

MFS MUNICIPAL INCOME TRUST

Form N-CSR

December 28, 2016

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF
REGISTERED MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number 811-04841

MFS MUNICIPAL INCOME TRUST

(Exact name of registrant as specified in charter)

111 Huntington Avenue, Boston, Massachusetts 02199

(Address of principal executive offices) (Zip code)

Christopher R. Bohane

Massachusetts Financial Services Company

111 Huntington Avenue

Boston, Massachusetts 02199

(Name and address of agents for service)

Registrant's telephone number, including area code: (617) 954-5000

Date of fiscal year end: October 31

Date of reporting period: October 31, 2016

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ITEM 1. REPORTS TO STOCKHOLDERS.

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ANNUAL REPORT

October 31, 2016

MFS® MUNICIPAL INCOME TRUST

MFM-ANN

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MFS® MUNICIPAL INCOME TRUST

New York Stock Exchange Symbol: **MFM**

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NOT FDIC INSURED MAY LOSE VALUE NO BANK GUARANTEE

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LETTER FROM THE CHAIRMAN

Dear Shareholders:

Despite June's unexpected vote by the United Kingdom to leave the European Union and the surprising result in the U.S. presidential election, most markets proved resilient

in the wake of these events. U.S. shares quickly reversed post-Brexit declines and rallied to record highs during August. Global interest rates remain very low, with most central banks maintaining extremely accommodative monetary policies to reinvigorate slow-growing economies against a backdrop of low inflation. Low interest rates continue to benefit risky assets such as equities, as investors are forced to accept greater risks in search of satisfactory returns in a low-return environment. U.S. investment-grade and high-yield bonds have benefited from low, and even negative, yields overseas.

Emblematic of the sluggish global growth environment is a pronounced slowdown in the growth of global trade. Despite the slowdown, emerging market equities have held up well, withstanding geopolitical shocks such as an attempted coup in Turkey and the impeachment and removal of the president of Brazil. The U.S. Federal Reserve's go-slow approach to rate hikes and economic stimulus abroad have helped support markets.

At MFS®, we believe in a patient, long-term approach to investing. Viewing investments with a long lens makes it possible to filter out short-term market noise and focus on achieving solid risk-adjusted returns over a full market cycle.

In our view, such an approach, along with the professional guidance of a financial advisor, will help you reach your investment objectives.

Respectfully,

Robert J. Manning

Chairman

MFS Investment Management

December 15, 2016

The opinions expressed in this letter are subject to change and may not be relied upon for investment advice. No forecasts can be guaranteed.

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Healthcare Revenue Hospitals	24.0%
Healthcare Revenue Long Term Care	17.4%
Tobacco	10.1%
Water & Sewer Utility Revenue	9.2%
Universities Colleges	8.4%
Universities Secondary Schools	7.8%
Miscellaneous Revenue Other	7.6%
Industrial Revenue Airlines	5.1%
Tax Assessment	5.0%
General Obligations General Purpose	4.8%

Composition including fixed income credit quality (a)(i)

AAA	4.5%
AA	12.7%
A	31.9%
BBB	31.3%
BB	14.2%
B	10.6%
CCC	2.7%
CC	1.4%
C	0.3%
D	0.5%
Not Rated (j)	25.7%
Cash & Cash Equivalents	(36.5)%
Other	0.7%

Portfolio facts (i)

Average Duration (d)	7.8
Average Effective Maturity (m)	17.8 yrs.

- (a) For all securities other than those specifically described below, ratings are assigned to underlying securities utilizing ratings from Moody's, Fitch, and Standard & Poor's rating agencies and applying the following hierarchy: If all three agencies provide a rating, the middle rating (after dropping the highest and lowest ratings) is assigned; if two of the three agencies rate a security, the lower of the two is assigned. Ratings are shown in the S&P and Fitch scale (e.g., AAA). Securities rated BBB or higher are considered investment grade. All ratings are subject to change. Not Rated includes fixed income securities, including fixed income futures contracts, which have not been rated by any rating agency. The fund may not hold all of these instruments. The fund is not rated by these agencies.

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Portfolio Composition continued

- (d) Duration is a measure of how much a bond's price is likely to fluctuate with general changes in interest rates, e.g., if rates rise 1.00%, a bond with a 5-year duration is likely to lose about 5.00% of its value due to the interest rate move. This calculation is based on net assets applicable to common shares as of 10/31/16.
- (i) For purposes of this presentation, the components include the value of securities, and reflect the impact of the equivalent exposure of derivative positions, if any. These amounts may be negative from time to time. Equivalent exposure is a calculated amount that translates the derivative position into a reasonable approximation of the amount of the underlying asset that the portfolio would have to hold at a given point in time to have the same price sensitivity that results from the portfolio's ownership of the derivative contract. When dealing with derivatives, equivalent exposure is a more representative measure of the potential impact of a position on portfolio performance than value. The bond component will include any accrued interest amounts.
- (j) For the purpose of managing the fund's duration, the fund holds short treasury futures with a bond equivalent exposure of (2.8)%, which reduce the fund's interest rate exposure but not its credit exposure.
- (m) In determining an instrument's effective maturity for purposes of calculating the fund's dollar-weighted average effective maturity, MFS uses the instrument's stated maturity or, if applicable, an earlier date on which MFS believes it is probable that a maturity-shortening device (such as a put, pre-refunding or prepayment) will cause the instrument to be repaid. Such an earlier date can be substantially shorter than the instrument's stated maturity. This calculation is based on gross assets, which consists of net assets applicable to common shares plus the value of preferred shares, as of 10/31/16.

From time to time Cash & Cash Equivalents may be negative due to the aggregate liquidation value of variable rate municipal term preferred shares and/or timing of cash receipts.

Where the fund holds convertible bonds, these are treated as part of the equity portion of the portfolio.

Cash & Cash Equivalents includes any cash, investments in money market funds, short-term securities, and other assets less liabilities. Please see the Statement of Assets and Liabilities for additional information related to the fund's cash position and other assets and liabilities.

Other includes equivalent exposure from currency derivatives and/or any offsets to derivative positions and/or the leverage created through the issuance of self-deposited inverse floaters.

Percentages are based on net assets applicable to common shares as of 10/31/16.

The portfolio is actively managed and current holdings may be different.

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MANAGEMENT REVIEW

Summary of Results

MFS Municipal Income Trust (fund) is a closed-end fund. The fund's investment objective is to seek high current income exempt from federal income tax, but may also consider capital appreciation. The fund invests, under normal market conditions, at least 80% of its net assets, including assets attributable to preferred shares and borrowings for investment purposes, in municipal bonds (debt securities issued by or on behalf of states, territories, possessions of the United States, District of Columbia, and their political subdivisions, agencies, or instrumentalities, the interest on which is exempt from federal income tax).

For the twelve months ended October 31, 2016, common shares of the fund provided a total return of 8.02%, at net asset value and 11.08%, at market value. This compares with a return of 4.06% for the fund's benchmark, the Bloomberg Barclays Municipal Bond Index (formerly Barclays Municipal Bond Index).

The performance commentary below is based on the net asset value performance of the fund which reflects the performance of the underlying pool of assets held by the fund. The total return at market value represents the return earned by owners of the shares of the fund which are traded publicly on the exchange.

Market Environment

Sluggish global growth weighed on both developed and emerging market (EM) economies during the reporting period. The US Federal Reserve (Fed) began its long-anticipated monetary tightening cycle in the middle of the period, but the tightening cycle has proved to be more gradual than initially anticipated. Globally, central bank policy remained highly accommodative, which forced many government, and even some corporate, bond yields into negative territory. During the second half of the period, the United Kingdom voted to leave the European Union (EU), beginning a multi-year process of negotiation in order to achieve Brexit . While markets initially reacted to the vote with alarm, the spillover to European and EM was relatively short-lived, although risks of further hits to EU cohesiveness could re-emerge.

During much of the reporting period, US earnings headwinds expanded beyond the energy, materials and industrial sectors, to include most sectors of the market. Headwinds eased somewhat at the end of the period as stabilizing oil prices pushed energy earnings higher relative to expectations. The sharp rise in the US dollar also weighed on earnings early in the period, though the dollar largely stabilized late in the period. US consumer spending held up well during the second half of the period amid a modest increase in real wages and low gasoline prices. Demand for autos reached near-record territory before plateauing late in the period, while the housing market continued its recovery. Slow global trade continued to mirror slow global growth, particularly for many EM countries. That said, EM countries began to show signs of a modest upturn in activity along with adjustment in their external accounts. These improved conditions appeared to have reassured investors and contributed to record inflows into the asset class during July and August as negative yields for an increasing share of developed market bonds drove yield-hungry investors further out on the risk spectrum. Similar investor inflows were experienced in the high grade and high yield corporate markets.

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Management Review continued

US Treasury yields generally fell during the reporting period, with a number of factors contributing to the decline, including uneven economic growth and uncertainty over the impact of Brexit. These factors also lowered market expectations for additional increases in short-term interest rates from the Fed, which put further downward pressure on longer-term yields.

According to data from the Fed, 10-year US Treasury yields started the reporting period at 2.20%, fell to as low as 1.37% in the wake of Brexit, and finished the reporting period at 1.84%.

The broader US investment grade municipal bond market provided positive total returns during the period, as measured by the Bloomberg Barclays Municipal Bond Index. However, investment grade municipal bonds generally lagged taxable bonds amid a strong recovery in credit spreads in areas such as investment grade and high yield corporate debt.

Municipal market performance was generally the result of the same themes we have seen over the past couple of years – declining interest rates, stable fundamentals and continued demand for higher-yielding investments. However, increased supply and a drift higher in interest rates towards the end of the reporting period led to some softness in the performance of the municipal market.

Generally, fundamentals remained stable for the majority of municipal issuers, and as a result, tax-equivalent yields appeared attractive relative to overall credit quality. However, markets remain concerned about underfunded public employee pension systems and other benefits promised to public employees and the political difficulties in enacting reform.

Factors Affecting Performance

Relative to the Bloomberg Barclays Municipal Bond Index, favorable security selection, particularly within the *health, tobacco* and *credit enhanced* sectors, benefited performance. Additionally, positive security selection within the B , BBB , and ^(r) ~~A~~ credit quality segments and a lesser exposure to AA rated bonds aided relative results.

The fund employs leverage which has been created through the issuance of variable rate municipal term preferred shares and inverse floaters. To the extent that investments are purchased through leverage, the fund's net asset value will increase or decrease at a greater rate than a comparable unleveraged fund. During the reporting period, the fund's leverage positively impacted performance.

There were no factors that had a material negative impact on the fund's relative performance during the reporting period.

Respectfully,

Gary Lasman
Portfolio Manager

Geoffrey Schechter
Portfolio Manager

(r) Bonds rated BBB , Baa , or higher are considered investment grade; bonds rated BB , Ba , or below are considered non-investment grade. The source for bond quality ratings is Moody's Investors Service, Standard & Poor's and Fitch, Inc. and are applied using the

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Management Review continued

following hierarchy: If all three agencies provide a rating, the middle rating (after dropping the highest and lowest ratings) is assigned; if two of the three agencies rate a security, the lower of the two is assigned. Ratings are shown in the S&P and Fitch scale (e.g., AAA). For securities which are not rated by any of the three agencies, the security is considered Not Rated.

The views expressed in this report are those of the portfolio managers only through the end of the period of the report as stated on the cover and do not necessarily reflect the views of MFS or any other person in the MFS organization. These views are subject to change at any time based on market or other conditions, and MFS disclaims any responsibility to update such views. These views may not be relied upon as investment advice or an indication of trading intent on behalf of any MFS portfolio. References to specific securities are not recommendations of such securities, and may not be representative of any MFS portfolio's current or future investments.

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PERFORMANCE SUMMARY THROUGH 10/31/16

The following chart presents the fund's historical performance in comparison to its benchmark(s). Investment return and principal value will fluctuate, and shares, when sold, may be worth more or less than their original cost; current performance may be lower or higher than quoted. The performance shown does not reflect the deduction of taxes, if any, that a shareholder would pay on fund distributions or the sale of fund shares. Performance data shown represents past performance and is no guarantee of future results.

Price Summary for MFS Municipal Income Trust

		Date	Price
	Net Asset Value	10/31/16	\$7.53
		10/31/15	\$7.35
	New York Stock Exchange Price	10/31/16	\$6.88
Year		7/08/16 (high) (t)	\$7.62
Ended		11/09/15 (low) (t)	\$6.43
10/31/16		10/31/15	\$6.53

Total Returns vs Benchmark

	MFS Municipal Income Trust at	
	New York Stock Exchange Price (r)	11.08%
	Net Asset Value (r)	8.02%
Year	Bloomberg Barclays Municipal Bond Index (f)	
Ended		
10/31/16		4.06%

(f) Source: FactSet Research Systems Inc.

(r) Includes reinvestment of dividends and capital gain distributions.

(t) For the period November 1, 2015 through October 31, 2016

Benchmark Definition

Bloomberg Barclays Municipal Bond Index (formerly known as Barclays Municipal Bond Index) a market capitalization-weighted index that measures the performance of the tax-exempt bond market.

It is not possible to invest directly in an index.

Notes to Performance Summary

The fund's shares may trade at a discount or premium to net asset value. When fund shares trade at a premium, buyers pay more than the net asset value underlying fund shares, and shares purchased at a premium would receive less than the amount paid for them in the event of the fund's concurrent liquidation.

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Performance Summary continued

The fund's monthly distributions may include a return of capital to shareholders to the extent that distributions are in excess of the fund's net investment income and net capital gains, determined in accordance with federal income tax regulations. Distributions that are treated for federal income tax purposes as a return of capital will reduce each shareholder's basis in his or her shares and, to the extent the return of capital exceeds such basis, will be treated as gain to the shareholder from a sale of shares. Returns of shareholder capital have the effect of reducing the fund's assets and increasing the fund's expense ratio.

Net asset values and performance results based on net asset value per share do not include adjustments made for financial reporting purposes in accordance with U.S. generally accepted accounting principles and may differ from amounts reported in the Statement of Assets and Liabilities or the Financial Highlights.

From time to time the fund may receive proceeds from litigation settlements, without which performance would be lower.

In accordance with Section 23(c) of the Investment Company Act of 1940, the fund hereby gives notice that it may from time to time repurchase common and/or preferred shares of the fund in the open market at the option of the Board of Trustees and on such terms as the Trustees shall determine.

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PORTFOLIO MANAGERS PROFILES

Portfolio Manager	Primary Role	Since	Title and Five Year History
Gary Lasman	Portfolio Manager	2006	Investment Officer of MFS; employed in the investment management area of MFS since 2002.
Geoffrey Schechter	Portfolio Manager	2004	Investment Officer of MFS; employed in the investment management area of MFS since 1993.

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DIVIDEND REINVESTMENT AND CASH PURCHASE PLAN

The fund offers a Dividend Reinvestment and Cash Purchase Plan (the Plan) that allows common shareholders to reinvest either all of the distributions paid by the fund or only the long-term capital gains. Generally, purchases are made at the market price unless that price exceeds the net asset value (the shares are trading at a premium). If the shares are trading at a premium, purchases will be made at a price of either the net asset value or 95% of the market price, whichever is greater. You can also buy shares on a quarterly basis in any amount \$100 and over. The Plan Agent will purchase shares under the Cash Purchase Plan on the 15th of January, April, July, and October or shortly thereafter.

If shares are registered in your own name, new shareholders will automatically participate in the Plan, unless you have indicated that you do not wish to participate. If your shares are in the name of a brokerage firm, bank, or other nominee, you can ask the firm or nominee to participate in the Plan on your behalf. If the nominee does not offer the Plan, you may wish to request that your shares be re-registered in your own name so that you can participate. There is no service charge to reinvest distributions, nor are there brokerage charges for shares issued directly by the fund. However, when shares are bought on the New York Stock Exchange or otherwise on the open market, each participant pays a pro rata share of the transaction expenses, including commissions. Dividends and capital gains distributions are taxable whether received in cash or reinvested in additional shares the automatic reinvestment of distributions does not relieve you of any income tax that may be payable (or required to be withheld) on the distributions.

If your shares are held directly with the Plan Agent, you may withdraw from the Plan at any time by going to the Plan Agent's website at www.computershare.com/investor, by calling 1-800-637-2304 any business day from 9 a.m. to 5 p.m. Eastern time or by writing to the Plan Agent at P.O. Box 43078, Providence, RI 02940-3078. Please have available the name of the fund and your account number. For certain types of registrations, such as corporate accounts, instructions must be submitted in writing. Please call for additional details. When you withdraw from the Plan, you can receive the value of the reinvested shares in one of three ways: your full shares will be held in your account, the Plan Agent will sell your shares and send the proceeds to you, or you may transfer your full shares to your investment professional who can hold or sell them. Additionally, the Plan Agent will sell your fractional shares and send the proceeds to you.

If you have any questions or for further information or a copy of the Plan, contact the Plan Agent Computershare Trust Company, N.A. (the Transfer Agent for the fund) at 1-800-637-2304, at the Plan Agent's website at www.computershare.com/investor, or by writing to the Plan Agent at P.O. Box 43078, Providence, RI 02940-3078.

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10/31/16

The Portfolio of Investments is a complete list of all securities owned by your fund. It is categorized by jurisdiction.

Municipal Bonds - 136.4%

Issuer	Shares/Par	Value (\$)
Alabama - 1.9%		
Alabama Incentives Financing Authority Special Obligation, A, 5%, 9/01/2037	\$ 100,000	\$ 113,392
Alexander City, AL, Special Care Facilities Financing Authority Medical Facilities Rev., A (Russell Hospital Corp.), 5.75%, 12/01/2036	600,000	595,590
Birmingham, AL, Special Care Facilities Financing Authority Rev. (Methodist Home for the Aging), 5.5%, 6/01/2030	180,000	200,401
Birmingham, AL, Special Care Facilities Financing Authority Rev. (Methodist Home for the Aging), 5.75%, 6/01/2035	190,000	212,553
Birmingham, AL, Special Care Facilities Financing Authority Rev. (Methodist Home for the Aging), 5.75%, 6/01/2045	270,000	299,130
Birmingham, AL, Special Care Facilities Financing Authority Rev. (Methodist Home for the Aging), 6%, 6/01/2050	285,000	320,095
Cullman County, AL, Health Care Authority (Cullman Regional Medical Center), A, 6.75%, 2/01/2029	865,000	917,220
Huntsville-Redstone Village, AL, Special Care Facilities Financing Authority (Redstone Village Project), 5.5%, 1/01/2028	390,000	390,671
Huntsville-Redstone Village, AL, Special Care Facilities Financing Authority (Redstone Village Project), 5.5%, 1/01/2043	440,000	440,484
Jefferson County, AL, Sewer Rev. Warrants, Capital Appreciation, Senior Lien, B, AGM, 0%, 10/01/2025	15,000	11,228
Jefferson County, AL, Sewer Rev. Warrants, Capital Appreciation, Senior Lien, B, AGM, 0%, 10/01/2026	170,000	119,437
Jefferson County, AL, Sewer Rev. Warrants, Capital Appreciation, Senior Lien, B, AGM, 0%, 10/01/2029	245,000	140,405
Jefferson County, AL, Sewer Rev. Warrants, Capital Appreciation, Senior Lien, B, AGM, 0%, 10/01/2034	350,000	139,951
Jefferson County, AL, Sewer Rev. Warrants, Capital Appreciation, Senior Lien, B, AGM, 0%, 10/01/2035	660,000	246,418
Jefferson County, AL, Sewer Rev. Warrants, Subordinate Lien, D, 5%, 10/01/2017	160,000	165,032
Jefferson County, AL, Sewer Rev. Warrants, Subordinate Lien, D, 5%, 10/01/2018	165,000	173,844
Jefferson County, AL, Sewer Rev. Warrants, Subordinate Lien, D, 5%, 10/01/2021	185,000	203,302
Jefferson County, AL, Sewer Rev. Warrants, Subordinate Lien, D, 5%, 10/01/2023	275,000	304,948
Pell City, AL, Special Care Facilities, Financing Authority Rev. (Noland Health Services, Inc.), 5%, 12/01/2039	290,000	318,298

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Issuer	Shares/Par	Value (\$)
Municipal Bonds - continued		
Alabama - continued		
Selma, AL, Industrial Development Board Rev., Gulf Opportunity Zone (International Paper Co.), A , 5.375%, 12/01/2035	\$ 565,000	\$ 647,682
		\$ 5,960,081
Alaska - 0.4%		
Alaska Industrial Development & Export Authority Power Rev. (Snettisham Hydroelectric Project), 5%, 1/01/2030	\$ 125,000	\$ 141,908
Alaska Industrial Development & Export Authority Power Rev. (Snettisham Hydroelectric Project), 5%, 1/01/2031	180,000	203,328
Koyukuk, AK, Tanana Chiefs Conference, Healthcare Facilities Project, 7.75%, 10/01/2041	705,000	836,504
		\$ 1,181,740
Arizona - 2.6%		
Arizona Transportation Board Highway Rev., A , 5%, 7/01/2036	\$ 1,290,000	\$ 1,513,725
Phoenix, AZ, Industrial Development Authority Education Facility Rev. (Basis Schools Projects), A , 5%, 7/01/2035	240,000	256,512
Phoenix, AZ, Industrial Development Authority Education Facility Rev. (Basis Schools Projects), A , 5%, 7/01/2035	80,000	85,504
Phoenix, AZ, Industrial Development Authority Education Facility Rev. (Basis Schools Projects), A , 5%, 7/01/2045	380,000	401,873
Phoenix, AZ, Industrial Development Authority Education Facility Rev. (Basis Schools Projects), A , 5%, 7/01/2046	190,000	200,936
Phoenix, AZ, Industrial Development Authority Education Facility Rev. (Choice Academies, Inc. Project), 5.625%, 9/01/2042	345,000	371,289
Phoenix, AZ, Industrial Development Authority Education Facility Rev. (Great Hearts Academies Project), A , 5%, 7/01/2034	850,000	943,492
Phoenix, AZ, Industrial Development Authority Education Facility Rev. (Great Hearts Academies Project), A , 5%, 7/01/2036	100,000	111,919
Phoenix, AZ, Industrial Development Authority Education Facility Rev. (Great Hearts Academies Project), A , 5%, 7/01/2041	85,000	94,591
Phoenix, AZ, Industrial Development Authority Education Facility Rev. (Great Hearts Academies Project), A , 5%, 7/01/2044	530,000	582,656
Phoenix, AZ, Industrial Development Authority Education Facility Rev. (Great Hearts Academies Project), A , 5%, 7/01/2046	150,000	166,334
Phoenix, AZ, Industrial Development Authority Education Facility Rev. (Legacy Traditional Schools Project), 6.5%, 7/01/2034	270,000	310,327
Phoenix, AZ, Industrial Development Authority Education Facility Rev. (Legacy Traditional Schools Project), 5%, 7/01/2035	310,000	320,103
Phoenix, AZ, Industrial Development Authority Education Facility Rev. (Legacy Traditional Schools Project), 6.75%, 7/01/2044	430,000	499,677
Phoenix, AZ, Industrial Development Authority Education Facility Rev. (Legacy Traditional Schools Project), 5%, 7/01/2045	340,000	347,415

