MBFA
Municipal Bonds for America

# Tax Exempt Municipal Bonds:

***The Original Community Impact Investment***

Municipal Bonds are the principal engine for infrastructure growth and societal benefits for the United States and have been for more than 150 years. It is the original community impact investment.

Roughly 75% of the infrastructure in the country is financed by municipal bonds. By todays estimates include that bonds have built more than:

- 4 million miles of roads;
- 500,000 bridges;
- 16,000 airports; and
- 900,000 miles of pipeline for water systems.

**Background**

A municipal bond is the tool in which nearly 50,000 state and local governments, as well as governmental entities such as water and sewer district or airport authorities, raise capital to build and maintain essential infrastructure. These bonds are a safe investment; with the running long-term default rate of just .13%, much lower than other fixed income securities.

Todays bon market, which represents more than $40 trillion of outstanding obligations, is the most significant securities market by far, larger than the U.S. stock markets which have a combined market value of roughly $30 trillion.

**Built by Bonds**

Municipal bonds finance our schools, hospitals, highways, and bridges. Bonds also help support higher education, water and sewer facilities. The airports we use, the ports that bring in imported goods- all essential components of the U.S. economy- are funded by bonds.

Just about every aspect of American life has been impacted by the proceeds of projects financed by municipal bonds.

**In the last decade, it is estimated that more than $2 trillion of infrastructure investments have been financed through the municipal bond market, with figures expected to increase in the coming years following historical federal funding to state and local government.**

## The Tax Exemption

To encourage investment, Federal policy makers exempted federal income tax on municipal bond interest, allowing issuing entities the ability to price attractively. This practice dated back to the 1800's and has been enshrined into the modern tax code since 1913.

Also of note, the municipal bonds interest exemption was granted in recognition of the federal and state separation of powers in that federal taxation of interest earned on certain state bonds violated the doctrine of intergovernmental tax immunity—a strong example of fiscal federalism.

It is critical to note, that if the tax status is changed for municipal bonds, we jeopardize this tried and true marketplace. The bottom line is that everyone benefits from tax-exempt municipal bonds with many facets of our lives being made possible by the $4 trillion dollar bond market.