

**MEMO# 2280**

October 23, 1990

## **MARYLAND REQUEST FOR INFORMATION ON FUND ASSETS FOR PURPOSES OF SHAREHOLDER REFUNDS**

- 1 - October 23, 1990 TO: MEMBERS - ONE PER COMPLEX NO. 47-90 TAX MEMBERS NO. 46-90 RE: MARYLAND REQUEST FOR INFORMATION ON FUND ASSETS FOR PURPOSES OF SHAREHOLDER REFUNDS \_\_\_\_\_ The Maryland Court of Appeals (Maryland's highest court) recently ruled that Maryland's attempt to tax mutual fund dividends derived from federal obligation interest was a violation of federal law. (See Institute Memorandum to Tax Members No. 38-90 and Money Market Members - One Per Complex No. 12-90, dated September 21, 1990.) This decision effectively overrules legislation enacted last year while this case was pending which limited pass-through treatment to those funds in which at least 50% of the fund's income was derived from federal obligation interest. The case also ruled that dividends derived from repurchase agreements with respect to federal obligations were not exempt from state tax. Maryland is currently processing thousands of refund claims from persons who had received mutual fund dividends derived from federal obligation interest and had filed their tax returns under protest. As part of this process, Maryland has requested that each fund which earned federal obligation interest paid to shareholders as dividends in any year during the period from 1984 through 1989 provide a breakdown of the sources of that income. Such a statement will save shareholders from having to contact each fund individually and then relaying the information they receive to the state. A statement will not be requested from each fund for future years, only for the refund period; funds will continue to mail statements directly to shareholders each year. Maryland's request was discussed at the October 16, 1990 meeting of the Institute's Tax Committee, which decided that the Institute should request that Members comply with the state's request, thus greatly speeding shareholders' refunds. The attached form was developed in conjunction with the state. - 2 - Please fill out one such form with respect to each fund with federal obligation interest in any year in the period 1984 through 1989 and mail to: Maryland Income Tax Division Audit Section Office of Comptroller State Income Tax Building Annapolis, MD 21411-0001 Attn: Darlene Nash Thank you for your response to this request. David J. Mangefrida, Jr. Assistant General Counsel Attachment