

**MEMO# 4370**

December 31, 1992

## **MISSOURI REISSUES REGULATIONS REMOVING ASSET THRESHOLD FOR PASS-THROUGH TREATMENT**

December 31, 1992 TO: TAX COMMITTEE NO. 49-92 MONEY MARKET MEMBERS - ONE PER COMPLEX NO. 25-92 RE: MISSOURI REISSUES REGULATIONS REMOVING ASSET THRESHOLD FOR PASS-THROUGH TREATMENT

As you know, earlier this year the Missouri Department of Revenue proposed to amend a regulation to require regulated investment company ("RIC") shareholders to attach to their state tax return a detailed listing of all obligations held by the RIC in order to claim the exemption from state tax for RIC dividends derived from interest on federal obligations. (See Institute Memorandum to Tax Committee No. 34-92 and Money Market Members - One Per Complex No. 15-92, dated September 11, 1992.) The Institute filed a comment letter on the proposed regulation stating that obligation-by-obligation reporting was unduly burdensome. The Institute suggested instead that RICs be allowed to summarize the total amount of interest exempt from state tax. (See Institute Memorandum to Tax Committee No. 36-92 and Money Market Members - One Per Complex No. 16-92, dated September 16, 1992.) The state then proposed a second, different, regulation which provided that a taxpayer may show the amount of RIC dividends exempt from Missouri income tax by attaching to his or her state income tax return a document from the RIC containing either (1) a breakdown, by issuer, of the percentage of the RIC's assets invested in obligations the interest on which is exempt from the Missouri income tax or (2) the percentage of dividends attributable to interest which is exempt from the Missouri income tax. The proposed amendment also would eliminate the current requirement that 50 percent of the RIC's assets be in federal obligations exempt from Missouri income tax before a RIC may pay dividends exempt from Missouri income tax. (See Institute Memorandum to Tax Committee No. 38-92 and to Money Market Members - One Per Complex No. 15-92, dated October 8, 1992.) The attached repropoed regulations adopt virtually all of the suggestions made by the Institute and its Missouri members. The regulations have also been issued in temporary form under emergency procedures. The Temporary Regulations are effective between January 1, 1993 and April 30, 1993, with respect to returns filed between those dates. Presumably, the identical proposed regulations will have been finalized by April 30, 1993. The Institute is requesting clarification as to whether the regulations apply to Missouri returns filed with respect to RIC activities for calendar year 1992, thus effectively making the standards of the regulations apply to RICs for calendar 1992. We will keep you informed of further developments. David J. Mangefrida Jr. Assistant Counsel - Tax Attachment

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