified Senate bill would increase the child tax credit to $2,000 (from $1,000 under current law), compared to only $1,600 under the House bill.
- Only the House bill would repeal the estate tax entirely (for tax years beginning after December 31, 2023).

- ***Tax-exempt organizations***
  - The House would repeal the exemption for interest on private activity bonds, advanced refunding bonds, and stadium-financing bonds. The Senate bill provides only for repeal of the exemption for advanced refunding bonds.
  - The Senate bill would impose a 10% entity-level tax on excess benefit transactions and would repeal the current law rebuttable presumption of reasonableness for transactions with disqualified persons satisfying certain procedural requirements.

Attachment 2

DEPARTMENT OF FINANCE
OFFICE OF THE DIRECTOR

EDMUND G. BROWN JR. • GOVERNOR
STATE CAPITOL ▪ ROOM 1145 ▪ SACRAMENTO CA ▪ 95814-4998 ▪ WWW.DOF.CA.GOV

November 9, 2017

California Congressional Delegation
Washington, D.C. 20515

Dear Members of the California Congressional Delegation:

As the Governor's chief fiscal advisor, I write to express the Administration's significant concerns with several provisions currently contained in H.R. 1 measure now under consideration before the Ways and Means Committee.

Removing the state and local tax (SALT) deductions while capping the property tax deduction at $10,000—Over 6 million California tax returns – one of every three – claim SALT deductions, including millions of middle-income households that may not benefit from the increased standard deduction. While allowing up to a $10,000 deduction on property taxes provides some offset, only one-fourth of the state and local tax deduction consists of property taxes paid. The average deduction for state and local income taxes alone is nearly $16,000 per return, while state and local property taxes average less than $6,000 per return.

Reducing the cap on the mortgage interest deduction to $500,000 ($250,000 single)—This change will increase the cost of homeownership for many middle-class Californians. Given the high cost of housing in the state, mortgages for many mid-level homes are significantly above these caps, particularly the $250,000 cap for single filers. More than 4 million California tax returns claim the mortgage interest deduction at an average of over $12,000 per return.

Elimination of the interest exclusion for Private Activity Bonds (PABs)—This will remove an important tool used by the Low Income Housing Tax Credit program to construct affordable housing, which was used to fund nearly 20,000 affordable housing units in 2016.

The state's Infrastructure and Economic Development Bank (iBank) has issued Private Activity Bonds in support of museums, schools, performing arts centers, charitable organizations and research institutes throughout the state. Elimination of Private Activity Bonds would greatly increase borrowing costs for such borrowers resulting in the delay, downsizing or outright abandonment of these socially beneficial projects and the people and jobs who depend on them.

Further, this would hurt California veterans by ending bond issuances that help around 1,000 veterans buy a home every year. This program has been around since at least World War II. It serves veterans that would not otherwise qualify for private financing, while maintaining foreclosure rates of less than 0.25 percent.

Repeal of Casualty Loss Deduction—Last month's devastating wildfires in northern California have alone caused billions of dollars in losses, with more than 10,000 homes damage and over 4,700 more destroyed. For this and other disasters to come, it is important to maintain the casualty loss deduction as a way of providing relief to the victims of casualty losses both large and small. The repeal of the casualty loss deduction starting in 2018 under H.R. 1 is an unnecessary step that will only compound the difficulty for the many thousands of Californians who either are or will be struggling to recover from devastating losses.

Negative Impacts on Education—Multiple provisions now in H.R. 1 negatively impact the cost of education for both students and educators, including the elimination of the student loan interest deduction, imposing a new tax on tuition waivers, elimination or reduction of various tax credits, and a new tax on net investment income of private colleges and universities if their endowments exceed $250,000 per full-time student. In total, all of the changes to education provisions will raise taxes on Americans by over $60 billion over ten years, which indicates a negative impact on California of at least $7 billion.

Unfavorable treatment of children and families— The new $300 Family Flexibility Credit for the tax filer, their spouse, and for non-child dependents is temporary and expires in 2023. While it provides a tax benefit for many low-income families in the first four years, its expiration leads to those same families having much smaller net tax cuts or overall tax increases in 2023 and beyond. In addition, unlike the current dependent exemptions it is intended to replace, there is no indexing of the Child Tax Credit, which leads to its positive impact eroding over time.

Also, requiring a Social Security number for the refundable portion of the child tax credit punishes working undocumented immigrants in California who file their tax returns using a Taxpayer Identification Number. More than $3.4 billion in federal refundable child tax credits were claimed by Californians in 2015, and a portion of those would have been undocumented immigrants filing with a Taxpayer Identification Number

Overall tax cuts for the wealthy—Lower tax rates on business income will disproportionately benefit higher-income individuals who are more likely to have income from limited liability companies, S corporations, or partnerships. Further, the repeal of the estate tax will disproportionately benefit the wealthy. The estate tax would be fully repealed for deaths after December 31, 2023 and there would be no change to the basis step-up rule that currently revalues appreciated capital assets at market value at the time of death. As a result, wealthy people would be able to simply hold on to assets until they die, pass the assets on to their heirs, and all the increase in the value of the asset during the wealthy person's life will not be taxed. Removing the tax on inherited wealth without also repealing the basis step-up rule leads to increasing inequality. The Joint Committee on Taxation analysis shows that for 2027, the highest-income Americans – less than three-tenths of one percent of taxpayers – will realize almost one-third of the total benefits.

Prioritizes corporations over individuals—The net benefits of H.R. 1 are weighted heavily towards corporations, with the significant cut in the corporate tax rate coupled with the removal of relatively few corporate tax breaks. Instead, many deductions and tax credits taken by lower- and middle income households are either reduced or eliminated. A November 3 Joint Committee on Taxation analysis indicates that more than half of the tax cut goes to corporations while about one-third goes to businesses that pass through income to individuals.

Massive expansion of the deficit by at least $1.7 trillion over ten years—Deficit-financed tax cuts are not likely to lead to significant growth effects because the negative economic effects of the debt would crowd out investment. Further, fiscal stimulus at this point in the business cycle – with the economy at full employment, corporate profit margins at all-time highs, and corporate cash balances at all-time highs – is unlikely to lead to significant growth above what would have occurred in the absence of these changes.

If you need any additional information on any of these subjects, please do not hesitate to contact me.

Sincerely,

Michael Cohen
Director, California Department of Finance

cc: Governor Edmund G. Brown Jr.

November 8, 2017

The Honorable Kevin Brady
Chairman
House Ways and Means Committee
1011 Longworth House Office Building
Washington, DC 20515

Dear Chairman Brady:

Our Associations represent thousands of public clean water and drinking water utilities and water sector professionals in communities across the United States. We come together to express our strong opposition to a provision in H.R. 1 that would repeal the ability to advance refund municipal bonds.

Municipal bonds are a fundamental financing tool for water and wastewater – critical public services with significant investment needs that are projected to grow over the coming decade. In 2016 alone, nearly $38 billion in tax-exempt municipal bonds were issued for water and wastewater projects, helping local communities meet critical infrastructure needs.

Through advance refunding, the municipal water and wastewater sector has a long history of being able to respond to interest rate fluctuation. Advance refunding leads to additional funds being available for utility investment and/or significant savings of water ratepayer and taxpayer dollars. Under current law, governmental bonds and 501(c)(3) bonds are permitted one advance refunding. Bond issuers continually monitor outstanding bonds for advance refunding opportunities that will reduce costs. Water utilities around the country currently have advance refunding opportunities on their radar, or are anticipating the potential for advance refunding prior to their call date(s) in the future. This provision in H.R. 1 would impact their ability to realize these opportunities to save their communities and ratepayers money and advance critical infrastructure investment.

For these reasons, we urge you to oppose the inclusion of this provision, Sec. 3602, in the final bill.

Sincerely,

Adam Krantz
Chief Executive Officer
National Association of Clean Water Agencies

Diane Van De Hei
Chief Executive Officer
Association of Metropolitan Water Agencies

Eileen O'Neill
Executive Director
Water Environment Federation

G. Tracy Mehan III
Executive Director of Government Affairs
American Water Works Association

Patricia Sinicropi
Executive Director
WateReuse

Scott Grayson
Executive Director
American Public Works Association

cc: House Ways & Means Committee

Attachment 3

Business Roundtable

300 New Jersey Avenue, NW
Suite 800
Washington, DC 20001

Telephone 202.872.1260
Facsimile 202.466.3509
Website brt.org

November 15, 2017

Dear Member of the United States House of Representatives:

Business Roundtable urges you to vote in favor of H.R. 1, *Tax Cuts and Jobs Act*.

This is a once-in-a-generation opportunity to reform the nation's tax system to strengthen economic growth, increase wages and create more jobs for American workers. Passage of H.R. 1 is a critical step in enacting comprehensive tax reform.

According to a recent Business Roundtable survey, our member CEOs believe that tax reform is the single most effective action that Congress could take to accelerate economic growth. Seventy-six percent of the CEOs said that they would increase hiring at their company if tax reform is enacted, adding to the more than 16 million workers already employed today by Business Roundtable companies. Eighty-two percent of CEOs said they would increase capital spending, on top of the more than $440 billion in purchases from small and medium-sized U.S. businesses that already supply our member companies.

H.R. 1 represents an extraordinary opportunity to achieve pro-growth tax reform that will allow American companies and their workers to better compete in the global economy. Business Roundtable will continue to work with the House and Senate to improve specific provisions that will help U.S. companies invest capital, hire workers and increase wages.

Your support of H.R. 1 is a vote in support of American families and American workers. Business Roundtable asks for your support to ensure that pro-growth tax reform is enacted as soon as possible.

Sincerely,

Joshua Bolten

Joshua Bolten

KEY VOTE ***ALERT!***

U.S. CHAMBER OF COMMERCE
Congressional & Public Affairs
1615 H Street, NW
Washington, DC 20062

202-463-5600

November 13, 2017

TO THE MEMBERS OF THE U.S. HOUSE OF REPRESENTATIVES:

The U.S. Chamber of Commerce urges you to approve H.R. 1, the "Tax Cuts and Jobs Act." **The Chamber will include votes on, or related to, this legislation in our *How They Voted* scorecard.**

While much of the debate on tax reform has singularly focused on cutting rates, the broader importance of comprehensive, pro-growth tax reform cannot be overstated.

Enacting tax reform would unleash resources for businesses large and small to hire new workers, expand facilities, and purchase new equipment. Successful tax reform would help ensure that these investments are made here in the United States, and these investments would lead to higher wages and catalyze broad economic growth.

While a major step forward, we recognize H.R. 1 is imperfect, as is all legislation of consequence considered by Congress. We commit to working with all members of the House and Senate to refine and improve this legislation as the process continues.

Remaining imperfections in H.R. 1 should not be an excuse to derail tax reform. As the Chamber's President and CEO declared in a July 20, 2017 open letter, "Members of Congress be warned: Failure is not an option."

Tax reform is a big engine that will power a growing economy for years to come. Approving H.R. 1 is the next critical step along this path. The Chamber urges you to support H.R. 1 and to bring comprehensive, pro-growth tax reform closer to reality.

Sincerely,

Suzanne P. Clark

Suzanne P. Clark
Senior Executive Vice President