

# **Bond Case Briefs**

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## **Municipal Bonds May Get Taxed If Border Tax Plan Fails.**

Odds that interest on municipal bonds will continue to be exempt from federal taxes decrease if Congress doesn't approve a plan to alter the way imports and exports are taxed.

That's a concern for municipal-bond investors, as well as the state and local governments trying to get investors to buy their debt notes to pay for roads, bridges and other large public projects.

The Republican-controlled Congress is attempting to draft a revenue-neutral tax package to send to President Donald Trump this year, and a question remains as to whether border adjustments, which tax imports and exempt exports, will be included.

A revenue-neutral tax plan enables GOP lawmakers to pass a tax plan by a simple majority vote, without need of support from any Democratic members.

"If the border-adjustability piece, which raises close to a trillion dollars, is not completed, and we've heard mixed views on that, then everything is on the table," including the exemption for municipal-bond interest, Jim Febeo, senior vice president of government relations at Fidelity Investments, said at a Feb. 13 meeting of the National Association of State Treasurers (NAST) in Washington.

Retailers are lobbying against border adjustments, as is Koch Industries Inc., a financial supporter of conservative causes and candidates.

Some senators, including John Cornyn (R-Texas), Mike Lee (R-Utah) and Finance Committee Chairman Orrin G. Hatch (R-Utah), have said they have questions about the proposal, the details of which haven't been fleshed out.

### **Money for Change**

House Speaker Paul D. Ryan (R-Wis.), who put forth the idea, has said the \$1 trillion or so raised by border adjustments would allow for sweeping changes to federal taxes.

Without the money, "the municipal-bond exemption will be looked at," Susan Hirschmann, chief executive officer of Williams & Jensen, a Washington-based lobbying firm, said during the NAST event.

"There is a lack of clarity right now as to whether the Senate supports border adjustments, and there is a lack of clarity on whether President Trump supports it," Hirschmann said.

### **States Will Fight Back**

State and local governments, which depend on bonds, will fight for the tax exemption, Charles S. Henck, a Ballard Spahr LLP partner who practices in public finance and tax law, told Bloomberg BNA.

"State and local governments will want to preserve the existing rule for tax exemption of municipal

bond interest because to eliminate it would increase the cost of borrowing,” Henck said.

Arizona Treasurer Jeff DeWit, who spoke at the NAST meeting, said states shouldn’t worry because the exemption is too popular and the potential backlash against congressional members is too great.

“I don’t think the municipal exemption will be on the table,” he said. “Everyone is against doing that. If they really start to play with it, I don’t think that will truly be on the table. Maybe for leverage.”

### **‘Everything’ on Table**

As House and Senate Republicans work on a package that appeals to Trump, elements of a 2014 tax plan offered by then-Rep. Dave Camp (R-Mich.) may give hints to “where we may be headed,” Febeo said. Camp’s plan proposed a 10 percent surtax on municipal-bond interest.

“I wish I had a crystal ball, but everything seems to be on the table right now,” he said.

According to a delegation from the U.S. Conference of Mayors, Trump expressed support for maintaining the tax exemption in the weeks before his inauguration. Others close to him, however, don’t support it.

Trump’s nominee for Commerce secretary, private equity investor Wilbur Ross, has said municipal bonds aren’t an efficient way to pay for public projects. One reason is that a percentage of the money goes to the bondholder. He has suggested private-public partnerships and tax credits to investors and construction companies to finance bridges, roads and other public projects.

### **Bloomberg BNA Tax Management**

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