American Jobs Act of 2011 Seeks to Curtail Municipal Bond Tax-Exemption (9/13/11)

As reported, the $447 billion ***American Jobs Act of 2011*** would, among other things, remove and minimize various tax deductions and exemptions for non-married taxpayers with incomes in excess of $200,000, and for married couples with incomes of $250,000 or greater. The most visible of these provisions would include limits on mortgage interest and state and local property tax deductions, in addition to the reduced value of municipal bond tax exemption for investors in the highest marginal brackets. Municipal investors in the highest brackets would see the value of tax-exempt interest reduced to 28% from 35%. In other words, the value of tax-exemption as it stands today is worth 35 cents of every tax exempt dollar received -- this would be reduced to 28 cents for taxpayers in the highest marginal brackets.

In our opinion, this Act, as we understand it in its present form, works at cross purposes with its objective of providing additional stimulus to the economy in a cost neutral manner. In short:

- ***Any deduction on mortgage interest payments***, no matter how watered down, would have dramatic consequences to an already weak national housing market. These effects would be especially acute in states such as **Florida, California, Arizona and Nevada** – states that have suffered the worst of the housing market price declines. In our opinion, there is no constituency that would support this provision.

- ***Limitations on the deductions of property and local taxes*** would disproportionally punish those states that are characterized as "high service/ high tax states", that tend to be Democratic, such as **New Jersey, New York, and Connecticut**. Again, we see little support from any large scale constituency for this provision.

- ***Previous action by the Obama Administration actually broadened the appeal of the municipal bond market by introducing and supporting the extension of the now dormant Build America Bond (BABs) Program.***

- ***Now the Administration is seeking to reduce the benefit of municipal bond tax exemption.*** The current funding needs of state and local governments for infrastructure and education are enormous. In our opinion, curtailing the benefit of municipal bond tax exemption would act at cross purposes with the intent of the proposed act; i.e. to put people to work, and to provide additional economic stimulus for state and local governments.

- ***With this in mind we find it difficult to envision any congressional support for actions that would minimize the benefit of municipal bond tax exemption, and ultimately result in higher interest costs for those state and local governments that continue to experience budgetary stresses.***

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