

MEMO# 1540

November 16, 1989

KENTUCKY PASS-THROUGH OF MUNICIPAL BOND INTEREST

November 16, 1989 TO: MONEY MARKET FUND CHIEF EXECUTIVE OFFICERS NO. 10-89 TAX MEMBERS NO. 43-89 RE: KENTUCKY PASS-THROUGH OF MUNICIPAL BOND INTEREST

As we previously informed you, Kentucky recently revised its Revenue Policy Statement 42P161 to exempt from Kentucky income tax those dividends paid by a regulated investment company ("RIC") attributable to interest derived from federal obligations. (See Institute Memorandum to Money Market Fund Chief Executive Officers No. 8-89 and Tax Members No. 36-89, dated October 6, 1989). This revision also changed the tax treatment of RIC dividends derived from some state and local obligations. Prior to the revision, RIC dividends attributable to interest derived from all state and local obligations were exempt from Kentucky income tax. Pursuant to the revision, RIC dividends attributable to non-Kentucky state and local obligations would no longer be exempt from Kentucky income tax. The attached letter to the Institute from the Kentucky Revenue Cabinet clarifies that the change in treatment for non-Kentucky state and local obligations will commence with taxable years beginning after December 31, 1989. Thus, for 1989, all RIC dividends attributable to federal obligations and state and local obligations of any state will be exempt from Kentucky income tax. Thereafter, only RIC dividends attributable to federal obligations and Kentucky state and local obligations will be exempt from Kentucky income tax. We will keep you informed of developments. Keith D. Lawson Assistant General Counsel Attachment

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