

Bond Case Briefs

Municipal Finance Law Since 1971

The Future For the Municipal Bond Tax Exemption is Bright Following the Release of the Unified Framework For Tax Reform.

Efforts to overhaul the Internal Revenue Code have been spearheaded thus far by a group of Republicans referred to as the “Big Six.”[1] Earlier today, the Big Six released a “unified framework to achieve pro-American, fiscally-responsible tax reform” (the “Framework”). The Framework proposes many changes to the U.S. tax system, but **does not propose any changes to the municipal bond tax exemption itself.**

[Here is a link](#) to the Framework, a 9-page document that provides an overview of the various measures that may be included in tax reform. The Framework was preceded by the blueprint for tax reform released by House Republicans on June 24, 2016 (discussed in a [previous blog post](#)). This post addresses a few of the highlights from the Framework.

Highlights

The Framework proposes wholesale reform of the US tax system. Specific to the municipal bond industry, the Framework includes the following proposals (or lack thereof):

- Like the blueprint, the Framework does not include any specific mention of the municipal bond tax exemption. The lack of any specific reference is not surprising in light of the brevity of the Framework.
- The Framework includes a catch-all statement that “[n]umerous other exemptions, deductions and credits” will be repealed (more on this below).
- The Framework proposes to eliminate all itemized deductions except the mortgage interest deduction and the charitable contribution deduction. Of course, this would not affect municipal bonds because the tax exemption for municipal bonds is not an itemized deduction (this was a test for our readers).
- The top income tax bracket will be reduced from 39.6% to 35% for individuals and to 20% for corporations (although the Framework holds out the possibility that an additional tax bracket above the 35% bracket could be applied to the “highest-income taxpayers”).
- Like the blueprint, the Framework proposes to eliminate the individual and corporate alternative minimum tax (AMT).

In the days leading up to the release of the Framework, senior legislative officials have provided assurances to members of our [Financial Services and Tax Policy group](#) that the municipal bond tax exemption will be retained. In light of their comments, the catch-all statement regarding the elimination of scattered exemptions, deductions, and credits should not be read to jeopardize the municipal bond exemption. Furthermore, although the reduced individual income tax rates would slightly diminish the value of the municipal bond subsidy, the repeal of the AMT could offset the diminution in value (as could an increased demand for municipal bonds if they remain one of the few tax-advantaged investments after the enactment of tax reform).

On the whole, the Framework is very positive for the municipal bond community and it suggests that lawmakers appreciate the value of the exemption to state and local governments and to qualified borrowers.

Important Disclaimer

Although the Framework represents the efforts of certain influential lawmakers, it is no more than a roadmap towards tax reform. In recent months, similar roadmaps unrelated to tax reform have failed in the face of significant opposition. The Framework's success is far from certain.

[1] The Big Six are Paul Ryan (House Speaker), Kevin Brady (House Ways and Means Committee Chairman), Mitch McConnell (Senate Majority Leader), Orrin Hatch (Senate Finance Committee Chair), Steven Mnuchin (Treasury Secretary), and Gary Cohn (White House chief economic adviser).

The Public Finance Tax Blog

By Joel Swearingen

September 29, 2017

Squire Patton Boggs