



Mutual Fund Publishing

MUTUAL FUND TAXATION: *EXCLUDING MUTUAL FUND EARNINGS FROM STATE INCOME TAXES*

AGENDA

- ▶ Overview of mutual fund taxation
- ▶ Learn about the types of tax information provided annually by mutual fund companies
 - “Primary” information
 - “Secondary” information
- ▶ When/how to use “secondary” information.
- ▶ How to obtain “secondary” tax information.
- ▶ Questions.



TYPES OF MUTUAL FUND TAX INFORMATION

- ▶ **Primary information...**
 - Total Dividends
 - Qualified Dividends
 - Capital Gains Distributions
 - Interest Income
 - Tax Exempt Interest
 - Amount Subject to AMT
 - Foreign Taxes Paid



Mutual Fund Taxation – Overview

- ▶ **Three forms of earnings from mutual funds**
 - **Dividends**
 - Qualified
 - Non-qualified
 - **Interest**
 - Taxable
 - Tax-exempt
 - **Capital gains**
 - Short-term
 - Long-term



Mutual Fund Taxation – Overview

▶ Dividends

◦ Qualified

- Subject to federal and state income tax
 - US Govt obligation earnings not subject to most states income tax
- Qualified dividends are ordinary dividends that meet the requirements to be taxed as net capital gains.
 - In 2012
 - Maximum tax rate of 15 percent
 - Taxpayers with regular tax rates of 15 percent or less pay no tax on that income.

◦ Non-Qualified

- Subject to federal and state income tax
 - Taxed at ordinary tax rates



Mutual Fund Taxation – Overview

▶ Interest

◦ Taxable

- Subject to federal and state income tax
 - US Govt obligation earnings not subject to most states income tax

◦ Tax Exempt

- Interest on Municipal Bonds and US Territory Bonds are exempt from federal income taxes
- Amounts received relating to private activity bond investments are considered tax preference items for AMT purposes
- May be subject to state income taxes



Mutual Fund Taxation – Overview

▶ Capital Gains

◦ Long Term

- Subject to federal and state income tax
 - In 2012
 - Maximum tax rate of 15 percent
 - Taxpayers with regular tax rates of 15 percent or less pay no tax on that income.
 - May have an exception with Kiddie Tax

◦ Short Term

- Subject to federal and state income tax
 - Taxed at ordinary tax rates
 - Reported as ordinary dividends on 1099-DIV



TYPES OF MUTUAL FUND TAX INFORMATION

- ▶ **Primary information...**
 - **Total Dividends**
 - **Qualified Dividends**
 - **Capital Gains Distributions**
 - **Foreign Taxes Paid**
 - **Tax Exempt Interest**
 - **Amount Subject to AMT**



TYPES OF MUTUAL FUND TAX INFORMATION

- ▶ **Secondary information...**
 - % of Income from US Government Obligations
 - % of Assets held in US Government Obligations
 - Individual State Qualifications (ie. CA, CT, NY)
 - Municipal Bond Fund Earnings by State/Territory
 - % of Income that represents “Foreign Dividend Income”
 - % of Income that represents “Foreign Qualified Dividend Income”
 - % of Income that qualifies for the corporate dividends received deduction (DRD)



When/How to use Secondary Information

- ✓ % of Income from US Government Obligations
- Exclude from state taxable
- These generally include earnings from direct agencies such as...
 - US Treasury Bills, Bonds & Notes
 - Federal Farm Credit Bureau
 - Student Loan Marketing Association
 - Federal Home Loan Bank
- And generally **do NOT** include earnings from indirect agencies...
 - Federal National Mortgage Association
 - Government National Mortgage Association
 - Federal Home Loan Mortgage Corporation



When/How to use Secondary Information

- ✓ % of Assets held in US Government Obligations
- ✓ Individual State Qualifications (ie. CA, CT, NY)
- Some states such as CA, CT, and NY have additional requirements to exclude these earnings.
- Some states have an intangibles tax on investments.



When/How to use Secondary Information

- **Municipal Bond Fund Earnings by State/Territory**
 - Excluded for Federal Tax
 - Excluded from state taxes to the extent they are invested in qualified municipal bonds.
 - Generally, respective state plus US territories such as Guam, Puerto Rico, and the US Virgin Islands.



When/How to use Secondary Information

- ✓ % of Income that represents “Foreign Dividend Income”
- ✓ % of Income that represents “Foreign Qualified Dividend Income”

- You may qualify to use “shortcut method”....directly on page 2 of form 1040.

- If you are required to complete form 1116, you will need...
 - Total Foreign Income
 - Total Foreign Qualified Dividend Income



When/How to use Secondary Information

- ✓ % of Income that qualifies for the corporate dividends received deduction (DRD)
- Generally, 70 percent of the dividend it receives.
 - Form 1120 line 29a and page 2 schedule C



How to obtain secondary information

- ▶ **From clients**
 - “Supplemental Tax Information”
 - “Tax Guide”
- ▶ **From Mutual Fund Companies**
 - Phone or online
- ▶ **From Third Party**
 - Mutual Fund Tax Guide



How to obtain secondary information

Mutual Fund Tax Guide

www.mfpc.com

