

# Bond Case Briefs

*Municipal Finance Law Since 1971*

---

## 2 Takes on Trump's Impact on Muni Bonds.

President-elect Donald Trump's proposed policies could partially change the landscape of the municipal bond market for investors in two primary ways.

First, his election could put [Build America Bonds](#) (BABs) — or a program like it — back on the table for government issuers. BABs were introduced in 2009 and 2010 by the Obama administration as a way to stimulate the economy and create jobs. Republicans on Capitol Hill killed the program, but Trump has spoken favorably about it. He's interested in stimulating more investment in infrastructure.

Unlike regular municipal bonds, BABs aren't tax exempt, making them more appealing to investors such as international bondholders or institutional investors who aren't eligible to claim an exemption. Thus, they broaden the municipal bond market.

Second, an analysis by the Court Street Group Research (CSGR) says Trump's [income tax plan](#) could affect the municipal market because it would eliminate or reduce the tax exemption for municipal bondholders. "The CSGR approaches the reality of a Trump administration with some trepidation as it applies to municipal bonds," the analysis said.

**The Takeaway:** Taking all these proposals into account, and given that many are now expecting federal tax reform to roll forward in some form in 2017, these policies could reshape to some extent who buys municipal bonds.

[Research](#) by Brandeis University's Daniel Bergstresser and MIT's Randolph Cohen has shown that municipal debt is being increasingly held by America's wealthiest households. If the tax exemption on income earned from that investment is eliminated for the wealthy, it provides little motivation for these bondholders to buy more municipal debt.

Who will take their place? The BAB experiment would seem to suggest that having more taxable debt in the municipal bond market will attract different kinds of investors. Stay tuned.

GOVERNING.COM

BY LIZ FARMER | NOVEMBER 18, 2016