Municipal Bonds for America

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South Carolina

(7th DISTRICT – Rep. Tom Rice)

How Restrictions on the Municipal Bond Exemption Would Affect the District

For over 100 hundred years, municipal bonds have served as the chief engine driving infrastructure investment in America. Over 70% of today's infrastructure was built with the help of municipal bonds, helping to construct America's hospitals, roads, airports, electrical and water treatment plants and countless other facilities Americans rely on every day.

In South Carolina's 7th District, limiting the exemption would have dramatically negative effects. The higher costs of financing would force state and local governments to make cuts elsewhere, forcing unacceptable trade-offs. For example, if the Obama Administration's proposal to limit the exemption to only 28% of income earned had been in effect for its municipal bond offerings, the citizens of the 7th District would have suffered in highly tangible ways:

- For the City of Myrtle Beach, offsetting the increased financing costs each year would have required the equivalent of cutting its transportation expenses by 36% - or cutting its community development budget by 52%.
- The Horry County Schools would need to make cuts equal to 95% of their annual vehicle and equipment costs.
- The City of Florence would somehow have to increase the annual interest earnings on its investment portfolio by 254%.
- The Florence Water & Sewer Systems would need to make cuts equal to 39% of their employee benefit costs.

Limiting the municipal bond exemption is not a theoretical problem. It would have real world costs that would be felt in the lives of Missouri citizens every day.

MUNICIPAL BONDS—JUST THE FACTS

- More than $1.7 trillion in infrastructure investments have been financed in the last decade and nearly two-thirds of U.S. core infrastructure was financed with municipal bonds.
- Interest paid to bond holders is exempt from federal income tax—just as interest paid to federal bond holders is exempt from state and local tax.
- Financing the last decade of state and local infrastructure investments with taxable debt would have increased costs by $495 billion.
- Most bonds are owned by individual investors—about three-fifths of whom are over the age of 65. Roughly one-half of interest goes to households with income of less than $250,000.
- The municipal tax exemption provides tax savings, but investors also accept a lower rate of return on the bond in exchange, reducing or eliminating any tax "windfall".
- As a percent of GDP, the 42,000 State and local governments and governmental entities that issue bonds have reduced borrowing over the last decade.