



### UNLOCK YOUR TOMORROW

#### Why Consider Municipal Bonds?

Municipal bonds (“munis”) are debt obligations issued by state and local governments or their agencies to fund public projects such as schools, highways, and infrastructure. These fixed income securities provide investors with a unique combination of tax free fixed income and capital preservation.

#### Key Benefits of Municipal Bonds

- **Tax-Free Income:** Interest earned on most municipal bonds is exempt from federal income tax and, in many cases, state taxes, providing investors with a potentially attractive after-tax yield.
- **Reliable Income Stream:** Munis offer consistent semi-annual interest payments, making them a valuable source of steady investment income.
- **Preservation of Capital:** High-quality municipal bonds, particularly those with top investment-grade ratings, are known for their creditworthiness, historically low default rates, and principal preservation.

- **Diversification Benefits:** Municipal bonds serve as a conservative allocation within a diversified investment portfolio, potentially reducing overall portfolio volatility.
- **Community Impact:** Muni investing finances essential public services and infrastructure projects, supporting local communities

#### 2025 Tax-Equivalent Yield Comparison Chart

One of the most compelling reasons for high effective tax rate investors to consider municipal bonds is understood by illustrating the importance of one’s tax-equivalent yield (TEY). Since municipal bond interest is exempt from federal taxes, it may result in a higher net return compared to taxable investments, even if those taxable investments offer a higher gross interest payment. See below for a visual representation of how tax-equivalent yields compare at various tax rates.

Taxable income and Fed tax rate					Tax-exempt yields									
					2%	2.5%	3%	3.5%	4%	4.5%	5%	5.5%	6%	
Single return		Joint return		Fed tax rate	Federal taxable equivalent yields									
\$0	\$11,925	\$0	\$23,850	10%	2.22%	2.78%	3.33%	3.89%	4.44%	5.00%	5.56%	6.11%	6.67%	
\$11,926	\$48,475	\$23,851	\$96,950	12%	2.27%	2.84%	3.41%	3.98%	4.55%	5.11%	5.68%	6.25%	6.82%	
\$48,476	\$103,350	\$96,951	\$206,700	22%	2.56%	3.21%	3.85%	4.49%	5.13%	5.77%	6.41%	7.05%	7.69%	
\$103,351	\$197,300	\$206,701	\$394,600	24%	2.63%	3.29%	3.95%	4.61%	5.26%	5.92%	6.58%	7.24%	7.89%	
\$197,301	\$250,525	\$394,601	\$501,050	32%	2.94%	3.68%	4.41%	5.15%	5.88%	6.62%	7.35%	8.09%	8.82%	
\$250,526	\$626,350	\$501,051	\$751,600	35%	3.08%	3.85%	4.62%	5.38%	6.15%	6.92%	7.69%	8.46%	9.23%	
\$626,351	And up	\$751,600	And up	<b>37%</b>	3.17%	3.97%	4.76%	5.56%	<b>6.35%</b>	7.14%	7.94%	8.73%	9.52%	

Taxable equivalent yields shown account for federal income tax only. This chart does not consider state and local taxes, and 3.8% Medicare surtax on net investment income.



## Understanding Tax-Equivalent Yield (TEY) Formula

$$\text{TEY} = \text{Municipal Bond Yield} / (1 - \text{Tax Rate})$$

For example, if an investor is in the 37% federal tax bracket and holds a municipal bond paying a 4.00% coupon, the tax-equivalent yield is calculated as:

$$4.00\% / (1 - 0.37) = 6.35\%$$

This means that, on a tax-adjusted basis, the investor would need to earn at least 6.35% on a taxable bond to achieve the same after-tax return as a 4.00% tax-free municipal bond. The chart below illustrates that tax-free yields relative to taxable yields are near 15-year highs and have historically provided high-income investors an opportunity to net a greater investment income yield.

## Safety and Credit Quality of Munis

- **Low Default Rates:** Investment-grade municipal bonds have significantly lower historical default rates compared to corporate bonds.

- **Government Backing:** Many municipal bonds are backed by the taxing power of the issuing municipality (general obligation bonds) or revenue from specific projects (revenue bonds).
- **Bond Insurance and Credit Enhancements:** Some municipal bonds are insured or backed by strong credit structures, further reducing risk.

## Who Should Consider Municipal Bonds?

Municipal bonds offer a compelling opportunity for tax-conscious investors. By delivering federally tax-free income with strong credit quality and competitive tax-equivalent yields, they provide a valuable tool for preserving wealth and maximizing after-tax returns. Municipal bonds are particularly advantageous for:

- High-net-worth individuals in the top federal tax brackets seeking tax-efficient income.
- Investors looking to reduce tax liability while maintaining a conservative fixed-income portfolio.
- Those seeking stable cash flow and capital preservation.

## The tax-equivalent yield for an investor in the top tax bracket is near its high over the past 15 years



Source: Bloomberg Municipal Bond Index, as of 12/3/2024. Assumes a federal tax rate of 35% from 2004 to 2012, 39.6% from 2013 to 2017, and 37% from 2018 to 2024. Also assumes an additional 10% state income tax and 3.8% Net Investment Income (NIIT) tax. Indexes are unmanaged, do not incur management fees, cost and expenses and cannot be invested in directly. Past performance is no guarantee of future results. For illustrative purposes only.

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