

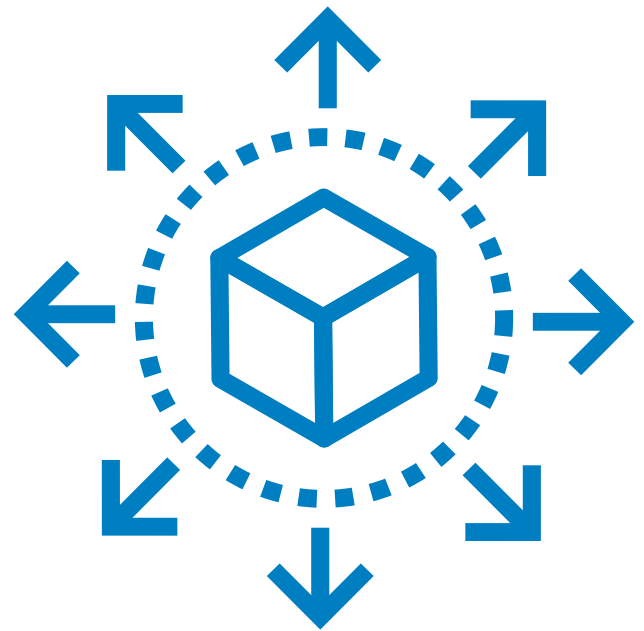


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THE BENEFITS OF MUNICIPAL BONDS

Municipal bonds can offer tax advantages for investors. This advantage can be particularly attractive to investors in high tax brackets.

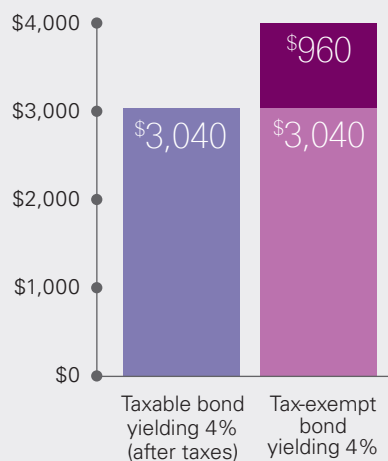


THE MUNICIPAL ADVANTAGE

Municipal bonds, or investment products that invest in municipal bonds, provide an important advantage to investors: the interest they generate is almost always exempt from federal income tax.¹

This benefit may especially appeal to investors in high tax brackets. The higher the bracket, the greater the potential advantage, and the better the municipal bonds look relative to other taxable investments. Consider the hypothetical case of an investor in a 24% federal tax bracket who has \$100,000 to invest; a taxable bond yielding 4% would provide the investor with \$3,040 in after-tax interest income, but a municipal (tax-exempt) bond yielding 4% would provide the investor with \$4,000 in tax-exempt interest income² — a difference of \$960.

To compensate this investor for this “advantage,” a taxable investment would have to yield 5.26%.



The table shows the equivalent yield that a taxable investment has to generate in order to match a tax-exempt municipal bond yield, based on various tax brackets. Use this figure to make an “apples to apples” comparison between a tax-exempt (municipal bond) and taxable investment.

$$\text{Taxable equivalent yield} = \frac{\text{Tax-exempt bond yield}}{1.0 - \text{tax bracket}}$$

Tax-exempt bond yield (%)	Taxable equivalent yield % federal tax bracket ²					
	12	22	24	32	35	37
2.00	2.27	2.56	2.63	2.94	3.08	3.17
2.25	2.56	2.88	2.96	3.31	3.46	3.57
2.50	2.84	3.21	3.29	3.68	3.85	3.97
2.75	3.13	3.53	3.62	4.04	4.23	4.37
3.00	3.41	3.85	3.95	4.41	4.62	4.76
3.25	3.69	4.17	4.28	4.78	5.00	5.16
3.50	3.98	4.49	4.61	5.15	5.38	5.56
3.75	4.26	4.81	4.93	5.51	5.77	5.95
4.00	4.55	5.13	5.26	5.88	6.15	6.35
4.25	4.83	5.45	5.59	6.25	6.54	6.75
4.50	5.11	5.77	5.92	6.62	6.92	7.14
4.75	5.40	6.09	6.25	6.99	7.31	7.54
5.00	5.68	6.41	6.58	7.35	7.69	7.94
5.25	5.97	6.73	6.91	7.72	8.08	8.33
5.50	6.25	7.05	7.24	8.09	8.46	8.73
5.75	6.53	7.37	7.57	8.46	8.85	9.13
6.00	6.82	7.69	7.89	8.82	9.23	9.52
6.25	7.10	8.01	8.22	9.19	9.62	9.92
6.50	7.39	8.33	8.55	9.56	10.00	10.32
6.75	7.67	8.65	8.88	9.93	10.38	10.71
7.00	7.95	8.97	9.21	10.29	10.77	11.11
7.25	8.24	9.29	9.54	10.66	11.15	11.51
7.50	8.52	9.62	9.87	11.03	11.54	11.90
7.75	8.81	9.94	10.20	11.40	11.92	12.30
8.00	9.09	10.26	10.53	11.76	12.31	12.70
8.25	9.38	10.58	10.86	12.13	12.69	13.10
8.50	9.66	10.90	11.18	12.50	13.08	13.49
8.75	9.94	11.22	11.51	12.87	13.46	13.89
9.00	10.23	11.54	11.84	13.24	13.85	14.29
9.25	10.51	11.86	12.17	13.60	14.23	14.68
9.50	10.80	12.18	12.50	13.97	14.62	15.08

Source: Legg Mason.

¹ Certain investors may be subject to state or local income taxation. Income from “private activity” municipal bonds may be subject to federal, state or local alternative minimum taxes (AMT). Capital gains, if any, are fully taxable.

² Please note that the analysis presented here does not account for state or local taxes, if applicable. Consult your tax advisor about your particular situation.

Capital gains and interest income are subject to an additional 3.8% tax on “net investment income” for taxpayers with taxable income of \$200,000 (single persons)/\$250,000 (married persons filing jointly).

2020 FEDERAL TAX RATE SCHEDULES³

Some investors may not know their current tax bracket, which is based on filing status (single, married filing jointly or qualifying widow(er), married filing separately, head of household) and taxable income. Knowing your tax bracket will allow you to gain an understanding of the potential tax benefits you may reap via a tax-exempt investment.

Federal Tax Brackets as of January 2020

To find your federal tax bracket, select the proper row in the chart below.

Taxable income (\$)	Tax bracket (%)	Taxable income (\$)	Tax bracket (%)
Single		Married filing separately	
Not over \$9,875	10	Not over \$9,875	10
\$9,876-\$40,125	12	\$9,876-\$40,125	12
\$40,126-\$85,525	22	\$40,126-\$85,525	22
\$85,526-\$163,300	24	\$85,526-\$163,300	24
\$163,301-\$207,350	32	\$163,301-\$207,350	32
\$207,351-\$518,400	35	\$207,351-\$311,025	35
\$518,401+	37	\$311,026+	37
Married filing jointly or qualifying widow(er)		Head of household	
Not over \$19,750	10	Not over \$14,100	10
\$19,751-\$80,250	12	\$14,101-\$53,700	12
\$80,251-\$171,050	22	\$53,701-\$85,500	22
\$171,051-\$326,600	24	\$85,501-\$163,300	24
\$326,601-\$414,700	32	\$163,301-\$207,350	32
\$414,701-\$622,050	35	\$207,351-\$518,400	35
\$622,051+	37	\$518,401+	37

Important note: Taxable income is your gross income minus certain exemptions and deductions. Consult your tax advisor to determine the appropriate figure.

For more information about how you can benefit from municipal bonds or products that invest in municipal bonds, speak to your financial professional, who can help you evaluate them in the context of your current portfolio.

³ Source: Internal Revenue Service: Rev. Proc. 2019-44. (November 6, 2019) Please refer to the U.S. Internal Revenue Service website (www.irs.gov) for more information.

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What should I know before investing?

Fixed income investments are subject to interest rate risk. As rates rise, the price of fixed income securities falls. Certain investors may be subject to state and local taxation. Income from “private activity” municipal bonds may be subject to federal, state or local alternative minimum taxes (AMT). Capital gains, if any, are fully taxable. Fixed income securities involve interest rate, credit, inflation and reinvestment risks; and possible loss of principal. Consult your tax advisor about your particular situation.

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