Trump Administration and Municipal Bonds

A new administration often comes with changes to personal tax brackets and other provisions that could impact the municipal bond market. The Trump administration recently released their first draft of "One Big, Beautiful Bill" which contains some tax provisions which may impact municipal bonds.

For a brief history, the first income tax was enacted in 1913 at a top rate of 7%. Since then, we have elected 19 different presidents, and the top individual tax rate has swung between 7% and a peak of 94% in 1944[1]. Indeed, changes to tax brackets are nothing new.

Trump clearly supports lower taxes, and the proposed bill will attempt to make permanent the top marginal tax rate of 37% that was implemented during his previous presidency[2].

Lower taxes, in theory, could make the tax-free feature of municipal bonds less valuable as a lower income tax may cause investors to seek higher yields on municipal bonds. It is difficult to generalize the overall impact of lower taxes, as each individual investor has their own unique tax circumstances. However, one useful tool is to compare the yield of a 10-year AAA municipal bond versus a 10-year Treasury Bond. For 2025, this yield ratio has increased from 68.4% to 74.5% through 5/13/2025 indicating municipal bonds in this category have cheapened relative to the Treasury bonds[3]. One possible explanation for this relative rise in municipal bond yields could be that lower taxes have already been priced into the municipal bond market, and that lower taxes may have an immaterial impact on the municipal bond market going forward.

Perhaps the most important topic regarding municipal bonds discussed in Washington is elimination of the tax-exemption on municipal bonds in an effort to help pay for the extension of these tax cuts.

This exemption affords state and local governments the ability to provide essential services to their communities with lower borrowing costs, therefore benefiting residents of these communities through lower costs of debt service. According to Nuveen, eliminating this exemption would save the Federal Government approximately $40 billion per year, however, could cost state and local governments up to $82 billion per year in increased borrowing costs[4].

Not surprisingly, the bill in its current form does not include any provisions to eliminate this tax exemption, but this discussion will likely persist.

One other potentially impactful proposal worth mentioning is an increase to State and Local Tax deduction (SALT) from its current $10K per year to $30K per year[5]. This increase would provide a

1 https://taxpolicycenter.org/statistics/historical-highest-marginal-income-tax-rates
2 https://waysandmeans.house.gov/wp-content/uploads/2025/05/The-One-Big-Beautiful-Bill-Section-by-Section.pdf
3 Bloomberg MUNSMT30 Index
4 https://www.nuveen.com/en-us/insights/municipal-bond-investing/municipal-market-update
5 https://waysandmeans.house.gov/wp-content/uploads/2025/05/The-One-Big-Beautiful-Bill-Section-by-Section.pdf

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tax benefit particularly to tax filers in high tax states such as NY, NJ, and CA, which could have the offsetting effect of reduced demand for tax-free income.

These and other provisions that are included (or excluded) in the draft of this bill will continue to be addressed in Washington. As always, tax reform aims to ensure a fair and efficient tax system, while avoiding any negative unintended consequences. In regard to municipal bonds, policymakers have the task of balancing the interests of states and local governments and municipal bond investors, while still maintaining fiscal responsibility.

It is difficult or impossible to assess what, if any impact this may have on municipal bond prices. We do know, however, that municipal bonds have been providing our nation with reduced costs of borrowing through the tax-exemption since 1913, and it appears unlikely that there will be any material changes to this efficient system.

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