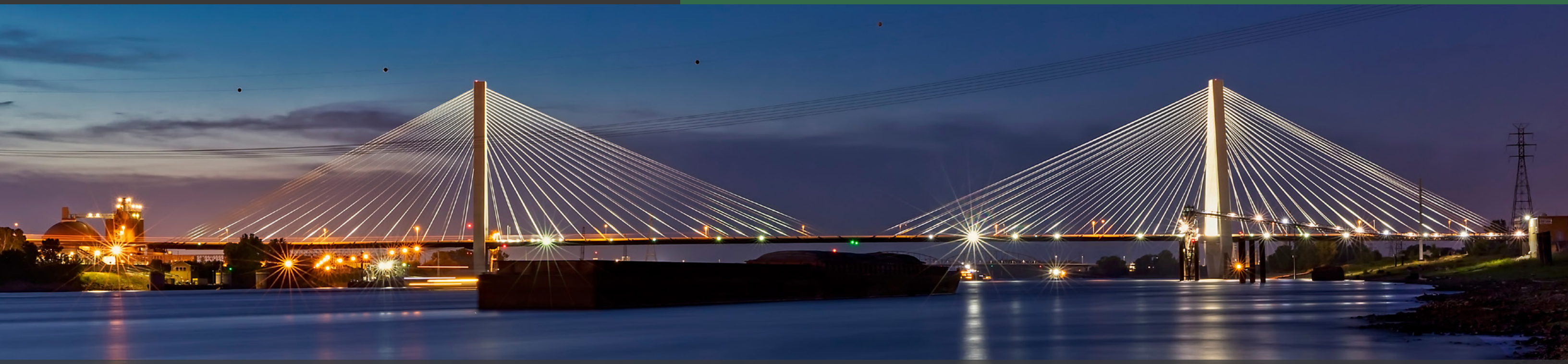
Tax Exempt Municipal Bonds: *Driving American Infrastructure Investment*


Stan Musial Veterans Memorial Bridge (IL-MO), Funded By Municipal Bonds

Municipal bonds have been the principal engine for building and modernizing America's infrastructure for more than 150 years.

Roughly 75% of our nation's infrastructure is financed by municipal bonds. These bonds have built:

4 million
miles of roads

500,000
bridges

16,000
airports

900,000
miles of water system pipeline

They also finance schools, hospitals, public transportation, energy grid upgrades and countless other needed infrastructure projects across the country. In the last decade alone, more than $2 trillion of infrastructure investments have been financed by municipal bonds.

They are the building blocks of our economy and our communities, and help ensure the United States can compete with China and other foreign powers.

It is essential to maintain this vital investment vehicle in order to continue financing our nation's infrastructure.

A NECESSARY Tax Exemption

To encourage infrastructure investment, federal policy makers exempted federal income tax on municipal bond interest, incentivizing investors to buy bonds with low rates of return. This reduces borrowing costs for state and local governments—helping keep infrastructure projects affordable and sustainable. This practice dated back to the 1800's and has been enshrined into the modern tax code since 1913.

Eliminating Municipal Bond Tax Exemption
=
$6,555
Tax Increase/Household

Without the tax exemption, state and local governments would have higher borrowing costs, which would force them to raise taxes, increase fees, charge more tolls, turn to the federal government for help, or simply cut essential services and forgo needed infrastructure investment. Many projects would be postponed or abandoned altogether.

Eliminating the tax exemption on municipal bonds would raise borrowing costs by $824 billion, a cost that would be passed onto taxpayers and lead to a $6,555 tax increase for every American household over the next decade.

Supporting Rural, Smaller Municipalities and Small Businesses

Eliminating or reducing the municipal bond exemption would disproportionately harm rural and smaller communities. Given their limited budgets and smaller tax bases, these communities have few alternative tools to raise the large amounts of capital needed for infrastructure investment.

Paring back the exemption would also directly harm many small businesses throughout the country who support infrastructure development and benefit from the improvement of our infrastructure.

Ensuring State and Local Freedom

The municipal bond tax exemption helps ensure that decisions about when and where to invest in infrastructure are pushed down to the state and local level, where policymakers know best what is needed for their communities. It gives them the autonomy and policy freedom to fund projects without relying on the federal government.

It is also rooted in our Constitution's federal and state separation of powers, recognizing that federal taxation of interest earned on state bonds would violate the doctrine of intergovernmental tax immunity. Under this doctrine, federal and state governments are prevented from taxing each other in a way that infringes on their sovereignty or impairs their ability to function.

Infrastructure Investment Must Remain a Priority

America's infrastructure remains in significant need of upgrade and repair. In its latest Report Card for America's Infrastructure, the American Society of Civil Engineers gave U.S. infrastructure an overall grade of C, with some categories, including stormwater and transit infrastructure, graded D. The report identified an investment gap of $3.7 trillion over the next decade.

Eliminating the municipal bond tax exemption would make it much harder to fill that investment gap. Policymakers should be looking for more tools to incentivize infrastructure investment, not taking away one of the most significant tools in our nation's economic arsenal.

Infrastructure Investment Gap
=
$3.7T

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