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Network Sends Exempt Bond Wish List to Yellen.

Public finance organizations promptly urged the new leadership of the Treasury Department to pursue tax policies favorable to tax-exempt bonds.

In a January 28 letter to Treasury Secretary Janet Yellen, who assumed office two days earlier, groups belonging to the Public Finance Network said their members “rely significantly on the federal partnership represented by the tax-exemption for municipal securities and the effective use of that tax exemption for their own communities.”

The network asked Yellen to consider several recommendations — first on the list is preserving the tax exemption for municipal bonds.

Eliminating, reducing, or capping the exemption would mean higher costs for critical projects financed by state and local issuers, forcing state and local governments to make difficult and pro-recessionary choices, the network said. It added that taxpayers ultimately would bear the increased costs.

Treasury should also support restoration of the tax exemption for advance refunding bonds, the Public Finance Network said. The exemption was eliminated by the Tax Cuts and Jobs Act.

“Restoration of this tax exemption would require an act of Congress, but would be one of the most effective actions to provide state and local governments with more financial flexibility to weather downturns and increase infrastructure investment,” the letter said.

Another priority for the Public Finance Network is making it easier for smaller issuers to access capital.

The network spoke favorably of the Municipal Bond Market Support Act of 2019, which sought to make more small issuers eligible to issue bank qualified debt and “provide an additional purchaser in our markets to further diversify sources of credit to state and local governments.”

Treasury’s Office of Tax Policy should also have a dedicated municipal bond expert, a position that’s been unfilled since 2019, according to the network.

“This expertise in the tax rules for qualified municipal securities and the manner in which the municipal bond markets operate had long been effective in drafting and implementing tax policy in the tax-exempt domain,” the letter said. “Filling this role would allow Treasury to better meet the diverse needs of municipal issuers.”

In recent weeks, other municipal finance groups have also asked the new administration to adopt policies favorable to exempt financing.

The Bond Dealers of America made several recommendations to the incoming Biden administration, including maintaining the tax exemption for municipal bonds, restoring advance refunding bonds, and expanding private activity bonds.

TAX ANALYSTS

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