

MEMO# 2712

April 29, 1991

NEW MEXICO RETROACTIVELY IMPOSES TAXATION ON OUT-OF-STATE MUNICIPAL BOND INCOME

April 29, 1991 TO: MEMBERS - ONE PER COMPLEX NO. 18-91 CLOSED-END FUND MEMBERS NO. 19-91 TAX MEMBERS NO. 11-91 UNIT INVESTMENT TRUST MEMBERS NO. 18-91 ACCOUNTING/TREASURERS MEMBERS NO. 10-91 RE: NEW MEXICO RETROACTIVELY IMPOSES TAXATION ON OUT-OF-STATE MUNICIPAL BOND INCOME

As we have informed you in our Surveys of State Income Taxation, prior to 1991 New Mexico exempted from state tax the interest income paid on federal obligations and on municipal obligations of New Mexico and all other states, whether the income was received directly or through a mutual fund. (See Institute Memorandum to Members - One Per Complex No. 51-90, Closed-End Fund Members No. 46-90, Tax Members No. 48-90, Unit Investment Trust Members No. 73-90 and Accounting/Treasurers Members No. 23-90, dated November 21, 1990). New Mexico's treatment thus differed from the prevailing state position of exempting from tax only the interest paid on federal obligations and on that state's own obligations. The attached New Mexico Taxation and Revenue Department announcement discusses recently enacted legislation (also attached), effective retroactively to January 1, 1991, which exempts from New Mexico tax only federal obligation interest and New Mexico obligation interest. The law does not include a grandfather provision for interest income paid on out-of-state municipal bonds purchased prior to January 1, 1991. Thus, all interest income from out-of-state bonds has been taxable in New Mexico since January 1, 1991. We will keep you informed of developments. Keith D. Lawson Associate Counsel - Tax Attachments KDL:bmb