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[Municipal-Bond Investors Pay a Hefty Price for Not Being Taxed.](#)

A new study suggests that ‘investors overvalue the pleasure’ of tax-exemption

Municipal-bond investors are paying a greater premium than should be expected for the “pleasure of not being taxed,” a new study finds, often negating the bonds’ benefit.

In a perfectly priced world, a muni bond would pay interest equivalent to a Treasury bond minus the investors’ tax burden on the Treasury and adjusted for liquidity and credit quality of the issuing state or municipality.

But munis pay investors even less than that, according to the study, which appeared in a National Bureau of Economic Research working paper in June. On average, the study found, the yield of the muni bonds was nearly 15 basis points, or 0.15 percentage point, lower than what would be explained by their favorable tax status.

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