

[< Back to overview](#)

Eaton Vance Tax Education Center > Tax Management Approaches

LEARN | Understanding Tax-Equivalent Yield

3 minutes

Understand how taxes can impact your clients' returns on bonds and how a simple calculation can help maximize outcomes.

Prefer to save for later?

 [SHARE BY EMAIL](#)

Did You Know?

Tax equivalent yield is equal to:

$$\text{Tax-free bond yield} \div (1 - \text{marginal tax rate})$$


Key Takeaway

When considering potential investments in different types of bonds, clients should evaluate yields on a tax-equivalent basis, taking into account the taxes they would owe on the interest earned from each.





Compare a 3.6% In-State Bond to Other Investments

Hypothetical Example: Pretax Yield Needed for Equivalent After-Tax Income

Compare the pretax yield and total tax rate for four investment types. In this example, the taxpayers make \$280,000/year and are married, filing jointly. Their combined top tax rate is 32.8% (this includes a federal marginal tax rate of 24%, net investment income surtax of 3.8% and state tax rate of 5%). For purposes of this example, we will assume in-state municipal bonds yield 3.6%.

Total Tax Rate

Break-Even Yield

 In-State Bond¹	0%	3.6%
 Out-of-State Municipals²	5.00%	3.79%
 U.S. Treasury Bonds³	27.80%	4.99%
 Other Debt Instruments⁴	32.80%	5.36%

Next Step

By understanding the tax treatment of different bond categories, you can help guide clients toward more tax-efficient investment strategies.

KEEP LEARNING

Tax-Equivalent Yield Calculator

[LEARN MORE](#)

Disclosure



¹ In most states, interest on in-state municipals is not subject to state or local income tax.

² In most states, interest on out-of-state municipals is subject to state income tax and applicable local income tax.

³ Interest received on U.S. Treasuries is exempt from state and local income taxes.

⁴ Other debt instruments include corporate bonds and loans, debt issued or guaranteed by Ginnie Mae, Fannie Mae, Freddie Mac and other federal agencies that are not backed by the full faith and credit of the U.S. government, and the sovereign debt of other countries, among others. Interest on other debt instruments is taxable as ordinary investment income.

This hypothetical illustration is provided solely to demonstrate the long-term effect of applying mathematical principles to an assumed set of facts. Actual results will differ and could be substantially different.

The Firm does not provide tax advice. The tax information contained herein is general and is not exhaustive by nature. Tax laws are complex and subject to change. Investors should always consult their own legal or tax professional for information concerning their individual situation.



HEADQUARTERS

One Post Office Square
Boston, MA 02110

Investments

[Eaton Vance Funds](#)

[Parametric Funds](#)

[Calvert Funds](#)

[Separately Managed
Accounts](#)

[Closed-End Funds and
Term Trusts](#)

Insights

[Advisory Blog](#)

[The BEAT](#)

[Market Update Events](#)

[The Advisor Institute](#)

Taxes & Tools

[Investment Tax Center](#)

[Tax Information](#)

[Investment Tax Calculator](#)

[Laddered Investing Interest](#)

[Rate Scenario Tool](#)

[Concentrated Stock
Position Calculator](#)

[Tax-Equivalent Yield
Calculator](#)

Resources

[Forms & E-Delivery](#)

[Mutual Funds & Abandoned
Property](#)

[DST Vision](#)

[Active Advisor](#)

[Corporate Filings](#)

[Annual Reports](#)

[Press Releases](#)

[Diversity and Inclusion](#)

Accessibility	Business Continuity	Privacy & Cookies	Your Privacy Choices	Terms & Conditions	Careers	Contact
Investor Account Access	Morgan Stanley Investment Management Terms of Use					

To report a website vulnerability, please go to [Responsible Disclosure](#).

Eaton Vance is part of Morgan Stanley Investment Management, the asset management division of Morgan Stanley.

For USA PATRIOT Act Disclosure Notice please click [here](#).

 This image indicates content designed specifically for Financial Advisors / Investment Professionals. This material is not to be used with the public.

Before investing in any Eaton Vance, Calvert or Morgan Stanley Investment Management Inc.-advised fund, prospective investors should consider carefully the investment objective(s), risks, and charges and expenses. Read the prospectus carefully before you invest or send money. For **open-end mutual funds**, the current prospectus contains this and other information. To obtain an **open-end mutual fund** prospectus or summary prospectus and the most recent annual and semiannual shareholder reports, contact your financial advisor or [download a copy here](#). For **closed-end funds**, you should contact your financial advisor. To obtain the most recent annual and semi-annual shareholder report for a closed-end fund contact your financial advisor or [download a copy here](#). To obtain an **exchange-traded fund**, ("ETF") prospectus or summary prospectus, contact your financial advisor or [download a copy here](#).

Before purchasing any **variable product**, consider the objectives, risks, charges, and expenses associated with the underlying investment option(s) and those of the product itself. For a prospectus containing this and other information, contact your investment or insurance professional. Read the prospectus carefully before investing.

NOT FDIC INSURED | OFFER NO BANK GUARANTEE | MAY LOSE VALUE | NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY | NOT A DEPOSIT

Eaton Vance does not provide tax or legal advice. Prospective investors should consult with a tax or legal advisor before making any investment decision. The information on this Web page is for U.S. residents only and does not constitute an offer to sell, or a solicitation of an offer to purchase, securities in any jurisdiction to any person to whom it is not lawful to make such an offer.

© Eaton Vance Management. All rights reserved.

Eaton Vance open-end mutual funds are offered through Eaton Vance Distributors, Inc. One Post Office Square, Boston, MA 02110. Member [FINRA](#) / [SIPC](#). Exchange-traded funds are distributed by Foreside Fund Services, LLC.

Publication details: Tuesday, March 5, 2024 10:49 AM

Page ID: 46464 - <https://www.eatonvance.com/understanding-tax-equivalent-yield.php>