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BLOG POST

Fiscal Cliff Legislation's Impact on Tax-Exempt Bonds

January 2, 2013

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The exclusion from gross income of interest paid on tax-exempt bonds, including both traditional governmental bonds and private activity bonds, is largely unaffected by the fiscal cliff legislation. In fact, except for the inclusion of some specific extender provisions regarding certain tax credit and private activity bonds, the legislation does not address tax-exempt bonds.

While that is good news for both issuers of, and investors in, tax-exempt bonds, the exclusion from gross income of interest paid on tax-exempt bonds could still be targeted if comprehensive tax reform becomes a reality. While the most likely change for tax-exempt bonds to surface recently is a proposed cap on overall deductions/tax benefits for wealthy taxpayers, other changes that have been suggested and might resurface in further negotiations include a reduction in the types of projects that could be financed with private activity bonds or a further limitation on advance refunding transactions.

For issuers of direct pay tax credit bonds, the fiscal cliff legislation postpones the threat to the federal subsidy payments that would have decreased had sequestration gone into effect. Under the fiscal cliff legislation, the sequester (including the federal subsidy payments to issuers) would be implemented on March 27, 2013 if Congress were not able to come to an agreement on a deficit reduction plan.

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