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Munis Could Be Hurt by Plan to Slash Corporate Tax Rates.

Banks and insurance companies own about a quarter of all municipal debt.

While President Trump's plans to reform individual income taxes could result in an increase in demand for some munis, his plans to slash the corporate tax rate could be a negative, points out Wells Fargo in a new research report from its Investment Institute.

That's because companies — mostly banks and insurance companies — own a big chunk of munis. Their demand for tax-free income would likely fall if their rates go to 15% from the 35% maximum in place now.

In Q&A form, here's how Wells Fargo puts it:

> **What is the potential impact to the municipal market from the proposed cut in business taxes?**
>
> A lower corporate tax rate may impact demand in the municipal market as close to 26 percent of municipal debt ownership has historically come from banks and insurance companies. It is important to keep in mind that we would not expect the demand for municipal bonds to decline dramatically as a result of reduced tax-driven demand from banks or insurance companies, because municipal securities also offer diversification, quality, and yields close to those of Treasury securities.

Muni investors can also take solace because it is unlikely that corporate tax rates will be slashed to the extent Trump has proposed.

John Miller, who runs municipal bond investing at Nuveen Investments, told Barron's Monday that he thought the corporate tax rate would ultimately only be cut to the high-20th percentile, after negotiations with Congress.

Of tax reform in general, he said, "It's going to take longer and be smaller."

So far, munis have shown little reaction to the tax reform proposal. The iShares S&P National AMT-Free Municipal Bond Fund (MUB) has stayed right around $109 since news of the plan started to trickle out exactly a week ago. It was 109.01 at 1 p.m. ET on Tuesday.

Barron's

By Amey Stone May 2, 2017 1:37 p.m. ET