

2021 SURVEY 1

STATE INCOME TAXATION OF DIVIDENDS PAID BY A RIC DERIVED IN WHOLE (OR IN PART) FROM INTEREST ON FEDERAL OBLIGATIONS

TABLE 1

I. NO STATE INDIVIDUAL INCOME TAX (7 STATES)

Alaska	Texas
Florida	Washington
Nevada*	Wyoming
South Dakota	

II. DIVIDENDS NOT TAXED (42 STATES AND THE DISTRICT OF COLUMBIA)

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

EXPLANATION OF SELECTED ITEMS FOR TABLE 2
&
STATE-SPECIFIC INFORMATION

All Federal Obligations

Federal law prohibits states from taxing the interest derived from numerous federal obligations. Interest on many agency obligations, including the following, is generally treated as exempt from state and local taxes: Banks for Cooperatives, the Commodity Credit Corporation, the Federal Deposit Insurance Corporation, Federal Farm Credit Banks, the Federal Financing Bank, Federal Home Loan Banks, Federal Intermediate Credit Banks, Federal Land Banks and the Federal Land Bank Association, the Federal Savings and Loan Insurance Corporation, the General Insurance Fund, Government Services Administration (GSA Public Building Trust Participation Certificates), the Production Credit Association, the Student Loan Marketing Association, the Tennessee Valley Authority, the U.S. Postal Service, and the U.S. Treasury Department (bonds, notes, bills, certificates and savings bonds).

Threshold Requirements

If a state requires that any specific percentage of the RIC's (i) assets be federal obligations, or (ii) income be derived from federal obligations, before pass-through treatment is available, those requirements are set forth in the state-specific information below.

Reporting Requirements

Many states responded that RICs are required to provide shareholders with sufficient information for shareholders to correctly report their taxable income. Unless the state imposes additional reporting requirements, the notation for this category is recorded as "no."

Report Required For Exemption

Many states responded that shareholders must be able to substantiate any claimed exemption for the pass-through of federal obligation interest. Unless the state imposes additional requirements for exemption, the notation for this category is recorded as "no."

INFORMATION FOR STATES PERMITTING PASS-THROUGH FOR FEDERAL OBLIGATION INTEREST

State	All Federal Obligations	Puerto Rican Obligations	GNMAs & FNMA's	Repurchase Agreements	Threshold Requirement	Reporting Requirement to:		Report Required for Exemption
						State	Shareholder	
Alabama	YES	YES	NO	NO	NO	NO	NO	NO
Arizona	YES	YES	NO	NO	NO	NO	NO	NO
Arkansas	YES	YES	NO	NO	NO	NO	NO	NO
California*	YES	YES	NO	NO	YES*	NO	YES*	YES
Colorado	YES	YES	NO	NO	NO	NO	NO	NO
Connecticut*	YES	YES	NO	NO	YES*	NO	YES*	NO
Delaware*	YES	YES	NO	NO	NO	NO	YES*	NO
District of Columbia*	YES	YES	NO	NO	NO	NO	NO	NO
Georgia*	YES	YES	NO	NO	NO	NO	NO	NO
Hawaii*	YES	YES	NO	NO	NO	NO	NO	NO
Idaho*	YES	YES	NO	NO	NO	NO	NO	NO

* State-specific information below

INFORMATION FOR STATES PERMITTING PASS-THROUGH FOR FEDERAL OBLIGATION INTEREST								
State	All Federal Obligations	Puerto Rican Obligations	GNMAs & FNMA's	Repurchase Agreements	Threshold Requirement	Reporting Requirement to:		Report Required for Exemption
						State	Shareholder	
Illinois*	YES	YES	NO	NO	NO	NO	NO	NO
Indiana*	YES	YES	NO	NO	NO	No	No	No
Iowa*	YES	YES	NO	NO	NO	NO	NO	NO
Kansas*	YES	YES	NO	NO	NO	NO	NO	NO
Kentucky	YES	YES	NO	NO	NO	NO	NO	NO
Louisiana	YES	YES	NO	NO	NO	NO	NO	NO
Maine*	YES*	YES	NO	NO	NO	NO	YES*	YES*
Maryland*	YES	YES	NO	NO	NO	NO	YES*	No
Massachusetts*	YES	YES	NO	NO	NO	NO	YES*	YES*
Michigan	YES	YES	NO	NO	NO	NO	NO	NO
Minnesota	YES	YES	NO	NO	NO	NO	NO	NO
Mississippi*	YES	YES	NO	NO	NO	NO	YES*	YES*

* State-specific information below

INFORMATION FOR STATES PERMITTING PASS-THROUGH FOR FEDERAL OBLIGATION INTEREST								
State	All Federal Obligations	Puerto Rican Obligations	GNMAs & FNMA's	Repurchase Agreements	Threshold Requirement	Reporting Requirement to:		Report Required for Exemption
						State	Shareholder	
Missouri*	YES	YES	NO	NO	NO*	NO	YES*	YES*
Montana*	YES	YES	NO	NO	NO	YES*	YES*	YES*
Nebraska*	YES*	YES	NO	NO	NO	NO	NO	NO
New Hampshire*	YES*	YES	NO	NO	NO	NO	NO	NO
New Jersey*	YES*	YES	NO	NO	NO	YES*	YES*	YES*
New Mexico*	YES	YES	NO	NO	NO	NO	YES	NO
New York*	YES	YES	NO	NO	YES*	NO	NO	Yes*
North Carolina*	YES	YES	NO	NO	NO	NO	YES*	NO
North Dakota	YES	YES	NO	NO	NO	NO	NO	No
Ohio	YES	YES	NO	NO	NO	NO	NO	NO
Oklahoma*	YES	YES	NO	NO	NO	YES*	YES*	NO
Oregon*	YES	YES	NO	NO	NO	NO	YES*	NO

* State-specific information below

INFORMATION FOR STATES PERMITTING PASS-THROUGH FOR FEDERAL OBLIGATION INTEREST								
State	All Federal Obligations	Puerto Rican Obligations	GNMAs & FNMA's	Repurchase Agreements	Threshold Requirement	Reporting Requirement to:		Report Required for Exemption
						State	Shareholder	
Pennsylvania	YES	YES	NO	NO	NO	NO	NO	NO
Rhode Island*	YES	YES	NO	NO	NO	NO*	NO	NO
South Carolina*	YES	YES	NO	NO	NO	NO	NO	NO
Tennessee*	YES	YES	NO	NO*	NO	NO	NO	NO
Utah*	YES	YES	NO	NO	NO	NO	NO	NO
Vermont*	YES	YES	NO	NO	NO	NO	NO	NO
Virginia*	YES	YES	NO	NO	NO	NO	YES	YES
West Virginia*	YES	YES	NO*	NO	NO	NO	NO	NO
Wisconsin*	YES*	YES	NO	NO	NO	NO	NO	NO

* State-specific information below

SURVEY 1

STATE-SPECIFIC INFORMATION

- California** A RIC is qualified to pay “exempt-interest dividends” not subject to California tax if, at the close of each quarter of its taxable year, at least 50% of the RIC’s assets consist of specified obligations.
- “Exempt-interest dividends” must be reported by the RIC in a written statement furnished to shareholders.
- Connecticut** For purposes of the Connecticut income tax, a RIC must have at least 50% of its assets in obligations exempt from state tax under federal law at the close of each quarter of its taxable year before any pass-through will be allowed. Conn. Gen. Stat. § 12-718.
- “Exempt-interest dividends” must be reported by the RIC in a written notice mailed to its shareholders not later than 60 days after the close of its taxable year. Conn. Gen. Stat. § 12-701(a)(14).
- Connecticut publishes a list of exempt federal obligations that appears similar to the list above under Explanation of Selected Items. See Policy Statement 2005(2).
- Delaware** Interest derived from obligations that are not backed by the full faith and credit of the U.S. Government (for example, obligations of the Federal National Mortgage Association and Federal Home Loan Mortgage Corporation) is not exempt from taxation in Delaware.
- The portion of the dividends of a RIC that represents U.S. government interest, which is exempt from the personal income tax, shall be as reported in writing to the holder or owner of the share or units of the RIC by or on behalf of the manager of the RIC, and such report shall state the dollar amount or percentage of exempt and nonexempt dividends pertaining to the taxpayer. 30 Delaware Code § 1106(b)(1)b.
- District of Columbia** The exempt portion of the dividend is the actual amount attributable to exempt federal obligations if the RIC notifies the shareholders of that amount. If the RIC does not provide this information, the exempt portion shall be estimated by multiplying the total distribution by a fraction, the numerator of which is the amount invested by the RIC in exempt U.S. obligations and the denominator of which is the RIC’s total investment. This fraction shall be

determined by taking the average of the percentage from the quarterly financial reports of the RIC.

- Georgia** Only “direct” U.S. obligations and obligations which are exempt from state taxation by federal law are excluded. Direct and indirect interest expense attributable to this interest and dividend income reduces the exempt amount.
- Hawaii** Hawaii publishes a list of exempt federal obligations that appears similar to the list above under Explanation of Selected Items. *See* Department of Taxation, Tax Information Release No. 84-1. Sections 235-7(a)(1) and 235-7(a)(6), Hawaii Revised Statutes, provides an exemption from state income taxes on income that is exempt under the Constitution and laws of the United States.
- Idaho** Only “direct” U.S. obligations and obligations which are exempt from state taxation by federal law are excluded. Direct and indirect interest expense attributable to this interest and dividend income reduces the exempt amount.
- Illinois** The exempt portion of the dividend is the actual amount attributable to exempt federal obligations if the RIC notifies the shareholders of that amount. If the RIC does not provide this information, the exempt portion shall be estimated by multiplying the total distribution by a fraction, the numerator of which is the amount invested by the RIC in exempt U.S. obligations and the denominator of which is the RIC’s total investment. This fraction shall be determined by taking the average of the percentage from the quarterly financial reports of the RIC.
- Shareholders are required to attach to their state tax return a copy of their federal tax return showing receipt of the exempt income.
- Illinois publishes a list of federal obligations exempt from state tax that appears similar to the list above under Explanation of Selected Items.
- Indiana** Information in survey is provided with reference to individual adjusted gross income tax only.
- Indiana publishes a list of “direct” federal obligations exempt from state tax that appears similar to the list above under Explanation of Selected Items.
- Iowa** Iowa Admin. Code. r701-40.2(422) provides a list of federal obligations exempt from state tax that appears similar to the list above under Explanation of Selected Items. More information about how to determine the taxable percentage of the distribution for Iowa tax purposes can be found in Iowa Admin. Code r. 701—40.52.

Kansas	Kansas Revenue Notice 12-89-3 provides a list of “direct” federal obligations exempt from state tax that appears similar to that above under Explanation of Selected Items.
Louisiana	Interest and dividends on federal government obligations are exempt from Louisiana individual income tax per La. R.S. 47:293(9)(a)(iii). Pass-through exemption is allowed for amounts which are identified as income from investments in federal government obligations. If the amount is not identified specifically, it is taxable and cannot be excluded.
Maine	<p>Maine exempts from tax interest and dividends attributable to income derived from direct federal obligations such as U.S. Retirement Bonds, U.S. Savings Bonds, U.S. Treasury Bills, etc. Interest derived from obligations of certain organizations created or sponsored by the U.S. Government is also exempt. See www.maine.gov/revenue/taxes/income-estate-tax/guidance-documents for more information.</p> <p>Shareholders must submit a breakdown of exempt dividends when claiming the exemption.</p>
Massachusetts	<p>Massachusetts requires as a condition for exemption that a report on the RIC’s income be sent to shareholders within 60 days of the close of the RIC’s tax year.</p> <p>Pass-through of the exempt character of interest on federal and Massachusetts obligations is permitted for individual shareholders only, not for corporate shareholders.</p>
Mississippi	Mississippi requires that shareholders be sent a Form 1099 by February 1 containing the percentage of the RIC’s dividends that are exempt from tax.
Missouri	<p>Missouri requires that a RIC provide written notice of the percentage of the RIC’s dividend exempt from tax within 60 days after the close of the RIC’s taxable year. Shareholders are required to attach a copy of their year-end statements to their Missouri income tax returns.</p> <p>Missouri publishes a list of federal obligations exempt from state tax that appears similar to the list above under Explanation of Selected Items.</p>
Montana	Administrative Rules of Montana 42.15.216 provides that interest on United States government obligations, and mutual fund dividends attributable to that interest, to the extent included in federal adjusted gross income are exempt from Montana income tax. Interest on obligations of U.S. territories and government agency obligations specifically exempted by federal law, and mutual fund

dividends attributable to that interest, are also exempt from Montana income tax.

Obligations guaranteed by the United States government are not tax-exempt. Interest on, and mutual fund dividends attributable to, Government National Mortgage Association (Ginnie Mae) bonds, Federal National Mortgage Association (Fannie Mae) bonds, and Federal Home Loan Mortgage Corporation (FHLMC) securities are not exempt.

United States obligations that are exempt include:

- (a) series E, EE, F, G and H savings bonds;
- (b) U.S. treasury bills;
- (c) U.S. government notes; and
- (d) U.S. government certificates.

Nebraska Nebraska publishes a list of federal obligations exempt from state tax that appears similar to the list above under Explanation of Selected Items. *See* Individual Income Tax Regulation 22-002.05 A (1) and Corporate Income Tax Regulation 24-048. The United States Supreme Court in *Nebraska v. Loewenstein*, 513 U.S. 123, 132-33 (1994), held that dividends derived from income earned on repurchase agreements backed by U.S. government obligations is not income from U.S. government obligations that is exempt from state tax.

Nevada Nevada has no state income tax, however, the 2015 Legislature enacted a gross receipts tax for business entities grossing more than \$4,000,000 in Nevada sitused gross receipts. The tax is called the Commerce Tax and was enacted by SB483. The Commerce Tax is imposed on gross receipts in the regular course of business with no deductions for costs of goods sold or other business expenses.

The definition of “gross receipts” does not include income from dividends or interest on federal obligations. “Gross receipts” includes interest received on credit sales. It does not include capital gain distributions. Since it is not an income tax it also does not include distributions from certain retirement funds or tuition programs.

New Hampshire New Hampshire Form DP-10 “Quick Checklist” provides a list of “direct” federal obligations exempt from the Interest and Dividends Tax, RSA 77, that appears similar to the list above under Explanation of Selected Items for Table 2.

For each holder of an ownership interest in a qualified investment company as defined in RSA 77-A:1, XXI, which holder is subject to tax under RSA 77, the amounts reported and taxed federally as dividends or interest, less any income attributable to United States government notes or bonds, shall be treated as taxable income.

Interest and dividend income received by trusts and foundations treated as grantor trusts under §671 of the U.S. IRC shall be included in the return of their grantor, to the extent that the grantor is an inhabitant or resident of New Hampshire. Income reported by, and taxed federally as interest or dividends to, a trust or foundation beneficiary who is an individual inhabitant or resident of New Hampshire with respect to distributions from a trust or foundation that is not treated as a grantor trust under IRC §671 shall be included as interest or dividends in the return of such beneficiary and subject to taxation in New Hampshire in accordance with the provisions of RSA 77.

- New Jersey** Distributions paid by a mutual fund are exempt from New Jersey gross income tax to the extent they are attributable to interest earned on Federal obligations.
- New Mexico** New Mexico requires that taxpayers be provided with a statement showing the amount of nontaxable income, by source.
N.M. Admin. Code § 3.3.1.12.
- New York** Information in survey is provided with reference to personal income tax provisions.

At least 50% of the assets of the RIC at the end of each quarter of its fiscal year must be obligations of the United States and its possessions.

A written notice of the amount of the exempt dividends must be mailed to RIC shareholders within 60 days after the close of the RIC's taxable year.

New York publishes a list of federal obligations exempt from state tax that appears similar to the list above under Explanation of Selected Items.
- North Carolina** North Carolina requires that a taxpayer be provided with a statement verifying the amount of interest paid which is derived from direct obligations of the United States. The figure may not be based on the percentage of the RIC's *assets* invested in United States obligations.
- Oklahoma** Reporting to the state and shareholder must be done on either Oklahoma Form 500 or federal Form 1099.
- Oregon** Oregon requires that "state exempt-interest dividends" be designated in a written notice mailed to shareholders not later than 60 days after the close of its taxable year. ORS 316.683.
- Rhode Island** Although Rhode Island does not require a report to the state, there is a one-time registration program for RICs. A Rhode Island taxpayer can inquire of the state

as to whether a RIC pays dividends exempt from Rhode Island income tax. If the RIC is registered, the state informs the taxpayer that the RIC pays such dividends.

South Carolina

South Carolina has published its criteria for tax-exempt obligations in Rev. Rul. 16-2 and includes a list of federal obligations exempt from state tax that appears similar to the list above under Explanation of Selected Items.

Tennessee

Tennessee does not have a general income tax. Instead, it imposes a tax on dividends and certain types of interest. Income from repurchase agreements generally is not subject to tax.

The dividends of a RIC are taxable except for any portion of income derived from bonds or notes of the U.S. government or its agencies. When taxable and non-taxable income is commingled all income is presumed taxable unless the non-taxable portion can be determined and substantiated.

Utah

Exempt U.S. Government interest claimed as a deduction must be reduced by the following expenses if the expenses were claimed as deductions in arriving at federal taxable income:

- Interest on money borrowed to purchase or carry the bonds or securities
- Ordinary and necessary expenses paid or incurred in connection with producing exempt income.

Vermont

Vermont Technical Bulletin #24, dated April 20, 2014, provides a list of nontaxable interest.

Virginia

The dividends of a RIC may be taxable if the dividends are not wholly derived from federal obligations. Title 23 Virginia Administrative Code 10-110-142 provides that tax-exempt interest (whether from federal or Virginia obligations) distributed by a RIC will be treated as tax-exempt interest to its shareholders domiciled in Virginia. However, when taxable income is commingled with exempt income all income is presumed taxable unless the tax-exempt portion of income can be determined with reasonable certainty and substantiated.

West Virginia

West Virginia publishes a list, Technical Advisory No. 93-002, of federal obligations exempt from state tax similar to the list above under Explanation of Selected Items. This Technical Advisory indicates that the income paid on certain FNMA and GNMA participant certificates is exempt from tax.

Wisconsin

Wisconsin publishes a list of federal obligations exempt from state tax in [sec. Tax 3.095](#), Wis. Adm. Code (April 2020 Register) that is similar to the list above under Explanation of Selected Items.

AUTHORITIES FOR PASS-THROUGH OF FEDERAL OBLIGATION INTEREST

Alabama	Ala. Code § 40-18-14(3)(1975)
Arizona	Arizona Individual Income Tax Rulings ITR 02-2 and 06-1
Arkansas	Revenue Policy Statement 1988-5
California	Revenue and Taxation Code § 17145
Colorado	Comparable to IRC treatment of state bond interest pass-throughs
Connecticut	Conn. Gen. Stat. §§ 12-701(a)(10), 12-701(a)(20) and 12-718
Delaware	30 Delaware Code § 1106
District of Columbia	D.C. Code § 47-1803.02
Georgia	O.C.G.A. §§ 48-7-21(b)(1)(B), 48-7-27 (b)(2)
Hawaii	Section 235-7(a)(1) and 235-7(a)(6), Hawaii Revised Statutes
Idaho	Idaho Code Section 63-3022(f)
Illinois	§ 203 of the Illinois Income Tax Act; 86 Ill. Adm. Code § 100.2470; <i>Andras v. Illinois Department of Revenue</i> , 154 Ill. App. 3d 37, 506 N.E.2d 439 (1987); Dept. of Revenue letter rulings, Numbers IT 89-055 (March 14, 1989) and IT 89-061 (March 15, 1989); Illinois Department of Revenue Publication 101 (Revised January 2020))
Indiana	Information Bulletin #19

Iowa	Iowa Code §§ 422.7 & 422.35; and Iowa Admin. Code r. 701—40.2 & 701—40.52
Kansas	Kan. Stat. Ann. § 79-32, 117
Kentucky	Kentucky Revised Statutes §§ 141.010, 141.050, 141.019; 103 KAR 1:130
Louisiana	Louisiana Revised Statutes § 47:293(9)
Maine	36 Maine Revised Statutes §§ 5122(2)(A) & 5200 – A(2)(A)
Maryland	<i>Comptroller of the Treasury - Income Tax Division v. First United Bank and Trust Co.</i> , 320 Md. 352, 578 A.2d 192 (1990); Administrative Releases Nos. 5, 6, 10, 11 and 13
Massachusetts	G.L. c. 62 § 2 and Letter Rulings 93-12, 00-12 and 00-17
Michigan	Revenue Administrative Bulletins 1989-10, Tax Exempt Status of Income from U.S. Obligations, and 1986-3, Taxability of Exempt Securities Distributed by Investment Companies; Letter Rulings 1987-69, Taxability of Dividends from a Mutual Fund that Invests in State and Local Municipal Obligations, and 1987-68, Taxability of Dividends from Mutual Fund Investing in Repurchase Agreements
Minnesota	Minnesota statutes 290.0132, subdivision 2; Minnesota Rules § 8002.0300; <i>Yurista v. Commissioner</i> , 460 N.W.2d 24 (Minn. 1990). Additional resources at: http://www.revenue.state.mn.us/individuals/individ_income/factsheets/fact_sheets_fs13.pdf https://www.revisor.mn.gov/statutes/?id=290.0132
Mississippi	Miss. Admin. Code Title 35, Part III, Subpart 02, Chapter 04
Missouri	12 CSR 10-2.155
Montana	Montana Code Annotated § 15-30-2110 and Administrative Rules of Montana § 42.15.216
Nebraska	Nebraska Revised Statues § 77-2716(1)(b) and (d)

New Hampshire	Information Release TIR 88-001, Information Release TIR 87-010, Information Release TIR 99-01
New Jersey	New Jersey Statutes Annotated § 54A:6-14.1; New Jersey Annotated Code § 18:35-2.2; <i>Colonial Trust III v. Director, Division of Taxation</i> , 16 N.J. Tax 385 (1997).
New Mexico	N. M. Stat. Ann. § 7-2-2(N), N. M. Admin. Code § 3.3.1.12
New York	Tax Law § 612(c)(1); Technical Services Bureau -M-95-(4)I (January 29, 1996)
North Carolina	17 North Carolina Administrative Code 06b.4103
North Dakota	North Dakota Century Code §§ 57-38-30.3(2)(a), 57-38-01(10), 57-38-30.3(2)(b).
Ohio	Department of Taxation Information Release IT, 1992-01 (reissued December 1, 2017).
Oklahoma	Commission Order - <i>Meyers v. Oklahoma Tax Commissioner</i>
Oregon	ORS 316.680, 316.683
Pennsylvania	72 P.S. § 7301(f)(ii) (Act 68 of 1993).
Rhode Island	N/A
South Carolina	South Carolina Revenue Ruling No. 16-2.
Tennessee	Chapter 931 of the Public Act of 1992; Tennessee Code Annotated § 67-2-104(e)(2) and (13)

Utah	Utah Code § 59-10-114(2)(a)
Vermont	32 Vermont Statutes Annotated §§ 5811(21)(B)(i)
Virginia	Va. Code §§ 58.1-322.02(1), 58.1-402(C)(1), 23 VAC 10-110-142, and 23 VAC 10-120-102.
West Virginia	West Virginia Code § 11-21-12(b)(2), Technical Assistance Advisory 93-002
Wisconsin	<i>Capital Preservation Fund, Inc. v. Department of Revenue</i> , No. 86 CV 1385, Court of Appeals, July 21, 1988