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Tax-Exempt Munis vs. Taxable Bonds: Which Has Higher Returns? - WSJ

There’s a clear winner for most people, according to research

Many investors turn to tax-exempt municipal bonds to avoid paying federal and possibly local taxes, sacrificing a bit of yield in the hopes of having a higher after-tax return.

But is this better than investing in taxable bonds and paying taxes on income distributions and capital gains?

Exploring all muni funds in the U.S. over the past 15 years and comparing them with their comparable taxable-bond funds, we find that most investors are better off going with munis. Only in cases where an investor has a low marginal tax rate—below 30%—and is interested in short-term debt does it make sense to invest in taxable funds.

Continue reading.

The Wall Street Journal

By Derek Horstmeyer

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