# Bond Case Briefs

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## Investors Flock To Municipal Bonds For Tax Savings.

Wealthy investors are shoveling more money into municipal-bond exchange-traded funds as they seek shelter from expected higher tax rates.

Municipal-bond ETFs have already experienced $13.8 billion in net inflows this year. The current trajectory is set to outpace the $14.5 billion gathered by muni-bond ETFs for all of 2020.

The U.S. Senate recently approved a $1 trillion infrastructure spending package. That's on top of the $1.9 trillion Covid-19 relief bill passed earlier this year, plus $2.2 trillion more spending via the CARES Act in 2020. The surge in government spending has alarmed many affluent households and financial advisors who are bracing for higher income tax rates.

Income generated from municipal bonds is exempt from federal taxes and from state income taxes, so long as the bonds purchased are from a taxpayer's home state. In certain cases, income from in-state municipal bonds could be subject to state taxes.

There are 65 U.S.-listed municipal-bond ETFs with $78.5 billion in combined assets, according to ETFAction.com. The Denver-based firm is seeing a big pickup in demand for muni-bond ETFs.

ETFs that own higher yielding, lower credit quality municipal bonds have been among the biggest beneficiaries of surging investor demand. Over $1.25 billion has already flooded into high-yield muni-bond ETFs this year, which is more than 10 times greater than the $111 million of assets gathered in 2020.

The $3.9 billion VanEck Vectors High Yield Muni ETF (HYD) is among the funds within the high-yield category that's seen an uptick in asset flows. HYD carries a 30-day SEC yield of 2.18% which equates to a 3.46% taxable equivalent yield for investors in the highest 37% tax bracket. The fund distributes income payments monthly and charges 0.35% annually.

Muni-bond ETFs that are exempt from the federal alternative minimum tax, or AMT, have become another popular target for investors.

With $8.7 billion in combined assets, ETFs tied to municipal bonds with AMT-free income represents the largest segment within the overall municipal-bond ETF category. Within this group, the Invesco National AMT-Free Municipal Bond ETF (PZA) owns at least 80% of its assets in muni bonds that are exempt from the AMT.

The AMT disallows certain deductions that are permitted in the ordinary income-tax code. After calculating taxes under both ordinary income and AMT rates, taxpayers must pay whichever rate is higher. The 2017 tax law change under the Tax Cuts and Jobs Act increased the phase-out thresholds, meaning fewer tax filers are subject to AMT.

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