

**MEMO# 3634**

March 24, 1992

## **INSTITUTE TESTIFIES IN TENNESSEE ON BILL TO PROVIDE PASS- THROUGH TREATMENT FOR FEDERAL OBLIGATION INTEREST**

March 24, 1992 TO: TAX COMMITTEE NO. 9-92 UNIT INVESTMENT TRUST COMMITTEE NO. 17-92 RE: INSTITUTE TESTIFIES IN TENNESSEE ON BILL TO PROVIDE PASS- THROUGH TREATMENT FOR FEDERAL OBLIGATION INTEREST

As you know, the Tennessee Commissioner of Revenue recently announced that as of April 1, 1992, all distributions from regulated investment companies ("RICs") and unit investment trusts ("UITs") would be subject to the state's dividend and interest tax. Previously, such distributions had been exempt if the RIC or UIT had at least 75 percent of its assets invested in Tennessee obligations. (See Institute Memoranda to Unit Investment Trust Committee No. 13-92, Tennessee Members and Members with Tennessee Bond Funds, dated March 9, 1992; and to Tax Committee No. 8-92 and Money Market Members - One Per Complex No. 3-92, dated March 11, 1992.) The Commissioner of Revenue took his action in response to an opinion of the Tennessee Attorney General that taxing distributions derived from federal obligation interest while exempting those derived from state and local interest was unconstitutionally discriminatory against federal obligations. The Institute has been working with local counsel to have the deduction for Tennessee obligations reinstated by passing Senate Bill 2726, which would exempt from the Hall Income Tax distributions of RICs and UITs derived from federal obligation interest. Passage of the bill would result in equal tax treatment of federal and state obligations and remove the Commissioner's rationale for taxing Tennessee RICs and UITs. Attached is the Institute's testimony from the March 23, 1992 hearing on Senate Bill 2726 before the Business Tax Study Committee. The Committee approved the legislation unanimously and forwarded it to the Senate and House Finance Ways and Means Committees. Today, the Senate Ways and Means Committee approved the legislation and sent it to the full Senate. Final action on the bill must occur by late April, when the Legislature adjourns for the year. We will keep you informed of the progress of this legislation. David J. Mangefrida Jr. Assistant Counsel - Tax Attachment