Bond Case Briefs

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NASACT: Questions Surround Tax Reform and Maintenance of the Tax Exemption for Municipal Bonds.

Congress is gearing up to tackle tax reform this fall, and it appears almost anything is on the table. For most state and local governments, concern surrounds loss of the deduction for state and local taxes and more importantly the maintenance of the tax exemption for municipal bonds.

The exemption of tax on municipal bonds has existed since the Sixteenth Amendment to the Constitution in 1913, which developed the structure for our federal tax system. The exemption allows states and municipalities to finance public projects at a lower finance rate than borrowing on the open market. Lower financing rates mean savings for local taxpayers while offering interest free of federal tax, and in many cases, state tax, for investors. This financing vehicle is one that is efficient, low-cost and that assists in creating essential jobs. It should be recognized for its importance for building and maintaining the infrastructure in our country.

There are real and tangible benefits that the tax exemption for municipal bonds affords our governments and its citizens. NASACT members are engaged in a variety of programs to manage taxpayer dollars and finance public infrastructure in the most efficient and effective manner possible. The tax exemption for municipal bonds is one such vehicle that allows our governments to successfully finance important and needed public projects. Such projects include the construction and maintenance of schools, streets, highways, hospitals, bridges, low-income housing, water and sewer systems, ports, airports and other public works.

Any repeal or limitation of the tax exemption would drive up the costs of building infrastructure, which in turn could cause state and local governments to scale back or eliminate important public projects. If investors see less of a tax break, they could demand higher interest to make up for the loss or move their funds to other investments where they would receive favorable tax treatment. Such changes will result in higher borrowing costs for governments.

As fiscal stewards of taxpayer dollars, your input to your congressional representatives is paramount. Should you have an opportunity to visit your representatives at home or if you are in Washington, we urge you to stress the importance that the tax exemption by highlighting the infrastructure financed by municipal bonds in your state. You may also wish to call or contact your congressional delegation as efforts to reform the nation's tax system unfold.

NASACT is involved in several initiatives and coalitions regarding the tax exemption and our local government partners at National Association of Counties (NACo) and the Government Finance Officers Association (GFOA) have developed a myriad of tools to help stress the importance of the tax exemption. These tools are available at:

http://www.naco.org/advocacy/action-centers/municipal-bonds
http://www.gfoa.org/products-and-services/resources/federal-government-relations/federal-tax-exemption-municipal-bond

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