

# OPPOSE EFFORTS TO ELIMINATE OR LIMIT THE TAX-EXEMPT STATUS OF MUNICIPAL BONDS

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### 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 were written in the first tax code in 1913 and are a well-established financing tool. They are predominantly issued by state and local governments for governmental infrastructure and capital needs purposes. The debt issued for capital projects help governments pay for public projects, such as the construction or improvement of schools, streets, highways, hospitals, bridges, water and sewer systems, ports, airports and other public works.

Deficit reduction efforts in recent years resulted in cuts in aid to local governments from the states and reduced funding in federal programs that benefit counties. Although a comprehensive rewrite of the federal tax code seems unlikely in 2022, there has been some momentum in the 117<sup>th</sup> Congress related to several proposals from Democrats in Congress related to establishing new tax incentives and amending Republicans' 2017 comprehensive tax reform bill, the *Tax Cuts and Jobs Act*.

Eliminating the tax-exempt status of municipal bonds was first entertained by President Obama's National Commission on Fiscal Responsibility and Reform (Simpson-Bowles Plan) in 2010. While there were several proposals in the 115th Congress to eliminate the tax-exempt status for municipal bond interests as a means to achieve lower, overall tax rates, the Tax Cuts and Jobs Act tax reform bill ultimately retained the tax-exempt status of municipal bonds and private activity bonds. The tax-exempt status of advance refunding bonds, however, was eliminated under this law which has therefore restricting counties from refinancing loans at lower interest rates.

TAX-EXEMPT BONDS ARE A  
**CRITICAL FINANCING TOOL** FOR  
COUNTIES NATIONWIDE

COUNTIES, LOCALITIES, STATES  
AND STATE/LOCAL AUTHORITIES  
FINANCED **\$3.6 TRILLION** IN  
INFRASTRUCTURE INVESTMENTS  
USING MUNICIPAL BONDS FROM  
2008-2018

BETWEEN 2012 AND 2017, **\$475  
BILLION** IN ADVANCE REFUNDING  
BONDS SAVED TAXPAYERS MORE  
THAN **\$14 BILLION** ON  
INFRASTRUCTURE INVESTMENTS

THE MUNICIPAL BOND TAX-  
EXEMPTION REPRESENTS A  
**FAIR ALLOCATION** OF THE  
COST OF PROJECTS BETWEEN  
FEDERAL AND STATE/LOCAL  
LEVELS OF GOVERNMENT

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BRIEF**



An initial draft of the House Ways & Means Committee title of Democrats' pending budget reconciliation bill, the Build Back Better Act, released in September 2021 included several provisions related to infrastructure financing. These included the reinstatement of the tax-exempt status of interest on advance refunding bonds and the return of Build America Bonds that allow issuers of qualified infrastructure bonds to receive a tax credit equal to the applicable percentage of the interest. Additionally, the initial draft included provisions to exempt certain existing water and sewage facilities from the volume cap on private activity bonds. While these provisions were ultimately eliminated during negotiations to pare down the scope and cost of the package, the version of the Build Back Better Act that passed the U.S. House by party lines in November 2021 included a provision to temporarily lower the tax-exempt bond limitation from 50 percent to 25 percent for buildings financed by bonds in calendar years 2022 through 2026. As negotiations on Build Back Better continue, we look forward to working with Congress to support the reinstatement and expansion of the tax-exempt status on municipal bonds.

Over the past half century, state and local governments have increasingly borne the cost of infrastructure and public improvements. According to the Congressional Budget Office, about 75 percent of public funding for transportation and water infrastructure alone is supplied by state and local governments. The federal savings from the proposed changes will not offset the economic strain that will burden state and local governments (and their local taxpayers) because those investments will become more expensive.

Tax-exempt bonds are a critical tool for counties that facilitates the budgeting and financing of long-range investments in the infrastructure and facilities necessary to meet public demand. Without the tax-exemption, counties would pay more to raise capital, a cost that would ultimately be borne by the taxpayers, through means such as reduced spending on the roads and bridges that counties are responsible for, decreased economic development, higher taxes or higher user fees.

## 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 capital to finance public capital improvements and other projects, including infrastructure facilities that are vitally important to sustained economic growth.
- If municipal bonds were fully taxable during the 2003-2012 period, it is estimated the financing for the 21 largest infrastructure purposes would have cost state and local governments an additional \$495 billion of interest expense. If the 28 percent cap were in effect, the additional cost to state and local governments would have been approximately \$173.4 billion.
- For 2012, the debt service burden for counties would have risen by \$9 billion if municipal bonds were fully taxable over the last 15 years and roughly \$3.2 billion in the case of a 28 percent cap. Americans, as investors in municipal bonds and as taxpayers securing the payment of municipal bonds, would have borne this burden.
- The municipal bond tax-exemption represents a fair allocation of the cost of projects between federal and state/local levels of government. Through the use of 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 because counties own and operate 45 percent of public roads and highways, own almost a third of the nation's transit systems and airports, own 976 hospitals, manage 1,592 health departments and own many of the nation's jails.

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