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The Muni Brief: Territories and Tax Exemption

Puerto Rico and four U.S. territories can issue tax-exempt bonds under congressional authority. Here's why that "triple exemption" matters for muni investors.

Why Puerto Rico Can Issue Tax-Exempt Bonds?

As a legally authorized "Territory" of the U.S., Puerto Rico has long been recognized as an important issuer of tax-exempt bonds. The answer lies in the U.S. Constitution, Article IV, Section 3, Clause 2, which allows Congress to create territorial governments, with taxing authority and borrowing authority.

Puerto Rico has been a U.S. territory since the end of the Spanish-American War in 1898. Its constitution wasn't formally approved by Congress until 1952, but the borrowing authority that came with territorial status has made it one of the most unique, if not important issuers in the municipal bond market over the past 50 years.

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May 26, 2026

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