

**MEMO# 5393**

December 14, 1993

## **PENNSYLVANIA ADOPTS PASS-THROUGH LEGISLATION**

December 14, 1993 TO: BOARD OF GOVERNORS NO. 113-93 MONEY MARKET MEMBERS - ONE PER COMPLEX NO. 10-93 TAX MEMBERS NO. 43-93 RE: PENNSYLVANIA ADOPTS PASS-THROUGH LEGISLATION \_\_\_\_\_ As you may know, for almost 10 years the Institute has been engaged in an effort to persuade states to exempt mutual fund dividends derived from interest on federal obligations from their personal income taxes. Pennsylvania was the last state that did not allow interest on federal obligations to flow through to mutual fund shareholders free of state tax. We are pleased to report that the Acting Governor of Pennsylvania recently signed into law Senate Bill 565, which, effective for taxable years beginning after December 31, 1992, exempts mutual fund dividends derived from interest on federal obligations from Pennsylvania personal income tax. A copy of the bill is attached. The Institute will continue its efforts to eliminate the remaining barriers to flow-through treatment of mutual fund dividends derived from interest on federal obligations. For example, we will now turn our efforts to those states that provide for exemption from tax only if federal obligations make up more than a specific percentage of the fund's assets. We will keep you informed of developments in this area. Matthew P. Fink President Attachment

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