

MEMO# 4356

December 23, 1992

INSTITUTE LETTER TO PENNSYLVANIA REQUESTING PASS-THROUGH TREATMENT OF RIC DIVIDENDS DERIVED FROM INTEREST ON FEDERAL OBLIGATIONS

December 23, 1992 TO: BOARD OF GOVERNORS NO. 94-92 TAX COMMITTEE NO. 48-92
MONEY MARKET MEMBERS - ONE PER COMPLEX NO. 24-92 RE: INSTITUTE LETTER TO
PENNSYLVANIA REQUESTING PASS-THROUGH TREATMENT OF RIC DIVIDENDS DERIVED
FROM INTEREST ON FEDERAL OBLIGATIONS

As you know, since the 1983 U.S. Supreme Court decision in *American Bank & Trust Co. v. Dallas County*, which held that states may not tax interest on federal obligations, either directly or indirectly, the mutual fund industry has engaged in a campaign to persuade the states to allow the exempt character of interest from federal obligations to pass through a mutual fund to its shareholders. As a result of this campaign, 28 of the 29 states which taxed such dividends at the time of the Supreme Court's decision have changed their treatment to allow pass through. In a continuation of the campaign, the Institute has sent the attached letter to the Pennsylvania Secretary of Revenue, asking the Revenue Department to reverse its position that the Pennsylvania Personal Income Tax applies to the portion of a mutual fund's dividend derived from interest on federal obligations. The letter points out that Pennsylvania is now the only state which still taxes such dividends and that, by acting administratively, Pennsylvania can avoid having to pay penalties and back interest to taxpayers in the event of a lawsuit declaring the State's position retroactively invalid. We will keep you informed of further developments. Matthew P. Fink President Attachment