2021 SURVEY 2

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

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

New Hampshire
Tennessee*

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

Alaska
Florida
Nevada
South Dakota
Texas
Washington
Wyoming

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*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 (6 states):

California*	Minnesota*
Iowa*	Mississippi*
Virginia*	Massachusetts*

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*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 (1 state and the District of Columbia):

  North Dakota
  District of Columbia

- Limited Tax Exemption (3 states):

  Indiana* (for obligations acquired before January 1, 2012)
  Utah*
  Wisconsin*

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*

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*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 reported as an exempt-interest dividend by the RIC in a written statement that is furnished to shareholders.

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, and the Connecticut pass-through entity tax, which is imposed on pass-through entities, 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. *See* Conn. Agencies Regs. §12-701(b)-1(a)(13); and Conn. Gen. Stat § 12-699.

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 On July 30, 2013, the District of Columbia retroactively repealed the provision that would have subjected out of state tax-exempt bonds owned by D.C. residents to D.C. income tax. This change restores the historic position of the District of Columbia exempting from D.C. income tax the interest on municipal bonds issued by any state or municipality. Therefore, municipal bond interest income earned by individuals, estates, and trusts will be exempt from taxation in D.C.

Previously the District of Columbia had enacted legislation that would have subjected municipal bond interest to tax to take effect on January 1, 2012. Later legislation delayed the effective date to January 1, 2013. The most recent legislative action repeals the provision completely.

Georgia Georgia does not tax federally taxable interest received on Georgia municipal bonds designated as "Build America Bonds" under 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" for this purpose.

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.

Hawaii Sections 235-7(b)(2), Hawaii Revised Statutes, states that unless the income is exempt under section 235-7(a)(6), Hawaii Revised Statutes, interest on the obligations of a state or political subdivision is taxable. However, Hawaii does not tax interest income or municipal bond interest issued by the state of Hawaii.

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.

Interest earned from a direct obligation of a state or political subdivision *other than Indiana* is subject to the adjusted gross income tax if the obligation is acquired after Dec. 31, 2011. An obligation will be considered to be acquired on the trade date. Interest earned from obligations held or acquired prior to Dec. 31, 2011, is not subject to Indiana income tax. For mutual fund purposes, the acquisition date by the shareholder of the RIC share is considered to be the purchase date of the security when determining if the exception or add-back applies.

Currently, Indiana's practice can be reflected by the following example: If (and to the extent) an Indiana shareholder owns mutual fund shares prior to 1/1/2012, there is no inclusion. If a shareholder held 2,000 shares of a fund on 12/31/2011 and acquired (either by purchase or reinvestment) 1,000 additional shares after 12/31/2011, then 66.66% (2,000/3,000 shares) of the out of state interest is exempt and 33.33% (1,000/3,000 shares) is taxable. If a different or revised policy is determined to be proper, the policy will be published as part of Income Tax Information Bulletin #19. As of the 2019 survey, Indiana has not updated the Indiana Income Tax Information Bulletin #19.

Interest earned from obligations of Puerto Rico, Guam, Virgin Islands, American Samoa, or Northern Mariana is not included in federal gross income and is exempt under federal law. There is no add-back for interest earned on these obligations.

Iowa

Interest from certain bonds enumerated by statute is exempt from taxation. All other Iowa obligations are taxable. A non-exclusive list of tax-exempt bonds are listed in Iowa Code Section 422.7(2).

In *Voyageur Fund Manager's Declaratory Ruling*, Docket No. 93-20-6-0149, the director 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 to support the percentage of dividends paid that are from tax-free bonds. Iowa Admin. Code r. 701—40.52 also provides a formula which taxpayers can use to calculate the percentage of a distribution if the mutual fund fails to provide a statement identifying the exempt percentage.

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 is applicable to financial institutions. (KRS 132.030).

Louisiana Interest and dividends on state and local (other than Louisiana) government obligations are subject to Louisiana individual income tax per La. R.S. 47:293(9)(a).

Maine Income from municipal and state obligations and securities, other than Maine, is subject to the Maine income tax. 36 M.R.S. §§ 5122(1)(A) and 5200-A(1)(I).

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 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 needs to be filed. The reporting requirement for RICs is codified in M.S. 289A.12 Subd. 14. This law was amended during the 2017 legislative session to extend the reporting requirement to any person receiving $10 or more of exempt non-Minnesota municipal bond interest or dividends and paying those amounts as a nominee to a Minnesota resident.

By June 1st of each year, the RIC must file a copy of the return provided to shareholders with the state commissioner.

Additional resources:
http://www.revenue.state.mn.us/law_policy/Documents/2017%20Individual%20Income%20Tax.pdf
https://www.revisor.mn.gov/statutes/?id=289A.12

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. The Oklahoma Tax Commission website provides a list of taxable/tax-exempt bonds. www.tax.ok.gov/bondlist.html
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.
Tennessee	The Tennessee income tax on dividend and interest income is eliminated on January 1, 2021. Furthermore, the Tennessee Legislature decreased the rate to 4% of taxable income for tax years beginning January 1, 2017; 3% of taxable income for tax years beginning January 1, 2018; 2% of taxable income for tax years beginning January 1, 2019; 1% of taxable income for tax years beginning January 1, 2020.
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. Utah Code Ann. section 59-10-114 (1) (e) and (5); Administrative Rule R865-9I-50.
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	Virginia excludes gains derived from the sale of federal and Virginia state and local obligations. Va. Code § 58.1-322.02(1) & (2) and 58.1-402(C)(1) & (2).

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 with reasonable certainty and substantiated. 23 VAC 10-110-142; 23 VAC 10-120-102.

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 Wisconsin Health and Education Facilities Authority if (a) for bonds issued on or after October 27, 2007, the proceeds from the bonds or notes issued are used by a health facility to fund acquisition of information technology hardware or software or (b) the bonds or notes are issued for the benefit of a person who is eligible to receive the proceeds of bonds or notes from another entity for the same purposes for which the bonds or notes are issued under section 231.03(6), Wis. Stats., and the interest income received from the other bonds or notes is exempt from taxation under subchapter I, certain conduit revenue bonds issued by a commission created under sec. 66.0304, Wis. Stats., 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., by a sponsoring municipality borrowing to assist a local exposition district created under Subchapter II of Ch. 229 are exempt from tax, by an entity described under, or an entity whose bonds are issued under, sec. 66.1201, 66.1333, or 66.1335, Wis. Stats., and certain bonds or notes issued by the Wisconsin Health and Educational Facilities Authority under sec. 231.03(6), Wis. Stats. See sec. Tax 3.095, Wis. Adm. Code for additional information.

(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.