

MEMO# 4093

September 16, 1992

INSTITUTE COMMENT LETTER ON MISSOURI PROPOSED PASS-THROUGH REGULATIONS

September 16, 1992 TO: TAX COMMITTEE NO. 36-92 MONEY MARKET MEMBERS - ONE PER COMPLEX NO. 16-92 RE: INSTITUTE COMMENT LETTER ON MISSOURI PROPOSED PASS-THROUGH REGULATIONS _____ As we recently informed you, the Missouri Department of Revenue has proposed that, in order for Missouri taxpayers to claim the exemption from Missouri income tax for mutual fund dividends attributable to federal obligation interest, the shareholders would be required to attach to their returns "a statement received from the mutual fund showing the amount of monies received from each government obligation or the percentage of funds received from each exempt obligation." (See Institute Memorandum to Tax Committee No. 34-92 and Money Market Members - One Per Complex No. 15-92, dated September 11, 1992.) No state currently requires this obligation-by-obligation reporting. Attached is the Institute's comment letter on these proposed regulations. In its letter, the Institute requests that Missouri clarify that the statement to shareholders not be required to list the fund's federal interest on an obligation-by-obligation basis. Instead, a fund should be permitted to provide the percentage or dollar amount of its income which represents all federal obligation interest earned by the fund. The comment letter points out that states generally accept a report provided only to shareholders that indicates the percentage of its income derived from federal obligation interest as proof of the exempt portion of a taxpayer's dividend income. In addition, the letter states that no benefit will be derived from preparing an obligation-by-obligation breakdown for the typical U.S. government fund, which holds hundreds of issues of all different maturities, issue dates and interest rates. Because no other state requires such reporting, funds would be forced to incur the expense of preparing and mailing this report only to Missouri shareholders. The Institute further explains that a many-page report with hundreds of entries will be very confusing to Missouri shareholders, and thus less useful than the type of report currently used by funds. We will keep you informed of further developments. David J. Mangefrida Jr. Assistant Counsel - Tax Attachment