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[When to Consider Munis From Outside Your Home State.](#)

A major benefit of municipal bonds, or “munis,” is that the interest they pay is generally exempt from federal income taxes. They’re also generally exempt from state income taxes if the issuer is from the investor’s home state. That may seem like a compelling argument for sticking with in-state munis. However, many muni investors may benefit by diversifying outside of their home state, even if it results in a higher state tax bill.

We’ve identified five factors when it could make sense to consider munis from other states. After considering all five, we think that muni investors in all states, with the exception of two high-tax states—California and New York—could benefit from investing in a national, not state-specific, portfolio of muni bonds. Even investors in California who are not in a high state tax bracket could achieve higher after-tax yields by diversifying nationally.

1. You live in a state with low or no state income tax.

If you live in a state with low or no state income tax, you will likely benefit from diversifying your muni portfolio with munis from issuers outside your home state.

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