

STATE TAXATION OF STATE AND LOCAL OBLIGATIONS

I. STATE INCOME TAXES OR TAXES THAT APPLY TO INTEREST AND DIVIDENDS

• **Income Tax** (41 states and the District of Columbia)

Alabama	Kansas*	New York*
Arizona*	Kentucky*	North Carolina
Arkansas	Louisiana	North Dakota
California*	Maine	Ohio
Colorado*	Maryland*	Oklahoma*
Connecticut*	Massachusetts*	Oregon
Delaware	Michigan	Pennsylvania*
District of Columbia	Minnesota*	Rhode Island
Georgia*	Mississippi*	South Carolina
Hawaii	Missouri	Utah*
Idaho	Montana*	Vermont*
Illinois*	Nebraska	Virginia*
Indiana*	New Jersey*	West Virginia
Iowa*	New Mexico	Wisconsin*

• **Tax Only Dividend and Interest Income** (2 states)

New Hampshire
Tennessee

• **No Income or Dividend and Interest Tax** (7 states)

Alaska	Texas
Florida	Washington
Nevada	Wyoming
South Dakota	

*State-specific information begins on page 2-4.

II. TAX APPLICABLE TO STATES' OWN OBLIGATIONS – DIRECT OWNERSHIP

GENERAL RULE

STATES DO NOT TAX INCOME FROM THEIR OWN OBLIGATIONS OR OBLIGATIONS OF THEIR LOCAL AND MUNICIPAL GOVERNMENTS WHEN THEY ARE HELD DIRECTLY (44 STATES AND THE DISTRICT OF COLUMBIA).

EXCEPTIONS

- States that tax the income from most or all of their own obligations (6 states):

Connecticut*	Kansas*
Illinois*	Oklahoma*
Iowa*	Wisconsin*

III. TAX APPLICABLE TO STATE'S OWN OBLIGATIONS – INDIRECT OWNERSHIP

GENERAL RULE

WITH RESPECT TO THEIR OWN OBLIGATIONS, STATES DO NOT DISTINGUISH BETWEEN DIRECT HOLDINGS AND INDIRECT OWNERSHIP THROUGH A RIC (41 STATES AND THE DISTRICT OF COLUMBIA).

EXCEPTIONS

- States that tax RIC dividends derived from interest on their own obligations but not interest on some or all direct holdings (1 state):

Illinois*

- States with minimum requirements before any portion of the dividend is exempt from tax, including threshold and reporting requirements (87 states):

California*	Minnesota*
Connecticut*	Mississippi*
Iowa*	Montana*
Virginia* Massachusetts*	Virginia*

*State-specific information begins on page 2-4.

IV. TAX APPLICABLE TO OBLIGATIONS OF OTHER STATES AND LOCALITIES – DIRECT OWNERSHIP

GENERAL RULE

STATES TAX THE INCOME FROM OBLIGATIONS OF OTHER STATES AND LOCALITIES (46 STATES).

EXCEPTIONS

- No tax on income from obligations of other states (2 states ~~and the District of Columbia~~):

~~District of Columbia~~

Indiana*

North Dakota

- Limited Tax Exemption (2 states ~~and the District of Columbia~~):

- January 1, 2012)

Utah*

Wisconsin*

District of Columbia* (for obligations acquired before

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V. TAX APPLICABLE TO OBLIGATIONS OF OTHER STATES AND LOCALITIES – INDIRECT OWNERSHIP

GENERAL RULE

WITH RESPECT TO OTHER STATES' OBLIGATIONS, STATES DO NOT DISTINGUISH BETWEEN DIRECT HOLDINGS AND INDIRECT OWNERSHIP THROUGH A FUND (43 STATES AND THE DISTRICT OF COLUMBIA – THE REMAINING STATES HAVE NO INCOME TAX).

VI. STATES THAT HAVE INTANGIBLES TAXES (2 STATES)

Kansas*

Kentucky*

*State-specific information begins on page 2-4.

SURVEY 2

STATE-SPECIFIC INFORMATION

- Arizona** A taxpayer may reduce interest income taxable by Arizona from non-Arizona municipal bonds by any interest or other related expenses incurred to purchase or carry the obligation. Arizona Revised Statutes (A.R.S.) § 43-1021.3.
- California** If, at the close of each quarter of its taxable year, at least 50% of a RIC's assets consists of obligations, the interest on which is exempt from taxation by California under either the Constitution or laws of California or the Constitution or laws of the United States, then the RIC's dividends, to the extent attributable to interest derived from these obligations, will be exempt from taxation. "Exempt-interest dividends" must be ~~designated~~reported as an exempt-interest dividend by the RIC in a written ~~note mailed~~statement that is furnished to shareholders ~~not later than 60 days after the close of its taxable year.~~
- Colorado** Colorado exempts interest income from all Colorado bonds issued after May 1, 1980. Some previous issues are also exempt.
- Connecticut** For purposes of the Connecticut income tax, which is imposed on individuals, trusts and estates, dividends from a RIC that qualify as exempt-interest dividends under section 852(b)(5) of the Internal Revenue Code and are derived from "Connecticut obligations" are exempt from the income tax. "Connecticut obligations" include obligations issued by or on behalf of the State of Connecticut, any political subdivision thereof, or public instrumentality, state or local authority, district or similar public entity created under the laws of Connecticut.
- For purposes of the Connecticut corporation business tax, Connecticut in 1995 adopted legislation that removed the exemption for interest on certain Connecticut obligations, retroactive to January 1, 1992. Thus, under the corporation business tax, exempt-interest dividends that are derived from Connecticut obligations are not exempt from the tax.

Dist. of Columbia	<u>Per section 8152 of Fiscal Year 2012 Budget Support Act of 2011, individuals, estates and trusts are subject to DC tax on interest earned upon obligations of a state, other than the District that are acquired after January 1, 2012. Income from state and municipal bond funds is exempt from DC taxation to the extent that the mutual fund provides you with written or electronic substantiation of the income from bonds acquired prior to January 1, 2012.</u>
Georgia	<p>Georgia does not tax federally taxable interest received on Georgia municipal bonds designated as “Build America Bonds” under section 54AA of the Internal Revenue Code IRC section 54AA. “Recovery Zone Economic Development Bonds” under IRC section 1400 U-2 or any other bond treated as a “qualified bond” under IRC section 6431(f) are considered “Build America Bonds” or this purpose.</p> <p>Georgia does not tax federally taxable interest received on Georgia municipal bonds issued by the state of Georgia and certain authorities or agencies of the state of Georgia for which there is a special exemption under Georgia law from Georgia tax on such interest.</p>
Illinois	Income from all but a designated group of Illinois obligations is taxable when the obligations are held directly. All RIC exempt-interest dividends are taxable if taxation is not precluded by federal law. 86 Ill. Adm. Code § 100.2470.
Indiana	Information in this survey is provided with reference to individual adjusted gross income tax only.
Iowa	<p>Interest from certain bonds enumerated by statute is exempt from taxation. All other Iowa obligations are taxable. Tax-exempt issues are listed in Iowa Revenue and Finance Rule 701-40.3.</p> <p>In <i>Voyageur Fund Manager’s Declaratory Ruling</i>, Docket No. 93-20-6-0149, the Iowa Department of Revenue and Finance ruled that interest on tax-free Iowa bonds could be passed-through by a mutual fund free of tax if the fund provides a statement to the shareholder.</p>
Kansas	(1) Income Tax. All Kansas obligations issued after December 31, 1987 are exempt from Kansas tax, whether held directly or indirectly. All obligations issued before January 1, 1988 will continue to be taxed under prior law, which

taxed the income from all Kansas obligations other than those specifically exempted by statute.

(2) Intangibles Tax. Kansas has a county-option intangibles tax. Kansas obligations are exempt from it whether the obligations are held directly or indirectly, so long as they are also exempt from Kansas income tax. Shares of RICs that invest in Kansas obligations are exempt from tax for the portion of the RIC shares attributable to these Kansas obligations. Shares of RICs invested in federal obligations are also exempt in proportion to the federal obligations held by the RIC. The optional intangibles tax does apply to bonds issued by other states and the shares of a RIC invested in obligations of states other than Kansas.

Kentucky

The intangibles tax will be eliminated for individuals beginning January 1, 2006. The intangibles tax will still apply to financial institutions. (KRS 132030). Shares in a RIC are not subject to the intangibles tax.

Maryland

Capital gains derived from Maryland obligations are exempt from state tax. Therefore, if a dividend from a mutual fund includes the profit or gain from the sale of a Maryland state or local obligation, this gain is excluded from taxation on the Maryland return.

Senate Bill 588 (Chapter 165, Acts of 2001), entitled “Maryland Health and Higher Educational Facilities Authority-Community Colleges-Tax Exempt Financing”, will allow a community college board of trustees to finance or refinance bonds, leases, and purchase agreements through the Maryland Health and Higher Educational Facilities Authority (MHHEFA). This bill further provides that the principal and interest paid on a loan financed through MHHEFA is exempt from taxation by the State and by a county or municipality. This Act took effect October 1, 2001.

Massachusetts

The same reporting requirements apply to state obligations as apply to federal obligations.

Minnesota

Minnesota requires an addback of the full federal tax exempt-interest dividend excluded from federal income if less than 95% of the federal tax-exempt dividend is derived from Minnesota-source obligations. If 95% or more of the dividend is from Minnesota-source obligations, then the addback is limited to the portion of the dividend attributable to non-Minnesota-source obligations.

Minnesota requires that a RIC that pays more than \$10 of dividends exempt from Minnesota income tax in a calendar year to report to shareholders by ~~January 31~~ February 15th of the following calendar year, the amount of non-Minnesota exempt-interest dividends to be added to Minnesota income. The report may be made on Form 1099 or a separate statement. If no portion of the dividend is subject to Minnesota income tax, no report need be filed.

~~The 2008 Legislature passed a law requiring RICs to submit to the Department of Revenue copies of all statements of exempt dividends sent to their shareholders. These must be submitted by March 15 of the year following the payment of the dividends. This is effective beginning with dividends paid in 2008 (i.e., the first copies of statements are due March 15, 2009).
By June 1st of each year, the RIC must file a copy of the return provided to shareholders with the state commissioner.~~

Mississippi

Mississippi requires that shareholders be sent a Form 1099 by February 1 containing the percentage of dividends exempt from tax.

Montana

Montana excludes from adjusted gross income exempt-interest dividends (as defined in Section 852(b)) attributable to interest on obligations of the U.S. government, Montana, or political subdivisions of Montana.

New Jersey

New Jersey permits pass-through treatment for investment funds. All distributions attributable to interest earned on federal and New Jersey exempt obligations are exempt from New Jersey income tax, regardless of whether the fund is a qualified investment fund.

New Jersey requires that funds provide pass-through information to shareholders by February 15 of the following year. Funds must retain the “Certification of Qualified Investment Fund” (Form IF-1), to be made available if requested by the Division of Taxation. However, funds are no longer required to file the form with the state. .

New York

Information in survey is provided with reference to personal income tax provisions. New York State Personal Income Tax Regulations section 112.2(a).

Oklahoma	Interest on local governmental obligations issued on or after July 1, 2001 for purposes other than to provide financing for projects for nonprofit corporations shall be exempt from Oklahoma tax. Oklahoma Statutes, Title 68, Section 2358.4. With respect to obligations issued prior to July 1, 2001, certain Oklahoma obligations are tax-exempt by statute, while other state obligations and most local obligations are taxable.
Pennsylvania	In 1993, Pennsylvania enacted legislation for taxable years beginning on or after January 1, 1993 allowing mutual funds to pass through interest on Pennsylvania or United States obligations or obligations of subdivisions of the Commonwealth of Pennsylvania free of state tax.
Utah	Interest on a bond, note or other indebtedness issued by another state or a political subdivision of another state is subject to Utah tax unless either: (1) the obligation was acquired by an individual or (in the case of an obligation held by a fund) was acquired by the fund before January 1, 2003; or (2) the obligation was issued by a state that does not impose tax on Utah municipal bonds. Currently, interest on bonds issued within the following jurisdictions are exempt from Utah tax under this provision: Alaska; District of Columbia; Florida; Indiana; Nevada; North Dakota (municipal bonds are exempt from state tax under the piggyback method of tax preparation used by approximately 90% of residents); South Dakota; Texas; Washington; and Wyoming. Utah Code Ann. section 59-10-114 (1) (e) and (5); Administrative Rule R865-91-50; http://incometax.utah.gov/topics_municipal_bonds.php .
Vermont	Vermont exempts from tax the portion of a RIC dividend attributable to Vermont state and local obligations without regard to the portion of the RIC's assets invested in Vermont obligations.
Virginia	When taxable income is commingled with exempt income all income is presumed taxable by Virginia unless the tax-exempt portion of income can be determined and substantiated.
Wisconsin	(1) Income Tax on Wisconsin Obligations. A limited group of housing and community development obligations, and certain bonds issued by a local exposition district, by a local professional baseball park district, by a local cultural arts district, by a local professional football stadium district, by the Wisconsin

Aerospace Authority, by the Southeastern Regional Transit Authority, effective for taxable years beginning on or after January 1, 2009, for bonds issued on or after October 27, 2007, by the Wisconsin Health and Education Facilities Authority to fund acquisition of information technology hardware or software, and certain conduit revenue bonds issued by a commission created under sec. 66.0304, Wis. ~~Stats.~~Stats., and by the Wisconsin Housing and Economic Development Authority, if the bonds or notes are issued to provide loans to a public affairs network under section 234.75(4) Wis. Stats. are exempt from tax.

(2) Income Tax on Other States' Obligations. Interest from a limited group of public housing authority bonds and District of Columbia general obligation bonds issued before January 29, 1987 is exempt.