REFER TO RESOLUTION BELOW

Tax Exemption on Municipal Bonds

Tax-exempt municipal bonds are the primary means by which state and local governments finance critical infrastructure of our nation, including roads, bridges, hospitals, schools, and utility systems.

Under current law, the owners of municipal bonds are not required to pay federal income tax on the interest income they receive from the bonds.

Municipalities benefit from this tax exemption through substantial savings on the interest cost of borrowed money.

Recently, Congress has considered many options available to reduce the federal deficit. One option Congress is evaluating would reduce, eliminate, or phase out the exemption on municipal bond interest. President Obama's Fiscal Year 2014 Budget Proposal recommends capping the tax exemption of municipal bonds at 28%.

The federal tax exemption on municipal bond interest has been in place since the first federal income tax was enacted in 1913 having been maintained through two world wars, the Great Depression and the recent Great Recession, and as a result, state and local governments save, on average, two percentage points on their borrowing to finance investment in public infrastructure.

This exemption has generated trillions of dollars of investment in public infrastructure and has saved taxpayers hundreds of billions in interest costs.

Reducing or eliminating the exemption on municipal bonds would cause investors to demand higher returns on their municipal bond investments to make up for the tax they would have to pay.

The outcome of reducing or eliminating the tax exemption on municipal bond interest would be higher borrowing costs for state and local governments, less investment in infrastructure and fewer jobs.

Sample resolutions can be obtained at TML1.org for individual city adoption.

A RESOLUTION OPPOSING A
REDUCTION OR ELIMINATION OF THE
TAX EXEMPTION ON MUNICIPAL BOND INTEREST

WHEREAS, tax-exempt municipal bonds are the primary means by which state and local governments finance three quarters of the critical infrastructure of our nation, including roads, bridges, hospitals, schools, and utility systems; and

WHEREAS, municipalities benefit from this tax exemption through substantial savings on the interest cost of borrowed money; and

WHEREAS, Congress is considering many options available to reduce the federal deficit; and

WHEREAS, one option Congress is evaluating would reduce, phase out, or eliminate the exemption on municipal bond interest; and

WHEREAS, the federal tax exemption on municipal bond interest has been in place since the first federal income tax was enacted in 1913 having been maintained through two world wars, the Great Depression and the recent Great Recession, and as a result, state and local governments save, on average, two percentage points on their borrowing to finance investment in public infrastructure; and

WHEREAS, this exemption has generated trillions of dollars of investment in public infrastructure and has saved taxpayers hundreds of billions in interest costs; and

WHEREAS, investors in municipal bonds are generally exempt from paying federal income tax on the bond interest payments so even a partial income tax on otherwise tax-exempt interest would cause investors to demand higher returns on their municipal bond investments to make up for the tax they would have to pay; and

WHEREAS, the outcome of reducing or eliminating the tax exemption on municipal bond interest would be higher borrowing costs for state and local governments, less investment in infrastructure and fewer jobs;

NOW, THEREFORE, BE IT RESOLVED that the ______________________________ of the
(Governing Body)
Town of __________________________________ on ______________________________
(Date)
adopt this Resolution urging our United States Senators Alexander and Corker and the Tennessee Delegation to the United States House of Representatives, specifically Congressman ___________ to strongly oppose any efforts by Congress or the Administration to reduce or eliminate the tax exemption on municipal bond interest.

____
Mayor