

UPDATE: As of May 2013, the City Council is considering repeal of this provision

District of Columbia Alters Treatment of Municipal Bond Interest

March 26, 2013

Effective January 1, 2013, the District of Columbia will no longer exempt the income on municipal bonds issued by all municipalities. This change was originally slated to take effect January 1, 2012, but the tax was delayed one year in mid-2012. It remains to be seen whether the DC City Council will delay the tax again this year. If the new law is allowed to take effect, income from the following bonds will continue to be tax exempt for DC tax purposes:

- Bonds issued by the District of Columbia or the Metropolitan Washington Regional Airport Authority;
- Bonds issued by possessions of the United States (Puerto Rico, Guam, Virgin Islands, and American Samoa); and
- Bonds of other municipalities that were acquired by the taxpayer before January 1, 2013.

Similar rules will apply for bonds owned by DC residents through mutual funds. Specifically, income from bonds purchased by the fund after December 31, 2012, that are not bonds issued by the District of Columbia, possessions of the United States, or the Metropolitan Regional Airport Authority, will be subject to DC income tax. Income from bonds issued by other municipalities that were purchased by the fund prior to January 1, 2013, will continue to be exempt from DC income tax, provided that that fund provides the taxpayer with substantiation of the amount of that income. If the fund fails to provide that information, only the income from bonds of the District of Columbia, possessions of the United States, and the Metropolitan Regional Airport authority will be tax exempt.

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