

# **Bond Case Briefs**

*Municipal Finance Law Since 1971*

---

## **Lower Tax Rate Boosts Case for Corporate Bonds Over Munis - Paychex CFO**

The U.S. corporate tax overhaul has helped make corporate bonds more competitive with municipal issuance said the finance chief of payroll processor Paychex, Inc.

The Rochester, N.Y.-based company has a roughly \$5 billion investment portfolio that has traditionally been heavily weighted toward municipal bonds, said Chief Financial Officer Efrain Rivera. Munis, as they're commonly known, typically pay a lower rate of return than corporate bonds, but that income is treated as tax-free. By contrast, the company's income from the higher-earning corporate bonds falls subject to the corporate tax rate, which was reduced to 21% from 35% previously.

"Now with tax reform, the pricing between corporate and municipal bonds is giving you a little bit more of an advantage on the corporate side, even after paying taxes," Mr. Rivera said in an interview with CFO Journal. "We're looking to increase more in corporate (bonds)," he said.

Mr. Rivera said he believes the corporate bond market will be stable over the next 12 months. However, some analysts forecast companies will have less incentive for new borrowing because the tax overhaul has increased the share of profits they get to retain.

"If anything, we are concerned about supply on the municipal side as demand slides," he said.

Mr. Rivera said that the company will make several investments following tax reform. Paychex will pay a bonus to employees and invest in internally developed software. The company will also look to be more aggressive in scouting acquisitions even as the soaring stock market inflates target prices.

"Valuations are very high, especially in anything that is related to fintech," he said. "But if you do your homework and it makes strategic sense...we'll look at other opportunities in the future." He estimates that the company typically strikes 1 to 2 deals annually valued at \$200 million a piece.

Net income for the company's recently completed third quarter rose 29% to \$260.4 million compared to the same period last year. Revenue totaled \$866.5 million for the period, up from \$795.8 million, a year ago.

### **The Wall Street Journal**

By Ezequiel Minaya

Mar 27, 2018 6:30 am ET