

Municipal Bonds

SUMMARY:

The municipal bond market is huge, encompassing hundreds of billions of dollars in outstanding debt from communities, universities, hospitals, and other "municipalities." The interest income for most municipal bonds is free from Federal income taxes. State and alternative minimum taxes may still apply, as may capital gains tax if bonds are sold prior to maturity.

Because municipalities operate differently from corporations, the criteria is different for determining the creditworthiness of municipal bonds. Are insured municipal bonds a safer investment? Is a General Obligation bond, whose debt obligation can be paid by raising taxes of the citizens of that municipality, worth more than other bonds with the standard ratings of A, AA, AAA?

Please note: Sharon Alister does not give tax advice. Any person considering an investment or portfolio management strategy should consult with his or her own tax advisor.