

financial services

Volume 1, Issue 40

MUNI MARKET UPDATE

December 13, 2010

INSIDE THIS

California to Enforce Backup Withholding

This Week's Calendar

Visible Supply

Economic Cal- 2 endar

Mutual Funds 3 and Money Markets

CALIFORNIA TO ENFORCE BACKUP WITHHOLDING

To close an estimated annual \$6.5 billion tax gap, the California Franchise Tax Board ("FTB") amended the state's tax code to impose 7% backup withholding on its residents. Although effective January 1, 2010, financial institutions were granted one year by the FTB without penalties for failure to make the necessary withholding — effectively given until January 1, 2011 to implement withholding on distributions subject to California withholding.

Tax Gap

The FTB is responsible for administering two of California's major tax programs: Personal Income Tax and the Corporation Tax, in addition to administering other non-tax programs and delinquent debt collection functions.

Each year, Californians file more than 16 million state personal income tax returns. The Personal Income Tax Program typically generates more than \$40 billion each year for the state's General Fund. California taxes residents on their income from all sources while non-residents are taxed on income derived from California sources.

The tax gap is the difference between what taxpayers owe, under the law, and what they actually pay. FTB estimates that California loses more than \$6.5 billion in tax revenue each year to the tax gap. Tax gap activities include failing to report or underreporting income, overstating deductions, or claiming unwarranted tax credits. Almost 80% of the tax gap is attributable to underreporting of income or over reporting of deductions, primarily by individuals. Studies conducted by the IRS indi-

cate that taxpayers voluntarily report 96 % of income that is subject to information reporting. That rate increases to 99% when the income is subject to withholding.

The FTB increased its focus on reducing the tax gap to ensure all Californians pay the correct amount of taxes, and created a tax gap plan, "A Strategic Approach to Reducing California's Tax Gap." The plan, approved by the FTB in December 2006, includes short-, mid-, and long-term strategies to narrow the tax gap and goals to measure the progress of those strategies.

The FTB estimates revenue gains due to the implementation of a 7% backup withholding to be \$32mm for FY2009-10, \$31mm for FY2010-11, \$33mm for FY2011-12, and \$35mm for FY2012-13.

California Residents to Receive Additional 7% Withholding Requirement

Under bill ABX4-18X, as of January 1, 2010, California imposed 7% backup withholding for payments where backup withholding is otherwise generally required under the Internal Revenue Code, with the exception of interest and dividends, and any release of loan funds made by a financial institution in the normal course of business. Typical withholding from a financial services firm would include short-term and long-term capital gain distributions, royalty payments, and gross proceeds from sales and redemptions (including exchanges between funds).

Federal Law

Banks and other businesses that make payments of the type that are required to

THIS WEEK'S CALENDAR

E.D.T. Monday, I	Amount December	•	Issuer	State	Structure
NEG-ROP			NYC GO Fiscal 2011 Series F-1 BABS	NY	2018-2037
NEG-ROP	-	•	NYC GO Fiscal 2011 Series G Rfdg -		2012-2021
NLO-KOI	243,000/11	AUZIAA	T/E	111	2012-2021
NEG-ROP	55,000M	Aa2/AA	NYC GO Fiscal 2011 Series H Rfdg - T/E	NY	2011-2016
10:30AM	50,000M	Aaa/AA+	Milwaukee Metro Swr Dist - BABS	WI	2011-2030
11:00AM	32,970M	UR/UR	Boyd Co Sch Dist Fin Corp - BABS	KY	2012-2031
12:30AM	100.570M	NR/AAA	Hennepin Co	MN	2012-2030
Tuesday, December 14					
NEG-IOI	745,000M	Aa2/AA	NYC GO Fiscal 2011 Series F-1 BABS	NY	2018-2037
NEG-ROP	245,000M	Aa2/AA	NYC GO Fiscal 2011 Series G Rfdg - T/E	NY	2012-2021
NEG-ROP	55,000M	Aa2/AA	NYC GO Fiscal 2011 Series H Rfdg - T/E	NY	2011-2016
11:00AM	12,710M	Aa2/NR	V/O Mamaroneck Series B	NY	2011-2033 BQ
11:00AM	2,800M	NR/UR	North Arlington Boro - Rfdg	MA	2011-2024 BQ
11:00AM	15,000M	Aaa/NR	Ocean Co	NJ	2011-2030
11:00AM	45,000M	NR/AA	C/O Pigeon Forge - RZEDs	TN	2023-2045
11:00AM	43,000M	Aa1/AA+	Rutherford Co	TN	2012-2020
11:00AM	84,700M	Aa1/AAA	Upper Occoquan Swr Auth - BABs	VA	2014-2043
11:00AM	2,075M	UR/NR	Shawsheen Vly Tech Sch Dist	MA	2011-2020 BQ
11:30AM	3,685M	UR/UR	C/O Batavia CSD	NY	2011-2025 BQ
Wednesday, December 15					
NEG - Pxing	745,000M	Aa2/AA	NYC GO Fiscal 2011 Series F-1 BABS	NY	2018-2037
NEG - Pxing	245,000M	Aa2/AA	NYC GO Fiscal 2011 Series G Rfdg - T/E	NY	2012-2021
NEG - Pxing	55,000M	Aa2/AA	NYC GO Fiscal 2011 Series H Rfdg - T/E	NY	2011-2016
10:45AM	130,000M	Aa2/AA	NYC GO Series F-2 TAXABLE	NY	2012-2018
11:00AM	51,400M	UR/UR	Polk Co Series A Rfdg	IA	
11:00AM	42,685M	UR/UR	Polk Co Series B	IA	
11:00AM	5,365M	UR/UR	T/O Ayer	MA	2011-2021 BQ
11:00AM	9,077M	A2/NR	Liberty CSD	NY	2011-2024 BQ
11:00AM	173,535M	Aa2/AA-	San Fran Pub Util - Series F	CA	
11:30AM	350,000M	Aa2/AA-	San Fran Pub Util - Series G - BABS	CA	
11:30AM	16,000M	Aa3/NR	Greece CSD	NY	2011-2025 BQ
Thursday, December 16					
TBD	175,000M	UR/UR	S/O Pennsylvania	PA	
TBD	475,000M	UR/UR	S/O Pennsylvania - TAXABLE	PA	
11:00AM	5,540M		Somerset Co Impt Au Co Gtd Revs	NJ	BQ
11:00AM	18,580M	Aa2/AA+	Brookhaven Pub Impt GO (T/E or RZEDBs)	NY	2012-2031
11:15AM	5,605M	NR/A+	Stroudsburg Boro	PA	2012-2040 BQ
1:00PM	55,000M	UR/UR	McCracken Co Sch Dist - BABS	KY	2011-2030

VISIBLE SUPPLY

30-Day Visible Supply

Negotiated: \$13.970B

Competitive: \$2.055B

Total: \$16.025B

Week of Dec 12, 2010

Tax-Exempt: \$4.64B

Taxable/BABs: \$5.79B

Total: \$10.44B

The 30-day visible supply is calculated by The Bond Buyer and reflects the total dollar volume of bonds to be offered at competitive bidding and through negotiation over the next 30 days.

Source: Thomson Reuters.

ECONOMIC CALENDAR



Volume 1, Issue 40

CALIFORNIA TO ENFORCE BACKUP WITHHOLDING (CONT'D)

be reported on an information return—i.e., Form 1099 series—may be required to backup withhold on those payments. A payee is required to provide a correct tax-payer identification number ("TIN") to the payer who must report that information on the applicable Form 1099.

Payments subject to backup withholding include interest (Form 1099-INT); dividends (1099-DIV); certain patronage dividends (1099-PATR); rents, profits, or other gains (Form 1099-MISC); commissions, fees, or other payments to independent contractors (1099-MISC); payments by brokers (1099-B); certain payments by fishing boat operators (1099-MISC); royalty payments (1099-MISC); and certain gambling winnings (W-2G). Payments that are excluded from federal backup withholding include, among other things, real estate transactions, unemployment compensation, and state or local income tax refunds.

Backup Withholding Triggers

Reasons for federal back-up withholding in an account include:

- ♦ No W-9 form certifying a Social Security Number ("SSN") or TIN;
- A first or second B-Notice restriction (either the name or the SSN/TIN on the account does not match a name and SSN/TIN combination in the records of the Social Security Administration ("SSA") or the IRS). These are

(continued on page 4)

MUTUAL FUNDS AND MONEY MARKETS

Long-Term Mutual Fund Flows

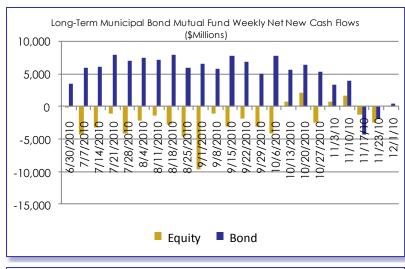
Total estimated inflows to long-term mutual funds were \$1.04 billion for the week ended Wednesday, December 1, the Investment Company Institute reported.

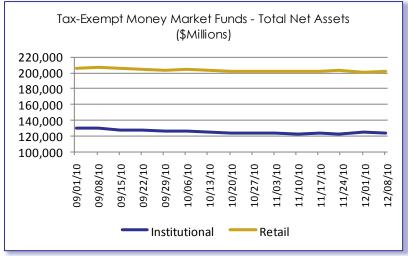
Municipal bond funds had estimated outflows of \$61 million.

Money Market Mutual Fund Assets

Total money market mutual fund assets increased by \$25.27 billion to \$2.836 trillion for the week ended Wednesday, December 8, the Investment Company Institute reported.

Tax-exempt funds increased by \$76 million. Assets of retail money tax-exempt market funds increased by \$1.60 billion to \$202.48 billion. Institutional tax-exempt fund assets decreased by \$1.52 billion to \$123.12 billion.*





Source: Investment Company Institute.



<mark>515 Madison Avenue, 27th Floor</mark>

New York, NY 10022 Phone: 212-888-1301 Fax: 212-572-9814

Email: sales@rockfleetfinancial.com www.rockfleetfinancial.com



Send email to

sales@rockfleetfinancial.com

1. Get email version of newsletter

2. Tell them bonds I'm interested in seeing

3. Subscribe to The Navigator

CALIFORNIA TO ENFORCE BACKUP WITHHOLDING (CONT'D)

based upon notification from the IRS to the payor that the TIN the payee provided does not match:

- A C-Notice restriction on the account for the underreporting of interest or dividends on the federal income tax return; or,
- ♦ Payee is required, but fails, to

certify that he or she is not subject to backup withholding.

Civil and Criminal Penalties

Federal law provides civil and criminal penalties for giving false information to avoid backup withholding. This civil penalty is \$500. The criminal penalty, upon conviction, is a fine of up to \$1,000 or imprisonment of up to one year, or both.

Other States

Maine currently imposes backup withholding at 5% on wages, interest, dividends, rent and other payments to nonresident aliens of the United States that are subject to federal withholding. We expect if California's program is successful, other states will implement similar programs to address their own budget gaps. .*

Neither the information nor any opinion expressed in this report constitutes an offer or an invitation to make an offer, to buy or sell any securities or other investment. Any price or quantity indications contained herein are not firm bids or offers either as to price or quantity and are provided solely for your information. This information is not intended as a solicitation or an offer to buy or sell any securities or related financial instruments. The information contained herein is based on sources believed to be reliable, but its accuracy is not guaranteed. Rockfleet does not provide tax, legal or accounting advice. Income from municipal bonds may be subject to state and local taxes as well as the Alternative Minimum Tax. Call features may exist that can impact yield. If sold prior to maturity, investments in municipal securities are subject to gains/losses. Rockfleet may make a market in these securities or other securities of these issuers and/or may actively trade these securities for its customers and/or for its own account. Therefore, Rockfleet may have a position in any such securities or related security at any time.

© 2010 Rockfleet Financial Services, Inc. All rights reserved. Rockfleet is a service mark of Rockfleet Financial Services, Inc.