

Income Insights is a series designed to quickly describe important income tax concepts for advisors and their clients.

Holly Swan

8/27/2025

Tax Management

When comparing bonds, be sure to evaluate yields on a tax-equivalent basis to consider the impact of taxes on after-tax returns. Here we look at the tax-equivalent yield using a hypothetical scenario.

These married taxpayers—who file jointly—reside in Arizona and earn a combined \$450,000 per year. Their federal marginal tax rate is 32%, and they're subject to the [Net Investment Income surtax](#) of 3.8%. They also pay a state tax of 2.5%, with a combined federal and state marginal tax rate of 38.3%. For this example, we assume an in-state municipal bond yield of 3.28%.

The formula for calculating tax-equivalent yield is:

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

Below is how the tax-equivalent yield would be calculated for our hypothetical couple, comparing four types of bonds.

	IN-STATE MUNICIPAL BONDS	OUT-OF-STATE MUNICIPAL BONDS	U.S. TREASURY BONDS	CORPORATE BONDS
Subject to state or federal tax	Neither tax	State tax	Federal tax	State and federal tax
Calculation	$3.28/(1 - 0)$	$3.28/(1 - 0.025)$	$3.28/(1 - 0.358)$	$3.28/(1 - 0.383)$
<b>Tax-equivalent yield</b>	<b>3.28%</b>	<b>3.36%</b>	<b>5.11%</b>	<b>5.32%</b>

For this couple, a corporate bond must yield 5.32% to produce an after-tax yield equivalent to the in-state municipal bond yielding 3.28%. This hypothetical example highlights how taxes can affect investment returns and the importance of making informed decisions to maximize after-tax income.

Allspring Global Investments does not provide accounting, legal, or tax advice or investment recommendations. Any tax or legal information on this page is merely a summary of our understanding and interpretations of some of the current income tax regulations and is not exhaustive. Investors should consult their tax advisor or legal counsel for advice and information concerning their particular situation.

This material is provided for informational purposes only and is for professional/institutional and qualified clients/investors only. Not for retail use outside the U.S. Recipients who do not wish to be treated as professional/institutional or qualified clients/investors should notify their Allspring contact immediately.

THIS CONTENT AND THE INFORMATION WITHIN DO NOT CONSTITUTE AN OFFER OR SOLICITATION IN ANY JURISDICTION WHERE OR TO ANY PERSON TO WHOM IT WOULD BE UNAUTHORIZED OR UNLAWFUL TO DO SO AND SHOULD NOT BE CONSIDERED INVESTMENT ADVICE, AN INVESTMENT RECOMMENDATION, OR INVESTMENT RESEARCH IN ANY JURISDICTION.

**INVESTMENT RISKS:** All investments contain risk. Your capital may be at risk. The value, price, or income of investments or financial instruments can fall as well as rise and is not guaranteed. You may not get back the amount originally invested. Past performance is not a guarantee or reliable indicator of future results.

Allspring Global Investments<sup>TM</sup> (Allspring) is the trade name for the asset management firms of Allspring Global Investments Holdings, LLC, a holding company indirectly owned by certain private funds of GTCR LLC and Reverence Capital Partners, L.P. These firms include but are not limited to Allspring Global Investments Luxembourg, S.A.; Allspring Funds Management, LLC; Allspring Global Investments, LLC; Allspring Global Investments (UK) Ltd.; Allspring Global Investments (Singapore) Pte. Ltd.; Allspring Global Investments (Hong Kong) Ltd.; and Allspring Global Investments (Japan) Ltd.

Unless otherwise stated, Allspring is the source of all data (which is current or as of the date stated). Content is provided for informational purposes only. Views, opinions, assumptions, or estimates are not necessarily those of Allspring or their affiliates and there is no representation regarding their adequacy, accuracy, or completeness. They should not be relied upon and may be subject to change without notice.

© 2026 Allspring Global Investments Holdings, LLC. All rights reserved.