

1977 WL 37057 (S.C.A.G.)

Office of the Attorney General

State of South Carolina

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*1 (1) The Trust for Short-Term U. S. Government Securities is taxable as a regulated investment company.

(2) Income to the Trust that is from a U. S. Government obligation is exempt.

(3) Shareholders of the Trust will have taxable income upon the distributions of the Trust.

Mr. C. H. Brooks
Director
Income Tax Division

QUESTIONS

Is the Trust for Short-Term U. S. Government Securities subject to South Carolina income taxation?

Are the distributions to shareholders subject to income taxation?

STATUTES

Sections 12-7-280, 12-1-60 and 12-7-560(4) of the 1976 Code of Laws.

DISCUSSION

The Trust is a diversified investment company that sells its shares of beneficial interest to the public. It invests in short-term U. S. Government securities which are direct obligations of the United States Treasury, such as treasury bills and treasury certificates of indebtedness, and notes and bonds of U. S. Government instrumentalities, such as Federal Land Banks, Central Bank for Cooperatives, Federal Intermediate Credit Banks, Federal Home Loan Banks, Farmers Home Administration and Federal National Mortgage Association.

The Trust is taxable under Section 12-7-280 of the 1976 Code of Laws as a regulated investment company. However, all income of the Trust that meets the requirements of Sections 12-1-60 and 12-7-560(4) is exempt income. These two sections exempt interest earned from obligations of the United States and its instrumentalities.

Attention is called to page 3 of the Trust Prospectus which sets forth the investment objections and policies and which lists obligations to be purchased. An independent determination must be made of each investment to ascertain whether or not the Trust has taxable income. See also page 14 which indicates that there may be certain income that does not qualify for the exemption under the two sections aforementioned.

In regard to question 2 above, the Trust is a separate taxable entity, thus the dividend distribution that is made to the shareholders will be taxable as ordinary income. The exemption provisions of Sections 12-1-60 and 12-7-560(4) do not apply to such distributions.

CONCLUSION

The Trust for Short-Term U. S. Government Securities is taxable as a regulated investment company. Income to the Trust that is from a U. S. Government obligation is exempt. Shareholders of the Trust will have taxable income upon the distributions of the Trust.

G. Lewis Argoe, Jr.
Assistant Attorney General

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