

DWS MUNICIPAL INCOME TRUST
Form N-CSR
February 01, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

FORM N-CSR

Investment Company Act file number 811-05655

DWS Municipal Income Trust
(Exact Name of Registrant as Specified in Charter)

345 Park Avenue
New York, NY 10154-0004
(Address of Principal Executive Offices) (Zip Code)

Registrant's Telephone Number, including Area Code: (201) 593-6408

Paul Schubert
100 Plaza One
Jersey City, NJ 07311
(Name and Address of Agent for Service)

Date of fiscal year end: 11/30

Date of reporting period: 11/30/2010

ITEM 1. REPORT TO STOCKHOLDERS

NOVEMBER 30, 2010
Annual Report
to Shareholders

DWS Municipal Income Trust
Ticker Symbol: KTF

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Closed-end funds, unlike open-end funds, are not continuously offered. There is a one time public offering and once issued, shares of closed-end funds are sold in the open market through a stock exchange. Shares of closed-end funds frequently trade at a discount to net asset value. The price of the fund's shares is determined by a number of factors, several of which are beyond the control of the fund. Therefore, the fund cannot predict whether its shares will trade at, below or above net asset value.

Bond investments are subject to interest-rate and credit risks. When interest rates rise, bond prices generally fall. Credit risk refers to the ability of an issuer to make timely payments of principal and interest. Investing in derivatives entails special risks relating to liquidity, leverage and credit that may reduce returns and/or increase volatility. Leverage results in additional risks and can magnify the effect of any losses. Although the fund seeks income that is federally tax-free, a portion of the fund's distributions may be subject to federal, state and local taxes, including the alternative minimum tax.

DWS Investments is part of Deutsche Bank's Asset Management division and, within the US, represents the retail asset management activities of Deutsche Bank AG, Deutsche Bank Trust Company Americas, Deutsche Investment Management Americas Inc. and DWS Trust Company.

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

Performance Summary November 30, 2010

Performance is historical, assumes reinvestment of all dividend and capital gain distributions, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when sold, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit www.dws-investments.com for the Fund's most recent month-end performance.

Fund specific data and performance are provided for informational purposes only and are not intended for trading purposes.

Returns and rankings based on net asset value during the 3-year, 5-year and 10-year periods shown reflect fee reductions. Without these fee reductions, returns and rankings would have been lower.

Average Annual Total Returns as of 11/30/10

| DWS Municipal Income Trust | 1-Year | 3-Year | 5-Year | 10-Year |
|--|--------|--------|--------|---------|
| Based on Net Asset Value(a) | 7.94% | 7.78% | 6.23% | 7.27% |
| Based on Market Price(a) | 14.30% | 12.56% | 5.94% | 8.40% |
| Barclays Capital Municipal Bond Index(b) | 4.76% | 4.86% | 4.67% | 5.30% |
| Lipper General Closed-End Municipal Debt Funds (Leveraged) Category(c) | 8.76% | 3.55% | 3.81% | 5.80% |

Sources: Lipper Inc. and Deutsche Investment Management Americas Inc.

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(a) Total return based on net asset value reflects changes in the Fund's net asset value during each period. Total return based on market price reflects changes in market price. Each figure assumes that dividend and capital gain distributions, if any, were reinvested. These figures will differ depending upon the level of any discount from or premium to net asset value at which the Fund's shares traded during the period.

(b) The Barclays Capital Municipal Bond Index is an unmanaged, unleveraged, market-value-weighted measure of municipal bonds issued across the United States. Index issues have a credit rating of at least Baa and a maturity of at least two years. Index returns, unlike Fund returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

(c) The Lipper General Closed-End Municipal Debt Funds (Leveraged) category includes closed-end funds that invest in general municipal debt issues in the top-four credit grades. Lipper figures represent the average of the total returns based on net asset value reported by all of the closed-end funds designated by Lipper Inc. as falling into the General Closed-End Municipal Debt Funds (Leveraged) category. Category returns assume reinvestment of all distributions. It is not possible to invest directly into a Lipper category.

Net Asset Value and Market Price

| | As of 11/30/10 | As of 11/30/09 |
|-----------------|-------------------|-------------------|
| Net Asset Value | \$12.03 | \$11.94 |
| Market Price | \$12.12 | \$11.36 |

Prices and net asset value fluctuate and are not guaranteed.

Distribution Information

Twelve Months as of 11/30/10:

| | | |
|---|--------|---|
| Income Dividends (common shareholders) | \$.84 | |
| November Income Dividend (common shareholders) | \$.07 | |
| Current Annualized Distribution Rate (based on Net Asset Value) as of 11/30/10+ | 6.98 | % |
| Current Annualized Distribution Rate (based on Market Price) as of 11/30/10+ | 6.93 | % |
| Tax Equivalent Distribution Rate (based on Net Asset Value) as of 11/30/10+ | 10.74 | % |
| Tax Equivalent Distribution Rate (based on Market Price) as of 11/30/10+ | 10.66 | % |

+ Current annualized distribution rate is the latest monthly dividend shown as an annualized percentage of net asset value/market price on November 30, 2010. Distribution rate simply measures the level of dividends and is not a complete measure of performance. Tax equivalent distribution rate is based on the Fund's distribution rate and a marginal income tax rate of 35%. Distribution rates are historical, not guaranteed and will fluctuate.

Lipper Rankings — General Closed-End Municipal Debt Funds (Leveraged) Category as of 11/30/10

| Period | Rank | | Number of Funds Percentile Ranking | |
|---------|------|----|------------------------------------|-----|
| | | | Tracked | (%) |
| 1-Year | 39 | of | 63 | 61 |
| 3-Year | 1 | of | 60 | 2 |
| 5-Year | 2 | of | 59 | 4 |
| 10-Year | 5 | of | 42 | 12 |

Source: Lipper Inc. Rankings are historical and do not guarantee future results. Rankings are based on net asset value total return with distributions reinvested.

Portfolio Management Review

DWS Municipal Income Trust: A Team Approach to Investing

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Deutsche Investment Management Americas Inc. ("DIMA" or the "Advisor"), which is part of Deutsche Asset Management, is the investment advisor for DWS Municipal Income Trust. DIMA and its predecessors have more than 90 years of experience managing mutual funds and DIMA provides a full range of investment advisory services to both institutional and retail clients.

DIMA is an indirect, wholly owned subsidiary of Deutsche Bank AG. Deutsche Bank AG is a major global banking institution engaged in a wide variety of financial services, including investment management, retail, private and commercial banking, investment banking and insurance.

DWS Investments is the retail brand name of the US asset management activities of Deutsche Bank AG and DIMA. As such, DWS is committed to delivering the investing expertise, insight and resources of this global investment platform to American investors.

Portfolio Management Team

Philip G. Condon

Michael J. Generazo

Co-Lead Portfolio Managers

Overview of Market and Fund Performance

The views expressed in the following discussion reflect those of the portfolio management team only through the end of the period of the report as stated on the cover. The management team's views are subject to change at any time based on market and other conditions and should not be construed as a recommendation. Past performance is no guarantee of future results. Current and future portfolio holdings are subject to risk.

DWS Municipal Income Trust's investment objective is to provide a high level of current income exempt from federal income tax. The fund may utilize leverage in the form of preferred shares or bank borrowings under a revolving credit facility. See the Notes to Financial Statements for further information.

The fund delivered a total return at net asset value of 7.94% for the annual period. The fund posted a return based on market price of 14.30%. Its average peer in the Lipper General Closed-End Municipal Debt Funds (Leveraged) category for closed-end funds delivered 8.76% in the period.¹ The fund's benchmark, the unmanaged Barclays Capital Municipal Bond Index, returned 4.76% for the 12 months.² Municipals overall underperformed the broad taxable bond market, as measured by the Barclays Capital US Aggregate Bond Index, which returned 6.02% for the same period.³ Over the period, the fund's traded shares went from a discount of 4.9% to a slight premium of 0.7%. The fund maintained its monthly dividend of 7 cents per share through the fiscal period.

Credit markets generally trended positive over the fiscal period, in part driven by investors shunning extraordinarily low yields available on Treasuries. The municipal market was helped over the period by the implementation of the American Recovery and Reinvestment Act, which provided many state and local governments with direct budgetary relief. Nonetheless, negative news concerning budget struggles continued to surround the municipal market, with California, New York and Illinois providing many of the headlines. Despite this backdrop, municipal credit spreads generally narrowed over the fiscal period.⁴ To illustrate, the incremental yield versus AAA issues on 30-year BBB-rated hospital bonds narrowed from approximately 230 basis points to 190 basis points over the 12 months.⁵ Spreads on issues rated A also narrowed somewhat versus AAA issues, especially in the 10-year-and-under maturity range.

Overall municipal supply was roughly similar to the prior fiscal period. However, a significant portion of issuance continued to comprise taxable Build America Bonds enabled by the American Recovery and Reinvestment Act. Demand for municipals from individual retail and mutual fund investors generally remained strong. Late in the period, demand dipped as the market became unsettled by a variety of factors, including speculation over the impact of continued US Federal Reserve Board (the Fed) monetary easing and the implications of the November elections for federal support of states and localities.

During the period, the Fed maintained the target for the overnight federal funds rate in the unprecedented 0%-to-0.25% range.⁶ With short rates anchored by the Fed, the municipal yield curve remained quite steep during the period.⁷ For the full 12 months, yields on two-year municipal issues barely moved, declining one basis point to 0.60%, while bonds with 30-year maturities started and finished the 12 months at 4.28%. (100 basis points equals one percentage point. See the graph below for municipal bond yield changes from the beginning to the end of the period.)
Municipal Bond Yield Curve (as of 11/30/09 and 11/30/10)

Source: Thompson Reuters

This chart is for illustrative purposes only and is not intended to represent the yield of any DWS fund. Performance is historical and does not guarantee future results.

Positive Contributors to Performance

The fund has the ability to leverage returns to shareholders through the issuance of remarketed preferred shares whose dividend rate is tied to short-term interest rates. With the Fed anchoring short-term rates near zero, the fund's cost of leverage remained low for the 12 months, helping performance.

Given a steep yield curve and Fed policy oriented toward keeping interest rates low, the fund maintained significant exposure to bonds with remaining maturities in the 20-to-30-year range. This allowed the fund to benefit from higher yields available on longer-term issues.

The fund's holdings of prepaid gas utility bonds sponsored by brokerage firms performed well as financial sector concerns continued to ease. Airport-related issues also benefited from credit spread narrowing over the 12 months.

Negative Contributors to Performance

The fund had significant exposure to higher-quality bonds including pre-refunded issues secured by holdings of government securities sufficient to pay off the issue at maturity. These higher-quality bonds lagged as investors sought higher yields available on lower-quality issues, contributing to the fund's modest underperformance versus the funds in the Lipper peer group.

Outlook and Positioning

The relationship between Treasury and municipal yields shifted dramatically over the recently concluded fiscal period. To illustrate, at the end of November 2010, two-year municipals were yielding 133% of comparable maturity Treasuries, as compared to 91% twelve months earlier. The municipal yield curve remains steep and we are maintaining significant exposure to bonds in the 20- to 30-year maturity range. From a credit perspective, we see opportunities among high-yield issues such as those related to hospitals and continuing care retirement communities. The fund has approximately 15% of assets in issues that are either rated BBB or lower.

Given ongoing difficulties with state and local budgets, we expect continued credit pressure on municipal issuers. In addition, the outlook for support from the federal government of municipal finances is cloudy as Washington sorts through the implications of the recent congressional elections.

Despite recent press, we do not expect defaults to become a significant feature of the municipal landscape. Nonetheless, we believe investors who conduct thorough credit research will continue to have an advantage in the current credit environment. Our team of municipal bond analysts is closely monitoring the credits we hold, and we will not hesitate to make changes in the portfolio as conditions dictate.

We will continue to provide a high level of current income exempt from federal income tax.

1 The Lipper General Closed-End Municipal Debt Funds (Leveraged) category includes closed-end funds that invest in general municipal debt issues in the top four credit grades. Lipper figures represent the average of the total returns based on net asset value reported by all of the closed-end funds designated by Lipper Inc. as falling into the General Closed-End Municipal Debt Funds (Leveraged) category. Category returns assume reinvestment of all distributions. It is not possible to invest directly into a Lipper category.

2 The Barclays Capital Municipal Bond Index is an unmanaged, unleveraged market-value-weighted measure of municipal bonds issued across the United States. Index issues have a credit rating of at least Baa and a maturity of at least two years.

3 The Barclays Capital US Aggregate Bond Index is an unmanaged, market-value-weighted measure of Treasury issues, agency issues, corporate bond issues and mortgage securities.

Index returns, unlike fund returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

4 "Credit spread" is the additional yield provided by municipal bonds rated AA and below, versus municipals rated AAA with comparable effective maturity.

5 Credit quality is a measure of a bond issuer's ability to repay interest and principal in a timely manner. Rating agencies assign letter designations such as AAA, AA and so forth. The lower the rating, the higher the probability of default.

6 The federal funds rate is the interest rate, set by the US Federal Reserve, at which banks lend money to each other, usually on an overnight basis.

7 The yield curve is a graph with a left-to-right line that shows how high or low yields are, from the shortest to the longest maturities. Typically, the line rises from left to right as investors who are willing to tie up their money for a longer period are rewarded with higher yields. When the yield curve is characterized as "steep," this is especially true.

Portfolio Summary

| Asset Allocation (As a % of Investment Portfolio) | 11/30/10 | 11/30/09 |
|---|----------|----------|
| Revenue Bonds | 70% | 67% |
| General Obligation Bonds | 14% | 13% |
| ETM/Prerefunded Bonds | 8% | 12% |
| Lease Obligations | 8% | 8% |
| | 100% | 100% |

| Quality | 11/30/10 | 11/30/09 |
|---------|----------|----------|
| AAA | 15% | 23% |
| AA | 27% | 20% |

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| | | |
|-----------|------|------|
| A | 43% | 36% |
| BBB | 12% | 18% |
| BB | 3% | — |
| Below B | — | 1% |
| Not Rated | — | 2% |
| | 100% | 100% |

Top Five State/Territory Allocations (As a % of Investment Portfolio) 11/30/10 11/30/09

| | | |
|------------|-----|-----|
| California | 16% | 15% |
| New York | 13% | 12% |
| Florida | 9% | 9% |
| Texas | 9% | 8% |
| Tennessee | 6% | 7% |

Asset allocation, quality and top five state allocations are subject to change.

The quality ratings represent the lower of Moody's Investors Service, Inc. ("Moody's") or Standard & Poor's Corporation ("S&P") credit ratings. The ratings of Moody's and S&P represent their opinions as to the quality of the securities they rate. Ratings are relative and subjective and are not absolute standards of quality. The Fund's credit quality does not remove market risk and is subject to change.

| | | |
|---------------------------|-----------|-----------|
| Interest Rate Sensitivity | 11/30/10 | 11/30/09 |
| Effective Maturity | 9.5 years | 8.6 years |
| Effective Duration | 8.2 years | 7.6 years |

Effective maturity is the weighted average of the bonds held by the Fund taking into consideration any maturity shortening features.

Effective duration is an approximate measure of the Fund's sensitivity to interest rate changes taking into consideration any maturity shortening features.

Interest rate sensitivity is subject to change.

For more complete details about the Fund's investment portfolio, see page 12. A quarterly Fact Sheet is available upon request. Please see the Additional Information section for contact information.

Following the Fund's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at www.sec.gov, and it also may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling (800) SEC-0330. The Fund's portfolio holdings as of the month-end are posted on www.dws-investments.com on or after the last day of the following month. More frequent posting of portfolio holdings information may be made from time to time on www.dws-investments.com.

Investment Portfolio as of November 30, 2010

| | Principal Amount (\$) | Value (\$) |
|----------------------------------|--------------------------|------------|
| Municipal Bonds and Notes 117.5% | | |
| Alabama 2.1% | | |

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| | | |
|--|-----------|-----------|
| Camden, AL, Industrial Development Board Revenue, Series B, AMT, Prerefunded, 6.375%, 12/1/2024 | 1,000,000 | 1,157,900 |
|--|-----------|-----------|