Is the Exemption for Interest on Municipal Bonds on Congress' Chopping Block?

The new administration and Congress are working towards an extension of the 2017 Tax Cuts and Jobs Act (TCJA), the bulk of which expires at the end of 2025. In late February, the House passed a spending bill (H. Con. Res. 119-4) to enable the extension, provided that Congress also identifies $2 trillion in spending reductions. Cutting that much spending will be a challenge.

Another way to offset the cost of extending the TCJA is through the closure of tax "loopholes." One such loophole under discussion is the exemption of interest on qualified state and local bonds from federal income taxation. The House Ways and Means Committee estimated that the elimination of the exemption will raise up to $250 billion in additional income tax revenue over the upcoming 10 years.

The elimination of the exemption must be carefully considered because, according to the Public Finance Network (PFN), state and local governments are responsible for 90 percent of all public infrastructure spending and over 80 percent of that spending is financed with tax-exempt bonds. Non-profit organizations and multi-family housing providers also rely on tax-exempt bond financing to finance the construction and renovation of facilities such as hospitals, schools, and affordable housing developments.

Continue reading.

by Arthur Anderson

March 26, 2025

Spilman Thomas & Battle, PLLC