



State-specific taxation of municipal bond interest

Important tax information for 2015

For Indiana and Utah residents, state tax laws require you to report, as taxable income, dividends from municipal bond funds that invest in bonds issued by most other states.

To help you prepare your 2015 state income tax return, we're providing the percentage of federal-tax-exempt interest income that's subject to individual income tax in Indiana and Utah for each Vanguard fund that invests in municipal bonds.

Indiana residents

Generally, interest from Indiana municipal bonds and U.S. government obligations is 100% exempt from Indiana state income tax. Interest for municipal bonds from another state or political subdivision is generally taxed according to when you purchased shares of the mutual fund that earned this out-of-state interest, as follows:

- For mutual fund shares acquired *before* January 1, 2012 (pre-2012 shares), this interest is 100% exempt from Indiana income tax.
- For mutual fund shares acquired *on or after* January 1, 2012 (post-2011 shares), this interest is subject to Indiana individual income tax.

To determine for 2015 what portion of the exempt-interest dividends reported to you in Box 10 of Form 1099-DIV is subject to Indiana income tax and what portion is exempt, see the table below.

Percentage of federal-tax-exempt interest subject to Indiana state income tax

High-Yield Tax-Exempt Fund	97.35%
Intermediate-Term Tax-Exempt Fund	98.80
Limited-Term Tax-Exempt Fund	98.78
Long-Term Tax-Exempt Fund	98.67
Short-Term Tax-Exempt Fund	98.95
Tax-Exempt Bond Index Fund	100.00
Tax-Exempt Money Market Fund	90.04
Tax-Managed Balanced Fund	98.89

*This information applies to all share classes of a fund.

How to calculate your taxable and nontaxable amounts

1. For each fund at left, determine the percentage of your total share holdings that are post-2011 shares. For example, if you held 2,000 shares of a fund on December 31, 2011, and acquired 1,000 additional shares of that fund on or after January 1, 2012, your post-2011 share ownership percentage for that fund is 33.33% (1,000/3,000 shares).
2. Multiply this percentage by the corresponding percentage at left *and* the total amount of exempt-interest dividends reported to you in Box 10 of Form 1099-DIV.
3. Report the resulting amount on your Indiana income tax return as subject to tax.
4. Any excess of exempt-interest dividends reported to you in Box 10 of Form 1099-DIV over the resulting amount is exempt from Indiana income tax.

(over)

Utah residents

Generally, interest from bonds issued by states that don't impose an income tax on Utah municipal bonds is 100% exempt from your state income tax. Interest from municipal bonds issued by most other states is generally taxed as follows:

- For bonds purchased by a mutual fund *before* January 1, 2003, interest is 100% exempt from Utah income tax.
- For bonds purchased by a mutual fund *on or after* January 1, 2003, interest is subject to Utah individual income tax.

To determine for 2015 what portion of the exempt-interest dividends reported to you in Box 10 of Form 1099-DIV is subject to Utah income tax and what portion is exempt, see the table below.

Percentage of federal-tax-exempt interest subject to Utah state income tax

High-Yield Tax-Exempt Fund	81.46%
Intermediate-Term Tax-Exempt Fund	79.24
Limited-Term Tax-Exempt Fund	83.71
Long-Term Tax-Exempt Fund	78.87
Short-Term Tax-Exempt Fund	80.39
Tax-Exempt Bond Index Fund	81.47
Tax-Exempt Money Market Fund	84.78
Tax-Managed Balanced Fund	82.78

*This information applies to all share classes of a fund.

How to calculate your taxable and nontaxable amounts

1. For each fund at left, multiply the amount of exempt-interest dividends reported to you in Box 10 of Form 1099-DIV by the corresponding percentage at left.
2. Report the resulting amount on your Utah income tax return as subject to tax.
3. Any excess of exempt-interest dividends reported to you in Box 10 of Form 1099-DIV over the resulting amount is exempt from Utah income tax.

Questions?

Contact the Indiana Department of Revenue or the Utah State Tax Commission for more information about state-specific taxation rules. If your tax situation is complex or if you're uncertain about the interpretation of a specific tax rule, consult a qualified tax professional; Vanguard professionals can't provide tax advice. You can find general tax-preparation data and tools at vanguard.com/taxcenter.