

DATE: August 19, 2024

The Future of Tax-Exempt Municipal Bonds

A longstanding NATaT priority is to preserve the tax-exempt status of municipal bonds. Several Trump-era provisions from the Tax Cuts and Jobs Act of 2017 (TCJA) will expire at the end of 2025. Republican and Democratic Members of Congress and both presidential candidates have expressed support for a new tax bill that would extend and replace many measures in the TCJA. The expiration of several provisions and the implications of a new tax bill have stirred concern among proponents of tax-exempt municipal bonds (“munis”).

Munis are a mechanism commonly used by state and local governments to finance public projects, including building and renovating facilities and transportation and water infrastructure. From 2009 to 2019, [\\$4.2 trillion](#) in munis was issued. Currently, muni yields are at their highest level in years, according to [analysis](#), but such yields could fall quickly when the Federal Reserve cuts interest rates and demand increases for muni bonds.

Potential Changes and Elimination

Some advocates are uneasy that a new tax bill could eliminate munis entirely due to federal budget deficit concerns. While there is no specific indication that this will occur, proponents of munis are preemptively preparing to battle elimination attempts.

The Government Finance Officers Association (GFOA) [estimates](#) that if munis are eliminated and state and local governments turn to issuing taxable bonds, debt issuance costs would increase around 25%, with costs potentially being higher for smaller local governments.

Significant changes to munis in tax bills are not unprecedented. A provision in the 2017 TCJA eliminated the tax-exempt status for so-called “advance refunding bonds.” Before this elimination, municipalities could refinance their bonds once before their bonds’ redemption without losing tax-exempt status. Advocates worry that a new tax bill could similarly limit or eliminate munis. NATaT has been advocating to reinstate advance refunding since passage of the TCJA.

What Can You Do?

A new tax bill will be one of the most important bills considered in January’s new Congress. In preparation, the Public Finance Network (PFN), led by GFOA and other national organizations like NATaT and the National Association of Counties, National League of Cities, and US Conference of Mayors, is spearheading an advocacy campaign to protect munis. The PFN wants to collect information on projects that utilized munis and include them in a demonstrative [map](#). The goal is to secure at least three examples in each congressional district across the country before the end of the calendar year. This information will be shared with members of Congress as they begin work on the impending tax bill.

Adding your project details is easy, and for detailed information on how to do so, please click [here](#).