

MEMO# 3401

January 2, 1992

LETTER TO GEORGIA TAX COMMISSIONER ON IMPOSITION OF INTANGIBLES TAX ON SINGLE-STATE GEORGIA UITs

January 2, 1992 TO: TAX COMMITTEE NO. 1-92 UNIT INVESTMENT TRUST COMMITTEE NO. 1-92 RE: LETTER TO GEORGIA TAX COMMISSIONER ON IMPOSITION OF INTANGIBLES TAX ON SINGLE-STATE GEORGIA UITs

At the last Unit Investment Trust Committee meeting, concerns were raised about the position which the Georgia Department of Revenue has taken concerning the application of the intangibles tax to holdings of interests in unit investment trusts ("UITs") whose assets consist solely of Georgia municipal obligations. Under Georgia law, obligations of the state and its municipalities are exempt from the intangibles tax. As grantor trusts, UITs should be treated as transparent entities, with the interest holders treated as owning the underlying assets and, therefore, exempt from tax to the extent that the UIT's assets are exempt. The state, however, has refused to look through UITs holding only Georgia state and local obligations and treat the interest holders as directly owning the UIT's assets, thus resulting in the imposition of the tax on the value of the UIT interests. The attached letter has been sent by the Institute to the Georgia Commissioner of Revenue urging that the state respect the grantor trust character of UITs. The letter points out that increasing the cost of holding Georgia obligations through UITs will decrease demand for the state's obligations and raise the state's cost of borrowing. The letter also explains that the state's position is inconsistent with the treatment of UITs under the federal and state income tax laws. We will keep you informed of further developments. David J. Mangefrida Jr. Assistant Counsel - Tax Attachment DJM:bmb