Bond Case Briefs

Municipal Finance Law Since 1971

Bankers Flood DC to Protect Tax-Free Debt for States and Cities.

- **Proposal to end tax break is unnerving public finance market**
- **Some are concerned the lobbying efforts will fall short**

Public finance bankers are descending on Capitol Hill Thursday to defend an existential part of the municipal bond market — keeping state and local debt tax free.

A group of underwriters are warning of the real-world consequences if the federal subsidy underpinning the $500 billion-a-year-debt market is eliminated. Last month, a lengthy menu of spending cuts circulated among House Republicans listed ending munis' tax-exempt status as a way to help pay for extending President Donald Trump's 2017 tax cuts.

It's hard to ascertain just how likely this is to get through Congress — all the chatter in Washington right now is about Elon Musk's rapid push to gut government spending — but even a remote possibility is enough to cause alarm among muni bankers and borrowers. Without the exemption, which allows wealthy investors to collect tax-free interest income on muni bonds, the market would almost certainly shrink. Investors would demand higher interest rates to offset the new taxes, forcing some of the riskier borrowers out of the market in the process.

Continue reading.

Bloomberg Markets

By Amanda Albright and Shruti Singh

February 6, 2025