

U.S. Municipal Bond Market

## The Greatest Tax-Exemption Threat Remains Imminent, Timing Uncertain

- **Unprecedented Threat to the Tax-Exemption:** The municipal bond tax exemption faces an unprecedented threat, with a negative potential impact on U.S. infrastructure.
- **Update on 2025 Tax Policy Negotiations:** Lawmakers are working on an aggressive schedule to finalize 2025 tax policy by May 23. However, delays and the need for specific deadlines may push the timeline further into the year.
- **Tax-Exemption vs. SALT Cap:** Advocacy efforts for the municipal bond tax-exemption have been moderate compared to the strong push for raising the SALT cap. The SALT cap has become a critical issue in the 2025 tax policy negotiations, making an increase likely. In-person visits by officials and lawmakers are crucial for advocating the importance of the tax-exemption.

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### Unprecedented & Severe Threat to the Municipal Bond Tax-Exemption

The threat to the municipal bond tax-exemption has never been as severe as it is now, and some clarification about its severity could come soon. Last week, we discussed the potential impact on U.S. infrastructure in our article [Improvement in America's Infrastructure Endangered by the Threat to the Tax-Exemption](#). Over a month ago, we reiterated the imminent and unprecedented threat the tax-exemption faces, explained how it differs from past threats, and warned about the dangers of inaction in our piece, ["Public Finance Sleeps."](#)

*The municipal bond tax exemption faces an unprecedented threat, with a negative potential impact on U.S. infrastructure.*

### Update on Status of 2025 Tax Policy Negotiations, Potential Timing

Questions about potential timing continue to arise, primarily because lawmakers have delayed their progress in negotiating 2025 tax policy specifics. Details about the pay-fors lawmakers are likely to use have been scarce. This could change as early as this week. D.C. lawmakers, especially those in the House, aim to deliver "one big, beautiful bill" for President Trump by Friday May 23, just before Memorial Day weekend.

This is a very aggressive schedule. From Tuesday, April 1 to May 23, there are 52 days. If you subtract 16 days for the Easter recess and weekends, lawmakers are left with only 36 days to complete the Republican signature tax policy initiative they are aiming for. While this schedule is ambitious, it is also possible that the tax policy debate and timing will extend past the Memorial Day weekend target. However, lawmakers are planning on taking the next crucial steps to advance a budget plan as early as this week, [according to Politico](#).

If lawmakers miss the Memorial Day weekend goal, the timeline for finalizing 2025 tax policy will become a moving target. Some potential guidance can be found by examining the [Congressional calendar](#). There is a week-long recess for July 4th and an extended recess in August. There are other Congressional breaks in the fall as well. These recesses are not drop-dead deadlines, often a specific date is needed to nudge lawmakers into action.

What are other possibilities for a potential deadline that lawmakers could use as a catalyst? According [to the CBO](#), the debt ceiling will need to be raised by August or September. This deadline could provide lawmakers with a target if they choose (and are able) to include a debt ceiling extension in the reconciliation package. Again, there is an extended recess scheduled for August remember, so a September deadline could be problematic.

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Otherwise, a timeline extending toward the end of the year is very possible. Elements from the 2017 Tax Cuts and Jobs Acts are expiring on December 31, creating a natural deadline for lawmakers to complete this legislation. As a result, it is possible that the legislation will not be completed until December, similar to when the TCJA was signed into law back on December 22, 2017.

## Tax-Exemption Not as Sacred as an Increase to the SALT Cap

In the first three months of the year, there have been moderate levels of education and advocacy efforts in the halls of Congress to support the municipal bond tax-exemption. In January, the Government Finance Officers Association and the Bond Dealers of America visited D.C. offices. In February, financial services professionals participated in a fly-in organized by the Securities Industry and Financial Markets Association (SIFMA). Last week, members of the American Society of Civil Engineers also spoke to their Congressional representatives in support of this important infrastructure financing tool.

However, it appears that lobbying and support for the tax-exemption have not been as compelling as the efforts to increase the SALT cap. Support for raising the SALT cap has come from federal, state, and local lawmakers themselves. They have persistently and effectively argued in favor of raising the SALT cap, to the point where it is now considered one of the most critical issues in the 2025 tax policy negotiations. As a result, an increase in the SALT cap is very likely.

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An attorney with Ice Miller highlighted during a Council of Development Finance Agencies (CDFA) webinar, [as reported in The Bond Buyer](#), that "the real negotiations have started in earnest very recently between the House Ways and Means and Senate Finance, so this is the window." He strongly encourages officials from cities, states, and other municipal bond-issuing entities to visit Washington, D.C., in-person.

In-person visits by not only government officials, but elected lawmakers at the state and local level could be considered the most effective way for those who benefit from the tax-exemption to make their case for preserving the broader tax-exemption and the tax-exemption on private activity bonds (PABs). Some believe D.C. lawmakers are more likely to target private activity bonds or other specific categories which benefit from the tax-exemption.

It is still early in the tax policy negotiation process, but losing the tax-exemption for private activity bonds is possible. However, lawmakers may be searching for such a large amount of pay-fors, that the PAB portion of the tax-exemption may not be sufficient. Tax expenditures largely could be a target, and the entire municipal bond tax-exemption unless it is considered sacred, could be lost. Returning to the advice shared by the attorney with Ice Miller during the CDFA webinar:

*It is still early in the tax policy negotiation process, but losing the tax-exemption for private activity bonds is possible.*

"If you're an issuer, this is fly-in season. Sign up and go. Don't hope someone else is going to solve this for you — they're not."

*We have not seen many reputable proposals suggesting the elimination of the tax-exempt status on existing bonds.*

## Message to Investors About Existing Bonds Remains the Same

We still believe it is more likely that existing bonds will retain their tax-exempt status. We have not seen many reputable proposals suggesting the elimination of the tax-exempt status on existing bonds. Federal officials generally understand the importance of maintaining investor trust. Eliminating the tax-exempt status on existing bonds would negatively impact many retired fixed-income investors, potentially undermine investor trust and result in market instability.

However, as we witness how the current administration has targeted D.C. institutions, we are increasingly rethinking that stability may not be this administration's goal. Again, for now, our base case scenario is that existing bonds will keep their tax-exempt status if the tax-exemption or parts of it are eliminated.

## Backdrop of Uncertainty

Tax policy is being considered amid a collection of economic, political and policy uncertainty. Economists continued to increase their odds for a recession last week, notable sources including Moody's Analytics and Goldman Sachs. The Republican Party lost a special election in Lancaster, PA. Additional special elections are being held in Florida and Wisconsin, and observers will keenly be watching the results to get an idea if the Trump administration is helping or hurting Republican political chances for 2026. The Signal messaging mess that gained attention last week did not do the Trump administration any favors regarding press attention. Finally, a [CBS News and YouGov poll](#) released this weekend indicated that an increased percentage of respondents believe they are "Worse off" financially now (42%) compared with January (28%), as a result of President Trump's policies.

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## Recent HilltopSecurities Municipal Commentary

- [Improvement in America's Infrastructure Endangered by the Threat to the Tax-Exemption](#), March 25, 2025
- [Navigating the Trump Trade War: Strategies for Municipal Investors Amid Macroeconomic Uncertainty](#), March 17, 2025
- [While Public Finance Sleeps](#), Feb. 12, 2025
- [The Municipal Market in 2025, Hilltop's Sector Credit Outlooks](#), Jan. 30, 2025
- [Growing Support for SALT Cap Expansion, Backing for Tax-Exemption Needed](#), Jan. 9, 2025

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

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