

**MEMO# 3291**

November 26, 1991

## **INSTITUTE COMMENTS ON PROPOSED DISTRICT OF COLUMBIA REGULATIONS ON REPORTING INTEREST ON NON- DISTRICT BONDS**

- 1 - November 26, 1991 TO: MONEY MARKET MEMBERS - ONE PER COMPLEX NO. 30-91 TAX MEMBERS NO. 55-91 UNIT INVESTMENT TRUST MEMBERS NO. 59-91 RE: INSTITUTE COMMENTS ON PROPOSED DISTRICT OF COLUMBIA REGULATIONS ON REPORTING INTEREST ON NON-DISTRICT BONDS

As you know, legislation passed in 1983 had provided that the interest on non-District of Columbia municipal obligations acquired after December 31, 1991 would be taxable to District of Columbia residents. However, the District of Columbia Council passed a bill which would repeal the tax on non-District obligations. (See Institute Memorandum to Tax Members No. 48-91, Unit Investment Trust Members No. 54-91 and Money Market Members - One Per Complex No. 28-91, dated November 7, 1991.) On Monday, November 25, 1991, the Mayor signed the repeal bill into law. (See Institute Memorandum to Money Market Members - One Per Complex No. 29-91, Tax Committee No. 37-91 and Unit Investment Trust Members No. 42-91, dated November 26, 1991.) By law, Congress now has 30 days in which to review the legislation. Assuming Congress has no objections, interest on all municipal obligations will remain exempt from tax to District residences. Last month, prior to the law's repeal, the District issued proposed regulations setting forth (1) the manner in which the law would have been applied to regulated investment company ("RIC") shareholders and (2) the information reporting requirements of RICs and others who pay exempt interest, whether directly or indirectly through exempt-interest dividends. (See Institute Memorandum to Tax Members No. 44-91, Unit Investment Trust Members No. 50-91 and Money Market Members - One Per Complex No. 25-91, dated October 17, 1991.) The proposed regulations provided that, for RIC shareholders, the date on which the taxpayer acquired his or her RIC shares, not the date on which the RIC acquired its portfolio of municipal obligations, would determine whether or not the exempt interest dividends would be taxable in the District. However, the proposed regulations also had numerous requirements which would have been difficult, if not impossible, for RICs to comply with. Although repeal of the law makes the regulations moot, it - 2 - is possible that Congress may object to the bill. Therefore, attached are the Institute's comments on these regulations. The Institute suggested that RICs be required to provide information only to shareholders; not to the District. The reports to shareholders, under the Institute's comments, would have to indicate the portion of RIC dividends derived from (1) capital gains, (2) obligations of the District of Columbia and U.S. Territories and

Commonwealths, such as Puerto Rico, (3) all other state and local obligations, (4) other dividends exempt from District tax, such as those derived from federal obligations, and (5) all other dividends (i.e., ordinary dividends). The Institute also urged that RICs not be responsible for keeping track of the acquisition date of shares for shareholders, nor for allocating each shareholder's dividends between shares acquired before 1992 and those acquired after 1991. We will keep you informed of further developments. David J. Mangefrida Jr. Assistant Counsel - Tax Attachment DJM:bmb

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