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Wells Fargo Says Muni Tax Break at Risk No Matter Who Wins US Elections.

Wells Fargo & Co.'s head muni strategist Vikram Rai says the tax-exempt status of bonds sold by state and local governments could be in jeopardy regardless of who wins the US elections in November.

Municipal bonds pay interest to investors that's exempt from income taxes. Proposals to change that feature could emerge from either Democrats or Republicans, he said in a Monday report. The Obama administration, for example, proposed limiting the interest from municipal bonds that top earners can exclude from their taxable income.

"The possibility of such proposals being put forward again in the future in light of a worsening fiscal picture cannot be ignored as deficit reduction and/or tax reform moves forward," according to Rai.

The silver lining is that limiting access to tax-exempt bonds boosts the value of existing muni debt, he said.

"At present, there is no threat whatsoever to the tax exemption of outstanding bonds," Rai said in the report.

Rai also examined muni-bond yields versus Treasuries, which is used to assess valuations in the market. He said these ratios haven't exhibited any clear patterns around the elections.

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— *With assistance from Skylar Woodhouse*