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Municipal Bond Ladders: Where the Tax Math Actually Gets Complicated

Every advisor knows the headline pitch for a municipal bond ladder: interest is generally exempt from federal income tax, so a lower coupon can still beat a higher-yielding taxable bond once you gross it up for the client's bracket.

With the top federal marginal rate holding at 37% for 2026 — kicking in above $640,600 of taxable income for single filers and $768,600 for joint filers under the inflation-adjusted brackets that followed the One Big Beautiful Bill Act, according to the Tax Foundation's 2026 bracket tables — that math is more favorable than it's been in years. Investment-grade municipal yields have recently translated to roughly 6% tax-equivalent yield, and high-yield municipal paper to roughly 9%, per AllianceBernstein's 2026 municipal market outlook. That headline number, though, is where most conversations about muni ladders stop — and where the real construction decisions actually start.

The first complication is state residency, which the simple tax-equivalent-yield formula ignores entirely. A muni ladder built from a client's home-state issuers avoids state income tax on top of the federal exemption, which is a meaningfully bigger benefit in a high-tax state than in a state with no income tax at all — a Californian and a Floridian should not be building the same ladder even if their federal brackets are identical. But concentrating an entire ladder in a single state's issuers also concentrates credit exposure to that state's fiscal condition, its largest municipalities, and its major revenue-bond sectors (toll roads, hospital systems, water utilities) in a way a nationally diversified ladder would not. There's no formula that resolves this cleanly; it's a genuine tradeoff between after-tax yield and single-state concentration risk that has to be sized to the client's total portfolio, not just the bond sleeve.

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