

MEMO# 3757

May 7, 1992

TENNESSEE ENACTS PASS-THROUGH OF FEDERAL OBLIGATION INTEREST

May 7, 1992 TO: TAX MEMBERS NO. 28-92 UNIT INVESTMENT TRUST MEMBERS NO. 28-92
MONEY MARKET MEMBERS - ONE PER COMPLEX NO. 4-92 RE: TENNESSEE ENACTS PASS-
THROUGH OF FEDERAL OBLIGATION INTEREST

_____ The Institute is pleased to inform you that the Tennessee legislature has enacted legislation allowing the pass-through of federal obligation interest effective as of January 1, 1992. Under the attached legislation, which was passed unanimously by both the Tennessee House and Senate, a mutual fund or unit investment trust (UIT) will be able to designate a dividend that will be exempt from Tennessee income tax. Although the bill will not become law until signed by the governor, we anticipate that he will sign the bill. The bill also will have the effect of restoring the tax-exempt status of investment company dividends and UIT distributions derived from interest on Tennessee obligations. As you may know, Tennessee previously had taxed the interest derived from federal obligations while exempting that derived from Tennessee obligations. In February of this year the Tennessee Commissioner of Revenue declared that as of April 1, 1992, a deduction would no longer be allowed with respect to dividends or distributions derived from interest on Tennessee obligations. (See Institute Memoranda to Unit Investment Trust Committee No. 13-92, Tennessee Members and Members with Tennessee Bond Funds, dated March 9, 1992; and to Tax Committee No. 8-92 and Money Market Members - One Per Complex No. 3-92, dated March 11, 1992.) The Commissioner took this position in response to an opinion of the Tennessee Attorney General that the disparate treatment of federal and Tennessee obligations violated the United States Constitution. The efforts to reverse the Commissioner's action have resulted in the passage of legislation that exempts both federal and Tennessee interest from tax. We will keep you informed of further developments. David J. Mangefrida Jr. Assistant Counsel - Tax Attachment