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How to Escape State Taxes Without Leaving New York or California.

Municipal bonds are a relatively safe investment with tax-free interest that gives them an advantage over other fixed-income assets.

There's an easy way to hide from high taxes in states like New York and California that doesn't involve packing up a moving van to Florida or Texas.

US municipal bonds are offering the highest yields in more than a decade after a record-breaking selloff this year. What makes them unique relative to other fixed-income securities like Treasuries, corporate bonds or even bank certificates of deposit is they usually pay interest that's exempt from both state and federal taxes — a perk that can make a big difference.

Interest income from most bonds and ordinary dividends from stocks are taxed at the same rate as someone's salary. That means for every \$1,000 collected, New York state residents in the highest tax bracket could end up with as little as \$483 after accounting for all taxes, while those in California may be left with as little as \$459. With in-state munis, none of the interest earned would be taxed.

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