



State-specific taxation of municipal bond interest

Important tax information for 2016

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 2016 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

Indiana's Income Tax Information Bulletin #19 provides limited information regarding the taxability of certain obligations owned by 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 state income tax.
- For mutual fund shares acquired *on or after* January 1, 2012 (post-2011 shares), this interest is subject to Indiana state income tax.

Using the approach provided by Indiana, you can determine the amount of exempt-interest dividends that's *not* exempt from Indiana state income tax. For each fund reported in Box 10 on Form 1099-DIV, multiply the amount of exempt-interest dividends by the percentage listed for the corresponding fund in the table below. Next, multiply the result by the percentage of fund shares that you acquired on or after January 1, 2012. This is the amount that isn't exempt from Indiana state income tax. To determine the portion that's exempt from Indiana state income tax, subtract that amount from the total exempt-interest dividends reported in Box 10 on Form 1099-DIV.

Percentage of federal tax-exempt interest attributable to out-of-state bonds*

High-Yield Tax-Exempt Fund	95.93%
Intermediate-Term Tax-Exempt Fund	98.34
Limited-Term Tax-Exempt Fund	98.41
Long-Term Tax-Exempt Fund	98.20
Short-Term Tax-Exempt Fund	99.04
Tax-Exempt Bond Index Fund	99.62
Tax-Exempt Money Market Fund	97.30
Tax-Managed Balanced Fund	98.05

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

(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 state income tax.
- For bonds purchased by a mutual fund *on or after* January 1, 2003, interest is subject to Utah state income tax.

To determine for 2016 what portion of the exempt-interest dividends reported to you in Box 10 of Form 1099-DIV is subject to Utah state income tax and what portion is exempt, see the table below.

Percentage of federal tax-exempt interest attributable to out-of-state bonds*

High-Yield Tax-Exempt Fund	80.09%
Intermediate-Term Tax-Exempt Fund	78.98
Limited-Term Tax-Exempt Fund	82.45
Long-Term Tax-Exempt Fund	76.52
Short-Term Tax-Exempt Fund	78.73
Tax-Exempt Bond Index Fund	80.70
Tax-Exempt Money Market Fund	83.44
Tax-Managed Balanced Fund	81.35

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

How to calculate your taxable and nontaxable amounts

1. For each fund, multiply the amount of exempt-interest dividends as reported to you in Box 10 on Form 1099-DIV by the percentage listed for the corresponding fund in the table to the left.
2. Report the resulting amount on your Utah income tax return as subject to tax.
3. Subtract that amount from the total exempt-interest dividends reported in Box 10 on Form 1099-DIV to determine the portion that's 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.