

# Taxable equivalent yield calculations

## Quick math to better compare taxable and tax-free options

Comparing yields between taxable and tax-free products can be like comparing apples to oranges. This piece is designed to help you understand what taxable equivalent yields look like for a given tax-free yield and tax rate. The tables and examples below can help you calculate your own taxable equivalent yields based on your personal tax rate and current tax-free yields.

A **taxable equivalent yield (TEY)** is the rate that a taxable investment would need to offer in order to be comparable to the yield of the tax-free investment.



## Taxable equivalent yield calculations and factors

First you need to determine your personal tax rate, the marginal rate in which you fall. Then you can multiply a current tax-free yield by the applicable taxable equivalent yield factor\* below to determine the taxable equivalent yield (TEY). For example, if you are in the 35% tax bracket and see a tax-free yield of 4.00%, then you would multiply 1.54 by 4.00 to get a 6.16% TEY.

	Corporate federal tax rate	Individual federal marginal tax rates				
	21%	24%	32%	35%	37%	37% + 3.8% ACA Tax
<b>Taxable equivalent yield factor*</b>	1.27x	1.32x	1.47x	1.54x	1.59x	1.69x

\*The taxable equivalent yield factor is determined using the following equation: Taxable equivalent yield factor = 1/(1-tax rate).

## Generic taxable equivalent yields

As general examples, the table below provides different tax-free yields and their taxable equivalent yields. These calculations are theoretical and not based on any actual, implied or expected results.

$$\text{Taxable equivalent yield} = (\text{taxable equivalent yield factor}) \times (\text{tax-free yield})$$

	Corporate federal tax rate	Individual federal marginal tax rates				
	21%	24%	32%	35%	37%	37% + 3.8% ACA Tax
<b>Tax-free yield</b> 2.00%	2.54% TEY	2.64% TEY	2.94% TEY	3.08% TEY	3.18% TEY	3.38% TEY
2.50%	3.18% TEY	3.30% TEY	3.68% TEY	3.85% TEY	3.98% TEY	4.23% TEY
3.00%	3.81% TEY	3.96% TEY	4.41% TEY	4.62% TEY	4.77% TEY	5.07% TEY
3.50%	4.45% TEY	4.62% TEY	5.15% TEY	5.39% TEY	5.57% TEY	5.92% TEY
4.00%	5.08% TEY	5.28% TEY	5.88% TEY	6.16% TEY	6.36% TEY	6.76% TEY

## State specific generic taxable equivalent yields

With state specific investment options, tax rates and brackets vary. This table displays comparisons for investors paying the highest tax rates for two states. New York has additional and higher tax brackets than California so three examples are shown below with the lowest New York rate representing a comparable tax bracket to the California example shown. These calculations are theoretical and not based on any actual, implied or expected results.

		Top individual federal tax rate + ACA Tax + Top marginal state tax rate			
		California**	New York***		
		54.10%	50.45%	51.10%	51.70%
		(37% + 3.8% ACA Tax + 13.30%)	(37% + 3.8% ACA Tax + 9.65%)	(37% + 3.8% ACA Tax + 10.30%)	(37% + 3.8% ACA Tax + 10.90%)
Tax-free yield	2.00%	4.36% TEY	4.04% TEY	4.09% TEY	4.14% TEY
	2.50%	5.45% TEY	5.05% TEY	5.11% TEY	5.18% TEY
	3.00%	6.54% TEY	6.05% TEY	6.13% TEY	6.21% TEY
	3.50%	7.63% TEY	7.06% TEY	7.16% TEY	7.25% TEY
	4.00%	8.71% TEY	8.07% TEY	8.18% TEY	8.28% TEY

\*\*California taxable equivalent yield factor = 2.18x.

\*\*\*New York taxable equivalent yield factor = 2.02x; 2.04x; 2.07x.

**Contact your Federated Hermes representative to discuss available tax-aware investment opportunities.**

Tax rates and brackets mentioned herein represent the 2024 tax year.

ACA tax represents a surcharge associated with the Affordable Care Act.

This document is provided for informational purposes only and should not be considered legal or tax advice. Please consult your tax advisor regarding proper tax characterizations. Investors should be aware that tax-free investments may be subject to state and local taxes and the alternative minimum tax.

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