Bond Case Briefs

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The Possible Repeal of the Tax Exemption of Municipal Bond Interest.

You may have heard recently about proposals for Congress to remove the exclusion from gross income of interest on state and local bonds, usually referred to as "repealing the tax exemption on municipal bonds." This issue arose as a result of the leaking of a 51-page list of items to increase revenue or reduce expenses of the federal government being considered by the House Ways and Means Committee.

Various projections have been offered as to the effect on the federal budget and issuers of municipal bonds. The House Ways and Means Committee estimates the elimination of the tax exemption would generate $250 billion in revenue for the federal government over ten years. Some analysis has concluded that this would translate to an estimated $824 billion increase in borrowing costs for municipal bond issuers over the same period and create significant disruption in the municipal bond market. We at Bricker Graydon thought it might be helpful for us to take stock of where things stand currently.

About the only thing anyone knows for sure right now is that no legislation to repeal the tax exemption has been introduced in either the U.S. House of Representatives or the Senate. The absence of legislation does not mean that there is no threat. It just means that the nature of the threat is unknown. Many questions exist, a partial listing of which could include:

Continue reading.

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