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In New Jersey, New York, Tax Overhaul May Be Lifting Muni Bonds.

- **Analysts expected demand in high-tax states would increase**
- **New Jersey, New York yields have narrowed against benchmark**

Some municipal-bond analysts expected the new $10,000 limit on state and local deductions would increase demand for debt issued by high-tax states as wealthy residents look for ways to reduce their federal tax bills.

The prices of New York and New Jersey bonds seem to be bearing out that call.

The yields on 10-year bonds issued by the two states have drawn closer to top-rated bonds since the federal tax-overhaul legislation was released in early November, according to data compiled by Bloomberg. New York's yields — which were as much as 0.19 percentage point above the benchmark in early November — have since dropped to about 0.06 percentage point below it. For New Jersey, that gap has slipped to about 0.66 percentage point from more than a percent point in November.

That stands in contrast to Florida and Texas, two relatively low-tax states whose bonds have been little changed against the benchmark since the tax changes were enacted.

The limit on state and local tax deductions will fall heavily on residents of states where many pay more than $10,000 a year in property and income taxes. Analysts speculated that the change could boost interest in municipal bonds, whose income is tax-exempt, as a possible way to cut their federal tax bills.

Not all the higher-tax states are seeing a bond-market impact. California's yields, which have been steadily declining against the benchmark for years because of the government's improving finances, have been little changed. And in Connecticut, where Governor Dannel Malloy has been contending with chronic deficits, demand hasn't been enough to turn the tide: Investors are demanding even higher payouts to compensate for that risk.

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