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BlackRock's Hayes Says Trump Unlikely to End Muni-Bond Tax Break.

- Trump's plans to cut taxes could curb demand for local debt
- Elimination of tax-exemption 'highly unlikely,' Hayes says

Peter Hayes, who oversees municipal-bond investments for BlackRock Inc., the world's largest money manager, doesn't think President Donald Trump and the Republican-led Congress will do away with the tax break given to buyers of state and local government debt.

"The tax exemption of municipal bond interest is a key draw for issuers. And while it may be deemed alterable, we don't see it as dispensable," Hayes said in a blog post on the company's website. "We see the elimination of muni tax exemption as highly unlikely."

Speculation that Washington will move to tax the interest investors receive in the $3.8 trillion municipal market has increased since Trump's election, given that the revenue could help cover the cost of cutting corporate and individual income taxes. Former President Barack Obama proposed capping the benefits the wealthiest earners can receive from municipal bonds, though the plan stalled in Congress, and a deficit-cutting panel once proposed eliminating the tax exemption outright.

Such change would lead investors to demand higher yields on municipal bonds than they do now, an outcome that may be at odds with Trump's other goal of increasing spending on infrastructure projects.

That doesn't mean the municipal market will be spared the effects of any tax changes: Cutting income-tax rates would also lessen the appeal of the securities. But such reductions may not come this year, as lawmakers focus first on overhauling corporate taxes, according to BlackRock's Hayes.

"The individual tax code is very complicated and politically difficult to amend, even under one-party control," he wrote. "Change may well come, but not likely in 2017 as Washington focuses on the comparatively easier task of corporate tax reform."

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by Jordyn Holman

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