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Tax-Free Income on Sale: Buying Municipal Bonds at a Discount with Closed-End Funds

There's nothing better than getting a high yield, except if that high yield comes tax free. And right now, investors have the opportunity to engage in such a transaction.

Despite their steadfastness and stability, municipal bonds have continued to trade sideways – and lower – in the wake of the Fed's pace of interest rate hikes. Munis are prized by many investors for their high credit quality and their ability to provide federal, and in some instances state/local, tax benefits. Now could be one of the best times to add the bonds variety to a portfolio.

However, there is a way to buy munis at both a discount and a higher yield. Closed-end funds are some of the biggest buyers of muni bonds, and right now, their discounts to net asset values (NAVs) are at some of the highest levels not seen in over a decade. With tax-free yields closer to 8%, investors looking to juice their income have a rare opportunity in the sector.

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