

MEMO# 3110

September 23, 1991

NEW CONNECTICUT INCOME TAX AFFECTS TREATMENT OF PUERTO RICAN OBLIGATION INTEREST

September 23, 1991 TO: TAX MEMBERS NO. 39-91 MONEY MARKET MEMBERS - ONE PER COMPLEX NO. 24-91 RE: NEW CONNECTICUT INCOME TAX AFFECTS TREATMENT OF PUERTO RICAN OBLIGATION INTEREST _____ As we previously informed you, Connecticut recently passed an income tax which provides for the pass-through of Federal obligation interest. (See Institute Memorandum to Tax Members No. 36-91 and Money Market Members - One Per Complex No. 23-91, dated August 30, 1991.) The income tax is effective for 1991 at a reduced rate; the old dividend and interest income tax will continue to be in effect, also at a reduced rate, through the end of 1991. The pass-through of Federal obligation interest also applies to the dividend and interest income tax, so that regulated investment company ("RIC") dividends derived from Federal obligation interest are no longer subject to either the dividend and interest income tax or the income tax for 1991, provided the RIC meets the 50 percent of assets threshold. Earlier this year, we also informed you that the Connecticut Department of Revenue had ruled that a RIC's exempt- interest dividends would be exempt from the state's dividend and interest income tax to the extent attributable to interest derived from Puerto Rican obligations. (See Institute Memorandum to Tax Members No. 17-91 and Money Market Members - One Per Complex No. 11-91, dated May 24, 1991.) The income tax bill altered the manner in which exempt-interest dividends derived with respect to interest on Connecticut municipal obligations were treated, which remain exempt from state tax. As a result of these changes, there is some question as to whether the earlier ruling on the exempt status of Puerto Rican obligation interest is valid, either for purposes of the new income tax or the dividend and interest income tax. We have been informed that a technical corrections bill has been proposed which would correct this result. We will keep you informed of further developments. David J. Mangefrida, Jr. Assistant Counsel - Tax

Source URL: <https://icinew-stage.ici.org/memo-3110>

Copyright © by the Investment Company Institute. All rights reserved. Information may be abridged and therefore incomplete. Communications from the Institute do not constitute, and should not be considered a substitute for, legal advice.