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## **Understanding the De Minimis Tax Rule.**

Municipal debt securities have always been attractive investment vehicles for those looking to benefit from tax-exemption while still generating good returns. In addition to their federal and, often, state tax-free statuses, these securities are typically backed by strong revenue streams and reserves, creating higher credit qualities and making them even more desirable than their taxable counterparts.

Even though corporate debt may produce higher yields, the overall tax benefit with municipal debt is often enough to outweigh the higher yields offered on taxable debt, and this tax benefit increases as an investor's tax bracket increases. However, there are certain situations with tax-free securities that can create a tax liability and cut into the overall return of the security. While coupon income from municipal debt can be tax-free, price appreciation on a bond purchased at a discount in the secondary market can still be taxable.

In this article, we will take a closer look at the De Minimis Tax Rule to try to understand its implication on municipal debt transactions for investors.

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Jun 14, 2018

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