Bond Case Briefs

Municipal Finance Law Since 1971

Muni Investors: Beware Of The De Minimis Tax Rule.

- The recent rise in interest rates has exposed certain municipal bonds priced at a market discount to the de minimis tax rule.
- This rule causes the accretion of the bond discount to be taxed at the marginal income tax rate.
- Muni investors unaware of the de minimis rule could buy a bond at a seemingly attractive yield to later find out the effective yield is much lower.

The recent rise in interest rates has created a situation where tax-exempt municipal bonds trading at a discount could be subject to what is known as the “de minimis” tax rule. The rule applies to bonds purchased at a market discount below a threshold determined by the IRS.

This is a problem because most investors choose municipal bonds for tax-free income. Giving up a portion of your return to the IRS is not something any investor wants to do.

Your broker or bond salesman should advise you if a bond you are considering purchasing or selling qualifies for the de minimis tax. Don’t rely on your broker. Become an informed investor by learning about the rule for yourself.

Continue reading.

Seeking Alpha

Joshua Hudson, CFA

Jan. 1.17