



rules that disallow certain deductions. Fortunately, the phaseout threshold for the AMT also increased (from \$160,900 in 2017 to \$1,020,600 in 2019 and \$1,036,800 in 2020 for joint filers), so many households no longer need to worry about the AMT.

## Tax-Exempt Funds

Some muni bond funds and exchange-traded funds (ETFs) are national and offer income free of federal income tax, but they may be subject to state and local taxes. Other funds focus on bonds from one specific state and may also include bonds from U.S. territories that are not subject to state taxes, making the fund's interest income tax-free for investors who live in the targeted state.

Investors should keep in mind that capital gains taxes could still be triggered if tax-exempt bonds or fund shares are sold for a profit. Also, tax-exempt interest is included in determining whether a portion of any Social Security benefit received is taxable.

## Review the Risks

Because government entities have the power to raise taxes and fees as needed to pay the interest, muni bonds are generally less risky than corporate bonds. The 10-year default rate for U.S. investment-grade municipal bonds is 0.18%, compared with 1.74% for investment-grade corporate bonds.<sup>2</sup>

Regional economies and the financial strength of issuers can vary widely, so municipal issues are rated for credit risk, as are other bonds. A credit rating ranging from AAA down to BBB (or Baa) is considered "investment grade"; lower-rated or "junk" bonds carry greater risk.

As interest rates rise, bond prices fall, and vice versa. When redeemed, bonds may be worth more or less than their original cost. Bond funds are subject to the same inflation, interest-rate, and credit risks associated with their underlying bonds. The return and principal value of bonds and mutual fund shares fluctuate with changes in interest rates and other market conditions, which can adversely affect investment performance.

*Mutual funds and ETFs are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.*

1) *The Wall Street Journal*, August 7, 2019

2) Municipal Securities Rulemaking Board, 2019

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