# Bond Case Briefs

*Municipal Finance Law Since 1971*

---

## Debate Heats Up Around Munis Tax Exempt Status.

**The Republican Party is considering repealing the tax-exempt status of municipal bonds.**

A memorandum circulated by the US House of Representatives Budget Committee and diffused on the 17 January 2025 includes proposals that could impact municipal bond markets.

One proposal under consideration, according to Politico, who has seen the memorandum, is the elimination of tax-exempt bonds. This measure aims to generate additional federal revenue to offset the costs associated with extending provisions of the 2017 Tax Cuts and Jobs Act (TCJA). The estimated cost of extending the TCJA is around US$4 trillion, prompting lawmakers to explore various revenue-raising strategies. Eliminating the tax exemption for municipal bonds could potentially raise approximately US$360 billion over a decade.

Private Activity Bonds (PAB), which allow tax-exempt municipal bonds to be issued on behalf of a government for projects built and paid for by private developers, are also under scrutiny. GOP's tax plan proposes the elimination of all PABs, a move that has surprised many in the infrastructure finance community. This proposal could significantly impact the financing of various projects, including those related to healthcare, education, and infrastructure development.

According to the Government Finance Officers Association (GFOA), the proposed elimination of tax-exempt bonds and PABs could have far-reaching implications. In a letter sent to the House of Representatives Budget Committee on the 21 January, the GFOA states that the proposals could have negative effects. The letter said: "Elimination of the tax-exemption would correspondingly raise borrowing costs US$823.92 billion, a cost that would be passed onto American residents and amount to a US$6554.67 tax and rate increase for each American household over the next decade". Without munis' and PABs' tax-exempt status, the GFOA posits first that state and local governments may face higher borrowing costs, potentially leading to reduced investment in public infrastructure. Second, Nonprofit hospitals and educational institutions, which frequently utilise PABs for financing, could experience financial strain, affecting their operations and expansion plans. Finally, according to the GFOA, Investors may reassess their portfolios, potentially reducing demand for municipal bonds, which could lead to higher yields and increased costs for issuers.

Industry groups, such as the Bond Dealers of America (BDA), are actively engaging with lawmakers to advocate for the preservation of tax-exempt bonds. In a press release and template diffused to their members for them to forward to their representatives, they emphasise the critical role these financial instruments play in funding essential public services and infrastructure projects. The BDA template said," We call on you to protect the tax exception for municipal bonds and private activity bonds, both driving forces in addressing our nation's infrastructure deficit."

**fi-desk.com**

By Etienne Mercuriali -January 30, 2025