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If Congress Makes Muni Bonds Taxable, What Could Happen To States And Cities?

House Budget Committee Republicans have identified eliminating the federal tax exclusion for interest earned on municipal bonds, or “Muni” bonds, as a large potential revenue raiser as Congress considers whether to extend expiring provisions of the 2017 Tax Cuts and Jobs Act (TCJA). By one estimate, this could raise $250 billion over ten years.

State and local governments rely on Muni bonds to finance long-term capital investments such as transportation infrastructure and public buildings. The municipal bond market is huge: By the end of 2024, its total valuation was estimated at $4.2 trillion, with new issuances of over $500 billion that year.

What might be the consequences of ending tax exemption for Muni bonds for state and local governments and their residents?

How might the Muni bond market change?

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