

*higher tax-exempt income than is available through an investment in a portfolio of rated tax-exempt municipal bonds."* [Emphasis supplied.]

#### BASIS OF EXEMPTION FROM FEDERAL INCOME TAXES

The tax exemption of municipal investment trust funds is provided by a special ruling by the Commissioner of Internal Revenue, to the effect:

In view of the foregoing and based upon the information submitted, it is held that since under the proposed trust instrument there is no power to reinvest in additional bonds or other securities or vary the investment in any manner, the "Tax-Exempt Public Bond Trust Fund, Series 1," will not constitute an association taxable as a corporation for Federal income tax purposes, provided it is operated strictly in accordance with the provisions of the trust instrument.

Under the provisions of the trust instrument, each certificate holder has a right at any time to tender his certificate or certificates to the trustee for liquidation. It is concluded, therefore, that each certificate holder will be considered the owner of a pro rata portion of the trust under section 676(a) of the code and taxable on the income therefrom under section 671. An item of trust income includible in computing the taxable income of the certificate holders by reason of his being treated as the owner of a portion of the trust will have the same character as if such item had been received directly by the certificate holder. Accordingly, to the extent that the income of the trust consists of interest excludible from gross income under section 103 of the code, such income will be excludible from the gross income of the certificate holder.

#### LIQUIDATION OF PORTFOLIO

The indenture, or trust agreement, authorizing and securing a representative municipal investment fund does not permit either the sponsor or the trustee to acquire or deposit bonds either in addition to, or in substitution for any of the bonds initially deposited in the fund except that refunding securities may be exchanged for bonds under certain conditions specified in the indenture.

Therefore, over a period of time a fund cannot retain its original size and composition because the bonds comprising the portfolio will, by their terms, be paid by the issuers at their maturity or by operation of sinking funds established for that purpose by the issuers. The sponsor also may direct the trustee to liquidate bonds upon the happening of certain other events, such as default in the payment of principal and/or interest, an action of the issuer that will adversely affect its ability to continue payment of the principal of and interest on its bonds, or an adverse change in market, revenue, or credit factors affecting the investment stability of the bonds. The trustee is obligated to liquidate any bonds in default as to the payment of principal and/or interest in the event that it has received no instructions from the sponsor with respect to such bonds.

The indenture authorizing and securing each municipal investment fund also provides that any certificate holder may offer his units to the trustee for their conversion into cash (at the bid side of the market for the underlying portfolio) and the trustee is required to sell a portion of the portfolio sufficient in amount to purchase the offered units, provided, however, that the sponsor may purchase for redistribution such units as may be offered to it directly by the certificate holder or, indirectly, by the certificate holder through the trustee. It is important to note that, to date, the respective sponsors have been will-