DWS MUNICIPAL INCOME TRUST
Form N-CSR
February 06, 2008
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)

222 South Riverside Plaza

Chicago, IL 60606

(Address of principal executive offices) (Zip code)

Registrant's Telephone Number, including Area Code:(212) 454-7190

Paul Schubert

345 Park Avenue

New York, NY 10154

(Name and Address of Agent for Service)

Date of fiscal year end: 11/30

Date of reporting period: 11/30/07

ITEM 1. REPORT TO STOCKHOLDERS

NOVEMBER 30, 2007

Annual Report to Shareholders

DWS Municipal Income Trust

Ticker Symbol: KTF

Contents

Investments in funds involve risk. Certain investors' income may be subject to the federal Alternative Minimum Tax (AMT), and federal, state and local taxes may apply. The fund invests in individual bonds whose yields and market values fluctuate, so that your investment may be worth more or less than its original cost. Bond investments are subject to interest-rate risk such that when interest rates rise, the prices of the bonds, and thus the value of the bond investment, can decline and the investor can lose principal value. Leverage results in additional risks and can magnify the effect of any losses. All of these factors may result in greater share price volatility. Closed-end funds, unlike open-end funds, are not continuously offered. There is an initial 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.

DWS Scudder is part of Deutsche Asset Management, which is the marketing name in the US for the asset management activities of Deutsche Bank AG, Deutsche Bank Trust Company Americas, Deutsche Investment Management Americas Inc. and DWS Trust Company.

Performance Summary November 30, 2007

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.cef.dws-scudder.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 all periods shown reflect fee reductions. Without these fee reductions, returns and rankings would have been lower.

Average Annual Total Returns as of 11/30/07				
DWS Municipal Income Trust	**1-Year**	**3-Year**	**5-Year**	**10-Year**
Based on Net Asset Value[(a)]	**2.04%**	**4.11%**	**5.64%**	**6.18%**
Based on Market Price[(a)]	**.06%**	**1.01%**	**5.09%**	**3.47%**
Lehman Brothers Municipal Bond Index[(b)]	2.71%	4.23%	4.68%	5.30%
Lipper General Closed-End Municipal Debt Funds (Leveraged) Category[(c)]	-.78%	4.97%	6.28%	5.67%

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

Net Asset Value and Market Price		
	As of 11/30/07	**As of 11/30/06**
Net Asset Value	$ 11.79	$ 12.17
Market Price	$ 10.43	$ 10.98

Prices and net asset value fluctuate and are not guaranteed.

(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 value. 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 Lehman Brothers 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.*

Distribution Information	
Twelve Months as of 11/30/07: Income Dividends (common shareholders)	$ .58
November Income Dividends (common shareholders)	$ .0480
Current Annualized Distribution Rate (based on Net Asset Value) as of 11/30/07[++]	4.89%
Current Annualized Distribution Rate (based on Market Price) as of 11/30/07[++]	5.52%
Tax Equivalent Distribution Rate (based on Net Asset Value) as of 11/30/07[++]	7.52%
Tax Equivalent Distribution Rate (based on Market Price) as of 11/30/07[++]	8.49%

++ *Current annualized distribution rate is the latest monthly dividend shown as an annualized percentage of net asset value/market price on November 30, 2007. 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 11/30/07				
Period	**Rank**		**Number of Funds Tracked**	**Percentile Ranking (%)**
1-Year	5	of	54	10
3-Year	46	of	54	84
5-Year	42	of	52	80
10-Year	9	of	38	24

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

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 80 years of experience managing mutual funds and DIMA provides a full range of investment advisory services to institutional and retail clients.

Deutsche Asset Management is a global asset management organization that offers a wide range of investing expertise and resources. This well-resourced global investment platform brings together a wide variety of experience and investment insight across industries, regions, asset classes and investing styles.

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

Portfolio Management Team

Philip G. Condon

Managing Director of Deutsche Asset Management and Co-Lead Portfolio Manager of the fund.

Joined Deutsche Asset Management in 1983 and the fund team in 1998.

Over 30 years of investment industry experience.

BA and MBA, University of Massachusetts at Amherst.

Eleanor R. Lynch, CFA

Director of Deutsche Asset Management and Co-Lead Portfolio Manager of the fund.

Joined Deutsche Asset Management in 1995 and the fund team in 1998.

Over 20 years of investment industry experience.

BS, Ursinus College; MS, Drexel University.

Philip G. Condon and Eleanor R. Lynch serve as co-lead portfolio managers of DWS Municipal Income Trust. In the following interview, the DWS municipal bond team discusses the fund's performance for the period and the market environment for municipal bonds.

The views expressed in the following discussion reflect those of the portfolio managers 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.

Q: Will you describe the general market environment during the annual period ended November 30, 2007?

A: Municipal bonds delivered modest positive results over the 12 months. The municipal bond market, as measured by the Lehman Brothers Municipal Bond Index, delivered a total return of 2.71% for the 12 months ended November 30, 2007.[1] The broad taxable bond market, as measured by the Lehman Brothers US Aggregate Index, delivered a total return of 6.05% for the same period.[2]

[1] *The Lehman Brothers 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.*

[2] *The Lehman Brothers US Aggregate Index is an unmanaged, unleveraged index representing domestic taxable investment-grade bonds, with index components for government and corporate securities, mortgage pass-through securities and asset-backed securities with average maturities of one year or more.*

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

The US Federal Reserve Board (the Fed) held rates steady for most of the period, before lowering the federal funds rate — the overnight interbank lending rate and a benchmark for interest rates generally — two times totaling 75 basis points (one basis point equals 0.01%) in September and October. This left the federal funds rate at 4.50% at the end of November 2007. Municipal yields declined on the shorter parts of the curve, while rising on issues over 10 years.[3] Since a bond's yield moves in the opposite direction of its price, this meant that performance of shorter-term municipal bonds was generally better than among longer issues.

[3] *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 (and when the yield curve is characterized as "steep," this is especially true) 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.*

The relationship between supply of, and demand for, municipal issues can be an important factor in the performance of this market. High demand or low supply can drive municipal bond prices higher, while low demand or high supply can have the reverse effect. Supply nationally was generally heavy during the fiscal year, driven by relatively low interest rates, although issuance began to ease toward the end of the period. To illustrate, issuance over the first 11 months of 2007 was 16 percent above last year's pace. On the demand side, much activity early in the period was driven by institutional investors using nontraditional strategies to benefit in a leveraged fashion from disparities between the tax-free and taxable markets. In the wake of the subprime mortgage crisis and resulting credit crunch, much of this interest has waned. Another outgrowth of the tighter credit environment has been a trimming of municipal inventory on the part of dealers looking to improve balance sheets, further constraining demand. Flows into tax-free mutual funds were positive overall for the period.

The municipal bond yield curve steepened significantly during the annual period. The two-year bond yield decreased 27 basis points from 3.45% to 3.18%, while the 30-year yield increased 41 basis points to 4.32% from 3.91%, resulting in a total steepening of 68 basis points. (See the graph on the following page for municipal bond yield changes from the beginning to the end of the period.)

Municipal Bond Yield Curve (as of 11/30/06 and 11/30/07)

Source: Municipal Market Data, AAA-rated universe

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.

Q: How did DWS Municipal Income Trust perform for the 12-month period ended November 30, 2007?

A: DWS Municipal Income Trust delivered a total return based on net asset value of 2.04% for the fund's fiscal year ended November 30, 2007. The fund posted a return based on market value of 0.06% for this period. Its average peer in the Lipper General Closed End Municipal Debt Leveraged Funds category for closed-end funds delivered -0.78% in the period.[4] The fund 's benchmark, the unmanaged Lehman Brothers Municipal Bond Index, returned 2.71% for the same period. (Past performance is no guarantee of future results. Please see pages 4 through 5 for more complete performance information.)

[4] *The Lipper General Closed End Municipal Debt Leveraged Funds 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 mutual funds designated by Lipper Inc. as falling into the General Closed End Municipal Debt Leveraged Funds category. For the one-, five- and 10-year periods this category's average was -0.78% (54 funds), 6.28% (52 funds) and 5.67% (38 funds), respectively, as of November 30, 2007. Category returns assume reinvestment of all dividends. It is not possible to invest directly into a Lipper category.*

Over the period, the discount at which the fund traded to its net asset value widened slightly from about 10% to a little under 11.6%. We believe the discount is largely a function of a broader market focus on both liquidity and the cost of credit in the wake of the summer's subprime crisis. We rely on access to funding in order to leverage the fund's investments, and the cost of pursuing such strategies has risen in the ensuing credit crunch. In addition, closed-end funds are generally not heavily traded and therefore tend to be viewed as somewhat illiquid by market participants.

Q: How was the fund positioned, and how did this positioning contribute to its performance for the annual period ended November 30, 2007?

A: Over the period, we continued to manage the fund with an eye on preserving its earnings capacity. Early in the period, given an environment of low interest rates, we maintained a focus on avoiding excessive sales of bonds carrying high distribution yields.

The flattening of the yield curve that occurred significantly reduced the income advantage provided by longer-term issues. In fact, at the start of the period, 30-year AAA-rated municipal bond yields were at historically low levels.[5] As a result, our curve positioning favored intermediate-term issues over longer-dated issues. This helped performance, as longer-dated issues were most impacted by rising yields and falling prices over the year. As long-term rates backed up over the period, we have increasingly taken advantage of opportunities to extend the fund's duration and increase income.

[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.*

With respect to credit risk, early in the year, the yield advantage provided by BBB-rated versus AAA-rated issues remained narrow by historical standards, and we did not feel that we could justify any significant tilt toward lower quality given the minimal incremental reward. This helped performance as credit spreads widened over the period.

In our view, credit spreads have reached levels where investors are paid more fairly for the incremental risk, and we began late in the period to selectively increase exposure to lower-quality issues. As an example, we recently increased the fund's holdings of prepaid utility contract bonds after spreads widened to attractive levels. These issues are backed by brokerage firms, virtually all of whom have some exposure to the subprime issue, and their prices suffered during the period.

While tobacco-related issues underperformed, a number of the fund's holdings within the sector benefited from refunding activity (which generally results in a price increase as affected issues experience a credit upgrade). Ongoing refunding activity is the principal explanation for the increased representation of AAA-rated prerefunded bonds in the fund over the period.

The increase in short-term rates over the period was reflected in increased borrowing costs related to the fund's preferred shares. This constrained performance to a degree over the 12 months.

At the end of November, the 10-year municipal bond was yielding 92% of the comparable maturity Treasury bond, reflecting an unusually attractive relative valuation. As wider credit spreads, a steeper yield curve and more favorable municipal valuations have emerged, we have begun to adopt a less defensive position in the fund to take advantage of potential opportunities.

After the end of the fund's fiscal period, the major rating agencies -— Moody's, Standard & Poor's and Fitch — placed on negative watch or outlook a number of leading bond insurers. Additionally, Ambac was downgraded to AA by Fitch. The underlying securities of municipal bonds insured by these firms are generally of high credit quality, with an average rating in the A category. The majority of the bonds insured by these three companies are backed by municipal general obligations, leases, other taxes, or essential purpose revenue bonds. While such downgrades have the potential to affect the trading value of a bond, we believe the default risk on an underlying municipal credit remains relatively low.

Portfolio Summary

Asset Allocation (As a % of Investment Portfolio)	**11/30/07**	**11/30/06**
Revenue Bonds	48%	47%
ETM/Prerefunded Bonds	35%	32%
US Government Secured	14%	17%
Lease Obligations	3%	4%
	100%	100%

Quality	**11/30/07**	**11/30/06**
AAA	70%	72%
AA	8%	4%
A	12%	14%
BBB	7%	8%
BB	1%	—
Not Rated	2%	2%
	100%	100%

Interest Rate Sensitivity	**11/30/07**	**11/30/06**
Average Maturity	5.3 years	4.5 years
Duration	5.0 years	4.1 years

Top Five State Allocations (As a % of Investment Portfolio)	**11/30/07**	**11/30/06**
California	16%	12%
Texas	11%	12%
New York	9%	9%
Illinois	7%	6%
New Jersey	6%	7%

Asset allocation, quality, interest rate sensitivity and state allocations are subject to change. Duration shown does not account for the leverage position of the Fund.

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.

For more complete details about the Fund's investment portfolio, see page 13. 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.

Investment Portfolio as of November 30, 2007

	Principal Amount ($)	Value ($)
Municipal Bonds and Notes 149.5%		
Alabama 3.5%		
Camden, AL, Industrial Development Board Revenue, AMT, Series B, 6.375%, 12/1/2024	1,000,000	1,059,660
Huntsville, AL, Hospital & Healthcare Revenue, Health Care Authority, Series A, 5.75%, 6/1/2031	5,500,000	5,973,275
Huntsville, AL, Water & Sewer Revenue, AMT, 5.75%, 10/1/2011 (a)	8,560,000	9,046,807
		16,079,742
Arizona 2.2%		
Arizona, Hospital & Healthcare Revenue, Health Facilities Authority, Catholic Healthcare West, Series A, 6.625%, 7/1/2020	7,000,000	7,630,070
Arizona, Salt Verde Financial Corp., Gas Revenue, 5.5%, 12/1/2029	2,400,000	2,495,304
		10,125,374
California 20.7%		
California, Health Facilities Financing Authority Revenue, Sutter Health, Series A, 5.0%, 11/15/2042	2,000,000	2,004,960
California, Special Assessment Revenue, Golden State Tobacco Securitization Corp.:		
Series A-1, 5.0%, 6/1/2033	7,000,000	6,145,370
Series A, 5.0%, 6/1/2038 (a)	2,500,000	2,516,325
Series B, 5.625%, 6/1/2038	7,080,000	7,840,958
Series 2003-A-1, 6.75%, 6/1/2039	11,730,000	13,646,682
California, State General Obligation:		
4.5%, 10/1/2029	15,000,000	14,306,550
Series 2, 5.0%, 9/1/2019	4,385,000	4,632,884
5.0%, 12/1/2020	4,600,000	4,873,240
5.0%, 11/1/2027	3,000,000	3,071,790
5.0%, 6/1/2028	3,000,000	3,051,600
5.125%, 4/1/2024	4,400,000	4,627,876
5.25%, 12/1/2021	10,215,000	10,979,082
5.25%, 4/1/2030	110,000	116,199
California, State Public Works Board, Lease Revenue, Department of Corrections, Series C, 5.5%, 6/1/2021	2,500,000	2,711,550
California, State Public Works Board, Lease Revenue, Department of Mental Health, Series A, 5.5%, 6/1/2021	5,000,000	5,454,100
Long Beach, CA, Bond Finance Authority, Natural Gas Purchased Revenue, Series A, 5.5%, 11/15/2030	5,000,000	5,095,000
Northern California, Tobacco Securitization Authority, Tobacco Settlement Revenue, Series A-1, 5.375%, 6/1/2038	3,000,000	2,706,180
Southern California, Public Power Authority, Natural Gas Project Revenue, Project No.1, Series A, 5.25%, 11/1/2026	1,155,000	1,173,711
		94,954,057
Colorado 4.6%		
Colorado, Hospital & Healthcare Revenue, Portercare Adventist Health Project, 6.5%, 11/15/2031	1,000,000	1,126,400
Colorado, Hospital & Healthcare Revenue, Poudre Valley Health Facilities:		
Series A, 5.5%, 12/1/2017 (a)	6,145,000	6,464,294
Series A, 6.0%, 12/1/2015 (a)	5,705,000	6,056,314
Series A, 6.0%, 12/1/2016 (a)	2,000,000	2,123,160
Colorado, Single Family Housing Revenue, AMT, Series B2, 7.25%, 10/1/2031	205,000	220,094
Denver, CO, Airport Revenue, AMT, Series A, 6.0%, 11/15/2014 (a)	5,000,000	5,316,450
		21,306,712
District of Columbia 8.3%		
District of Columbia, ETM, Series A, Prerefunded, 5.5%, 6/1/2014 (a)	640,000	665,805
District of Columbia, Core City General Obligation, Series B, 5.5%, 6/1/2011 (a)	20,000,000	21,461,400
District of Columbia, General Obligation:		

Prerefunded, Series A-2005, 5.25%, 6/1/2027 (a)	2,585,000	2,634,891
Series A-2005, 5.25%, 6/1/2027 (a)	8,245,000	8,378,239
District of Columbia, Howard University Revenue, Series A, 5.0%, 10/1/2023 (a)	2,810,000	2,969,046
District of Columbia, State General Obligation, Series A, 5.5%, 6/1/2014 (a)	1,860,000	1,931,089
		38,040,470
Florida 7.1%		
Dade County, FL, Airport Revenue, AMT, Series A, 5.75%, 10/1/2026 (a)	13,000,000	13,145,990
Dade County, FL, Special Assessment Revenue:		
Series B, Prerefunded, Zero Coupon, 10/1/2022 (a)	7,735,000	3,216,754
Series B, Prerefunded, Zero Coupon, 10/1/2024 (a)	16,955,000	6,210,277
Hillsborough County, FL, Industrial Development Revenue, University Community Hospital Project, Series A, 5.625%, 8/15/2023	1,000,000	1,012,410
Miami-Dade County, FL, Transportation/Tolls Revenue, Expressway Authority:		
6.0%, 7/1/2013 (a)	1,665,000	1,788,227
6.0%, 7/1/2014 (a)	1,000,000	1,074,010
Orange County, FL, Health Facilities Authority Revenue, Orlando Regional Healthcare System, 5.75%, 12/1/2032	1,000,000	1,106,550
Palm Beach County, FL, School District Revenue Lease, Series A, Prerefunded, 5.75%, 8/1/2017 (a)	2,850,000	3,055,656
South Miami, FL, Health Facilities Authority Hospital Revenue, Baptist Health South Florida Group, 5.0%, 8/15/2032	2,000,000	2,011,320
		32,621,194
Georgia 3.6%		
Atlanta, GA, Water & Wastewater Revenue, Water Utilities Improvements, 5.0%, 11/1/2024 (a)	4,000,000	4,176,880
Georgia, Main Street Natural Gas, Inc., Gas Project Revenue:		
Series A, 5.0%, 3/15/2022	7,340,000	7,395,490
Series A, 5.5%, 9/15/2027	5,000,000	4,996,550
		16,568,920
Hawaii 4.5%		
Hawaii, Airport System Revenue, AMT, Series B, 6.5%, 7/1/2013 (a)	8,800,000	9,491,152
Hawaii, Electric Revenue, Department of Budget & Finance, AMT, Series D, 6.15%, 1/1/2020 (a)	2,195,000	2,264,296
Hawaii, Port Authority Revenue, AMT:		
Series A, 6.0%, 7/1/2011 (a)	2,950,000	3,147,857
Series A, 6.0%, 7/1/2012 (a)	3,135,000	3,338,085
Hawaii, State General Obligation, Series CT, Prerefunded, 5.75%, 9/1/2014 (a)	2,310,000	2,429,127
		20,670,517
Idaho 0.0%		
Idaho, Single Family Housing Revenue, AMT, Series C2, 6.9%, 7/1/2025	80,000	**80,102**
Illinois 8.7%		
Chicago, IL, Airport Revenue, O'Hare International Airport, AMT, 5.5%, 1/1/2014 (a)	10,000,000	10,460,800
Chicago, IL, Core City General Obligation:		
Series A, Prerefunded, 6.0%, 1/1/2014 (a)	2,085,000	2,246,045
Series A, Prerefunded, 6.125%, 1/1/2015 (a)	2,000,000	2,160,640
Series A, 6.125%, 1/1/2016 (a)		