

MEMO# 4284

November 25, 1992

INSTITUTE LETTER ON MASSACHUSETTS TECHNICAL CORRECTIONS BILL

November 25, 1992 TO: TAX COMMITTEE NO. 43-92 RE: INSTITUTE LETTER ON
MASSACHUSETTS TECHNICAL CORRECTIONS BILL

As we previously informed you, Massachusetts earlier this year enacted legislation (H.R. 5800) which extended pass-through treatment of federal and state obligation interest to regulated investment companies ("RICs") organized other than as Massachusetts business trusts. (See Institute Memorandum to Tax Members No. 51-92 and Money Market Members - One Per Complex No. 11-92, dated August 18, 1992.) The Institute understands that the Department of Revenue may propose a technical corrections bill to this statute. Attached is a comment letter to the Department of Revenue suggesting two changes. First, the statute currently requires that, as a prerequisite for pass-through treatment, a RIC report to shareholders the portion of the RIC's distributions derived from exempt obligations within 60 days after the close of the RIC's fiscal year. The Institute pointed out that, for other than calendar year RICs, fiscal year reporting may give misleading information to RIC shareholders, because the report may not cover all distributions made during the calendar year, particularly if the RIC makes monthly distributions. The Institute recommended that the reporting requirement be changed to a calendar year. The Institute also commented on the method by which the amount of taxable RIC dividends is determined. Under current law, an investor in a tax-exempt bond fund appears to determine Massachusetts gross income by adding to federal gross income all exempt-interest dividends, regardless of the obligations from which the income is derived. The exempt-interest dividends derived from interest on Massachusetts obligations are then subtracted from that amount. The Institute suggested that a simpler method would be to add only the non-Massachusetts-derived exempt-interest dividends to federal gross income, thus eliminating the necessity for any kind of subtraction in arriving at Massachusetts gross income. We will keep you informed of further developments. David J. Mangefrida Jr. Assistant Counsel - Tax Attachment