

MEMO# 2055

July 24, 1990

DELAWARE PASS-THROUGH OF FEDERAL INTEREST

July 24, 1990 TO: MONEY MARKET MEMBERS - ONE PER COMPLEX NO. 10-90 TAX MEMBERS NO. 27-90 RE: DELAWARE PASS-THROUGH OF FEDERAL INTEREST

_____ We are pleased to inform you that Delaware has become the most recent state to permit federal obligation interest to retain its tax-exempt character when passed-through a regulated investment company ("RIC") to RIC shareholders. The attached Delaware statute was signed by the Governor on July 18, 1990 and is effective, in part, for tax years beginning after December 31, 1989. It provides that the Delaware personal income tax does not apply to dividends of a regulated investment company ("RIC") to the extent attributable to interest on obligations of the United States, its territories and possessions, or of any authority, commission or instrumentality of the United States, which interest would be exempt from the Delaware personal income tax if earned directly by an individual. The pro rata share of the dividends of the RIC attributable to exempt federal interest or the dollar amount of such dividends must be reported to the shareholder in writing. In addition, effective for tax years beginning after December 31, 1990, interest on state and local bonds exempt from tax under section 103 of the Internal Revenue Code, other than interest on obligations of Delaware and its political subdivisions and authorities, will be subject to tax in Delaware, whether earned directly by an individual or through a RIC. Although this new provision has a prospective effective date, it may be merely a clarification of existing law as it is consistent with the State's prior administrative position, as evidenced by its response to the Institute's 1989 state tax survey. (See Institute Memorandum to Members - One Per Complex No. 43-89; Closed-End Fund Members No. 71-89; Tax Members No. 49-89; Unit Investment Trust Members No. 72-89; and Accounting/Treasurers Members No. 7-89, dated December 20, 1989.) Prior statutory provisions had not dealt specifically with the taxation of exempt-interest dividends of a RIC, whether derived from Delaware obligations or from the obligations of other states. We will keep you informed of developments. David J. Mangefrida, Jr. Assistant General Counsel Attachment