I respectfully submit this statement for the record in support of the following tax provisions that will expire or have already expired. All references to code sections are to Title 26 of the United States Code, otherwise known as the Internal Revenue Code (“the Code”).

As a senior member of this committee it is my sincere hope that we work in a bi-partisan manner to ensure that these, and other critical tax provisions, are extended. Tax extender legislation provides this committee and the Congress with an opportunity to examine the Code and look critically at each provision to determine whether its extension or expiration is in the best interest of our country and the American people.

The Deduction for State and Local Sales Taxes (§164(b)(5)):

The deduction for state and local income taxes expired December 31, 2011. This provision is of critical importance to Americans living in states that generate revenue through sales taxes and do not impose a state income tax. Currently, six states do not impose an income tax, including my home state of Washington.

Since 2004, the tax burden of residents in these 6 states has been reduced through the state sales tax deduction. In the absence of this deduction, taxpayers in these states would shoulder a larger portion of the federal income tax burden, compared to taxpayers in other states who may take a deduction for state income taxes paid. The deduction for state income taxes is a permanent provision.

According to the Washington State Department of Revenue, 850,000 Washington residents saved a total of $406 million, with an average savings of $478 per return. These tax savings are critical to these taxpayers as the economy continues to climb out the recession. Without this deduction, these taxpayers will face a higher tax liability, where taxpayers in states with an income tax will continue to enjoy lower taxes.

On December of 2011, my colleague, Mr. Brady, and I, along with 68 bi-partisan members of the House sent a letter to this committee requesting an extension of this provision. This letter was submitted for the record on April 26, during my oral testimony before this committee.
With such strong bi-partisan support, I urge this committee to include this provision in any tax extender package that is considered and passed in this remaining session of Congress.

**Principal Mortgage Debt Reduction (§108)**

The exclusion for principal mortgage debt reduction is a critical tax provision that is necessary to stabilize our struggling housing market. Section 108 excludes from income, for tax purposes, cancelled debt on a principal residence. Ordinarily, discharged nonrecourse mortgage debt is included as income to the mortgagee. However, at the height of the financial crisis, Congress enacted Section 108, which would exclude from income debt discharged on a primary residence.

This provision is critical to struggling homeowners across this country. If Section 108 is not extended, affected homeowners will face massive tax bills for money they never received.

For instance, a struggling homeowner who purchased his home at the height of the housing bubble is now underwater on his mortgage – owing more than the current fair market value (FMV) of the home. The current FMV of his home has dropped to $200,000 and he currently owes $300,000 on his mortgage. The homeowner is fortunate enough to have his lender agree to a $100,000 principal reduction providing needed financial relief in the form of lower monthly payments. While the homeowner does not actually receive any income, the tax code includes the $100,000 in principal reduction as income, and is taxed at ordinary income rates. If section 108 is not extended, this homeowner would ultimately be unable to afford the tax and likely foreclose on his home where he could have otherwise continued living there with lower payments – benefitting both the homeowner and the lender.

Also, in February of this year, 49 of the State Attorneys General, Republican and Democrat, and the five major banks agreed to a historic $26 billion settlement – a portion of which would go to reducing principal. Hundreds of thousands of homeowners will receive this relief. However, if Section 108 is not extended, these homeowners will find themselves unable to benefit from the relief provided under the settlement, frustrating the purpose of the settlement. I look forward to working with my colleagues on the committee to extend this provision to provide needed tax relief that will not only help homeowners, but stabilize the weak housing market.

**Clean Renewable Energy Bonds (§54):**

In 2005, Congress created the Clean Renewable Energy Bond (CREB) program to provide the not-for-profit sector of the utility industry, which serves a quarter of the nation’s retail customers, to create renewable energy jobs and to develop renewable power generation. CREBs provide qualifying borrowers, like public power utilities and rural electric co-ops, with low interest rate financing to reduce the overall cost of their renewable energy projects.

Since its enactment, the CREB program has been extended three times, each time with additional improvements to the program. Currently, the CREBs allocation has been fully utilized
and no new allocations have been authorized by Congress, despite the present and growing need.

For the 75% of consumers serviced by for-profit utilities, their renewable energy projects are supported by the Code through incentives like the investment tax credit (ITC), production tax credit (PTC), and the 1603 grant program. Unfortunately, not-for-profit utilities do not benefit from these incentives, and rely primarily on the CREBs program to provide tax parity for the quarter of the nation’s electric consumers that they serve. Ultimately, CREBs provide a necessary incentive for public entities to invest in renewable energy projects allowing them to better compete with projects that are able to claim tax credits like the PTC and ITC.

It is critical that the CREBs program be extended, as states continue to require more of their electricity be generated from renewable energy sources. As states increase their mandates public power utilities and rural electric co-ops will need to raise more capital to stay compliant and fund their renewable energy projects. Without an extension of the CREBs program, this additional capital will need to be raised directly from the ratepayers in increased energy costs. Furthermore, the CREBs program must be uncapped to provide full parity with the incentives available to for-profit utilities.

In June of last year, I, along with 65 bi-partisan members of the House sent a letter to the Chairman and Ranking member requesting the committee’s consideration of comparable tax incentives, like CREBs, in relevant legislation before the committee. Today, I repeat this request, and urge the committee to extend the CREBs program, and provide needed tax parity to the public utility sector.

**Build America Bonds:**

In 2009, the Congress created Build America Bonds (BABs) to provide direct payments to state and local governments to offset their needed infrastructure and energy generation costs. BABs provide a direct payment subsidy or a tax credit in an amount equal to 35% of the bond’s interest costs or BAB interest income respectively.

BABs have been very well received by both issuers and investors. According to the Security Industry Financial Markets Association (SIFMA) approximately $164.1 billion in BABs have been offered in total, supporting countless projects and jobs across the country. Currently, Treasury has no authority to issue additional BABs, despite its success and support from both governmental entities and private industry.

Nearly every congressional district has benefited from BABs. BABs have been directly responsible for creating jobs and supporting needed infrastructure projects across our country. I urge this committee to extend BABs and continue a program that has been instrumental to our recovery.