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AMT: One Big Beautiful Opportunity in the Municipal Bond Market

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For many investors, the phrase “alternative minimum tax” tends to raise eyebrows or trigger confusion, if not concern. However, within the municipal bond market, AMT-designated bonds are quietly offering one of the most attractive opportunities in today’s investment-grade sector. And thanks to recent tax legislation, a primary risk that may have once deterred investors from these instruments has, in our opinion, significantly diminished.

Understanding AMT and Its Impact on Bonds

The individual alternative minimum tax is part of a parallel tax system that requires some taxpayers to calculate their tax liability twice—once using the standard rules and again using AMT rules. The AMT calculation includes certain deductions and additional adjustments. Taxpayers must pay the higher liability from the two calculations.

Some municipal bonds—generally those issued in sectors where private entities may benefit, such as airports or solid waste facilities—are designated as AMT. Although interest from these bonds is technically tax-exempt, it may be included in an investor’s AMT calculation, reducing the overall tax advantage. AMT bonds are generally issued at higher yields than comparable non-AMT bonds to offset this risk.

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