

**MEMO# 3575**

March 9, 1992

## **TENNESSEE DENIAL OF PASS-THROUGH FOR TENNESSEE OBLIGATIONS**

March 9, 1992 TO: UNIT INVESTMENT TRUST COMMITTEE NO. 13-92 TENNESSEE MEMBERS  
MEMBERS WITH TENNESSEE BOND FUNDS RE: TENNESSEE DENIAL OF PASS-THROUGH FOR  
TENNESSEE OBLIGATIONS \_\_\_\_\_ As you  
know, the Tennessee Commissioner of Revenue has announced that as of April 1, 1992, the  
state will no longer allow an exemption from the Hall income tax for mutual fund dividends  
or unit investment trust distributions attributable to Tennessee State or local obligations.  
This position is justified based on an opinion of the Tennessee Attorney General that  
exempting income of Tennessee obligations passed through a mutual fund or UIT while  
taxing federal obligations unconstitutionally discriminates against federal obligations. A bill  
has been introduced into the Legislature, designated House Bill 2603 and Senate Bill 2726,  
which would remove the justification for the Commissioner's action by extending the  
exemption to mutual fund dividends and UIT distributions derived from interest on federal  
obligations. The Institute has been working with its local counsel and other interested  
parties in Tennessee in support of this bill. There will be a hearing on the bill on March 23,  
1992, before the Business Tax Study Committee. If approved by the Committee, it will be  
referred to the House and Senate Finance Ways and Means Committees for their approval,  
and then will be voted upon by both houses of the Legislature. The two vital steps are with  
the Business Tax Study Committee and the two revenue committees. While the Institute  
believes that the bill has an excellent chance of passage, it can only succeed with the  
support of your Tennessee investors and the Tennessee brokers through which you sell.  
The Institute urges you to contact your investors IMMEDIATELY. They should be encouraged  
to contact either members of the Business Tax Study Committee or the two revenue  
Committees. They could also be encouraged to contact their local legislators and urge the  
legislators to contact the members of the committees in support of the bill. Attached are  
talking points which may be used in drafting an investor letter, as well as lists of the  
members of the three committees. - 1 - The Institute also urges members to contact the  
brokerage firms through which their Tennessee products are distributed and urge them to  
send a representative to the meeting to be held on March 12, 1992 at noon in the offices of  
our local counsel, Bass, Berry and Sims, First American Center, 27th Floor, Nashville, TN. At  
that meeting the Institute will brief the brokerage representatives on the situation and what  
they can do to help influence passage of the bill. Talking points for individual brokers will be  
distributed at the meeting. We will keep you informed of developments on this issue. David  
J. Mangefrida Jr. Assistant Counsel - Tax Attachment

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