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Final Tax Bill Preserves Tax-Exempt Bonds and Expands Affordable Housing and Public Finance Provisions: Taft Stettinius & Hollister

On July 3, 2025, the U.S. House of Representatives voted on final passage of H.R.1, an omnibus budget reconciliation tax and spending package referred to as the “One Big Beautiful Bill Act.” The bill, which passed on a vote of 218-214, now heads to President Trump’s desk for final signature, which is expected to take place on July 4, 2025. The Senate narrowly passed its version of the tax bill just two days prior, on July 1, 2025, which was voted on by the House in lieu of taking the bill to a conference committee. The Senate made a number of changes to the bill previously approved by the House on May 22, 2025.

The municipal market can be encouraged that the final bill preserves the federal tax exemption for municipal bonds. In fact, the final bill includes a number of expansions of interest to the public finance community. We will continue to provide updates as these provisions are implemented. For now, some key takeaways:

- **Municipal Bonds - Tax Exemption Preserved:** Although the House Budget Committee initially identified the elimination of the tax-exemption as a potential revenue source, both the Senate and House versions preserve federal tax exemption for all municipal bonds, including both governmental purpose and qualified private activity bonds
- **9% Low-Income Housing Tax Credit - Increased Annual Allocations:** The final tax bill provides for a 12% increase in the amount of low-income housing tax credits (LIHTC) that states can allocate from the state credit ceiling (commonly referred to as 9% credits) in a given year. The final tax bill includes a permanent increase, beginning in calendar year 2026.
- **4% Low-Income Housing Tax Credit - 25% Test:** The final tax bill reduces the threshold required for 4% LIHTC buildings financed with private activity bond volume cap limited tax-exempt bonds from 50% to 25% of aggregate basis. The reduced threshold would apply to buildings placed in service after December 31, 2025, so long as at least 5% of the aggregate basis of the building and land is financed with bonds issued after December 31, 2025. The final tax bill makes this a permanent reduction to the aggregate basis test
- **New Markets Tax Credit - Extension:** The New Markets Tax Credit, which would otherwise have sunset this year, will now become a permanent credit.
- **Opportunity Zones - Renewed:** The final tax bill makes permanent the Opportunity Zone tax incentive
- **Energy Incentives - Rollback:** The final tax bill terminates a large number of clean and renewable energy incentives authorized by the Inflation Reduction Act of 2022, though on different timetables.
- **New Category of Exempt Facility Bonds - Spaceports:** The final tax bill creates a new category of exempt facility bonds under Section 142(a). “Spaceports,” which include certain facilities at or near launch sites or reentry sites, will now be treated like airports.
- **Qualified Small Issue Bonds - Change to Calculation of Expenditures:** The final tax bill modifies the calculation of research and development expenditures for purposes of qualified small

issue bonds.

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