

MEMO# 1441

October 6, 1989

KENTUCKY PASS-THROUGH OF FEDERAL OBLIGATION INTEREST

October 6, 1989 TO: MONEY MARKET FUND CHIEF EXECUTIVE OFFICERS NO. 8-89 TAX MEMBERS NO. 36-89 RE: KENTUCKY PASS-THROUGH OF FEDERAL OBLIGATION INTEREST

As you know, the Institute has been working for some time to eliminate state taxation of investment company dividends derived from interest on federal obligations. We are pleased to inform you that Kentucky has now become a "pass-through" state with the release of the attached Revenue Policy Statement, which reverses the position previously taken by the Kentucky Revenue Cabinet. (See Institute Memorandum to Members - One Per Complex No. 16-88, Tax Members No. 14-88, Closed-End Fund Members No. 16-88, Unit Investment Trust Members No. 18-88 and Money Market Chief Executive Officers No. 2-88, dated March 18, 1988.) Under Revised Revenue Policy Statement 42P161, dated September 1, 1989, dividends paid by a regulated investment company ("RIC") attributable to interest derived from federal obligations and Kentucky State obligations will not be taxable to Kentucky shareholders. RICs are to provide their shareholders residing in Kentucky with a statement on or before January 31 reflecting the amount of the RIC's "Kentucky income", according to the Revenue Policy Statement. "Kentucky income" is determined by multiplying the distributive income for the year by the ratio of gross income subject to tax by Kentucky to total gross income. This Revenue Policy Statement supersedes retroactively Revenue Policy Statement 42P161, dated September 1, 1987, which was effective for taxable years beginning on or after January 1, 1988. We will keep you informed of developments. Keith D. Lawson Assistant General Counsel
Attachment