

# **Bond Case Briefs**

*Municipal Finance Law Since 1971*

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## **MSRB Alerts Investors to Tax and Liquidity Considerations of Buying Discount Bonds.**

Washington, DC – The Municipal Securities Rulemaking Board (MSRB) today published an issue brief that alerts investors to the tax and liquidity considerations of buying municipal bonds at a deep discount.

“With the rise in interest rates and corresponding decline in municipal bond prices since the beginning of 2022, there has been a significant increase in the amount of bonds being offered and trading at substantial discounts to their par value,” said John Bagley, MSRB Chief Market Structure Officer. “While these bonds may appear attractive because of their higher yields, investors need to understand that they could face tax consequences and have a harder time selling these bonds.”

The Internal Revenue Service’s (IRS) De Minimis Discount Rule determines whether the price appreciation of a bond purchased at a discount will be taxed at the capital gains tax rate or the ordinary income tax rate. The price appreciation realized on bonds purchased at significant discounts may be taxed at the ordinary income rate, which could significantly impact a bond’s after-tax return. In addition, bonds trading at a substantial discount can have significantly less liquidity than bonds trading around par or at a premium.

“Investors should look for yields that will compensate them for the tax consequences and potential liquidity challenges when buying deeply discounted bonds,” Bagley said.

The MSRB collects real-time municipal securities trade data, as well as primary market and secondary market disclosures. In addition to making the data and disclosures available for free on its Electronic Municipal Market Access (EMMA®) website and compiling quarterly and annual statistics, the MSRB conducts independent research and analysis to support understanding of market trends. Recent MSRB research [examines the use of external and internal liquidity](#) in the municipal market; assesses the [impact of electronic trading technology](#) in the market; and studies the [evolution of the taxable municipal bond market](#). The MSRB is also exploring and prototyping new, more dynamic ways to make market data available to the public in its new EMMA Labs innovation sandbox, a key part of its long-term strategic goal to leverage data to deepen market insights.

[Read the issue brief.](#)

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