

GOVERNMENT OF THE DISTRICT OF COLUMBIA  
OFFICE OF THE CHIEF FINANCIAL OFFICER  
OFFICE OF TAX AND REVENUE



## OTR Tax Notice 2011-6

November 17, 2011

### **State or Municipal Bond Income for DC Individuals**

In recently enacted legislation the DC Council amended an individual income tax provision to change the taxability of income from obligations of a state or municipality other than the District of Columbia. The following are questions and answers related to this recent change in DC individual income taxation.

#### **What is meant by an “obligation of a state or municipality” as used in the new law?**

An “obligation of a state or municipality” refers to a financial instrument of a state or municipality. The most common form of financial instrument of a state or municipality is a bond.

#### **Are all obligations of all states or municipalities taxable in DC?**

No, the law excludes obligations issued by the District of Columbia, including bonds issued by instrumentalities of the District of Columbia, and the Metropolitan Washington Regional Airport Authority. Also, under Federal law, obligations of the governments of Puerto Rico, Guam, Virgin Islands and American Samoa are exempt from taxation.

#### **What state or municipal bonds are taxable in DC?**

Except for the bonds issued by the District of Columbia, including bonds issued by instrumentalities of the District of Columbia, and the Metropolitan Washington Regional Airport Authority, income from state or municipal bonds acquired on or after January 1, 2012 is taxable for DC income tax purposes.

#### **What state or municipal bond income is not taxable in DC?**

The state or municipal bond income that is not taxable in DC is income from:

- Tax exempt state or municipal bonds acquired before January 1, 2012;
- Bonds that are exempt by federal law such as from possessions of the United States (Puerto Rico, Guam, Virgin Islands, and American Samoa);
- DC bonds, including bonds issued by instrumentalities of the District of Columbia and those issued under DC official code 9-921 for the Metropolitan Washington Regional Airport Authority.

**When do I begin reporting income from state or municipal bonds that is not exempt?**

Income from non-exempt state or municipal bonds will be reported as DC income for tax years beginning after December 31, 2011.

**How do I treat Income from state and municipal bonds held in a mutual fund?**

Income from state and municipal bond funds will be subject to DC income tax if:

- The income is not income from federally exempt bonds or from DC and Washington Metropolitan Airport Authority bonds; and
- The bonds were purchased by the fund after December 31, 2011.

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. Without such information only the proportion of income that is income from federally exempt bonds or DC Bonds, including bonds issued by instrumentalities of the District of Columbia, and the Washington Metropolitan Airport Authority bonds would be exempt from taxation.

**Is bond income treated differently if it is in different types of funds such as closed-end funds, exchange-traded funds and "other financial institutions"?**

The treatment would be the same as those bonds held in mutual funds. The bond income is treated as taxable unless the taxpayer can substantiate that income is from bonds acquired by the fund prior to January 1, 2012 or that income is exempt under the statute (income from federally exempt bonds or DC, including bonds issued by instrumentalities of the District of Columbia, and Washington Metropolitan Airport Authority bonds).

**Where do I report the income from tax exempt bonds on my return?**

For tax year 2012 taxable income you receive from obligations of a state or municipality will be reportable by individuals as an addition to federal adjusted gross income on Schedule I of your D-40.

**When is my first estimated tax payment due for income from state and municipal obligations acquired after January 1, 2012?**

Your first estimated tax payment for calendar year taxpayers for tax year 2012 is due April 15, 2012. You are required to make estimated tax payments if you expect your tax liability to exceed \$100 and you will not meet either of the safe harbor rules of the lesser of 90% of the current year's tax liability being paid or 110% of the prior year's liability being paid, prior to filing the return.