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Think Twice Before Buying a Muni Below Par.

Thinking about buying a municipal bond at a price below its par value? You may want to think twice, because if it's acquired at too deep a discount it could be subject to an additional tax, known as the de minimis tax, which would take a bite out of the after-tax return.

In short: The larger the discount, the greater the risk that an investor will face a higher tax rate. Here are some issues to consider.

What is a discount?

Municipal bonds, or munis, are usually issued with a $1,000 par value, which is the amount you can expect to receive when the bond matures. However, after the initial issuance date, a muni's value can rise and fall in the secondary market. Events such as rising interest rates or deteriorating credit quality can cause the value of the bond to fall below $1,000. When that happens, the bond is trading at a discount.

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