



# Tax reform not a threat to muni bonds

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We're not concerned about what reform will do in terms of the top tax rate and the value of muni bonds.

We do anticipate that tax reform is a real possibility this year. One of the issues that's always raised when people talk about lowering the top tax rate, is that going to reduce the value of municipal bonds? We believe that that's not likely to happen, and here's the reason. If you look at after-tax equivalent yields from munis, what you have to earn in a taxable bond to be equal to where you are in a municipal bond, even at the lower tax rate that's proposed after-tax equivalent yields on municipal bonds are still very attractive relative to corporate bonds, relative to treasuries, relative to foreign opportunities. We still believe munis make a lot of sense.

In an effort to try and make tax reform revenue neutral, tax writers will definitely be looking for ways to raise revenue from changing the tax code. One of those changes might be to the municipal bond interest exemption. We don't think that's likely to happen for two reasons. First, municipal bonds have been one of the most cost-effective ways of investing in infrastructure in this country. If you look back over the past 100 years, roughly 70% of the investment in infrastructure in this country comes from state and local governments who use municipal bonds to pay for it.

The second reason we don't believe that municipal bonds will be threatened going forward is that people who bought municipal bonds bought them in good faith that the interest on those bonds would be exempt from taxes, federal taxes. We don't think that Congress will retroactively change that interest exemption.

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