



State-specific taxation of municipal bond interest

Important tax information for 2012

Tax laws for the states of Indiana and Utah require dividend income from municipal bond funds from most other states to be included in an individual's state taxable income.

Indiana

As a general rule, interest from Indiana municipal bonds or U.S. government obligations is exempt from Indiana state income tax. Interest from municipal bonds from another state or political subdivision acquired on or after January 1, 2012, is subject to Indiana individual income tax.

Utah

Interest from municipal bonds issued by most non-federal-government entities outside of Utah purchased on or after January 1, 2003, is subject to Utah individual income tax. The exception to this rule is generally any interest earned on bonds issued by states that don't impose an income tax on Utah municipal bonds.

How to calculate your taxable amount

To help you amend your 2012 state income tax return, the table below lists 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. To calculate your taxable amount, take the amount of exempt-interest dividends reported in Box 10 of IRS Form 1099-DIV and multiply it by the corresponding percentage listed below. The resulting amount should then be reported on your state income tax return.

| Vanguard fund* | Percentage of exempt-interest dividends subject to state income tax | |
|-----------------------------------|--|--------|
| | Indiana | Utah |
| High-Yield Tax-Exempt Fund | 14.11% | 76.66% |
| Intermediate-Term Tax-Exempt Fund | 8.74 | 76.65 |
| Limited-Term Tax-Exempt Fund | 12.20 | 78.30 |
| Long-Term Tax-Exempt Fund | 7.20 | 71.37 |
| Short-Term Tax-Exempt Fund | 27.73 | 72.46 |
| Tax-Exempt Money Market Fund | 39.16 | 76.37 |
| Tax-Managed Balanced Fund | 16.28 | 84.05 |

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

If you have questions, call us at **877-662-7447** on business days from 8 a.m. to 10 p.m. or on Saturdays from 9 a.m. to 4 p.m., Eastern time. Questions about state-specific taxation rules, however, should be directed to the Indiana Department of Revenue or the Utah State Tax Commission. Our investment professionals can't provide tax advice; please consult a qualified tax professional if your tax situation is complex or if you're uncertain about the interpretation of a specific tax rule. You can also find general tax-preparation data and tools at vanguard.com/taxcenter.