

**MEMO# 4167**

October 8, 1992

## **MISSOURI PROPOSES REGULATIONS REMOVING ASSET THRESHOLD ON FUNDS ELIGIBLE TO PASS THROUGH FEDERAL OBLIGATION INTEREST**

October 8, 1992 TO: TAX COMMITTEE NO. 38-92 MONEY MARKET MEMBERS - ONE PER  
COMPLEX NO. 18-92 RE: MISSOURI PROPOSES REGULATIONS REMOVING ASSET  
THRESHOLD ON FUNDS ELIGIBLE TO PASS THROUGH FEDERAL OBLIGATION INTEREST

As you know, the Missouri Department of Revenue recently proposed to amend a regulation to require regulated investment company ("RIC") shareholders to attach to their state tax return a detailed listing of all obligations held by the RIC in order to claim the exemption from state tax for RIC dividends derived from interest on federal obligations. (See Institute Memorandum to Tax Committee No. 34-92 and Money Market Members - One Per Complex No. 15-92, dated September 11, 1992.) The Institute filed a comment letter on the proposed regulation stating that obligation-by-obligation reporting was unduly burdensome. The Institute suggested instead that RICs be allowed to summarize the total amount of interest exempt from state tax. (See Institute Memorandum to Tax Committee No. 36-92 and Money Market Members - One Per Complex No. 16-92, dated September 16, 1992.) Missouri has not yet responded directly to the Institute's comments on the earlier proposed amendment. The state has, however, addressed the same issue in a different proposed regulation, which is attached to this memorandum. The second proposed amendment provides that a taxpayer may show the amount of RIC dividends exempt from Missouri income tax by attaching to his or her state income tax return a document from the RIC containing either (1) a breakdown, by issuer, of the percentage of the RIC's assets invested in obligations the interest on which is exempt from the Missouri income tax or (2) the percentage of the RIC's dividends attributable to interest which is exempt from the Missouri income tax. The proposed amendment also would eliminate the current requirement that 50 percent of the RIC's assets be in federal obligations exempt from Missouri income tax before a RIC may pay dividends exempt from Missouri income tax. The Institute will submit comments on the proposed regulation. If you have particular concerns about the proposed regulation, please contact the undersigned at (202) 955-3521 by October 21, 1992. We will keep you informed of further developments. David J. Mangefrida Jr. Assistant Counsel - Tax Attachment

should not be considered a substitute for, legal advice.