Oppose Eliminating or Limiting the Tax-Exempt Status of Municipal Bonds

ACTION NEEDED:
Urge your Members of Congress to oppose any legislation that would eliminate or limit the tax-exempt status of municipal bonds.

BACKGROUND:
Tax-exempt bonds have been a feature of the federal tax code since 1913 and are a critical financing tool for counties nationwide. Counties, localities, states and state/local authorities financed $3.6 trillion in infrastructure investment using municipal bonds from 2008-2018.

State and local governments saved over $7 billion in interest expenses through federal tax-exemption in 2018 alone.

55 percent of long-term state and local tax-exempt bonds funded the building of schools, hospitals, roads and jails.

Tax-exempt bonds were written into the first tax code in 1913 and are a well-established infrastructure financing tool for counties. They are predominantly issued by state and local governments for governmental infrastructure and capital needs purposes. The debt issued for capital projects goes to the construction or improvement of schools, roads, highways, hospitals, bridges, water and sewer systems, ports, airports and other public works. Without the tax-exemption, counties would pay more to raise capital, a cost that would ultimately be borne by the taxpayers through reduced spending on the roads and bridges for which counties are responsible, decreased economic development, higher taxes or higher user fees.

On December 23, 2017, President Trump signed the Tax Cuts and Jobs Act (P.L. 115-97), the first major rewrite of the tax code since 1986. While initial drafts would have curtailed the tax-exempt status of municipal bonds and limited which projects would qualify for tax-exempt status, the final bill signed into law retained in full the tax-exempt status for all municipal bonds.

In 2012 alone, the debt service burden for counties would have risen by $9 billion if municipal bonds were taxable over the last 15 years. Counties with more than 500,000 residents would have borne more than half of this cost, and small counties would have been most at risk to lose access to the municipal bond market.

Between 2008 and 2018, counties, states and other localities invested $3.6 trillion in infrastructure through long-term tax-exempt municipal bonds. Tax-exempt bonds are vital for infrastructure, justice, health and other essential public services, as counties own and operate 45 percent of public roads and highways, own almost a third of the nation’s transit systems and airports, and own over 900 hospitals and 91 percent of all local jails.
KEY TALKING POINTS

A fundamental feature of the first federal tax code written in 1913, tax-exempt financing is used by state and local governments to raise funds to finance public capital improvements and other projects, including infrastructure facilities that are vitally important to sustained economic growth.

In counties, the legislature of the county government must approve a bond issuance and often voters also approve the bond financing.

Between 2008 and 2018, counties, localities, states and state/local authorities financed $3.6 trillion in infrastructure investment through tax-exempt municipal bonds.

The municipal bond tax-exemption represents a fair allocation of the cost of projects between federal and state/local levels of government. Using tax-exempt municipal bonds, state and local governments invested 2.5 times more in infrastructure than the federal government.

Tax-exempt bonds are vital for infrastructure, justice and health needs, as counties own and operate 45 percent of public roads and highways, own almost a third of the nation’s transit systems and airports, own over 900 hospitals, manage 1,943 health departments and own most of the nation’s jails.

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