

U.S. Municipal Bond Market

The Efficiency of the Municipal Bond Tax-Exemption was Called into Question and the Same Analysis Proposes to Eliminate the Tax-Exemption

- A policy option from a recent American Enterprise Institute report proposed to eliminate the municipal bond tax-exemption, and the report calls into question the efficiency of the tax-exemption.
- This criticism is a reminder to the public finance community about the priority of educating D.C. lawmakers about the importance and effectiveness the current tax-exemption provides nationwide.

*Tom Kozlik**Head of Public Policy and**Municipal Strategy**214.859.9439**tom.kozlik@hilltopsecurities.com*

Ongoing Debate About Tax Policy

The ongoing debate about tax policy continues as lawmakers consider the future of the 2017 Tax Cuts and Jobs Act (TCJA). The American Enterprise Institute proposed to eliminate the municipal bond tax-exemption in a report titled [Making the Tax Cuts and Jobs Act Permanent: Two Revenue-Neutral, Pro-Growth Options for Tax Reform](#) dated Monday, March 25.

The analysis offers two major policy options and Option 2 is not only paid for (in part) by the complete elimination of the municipal bond tax-exemption, but the analysis also finds, "The current exemption for municipal bonds provides an inefficient subsidy for state and local government infrastructure projects."

This is not the first and it will not likely be the last time a tax reform proposal includes a tax policy change that could impact the municipal bond tax-exemption. This threat will likely increase in coming years as more analysis considering deficit reduction measures and other policy specifics like this one which is arguing the in support of maintaining policy from the TCJA.

Back in August of last year in our call-to-action [Save the Tax-Exemption, A Call to Action for U.S. Public Finance](#) we indicated the risk to the potential elimination of the tax-exemption was heightened. We want to reiterate two important points we wrote last year. One, this remains a potential policy threat for investors to monitor. Second, the public finance community should escalate support for tax-exempt bonds by educating (or continuing to) and informing D.C. lawmakers now, even though we may experience a federal budget cycle or two and a Presidential election before the true threat is imminent.

A policy option from a recent American Enterprise Institute Report proposed to eliminate the municipal bond tax exemption, and the report calls into question the efficiency of the tax-exemption.

Recent HilltopSecurities Municipal Commentary

- [The Golden Age of Municipal Bonds is Not Over, March 25, 2024](#)
- [Municipal Bond Investor Playbook for Rest of the First Quarter, 2024, Feb. 8, 2024](#)
- [Chinese Cyberthreat to U.S. Infrastructure Highlighted by FBI, CISA, Others Today, Jan. 31, 2024](#)
- [An Improved Macroeconomic Backdrop Compels Us to Raise Our 2024 Issuance Forecast, Jan. 26, 2024](#)

Readers may view all of the HilltopSecurities Municipal Commentary [here](#).

The paper/commentary was prepared by HilltopSecurities (HTS). It is intended for informational purposes only and does not constitute legal or investment advice, nor is it an offer or a solicitation of an offer to buy or sell any investment or other specific product. Information provided in this paper was obtained from sources that are believed to be reliable; however, it is not guaranteed to be correct, complete, or current, and is not intended to imply or establish standards of care applicable to any attorney or advisor in any particular circumstances. The statements within constitute the views of HTS as of the date of the document and may differ from the views of other divisions/departments of affiliate Hilltop Securities Inc. In addition, the views are subject to change without notice. This paper represents historical information only and is not an indication of future performance. This material has not been prepared in accordance with the guidelines or requirements to promote investment research, it is not a research report and is not intended as such. Sources available upon request.

Hilltop Securities Inc. is a registered broker-dealer, registered investment adviser and municipal advisor firm that does not provide tax or legal advice. HTS is a wholly owned subsidiary of Hilltop Holdings, Inc. (NYSE: HTH) located at 717 N. Harwood St., Suite 3400, Dallas, Texas 75201, (214) 859-1800, 833-4HILLTOP