

# LETTER TO SHAREHOLDERS

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December 15, 2008

Dear Fellow  
Shareholder:

## The Current Municipal Market Environment and Your Fund:

The financial markets are suffering through one of the most challenging periods since the Great Depression. Dramatic government intervention, significant asset deflation and massive de-leveraging by consumers and financial institutions are the pillars of this unprecedented environment. Like all fixed income markets, the municipal bond market is experiencing profound challenges. Whereas the yield for US Treasuries declined across the maturity spectrum throughout 2008 as investors sought an apparent “safe haven,” municipal bond yields have increased due to a combination of factors. These factors include: the generally lower liquidity of municipal bonds compared to US Treasuries, extreme selling pressures from hedge funds and mutual funds, the consolidation and weakened financial condition of the brokerage community resulting in their unwillingness to provide liquidity, and elevated concerns about the financial health of many state and municipal governments in the current adverse economic environment. At the end of October 2008, AAA-rated 30-year municipal bonds were yielding more than 130% of 30-year US Treasuries before taking into consideration any tax advantages. This ratio has averaged approximately 97% since 2000.

This difficult environment for municipal bonds has been accompanied by lower municipal issuance. Year-to-date through October, issuance of tax-exempt municipal bonds has been 8% below last year’s record issuance. September and October 2008 issuance was lower by 37% and 57%, respectively, when compared to the same periods last year. Municipalities who have had to issue debt have had to pay higher interest rates in order to ensure that their deals are successfully placed. A significant amount of the issuance in 2008 has been from municipalities converting their adjustable rate debt to fixed rate debt to avoid the relatively high cost of adjustable rate debt due to disruptions in the short-term debt markets.

Since the summer of 2007, mortgage defaults by homeowners have continued to burden the financial markets. Securities backed by these mortgages (including sub-prime, Alt-A, and even prime mortgages) have experienced significant declines in valuations. As valuations continue to decline, the financial position of several leading municipal bond insurers, referred to as monoline insurers, has deteriorated further, since along with insuring the timely payment of interest and principal on hundreds of billions of dollars of municipal bonds, several of these insurers had also insured mortgage-related and other asset-backed securities. Because of concerns surrounding the monoline insurers’ exposure to mortgages, the major rating agencies have downgraded the financial strength ratings of many monoline insurers several times in 2008. In turn, investors have significantly discounted the value of the credit support provided by bond insurance. While the Fund does own bonds with financial guaranty insurance, all of these insured bonds have underlying municipal issuers that are judged to be of investment grade quality, with most having underlying ratings of A to AA. We will continue to monitor this situation closely to ensure that the credit quality of the Fund’s investments remains sound.

After several years of seeing risk premiums decline to historically narrow levels, tax-exempt bond investors are now demanding significantly higher risk spreads for lower-rated municipal bonds. This aversion to lower-rated issues has resulted in greater relative performance for higher quality municipal bonds. For example, over the past twelve months, AAA and AA-rated tax-exempt bonds have outperformed BBB-rated

tax-exempt bonds by approximately 16 and 14 percentage points, respectively, as measured by the Barclays Municipal Bond Index (formerly the Lehman Brothers Municipal Bond Index). Your Fund managers do not expect a moderation in risk premiums until there is an improvement in the massive write-downs related to sub-prime mortgages, a lessening of the dramatically widened risk spreads in the taxable fixed income markets and a greater stability in the equity indices.

Clearly, the past twelve months have been an extremely challenging period for all asset classes, including leveraged closed-end municipal bond funds. In an effort to minimize the effects of this unprecedented volatility and uncertainty in the market, we have continued to emphasize higher quality bonds in a well diversified portfolio. The Fund currently has an average quality rating of AA, with approximately 65% of its issues rated AA or higher. The Fund is well diversified among many sectors of the municipal bond market, with water and sewer and electric utility issues representing the Fund's largest exposures. Additionally, the Fund is well diversified geographically with exposure to 26 states in the United States and Puerto Rico. We continue to be fully invested along the entire yield curve in order to insulate the portfolio from potential changes in interest rates and the shape of the yield curve that may occur from future Federal Reserve actions. The recent widening of risk premiums has provided the Fund with increased opportunities to further diversify its holdings and improve its yield. Since the investment policy change in 2007, we have increased exposure to non-utility tax-exempt municipal bonds in the Fund's portfolio. We continue to look for opportunities in all sectors of the investment grade municipal bond market in an effort to further diversify the Fund's holdings and maximize earnings.

As a result of widespread liquidity concerns affecting the credit markets, the short-term auction and remarketed preferred stock markets have been ineffective at matching buyers with sellers since February of 2008. As the DTF Tax-Free Income Fund employs leverage through the use of Remarketed Preferred ("RP") shares, our preferred shareholders have also been impacted by the lack of RP market liquidity. However, the remarketing challenges that have affected your Fund's preferred stock since February are related to general concerns about credit quality and liquidity within the global credit markets and not to any problems with the creditworthiness of the Fund or its preferred stock. Though it is likely that remarketing failures will continue for some period, the Fund cannot determine at what point a resolution to the liquidity crisis will occur. The Fund has honored and intends to continue to honor its obligations to preferred shareholders by paying them the dividends to which they are entitled under the terms of their securities.

As we move forward into 2009, we anticipate continued economic and financial market challenges. Factors that could influence the municipal bond market as we move forward include: a Federal Reserve and US Treasury that are likely to adjust policy based on prevailing economic and financial market conditions, a new US President and White House Administration that are likely to implement further government policy changes and intervention measures, the health of the U.S. economy and its labor markets, further challenges to the financial strength of financial guaranty insurers, continuing stress and volatility in the performance of equity markets, and potential changes to current tax laws.

## About Your Adviser

Since 1995, the Fund's investment adviser, Duff & Phelps Investment Management Co., has been a subsidiary of Phoenix Investment Partners, Ltd. ("PXP"). On February 7, 2008, PXP's parent company, The Phoenix Companies, Inc., announced its intention to spin off PXP to its shareholders during 2008. On October 1, 2008, PXP changed its name to Virtus Investment Partners, Inc. in anticipation of the spin off.

## Fund Performance:

The following table compares the DTF Fund's total return, on an NAV and share price basis, to the Barclays Municipal Bond Index for one, three, five and ten year periods:

ANNUALIZED TOTAL RETURN (10/31/08) <sup>1</sup>				
	One Year	Three Years	Five Years	Ten Years
DTF Fund (NAV) <sup>2</sup>	(8.1)%	(0.5)%	1.3%	3.9%
DTF Fund (Share Price) <sup>3</sup>	(15.8)	(4.2)	(1.2)	1.3
Lipper Peer Group Average Return (NAV) <sup>4</sup>	(19.1)	(4.0)	0.3	2.9
Barclays Capital Municipal Bond Index <sup>5</sup>	(3.3)	1.7	2.7	4.1

<sup>1</sup> Past performance is not indicative of future results. Current performance may be lower or higher than the performance in historical periods.

<sup>2</sup> Source: Administrator of the Fund. Total return of the Fund represents the change in net asset value from the beginning of the period through the period ended 10/31/2008 and assumes the reinvestment of dividends and distributions.

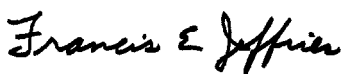
<sup>3</sup> Source: Administrator of the Fund. Shares of the Fund are traded on the New York Stock Exchange using the symbol DTF. Total return of the Fund represents the change in the DTF share price from the beginning of the period through the period ended 10/31/2008 and assumes the reinvestment of dividends and distributions in the Fund's dividend reinvestment plan.

<sup>4</sup> Source: Lipper Inc., General Municipal Debt Funds (Leveraged) peer group average return.

<sup>5</sup> Source: Barclays Capital (formerly Lehman Brothers).

As of October 31, 2008, the fund was paying a 60 cent annualized dividend with a share price of \$11.25. This dividend translated into a taxable equivalent yield of 8.21% for an individual in the top federal tax bracket. This is over 4 percentage points higher than the yield available on a 10-year taxable US Treasury bond.

We continue to appreciate your interest in DTF Tax-Free Income Inc. and look forward to being of continued service in the future.



Francis E. Jeffries, CFA  
Chairman of the Board



Nathan I. Partain, CFA  
Director, President & CEO

## DTF TAX-FREE INCOME INC.

### Portfolio of Investments

As of 10/31/2008

Principal Amount (000)	Description (a)	Value (Note 1)
<b>LONG-TERM INVESTMENTS—152.1%</b>		
<b>Alabama—6.6%</b>		
	DCH Health Care Auth. Rev.	
\$1,000	5.125%, 6/1/36 .....	\$ 788,430
	Jefferson Cnty. Swr. Rev. Capital Impvt.	
3,000(b)	5.125%, 2/1/29, Ser. A, Prerefunded 2/1/09 @ \$101 .....	3,053,130
2,100(b)	5.00%, 2/1/33, Ser. A, Prerefunded 2/1/09 @ \$101 .....	2,136,540
1,900(b)	5.00%, 2/1/33, Ser. A, Prerefunded 2/1/09 @ \$101 .....	1,933,060
		<u>7,911,160</u>
<b>California—23.1%</b>		
	California St. Gen. Oblig.,	
500	5.50%, 3/1/26 .....	498,850
1,000	5.00%, 11/1/32 .....	899,430
	California Statewide Communities Dev. Auth. Rev.,	
2,000	5.75%, 7/1/47, F.G.I.C. ....	1,767,900
	Fresno Swr. Rev., Ser. A-1,	
3,030	6.00%, 9/1/09, A.M.B.A.C. ....	3,129,051
2,000	6.25%, 9/1/14, A.M.B.A.C. ....	2,122,120
	Los Angeles Wastewtr. Sys. Rev.,	
2,000	5.00%, 6/1/26, Ser. A, M.B.I.A. ....	1,871,000
	Los Angeles Wtr. & Pwr. Rev.,	
1,000	5.25%, 7/1/21, Ser. A-A-1, F.S.A. ....	1,000,660
1,000	5.375%, 7/1/21, Ser. A-A-2, M.B.I.A. ....	1,008,440
	Pomona Sngl. Fam. Mtge. Rev.,	
830(b)	7.375%, 8/1/10, Ser. B, Escrowed to maturity .....	869,010
	Riverside Cnty. Sngl. Fam. Rev.,	
2,500(b)	7.80%, 5/1/21, Ser. A, Escrowed to maturity .....	3,100,375
	San Bernardino Cnty. Residential Mtge. Rev.,	
7,840(b)	9.60%, 9/1/15, Escrowed to maturity .....	10,627,198
	Saratoga Unified Sch. Dist., Gen. Oblig. Zero Coupon, 9/1/20, Ser. A, F.G.I.C./ M.B.I.A. ....	536,474
1,040		<u>27,430,508</u>
<b>Connecticut—3.1%</b>		
	Connecticut St. Health & Edl. Facs. Auth. Rev.,	
1,000	5.00%, 7/1/25, Ser. C, Radian .....	749,550

Principal Amount (000)	Description (a)	Value (Note 1)
	Mashantucket Western Pequot Tribe Spl. Rev., 144A,	
\$3,500(c)	5.75%, 9/1/18, Ser. B .....	\$ 2,924,145
		<u>3,673,695</u>
<b>District of Columbia—1.1%</b>		
	District of Columbia Wtr. & Swr. Auth. Rev.,	
1,500	5.00%, 10/1/33, F.G.I.C. ....	1,346,445
<b>Florida—8.9%</b>		
	Brevard Cnty. Hlth. Fac. Auth. Rev.,	
1,005	5.00%, 4/1/34 .....	667,491
	Escambia Cnty. Hlth. Fac. Auth. Rev.,	
1,190	5.125%, 10/1/19 .....	1,015,891
	Florida Mun. Ln. Council Rev.,	
2,210	5.375%, 8/1/20, Ser. B, M.B.I.A. ....	2,170,198
	Highlands Cnty. Hlth. Fac. Auth. Rev.,	
70(b)	5.125%, 11/15/32, Ser. G .....	75,133
	Prerefunded 11/15/16 @ \$100	
1,930	5.125%, 11/15/32, Ser. G .....	1,489,767
	St. Petersburg Public Util. Rev.,	
5,000(b)	5.00%, 10/1/28, Ser. A, Prerefunded 10/1/09 @ \$101 .....	5,192,050
		<u>10,610,530</u>
<b>Georgia—17.8%</b>		
	Atlanta Wtr. & Wastewtr. Rev., Ser. A,	
2,385	5.00%, 11/1/29, F.G.I.C. ....	2,092,051
2,615(b)	5.00%, 11/1/29, Prerefunded 5/1/09 @ \$101 .....	2,684,690
	5.00%, 11/1/38, F.G.I.C. ....	592,899
715	5.00%, 11/1/38, Prerefunded 5/1/09 @ \$101 .....	805,920
785(b)		
	De Kalb Cnty. Wtr. & Swr. Rev.,	
4,000(b)	5.00%, 10/1/24 Prerefunded 10/1/09 @ \$101 .....	4,160,000
	Fulton Cnty. Sch. Dist., Gen. Oblig.	
2,000	5.375%, 1/1/16 .....	2,156,840
	Georgia Mun. Elec. Auth. Pwr. Rev.,	
145(b)	6.40%, 1/1/13, Ser. Y, Escrowed to maturity .....	157,616
2,440	6.40%, 1/1/13, A.M.B.A.C. ....	2,590,011
30(b)	6.40%, 1/1/13 Prerefunded 1/1/11 @ \$100 .....	32,319
	Georgia Mun. Elec. Auth. Pwr. Rev.,	
5,500	6.50%, 1/1/20, Ser. X, A.M.B.A.C. ....	5,881,480
		<u>21,153,826</u>

See Notes to Financial Statements.

Principal Amount (000)	Description (a)	Value (Note 1)
<b>Hawaii—1.3%</b>		
\$2,000	Hawaii Dept. Budget & Fin. Rev., 4.80%, 1/1/25, Ser. A, F.G.I.C. ....	\$1,553,920
<b>Idaho—0.4%</b>		
245	Idaho Hsg. Agcy., Sngl. Fam. Mtge. Sr., Rev., 6.65%, 7/1/14, Ser. B .....	252,869
213	6.60%, 7/1/27, Ser. B .....	217,139
		<u>470,008</u>
<b>Illinois—6.3%</b>		
4,000	Chicago Gen. Oblig., 6.25%, 1/1/11, A.M.B.A.C. ....	4,129,680
1,000	5.25%, 1/1/33, Ser. A .....	933,820
500	Chicago Multi-Family Hsg. Rev., 4.90%, 3/20/44, F.H.A. ....	344,870
1,000	Chicago Park Dist., Gen. Oblig., 5.00%, 1/1/27, Ser. A, A.M.B.A.C. ....	958,460
1,000(b)	Illinois Fin. Auth. Education Rev., 5.375%, 9/1/32, Ser. C, Prerefunded 9/1/17 @ \$100 .....	1,093,090
		<u>7,459,920</u>
<b>Indiana—6.4%</b>		
5,000	Indiana Mun. Pwr. Agcy., Pwr. Supply Sys. Rev., 6.00%, 1/1/13, Ser. B, M.B.I.A. ....	5,322,700
2,100(b)	Indianapolis Local Pub. Impvt. Bond Bank Waterworks Proj. Rev., 5.25%, 7/1/33, Ser. A, Prerefunded 7/1/12 @ \$100 .....	2,253,762
		<u>7,576,462</u>
<b>Kentucky—2.7%</b>		
2,000	Louisville & Jefferson Cnty. Met. Swr. Dist., Swr. & Drain Sys. Rev., 5.00%, 5/15/30, Ser. A, F.G.I.C./M.B.I.A. ...	1,843,840
1,000	Louisville & Jefferson Cnty. Metro. Govt. Health Sys. Rev., 5.00%, 10/1/30 .....	691,360
1,000	5.25%, 10/1/36 .....	686,420
		<u>3,221,620</u>
<b>Massachusetts—5.9%</b>		
2,000	Boston Wtr. & Swr. Comm. Rev., 5.00%, 11/1/28, Ser. D, F.G.I.C./M.B.I.A. ...	1,893,520
1,500	Massachusetts St. Dev. Finance Agency, Solid Waste Disp. Rev. 5.00%, 2/1/36 .....	1,042,245
2,355	Massachusetts St. Tpk. Auth., Metro. Highway Sys. Rev., 5.125%, 1/1/23, Ser. B, M.B.I.A. ....	2,122,514
2,500	4.75%, 1/1/34, Ser. A, A.M.B.A.C. ....	1,920,675
		<u>6,978,954</u>

Principal Amount (000)	Description (a)	Value (Note 1)
<b>Michigan—3.8%</b>		
\$2,000(b)	Detroit Wtr. Supply Sys. Rev., Ser. A, 5.50%, 7/1/24, Prerefunded 7/1/11 @ \$100 .....	\$2,132,960
2,000	5.00%, 7/1/30, F.G.I.C./M.B.I.A. ....	1,743,780
1,000	Michigan Tobacco Settlement Finance Auth. Rev., 6.00%, 6/1/48, Ser. A .....	647,730
		<u>4,524,470</u>
<b>Nebraska—4.6%</b>		
2,500(b)	Omaha Pub. Pwr. Dist., Elec. Rev., Ser. B, 6.15%, 2/1/12 Escrowed to maturity .....	2,643,250
2,500(b)	6.20%, 2/1/17 Escrowed to maturity .....	2,797,075
		<u>5,440,325</u>
<b>Nevada—3.4%</b>		
1,400	Las Vegas Valley Wtr. Dist., Gen. Oblig., 5.00%, 6/1/25, Ser. B, M.B.I.A. ....	1,364,524
3,000	5.00%, 6/1/32, Ser. A, F.G.I.C./M.B.I.A. ...	2,714,910
		<u>4,079,434</u>
<b>New Jersey—4.0%</b>		
1,025	New Jersey Econ. Dev. Auth. Rev., 4.95%, 3/1/47 .....	669,879
2,000	New Jersey St. Gen. Oblig., 5.25%, 7/1/17, Ser. H .....	2,130,920
2,000	New Jersey Trans. Trust Fund Auth. Rev., 5.25%, 12/15/22, Ser. A .....	1,982,180
		<u>4,782,979</u>
<b>New York—5.9%</b>		
1,000	Albany Industrial Dev. Agy. Rev., 5.00%, 4/1/32, Ser. A .....	675,280
800	Long Island Pwr. Auth. Elec. Sys. Rev., 5.00%, 12/1/35, Ser. B .....	712,072
1,000	Metro. Trans. Auth. Rev., 5.25%, 11/15/31, Ser. A, F.G.I.C. ....	898,950
5,000	New York City Mun. Wtr. Fin. Auth., Wtr. & Swr. Sys. Rev., 5.00%, 6/15/29, Ser. B, F.S.A. ....	4,728,950
		<u>7,015,252</u>
<b>Ohio—6.3%</b>		
3,000	Buckeye Tobacco Settlement Financing Auth. Rev., 6.00%, 6/1/42, Ser. A-2 .....	1,943,400
2,000	6.50%, 6/1/47, Ser. A-2 .....	1,371,280
750	Deerfield Twp. Tax Increment Rev., 5.00%, 12/1/25 .....	619,395

See Notes to Financial Statements.

Principal Amount (000)	Description (a)	Value (Note 1)
\$1,000	Hamilton Elec. Sys. Rev. 4.60%, 10/15/20, Ser. A, F.S.A. ....	\$ 938,900
2,445	Ohio St. Wtr. Dev. Auth. Rev., 5.50%, 6/1/20, Ser. B, F.S.A. ....	<u>2,604,121</u>
		<u>7,477,096</u>
<b>Pennsylvania—3.2%</b>		
2,000	Delaware Cnty. Auth. Rev., 5.00%, 6/1/21, Ser. A, Radian .....	1,773,100
1,000	East Stroudsburg Area Sch. Dist., Gen. Oblig. 7.75%, 9/1/27, Ser. A, F.G.I.C./M.B.I.A. ...	1,147,350
1,000	Pennsylvania Economic Dev. Fin. Auth. Res. Recov. Rev., 4.625%, 12/1/18, Ser. F, A.M.B.A.C. ....	<u>868,000</u>
		<u>3,788,450</u>
<b>Puerto Rico—0.7%</b>		
1,000	Puerto Rico Elec. Pwr. Auth. Rev., 5.00%, 7/1/25, Ser. PP, F.G.I.C./M.B.I.A. ..	<u>874,440</u>
<b>South Carolina—1.4%</b>		
1,500(b)	Spartanburg Waterworks Rev., 5.25%, 6/1/28, Prerefunded 6/1/14 @ \$100 .....	<u>1,629,900</u>
<b>Tennessee—1.6%</b>		
1,500	Tennessee Energy Acquisition Corp. Rev., 5.25%, 9/1/20, Ser. A .....	1,140,450
1,000	5.25%, 9/1/21, Ser. A .....	<u>742,740</u>
		<u>1,883,190</u>
<b>Texas—22.7%</b>		
1,000	Alliance Airport Auth. Inc. Rev., 4.85%, 4/1/21 .....	711,840
2,500	Bexar Met. Wtr. Dist. Waterworks Sys. Rev., 5.00%, 5/1/25, M.B.I.A. ....	2,279,500
4,000	Coastal Wtr. Auth. Contract Rev., 5.00%, 12/15/25, F.S.A. ....	3,779,720
1,000	Dallas Area Rapid Transit Rev., 5.25%, 12/1/48 .....	933,450
2,000	Dallas Gen. Oblig. 4.50%, 2/15/23 .....	1,890,020
1,555	El Paso Wtr. & Swr. Rev., 5.50%, 3/1/12, Ser. A, F.S.A. ....	1,660,398
1,000	Everman Indep. Sch. Dist. Gen. Oblig., 5.00%, 2/15/36, PSF-GTD .....	917,810
1,650	Harris Cnty. Gen. Oblig., 7.00%, 8/15/10, Ser. A .....	1,771,077
1,500(b)	Houston Wtr. & Swr. Sys. Rev., 5.25%, 12/1/23, Ser. B, Prerefunded 12/1/10 @ \$100 .....	1,579,320
3,500(b)	5.00%, 12/1/28, Ser. A, .....	
	Prerefunded 12/1/09 @ \$100 .....	3,617,005

Principal Amount (000)	Description (a)	Value (Note 1)
\$1,000	Klein Indep. Sch. Dist. Gen. Oblig., 5.00%, 8/1/38, Ser. A, PSF-GTD .....	\$ 918,900
2,000	Lower Colorado River Auth. Rev., 5.00%, 5/15/31, F.S.A. ....	1,844,980
2,595	San Antonio Elec. & Gas Rev., 5.00%, 2/1/18, Ser. A .....	2,611,997
1,405(b)	5.00%, 2/1/18, Ser. A Prerefunded 2/1/09 @ 101 .....	1,430,487
1,000	Spring Branch Indep. Sch. Dist. Gen. Oblig., 5.25%, 2/1/38, PSF-GTD .....	<u>962,350</u>
		<u>26,908,854</u>
<b>Virginia—4.2%</b>		
3,985	Henrico Cnty. Wtr. & Swr. Rev., 5.00%, 5/1/28 .....	3,845,445
1,500	Virginia St. Hsg. Dev. Auth. Rev., 4.55%, 1/1/24 .....	<u>1,159,785</u>
		<u>5,005,230</u>
<b>Washington—2.3%</b>		
500	Energy Northwest Wind Proj. Rev., 4.75%, 7/1/21, M.B.I.A. ....	457,520
2,500	King Cnty. Swr. Rev., 5.00%, 1/1/31, F.G.I.C./M.B.I.A. ....	<u>2,310,700</u>
		<u>2,768,220</u>
<b>West Virginia—0.9%</b>		
1,500	Monongalia Cnty. Building Commission Hospital Rev. 5.00%, 7/1/30, Ser. A .....	<u>1,011,435</u>
<b>Wyoming—3.5%</b>		
4,000	Wyoming St. Farm Loan Brd. Cap. Facs. Rev., 5.75%, 10/1/20 .....	<u>4,139,680</u>
	Total long-term investments (cost \$183,903,430)	<u>180,716,003</u>
<b>Shares</b>		
71,050	<b>SHORT-TERM INVESTMENT—0.1%</b> Goldman Sachs Tax-Exempt Money Market Fund (cost \$71,050)	<u>\$ 71,050</u>
	<b>Total Investments—152.2%</b> (cost \$183,974,480) .....	180,787,053
	Other assets in excess of liabilities—2.5% .....	2,970,091
	Liquidation value of remarketed preferred stock—(54.7) .....	<u>(65,000,000)</u>
	<b>Net Assets Applicable to Common Stock—100.0%</b> .....	<u>\$118,757,144</u>
	Net asset value per share of common stock ((\$118,757,144/8,507,456) .....	<u>\$ 13.96</u>

See Notes to Financial Statements.

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- (a) The following abbreviations are used in portfolio descriptions to indicate providers of credit support, in whole or in part:
- A.M.B.A.C.—Ambac Assurance Corporation.
  - F.G.I.C.—Financial Guaranty Insurance Company.
  - F.H.A.—Federal Housing Authority.
  - F.S.A.—Financial Security Assurance Inc.
  - M.B.I.A.—MBIA Insurance Corporation.
  - PSF-GTD—Permanent School Fund—Guarantee.
  - Radian—Radian Asset Assurance Inc.
- (b) Prerefunded and escrowed to maturity issues are secured by escrowed cash, government obligations, or other securities.
- (c) Security is not registered under the Securities Act of 1933. These securities may be resold in transactions in accordance with Rule 144A to qualified institutional buyers. At October 31, 2008, these securities amounted to a value of \$2,924,145 or 2.5% of net assets applicable to common stock.

Summary of State Diversification as a Percentage of Net Assets applicable to Common Shareholders

As of October 31, 2008

<u>State</u>	<u>%</u>
California	23.1
Texas	22.7
Georgia	17.8
Florida	8.9
Alabama	6.6
Indiana	6.4
Illinois	6.3
Ohio	6.3
Massachusetts	5.9
New York	5.9
Nebraska	4.6
Virginia	4.2
New Jersey	4.0
Michigan	3.8
Wyoming	3.5
Nevada	3.4
Pennsylvania	3.2
Connecticut	3.1
Kentucky	2.7
Washington	2.3
Tennessee	1.6
South Carolina	1.4
Hawaii	1.3
District of Columbia	1.1
West Virginia	0.9
Puerto Rico	0.7
Idaho	0.4
Short Term Investment	0.1
	<u>152.2</u>
Other assets in excess of liabilities	2.5
Liquidation value of remarketed preferred stock	(54.7)
	<u>100.0%</u>

Summary of Ratings as a Percentage of Long-Term Investments (Unaudited)

As of October 31, 2008

<u>Rating *</u>	<u>%</u>
AAA	37.9%
AA	31.1%
A	17.4%
BBB	12.0%
BB	1.6%
	<u>100.0%</u>

\* Prerefunded bonds that are rated AAA by Standard & Poor's Ratings Services or Aaa by Moody's Investors Service, Inc. are included in the AAA classification in the above table. Otherwise, ratings are based on the lowest rating of Standard & Poor's Ratings Services or Moody's Investors Service, Inc. If not rated by either service, a rating from Fitch Ratings Ltd. is used, if available.

See Notes to Financial Statements.

**DTF TAX-FREE INCOME INC.**  
**Statement of Assets And Liabilities**  
**October 31, 2008**

**Assets**

Investments, at value (cost \$183,974,480) .....	\$180,787,053
Cash .....	115,488
Interest receivable .....	3,142,065
Other assets (Note 7) .....	<u>31,391</u>
Total assets .....	<u>184,075,997</u>

**Liabilities**

Investment advisory fee payable (Note 2) .....	77,980
Deferred compensation payable (Note 7) .....	24,725
Administrative fee payable (Note 2) .....	15,181
Dividends payable to preferred shareholders .....	5,341
Accrued expenses .....	<u>195,626</u>
Total liabilities .....	<u>318,853</u>

Remarketed preferred stock (\$.01 par value; 1,300 shares issued and outstanding, liquidation preference \$50,000 per share) (Note 6) .....	<u>\$ 65,000,000</u>
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<b>Net Assets Applicable to Common Stock</b>	<u><u>\$118,757,144</u></u>
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**Capital**

Common stock, \$.01 par value; 599,998,700 shares authorized, 8,507,456 issued and outstanding (Note 5) .....	\$ 85,075
Additional paid-in capital .....	120,440,442
Undistributed net investment income .....	1,791,784
Accumulated net realized loss on investment transactions .....	(372,730)
Net unrealized depreciation on investments .....	<u>(3,187,427)</u>

<b>Net Assets Applicable to Common Stock</b>	<u><u>\$118,757,144</u></u>
--	-----------------------------

Net assets applicable to common stock (\$118,757,144/8,507,456 shares of common stock issued and outstanding) .....	<u><u>\$ 13.96</u></u>
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**DTF TAX-FREE INCOME INC.**  
**Statement of Operations**  
**For the Year Ended October 31, 2008**

**Investment Income**

Interest income .....	<u>\$ 10,066,344</u>
Expenses	
Investment advisory fees (Note 2) .....	984,376
Administrative fees (Note 2) .....	197,813
Directors' fees and expenses .....	190,725
Remarketing fees .....	185,409
Professional fees .....	75,857
Custodian fees and expenses .....	51,739
Reports to shareholders .....	33,712
Transfer agent fees and expenses .....	25,273
Registration fees .....	23,750
Other .....	<u>17,505</u>
Total expenses .....	<u>1,786,159</u>
Net investment income .....	<u>8,280,185</u>

**Realized and Unrealized Gain/(Loss) on Investments**

Net realized loss on investment transactions .....	(270,561)
Net change in unrealized appreciation/depreciation on investments .....	<u>(17,204,110)</u>
Net realized and unrealized loss on investments .....	<u>(17,474,671)</u>

**Dividends and Distributions on Remarketed Preferred Stock From:**

Net investment income .....	<u>(2,041,779)</u>
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<b>Net Decrease in Net Assets Resulting from Operations</b>	<u><u>\$(11,236,265)</u></u>
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See Notes to Financial Statements.

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**DTF TAX-FREE INCOME INC.****Statements of Changes  
In Net Assets**

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	<u>For the Year Ended October 31, 2008</u>	<u>For the Year Ended October 31, 2007</u>
Operations		
Net investment income . . . . .	\$ 8,280,185	\$ 8,106,440
Net realized loss on investment transactions . . . . .	(270,561)	(42,120)
Net change in unrealized appreciation/depreciation on investments . . . . .	(17,204,110)	(4,220,833)
Dividends and distributions on remarketed preferred stock from net investment income . . . . .	(2,041,779)	(2,426,387)
Net increase/(decrease) in net assets resulting from operations . . . . .	<u>(11,236,265)</u>	<u>1,417,100</u>
Dividends and distributions on common stock from net investment income . . . . .	<u>(5,104,474)</u>	<u>(5,614,921)</u>
Total dividends and distributions on common stock . . . . .	<u>(5,104,474)</u>	<u>(5,614,921)</u>
Total decrease in net assets . .	(16,340,739)	(4,197,821)
<b>Net Assets Applicable to Common Stock</b>		
Beginning of year . . . . .	<u>135,097,883</u>	<u>139,295,704</u>
End of year(a) . . . . .	<u>\$118,757,144</u>	<u>\$135,097,883</u>
(a) Includes undistributed net investment income of . . . . .	<u>\$ 1,791,784</u>	<u>\$ 657,852</u>

See Notes to Financial Statements.

## DTF TAX-FREE INCOME INC.

### Financial Highlights

	For the Year Ended October 31,				
	2008	2007	2006	2005	2004
<b>PER SHARE OPERATING PERFORMANCE</b>					
Net asset value, beginning of year	\$ 15.88	\$ 16.37	\$ 16.32	\$ 17.14	\$ 17.02
Net investment income(1)	0.97	0.95	0.95	0.94	1.00
Net realized and unrealized gain/(loss) on investment transactions	(2.05)	(0.49)	0.14	(0.63)	0.16
Dividends and distributions on remarketed preferred stock from:					
Net investment income	(0.24)	(0.29)	(0.26)	(0.16)	(0.08)
Net realized gains	—	—	—	(0.01)	—
Net increase/(decrease) from investment operations	(1.32)	0.17	0.83	0.14	1.08
Dividends and distributions on common stock from:					
Net investment income	(0.60)	(0.66)	(0.78)	(0.85)	(0.96)
Net realized gains	—	—	—	(0.11)	—
Total dividends and distributions on common stock	(0.60)	(0.66)	(0.78)	(0.96)	(0.96)
Net asset value, end of year	\$ 13.96	\$ 15.88	\$ 16.37	\$ 16.32	\$ 17.14
Per share market value, end of year	\$ 11.25	\$ 13.97	\$ 15.01	\$ 14.74	\$ 16.15
<b>TOTAL INVESTMENT RETURN ON COMMON STOCK(2)</b>	(15.78)%	(2.69)%	7.30%	(3.25)%	10.60%
<b>RATIOS TO AVERAGE NET ASSETS APPLICABLE TO COMMON STOCK:(3)</b>					
Operating expenses	1.35%	1.42%	1.43%	1.40%	1.42%
Net investment income	6.28%	5.95%	5.88%	5.58%	5.86%
<b>SUPPLEMENTAL DATA</b>					
Portfolio turnover rate	5%	13%	7%	11%	11%
Net assets applicable to common stock, end of year (000)	\$118,757	\$135,098	\$139,296	\$138,837	\$145,796
Asset coverage per share of preferred stock, end of the year	\$141,352	\$153,921	\$157,151	\$156,798	\$162,150
Preferred stock outstanding (000)	\$ 65,000	\$ 65,000	\$ 65,000	\$ 65,000	\$ 65,000

(1) Based on average number of shares of common stock outstanding.

(2) Total investment return is calculated assuming a purchase of common stock at the current market value on the first day and a sale at the current market value on the last day of each year reported. Dividends are assumed, for purposes of this calculation, to be reinvested at prices obtained under the Fund's dividend reinvestment plan. Brokerage commissions are not reflected.

(3) Ratios calculated on the basis of income and expenses applicable to both the common and preferred stock relative to the average net assets applicable to common stock. Ratios do not reflect the effect of dividend and distributions on remarketed preferred stock.

See Notes to Financial Statements.

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## DTF TAX-FREE INCOME INC.

### Notes to Financial Statements

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DTF Tax-Free Income Inc. (the "Fund") was organized in Maryland on September 24, 1991 as a diversified, closed-end management investment company. The Fund had no operations until November 20, 1991 when it sold 8,000 shares of common stock for \$112,400 to Duff & Phelps Corporation. Investment operations commenced on November 29, 1991.

The Fund's investment objective is current income exempt from regular federal income tax consistent with preservation of capital. The Fund seeks to achieve its investment objective by investing primarily (at least 80% of its total assets) in a diversified portfolio of investment-grade tax-exempt obligations. Effective on May 31, 2007, the Fund may not invest more than 25% of its total assets (taken at market value at the time of each investment) in the securities of issuers in a single industry; provided that, for purposes of this restriction, tax-exempt securities of issuers that are states, municipalities or their political subdivisions are not considered to be the securities of issuers in any single industry. The ability of the issuers of the securities held by the Fund to meet their obligations may be affected by economic developments in a specific state, industry or region.

#### Note 1. Significant Accounting Policies

The following is a summary of significant accounting policies followed by the Fund in the preparation of its financial statements.

**Securities Valuation:** The Fund values its fixed income securities by using market quotations, prices provided by market makers or estimates of market values obtained from yield data relating to instruments or securities with similar characteristics in accordance with procedures established by the Board of Directors of the Fund. The relative liquidity of some securities in the Fund's portfolio may adversely affect the ability of the Fund to accurately value such securities. Any securities or other assets for which such current market quotations are not readily available are valued at fair value as determined in good faith under procedures established by and under the general supervision and responsibility of the Fund's Board of Directors. Short-term investments having a maturity of 60 days or less at date of purchase are valued on an amortized cost basis, which approximates market value.

Investments in mutual funds are valued at their net asset value as of the close of the New York Stock Exchange on the date of valuation.

**Securities Transactions and Investment Income:** Securities transactions are recorded on the trade date. Real-

ized gains and losses on sales of securities are calculated on the identified cost basis. Interest income is recorded on the accrual basis. The Fund amortizes premiums and accretes discounts on securities using the effective interest method.

**Federal Income Taxes:** It is the Fund's intention to meet the requirements of Subchapter M of the Internal Revenue Code applicable to regulated investment companies and to distribute sufficient net income and capital gains to shareholders to qualify as a regulated investment company. Therefore, no provision for federal income tax or excise tax is required.

Effective April 30, 2008, the Fund adopted FASB Interpretation No. 48 ("FIN 48") "*Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109.*" FIN 48 prescribes the minimum recognition threshold a tax position must meet in connection with accounting for uncertainties in income tax positions taken or expected to be taken by an entity, including mutual funds, before being measured and recognized in the financial statements. Management of the Fund has concluded that there are no significant uncertain tax positions that would require recognition in the financial statements. Since tax authorities can examine previously filed tax returns, the Fund's tax returns for each of the four years in the period ended October 31, 2008 are subject to such review.

**Dividends and Distributions:** The Fund will declare and pay dividends on its common stock monthly from net investment income. Net long-term capital gains, if any, in excess of loss carryforwards are expected to be distributed annually. The Fund will make a determination at the end of its fiscal year as to whether to retain or distribute such gains. Dividends and distributions are recorded on the ex-dividend date. Dividends on the Fund's preferred stock are accrued and paid on a weekly basis and are determined as described in Note 6.

Income distributions and capital gain distributions are determined in accordance with income tax regulations, which may differ from investment income and capital gains recorded in accordance with U.S. generally accepted accounting principles.

**Recent Accounting Pronouncements:** In September 2006, Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ("FAS 157"), was issued and is effective for fiscal years beginning after November 15, 2007. FAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. The Fund will adopt FAS 157 during the fiscal year ending October 31, 2009. Management is currently

evaluating the impact the adoption of FAS 157 will have on the Fund's financial statement disclosures.

In addition, in March 2008, Statement of Financial Accounting Standards No. 161, *Disclosures about Derivative Instruments and Hedging Activities* ("FAS 161") was issued and is effective for fiscal years beginning after November 15, 2008. FAS 161 is intended to improve financial reporting for derivative instruments by requiring enhanced disclosure that enables investors to understand how and why an entity uses derivatives, how derivatives are accounted for, and how derivative instruments affect an entity's results of operations and financial position. Management is currently evaluating the impact the adoption of FAS 161 will have on the Fund's financial statement disclosures.

*Use of Estimates:* The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

## Note 2. Agreements

The Fund has an Advisory Agreement with Duff & Phelps Investment Management Co. (the "Adviser"), a subsidiary of Virtus Investment Partners Inc. ("Virtus"), (formerly Phoenix Investment Partners, Ltd.) and an Administration Agreement with Princeton Administrators, LLC ("Princeton").

The investment advisory fee is computed weekly and payable monthly at an annual rate of 0.50% of the Fund's average weekly managed assets, which is defined as the average weekly value of the total assets of the Fund minus the sum of all accrued liabilities of the Fund (other than the aggregate amount of any outstanding borrowings or other indebtedness constituting financial leverage).

The administration fee paid to Princeton is computed weekly and payable monthly at an annual rate of 0.15% of the Fund's average weekly net assets, which is defined as the average weekly value of the total assets of the Fund minus the sum of all accrued liabilities of the Fund (including aggregate amount of any outstanding borrowings or other indebtedness constituting financial leverage).

Pursuant to the Advisory Agreement, the Adviser provides continuous supervision of the investment portfolio and pays the compensation of officers of the Fund who are affiliated persons of the Adviser. Pursuant to the Administration Agreement, Princeton provides administration services that include oversight of the Fund's books and records and preparation of financial statements and other regulatory filings. The Fund bears all other costs and expenses.

## Note 3. Portfolio Securities

Purchases and sales of investment securities, other than short-term investments, for the year ended October 31, 2008 aggregated \$11,220,600 and \$9,610,350, respectively.

The United States federal income tax basis of the Fund's investments and the net unrealized depreciation as of October 31, 2008 were as follows:

<u>Tax Basis of Investments</u>	<u>Appreciation</u>	<u>Depreciation</u>	<u>Net Unrealized Depreciation</u>
\$183,272,868	\$9,006,676	\$11,492,491	\$2,485,815

## Note 4. Distributions to Shareholders

The tax character of distributions paid during the fiscal years ended October 31, 2008 and 2007 was as follows:

	<u>10/31/2008</u>	<u>10/31/2007</u>
<i>Distributions paid from:</i>		
Tax-exempt income	\$7,146,253	\$8,041,308
Ordinary income	—	—
Capital gains	—	—
Total distributions	<u>\$7,146,253</u>	<u>\$8,041,308</u>

As of October 31, 2008, the components of accumulated earnings on a tax basis were as follows:

Undistributed tax-exempt income—net	\$ 1,090,172
Undistributed long-term capital gains—net	—
Total undistributed earnings	1,090,172
Capital loss carryforward	(372,730)*
Unrealized gains/(losses)—net	<u>(2,485,815)**</u>
Total accumulated earnings	<u>\$(1,768,373)</u>

\* On October 31, 2008 the Fund had a net capital loss carryforward of \$372,730, of which \$23,070 expires in 2013, \$36,979 expires in 2014, \$42,120 expires in 2015, and \$270,561 expires in 2016.

\*\* The difference between book-basis and tax-basis unrealized gains/(losses) is attributable primarily to the difference between book and tax amortization methods for premiums and discounts on fixed income securities.

## Note 5. Capital

There are 600 million shares of \$0.01 par value stock authorized.

For the year ended October 31, 2008, the Fund did not issue any shares of common stock in connection with the reinvestment of dividends.

## **Note 6. Remarketed Preferred Stock**

The Fund's Charter authorizes the issuance of Remarketed Preferred Stock ("RP"). Accordingly, the Fund issued 1,300 shares of RP on February 4, 1992. The RP has a liquidation value of \$50,000 per share plus any accumulated but unpaid dividends.

Dividends on shares of RP are cumulative from their date of original issue and payable on each dividend payment date. Dividend rates ranged from 2.369% to 4.75% during the year ended October 31, 2008.

Under the Investment Company Act of 1940, the Fund may not declare dividends or make other distributions on shares of common stock or purchase any such shares if, at the time of the declaration, distribution or purchase, asset coverage with respect to the outstanding preferred stock would be less than 200%.

The RP is redeemable at the option of the Fund, in whole or in part, on any dividend payment date at \$50,000 per share plus any accumulated or unpaid dividends, whether or not declared. The RP is also subject to a mandatory redemption at \$50,000 per share plus any accumulated or unpaid dividends, whether or not declared, if certain requirements relating to the composition of the assets and liabilities of the Fund as set forth in the Fund's Charter are not satisfied.

The holders of RP have voting rights equal to the holders of common stock (one vote per share) and will vote together with holders of common stock as a single class. However, holders of RP are also entitled to elect two of the Fund's directors. In addition, the Investment Company Act of 1940 requires that along with approval by shareholders that might otherwise be required, the approval of the holders of a majority of any outstanding shares of preferred stock, voting separately as a class, would be required to (a) adopt any plan of reorganization that would adversely affect the preferred stock, and (b) take certain actions requiring a vote of security holders, including, among other things, changes in the Fund's subclassification as a closed-end investment company or changes in its fundamental investment restrictions.

Since February 2008, the short-term auction and remarketed preferred stock market has been ineffective at matching buyers with sellers. This has impacted the Fund's RP shares. The RP shares dividend rate was reset to the maximum applicable rate which ranged from 2.369% to 4.005%, between February 14, 2008 and the date of this report. A failed remarketing is not an event of default for the Fund, but it is a liquidity event for the holders of its RP shares. Recent auction and RP market liquidity problems have triggered numerous

failed auctions and remarketings for many closed-end funds. A failed remarketing occurs when there are more sellers of RP shares than buyers. It is impossible to predict how long this imbalance will last. A successful remarketing of the Fund's RP shares may not occur for a long period of time, if ever. Even if the RP market becomes more liquid, the holders of the Fund's RP shares may not have the amount of liquidity they desire or the ability to sell the RP shares at par.

## **Note 7. Deferred Compensation Program**

Effective on January 1, 2000, the Fund established a deferred compensation program for its independent directors. Any director who was not an "interested person" of the Fund and who elected to participate in the program (a "participating director") was eligible to defer receipt of all or a portion of his or her compensation from the Fund. Any amounts deferred by a participating director were credited to a deferred compensation ledger account (a "deferral account") established for such director. From January 1, 2000 through December 31, 2004, the deferred compensation program was administered by the Fund's transfer agent on behalf of the Fund, and all amounts credited to each participating director's deferral account were deemed to be invested in common stock of the Fund. Participating directors do not have an ownership interest in those shares. Contributions to the deferral account and increases in value of the measuring shares caused the account balance to increase accordingly, while withdrawals from the deferral account and decreases in value of the measuring shares caused the account balance to decrease accordingly. When a participating director retires, the director may elect to receive payments under the plan in a lump sum or in equal installments over a period of up to ten years. If a participating director dies, any amount payable under the plan will be paid to the director's beneficiaries. Effective on January 1, 2005, administration of new contributions under the deferred compensation program was transferred to Fidelity Investments, which administers similar programs for other investment companies advised by affiliates of Virtus. The Fidelity Investments program gave participating directors the ability to allocate amounts in their deferral accounts among various investment options, one of which was common stock of the Fund. The acceptance of new contributions under the Fund's deferred compensation program was discontinued, effective on December 31, 2006. However, the obligation to make payouts to directors with respect to compensation deferred between January 1, 2000 and December 31, 2006 remains a general obligation of the Fund. For this reason, the Fund's Statement of Assets and Liabilities at October 31, 2008 includes "Deferred compensation payable" in the amount of \$24,725, and the \$24,725 in

deferred compensation investments that support that obligation are included in "Other assets."

**Note 8. Subsequent Events** Subsequent to October 31, 2008, dividends declared and paid on preferred stock totaled \$129,298 through December 12, 2008. On November 3, 2008, the Board of Directors of the Fund declared a dividend of \$0.05 per share of common stock payable on November 28, 2008, to common shareholders of record on November 14, 2008. On November 6, 2008, the Board of Directors approved a dividend of \$0.05 per share of common stock to be declared on December 1, 2008 payable on December 31, 2008 to common shareholders of record on December 15, 2008.

## **Note 9. Indemnifications**

Under the Fund's organizational documents, its Officers and Directors are indemnified against certain liabilities arising out of the performance of their duties to the Fund. In addition, in the normal course of business, the Fund enters into contracts that provide general indemnifications to other parties. The Fund's maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the Fund that have not yet occurred. However, the Fund has not had prior claims or losses pursuant to these contracts and believes the risk of loss to be remote.

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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The Shareholders and Board of Directors of  
DTF Tax-Free Income Inc.:

We have audited the accompanying statement of assets and liabilities of DTF Tax-Free Income Inc. (the "Fund"), including the portfolio of investments, as of October 31, 2008, and the related statement of operations for the year then ended, the statements of changes in net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. We were not engaged to perform an audit of the Fund's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and financial highlights, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of October 31, 2008, by correspondence with the custodian. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of DTF Tax-Free Income Inc. at October 31, 2008, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended, in conformity with U.S. generally accepted accounting principles.

*Ernst + Young LLP*

Chicago, Illinois  
December 15, 2008

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## IMPORTANT TAX INFORMATION (Unaudited)

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During the fiscal year ended October 31, 2008, all of the net investment income distributions paid by the Fund to shareholders qualify as tax-exempt interest dividends for Federal income tax purposes.

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## REPORT ON ANNUAL MEETING OF SHAREHOLDERS (Unaudited)

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The Annual Meeting of Shareholders of the Fund was held on May 8, 2008. The following is a description of each matter voted upon at the meeting and the number of votes cast on each matter:

	<u>Shares Voted For</u>	<u>Shares Withheld</u>
1. To elect four directors to serve until the Annual Meeting in the year indicated below or until their successors are duly elected and qualified:		
Francis E. Jeffries (2009)	7,328,596	394,709
Geraldine M. McNamara (2011)	7,319,295	404,010
Christian H. Poindexter (2011)	7,288,574	434,731
Carl F. Pollard (2011)*	1,168	59

\* Elected by the holders of the Fund's preferred stock voting as a separate class.

Directors whose term of office continued beyond this meeting are as follows: Nancy Lampton, Eileen A. Moran, Philip R. McLoughlin, Nathan Partain and David J. Vitale.

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## DIVIDEND REINVESTMENT AND CASH PURCHASE PLAN (Unaudited)

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Pursuant to the Fund's Dividend Reinvestment Plan (the "Plan"), common shareholders may elect to have all distributions of dividends and capital gains automatically reinvested by American Stock Transfer & Trust Company (the "Plan Agent") in shares of common stock of the Fund ("Fund Shares") pursuant to the Plan; provided that such election is subject to the power of the Board of Directors to declare capital gains distributions in the form of stock (if such a declaration is made by the Board of Directors, all shareholders who do not elect to receive cash will receive the distribution in the form of stock whether or not they elect to participate in the Plan). Common shareholders who do not participate in the Plan will receive all distributions in cash (except as described above) paid by check in United States dollars mailed directly to the shareholder of record (or if the shares are held in street or other nominee name, then to the nominee) by the Custodian, as dividend disbursing agent. Common shareholders who wish to participate in the Plan should contact the Fund at 6201 15th Avenue, Brooklyn, New York, 11219 or call toll free (800) 937-5449.

The Plan Agent serves as agent for the common shareholders in administering the Plan. After the Fund declares a dividend or determines to make a capital gain distribution, if (1) the market price is lower than net asset value, the participants in the Plan will receive the equivalent in Fund Shares valued at the market price determined as of the time of purchase (generally, the payment date of the dividend or distribution); or if (2) the market price of Fund Shares on the payment date of the dividend or distribution is equal to or exceeds their net asset value, participants will be issued Fund Shares at the higher of net asset value or 95% of the market price. This discount reflects savings in underwriting and other costs that the Fund otherwise will be required to incur to raise additional capital. If net asset value exceeds the market price of Fund Shares on the payment date or the Fund declares a dividend or other distribution payable only in cash (i.e., if the board of directors precludes reinvestment in Fund Shares for that purpose), the Plan Agent will, as agent for the participants, receive the cash payment and use it to buy Fund Shares in the open market, on the New York Stock Exchange, other national securities exchanges on which the Fund's common stock is listed or elsewhere, for the participants' accounts. If, before the Plan Agent has completed its purchases, the market price exceeds the net asset value of a Fund Share, the average per share purchase price paid by the Plan Agent may exceed the net asset value of Fund Shares, resulting in the acquisition of fewer shares than if the dividend or distribution had been paid in shares issued by the Fund. The Fund will not issue shares under the Plan below net asset value.

Participants in the Plan may withdraw from the Plan upon written notice to the Plan Agent and will receive certificates for whole Fund Shares and a cash payment will be made for any fraction of a Fund Share.

There is no charge to participants for reinvesting dividends or capital gain distributions, except for certain brokerage commissions, as described below. The Plan Agent's fees for the handling of the reinvestment of dividends and distributions will be paid by the Fund. There will be no brokerage commissions charged with respect to shares issued directly by the Fund. However, each participant will pay a pro rata share of brokerage commissions incurred with respect to the Plan Agent's open market purchases in connection with the reinvestment of dividends and distributions. The automatic reinvestment of dividends and distributions will not relieve participants of any federal income tax that may be payable on such dividends or distributions.

Experience under the Plan may indicate that changes are desirable. Accordingly, the Fund reserves the right to amend or terminate the Plan as applied to any dividend or distribution paid subsequent to written notice of the change sent to all shareholders of the Fund at least 90 days before the record date for the dividend or distribution. The Plan also may be amended or terminated by the Plan Agent upon at least 90 days written notice to all common shareholders of the Fund. All correspondence concerning the Plan should be directed to the Fund at the address on the front of this report.

The Plan has been amended to permit Plan participants periodically to purchase additional shares of common stock through the Plan by delivering to the Plan Agent a check for at least \$100, but not more than \$5,000, in any month. The Plan Agent will use the funds to purchase shares in the open market or in private transactions as described above with respect to reinvestment of dividends and distributions. This amendment to the Plan was approved by the Board on May 27, 1998 and was effective September 1, 1998. Thereafter, purchases made pursuant to the Plan will be made commencing at the time of the first dividend or distribution payment following the second business day after receipt of the funds for additional purchases, and may be aggregated with purchases of shares for reinvestment of the dividends and distributions. Shares will be allocated to the accounts of participants purchasing additional shares at the average price per share, plus a service charge imposed by the Plan Agent and brokerage

commissions (or equivalent purchase costs) paid by the Plan Agent for all shares purchased by it, including for reinvestment of dividends and distributions. Checks drawn on a foreign bank are subject to collection and collection fees, and will be invested at the time of the next distribution after funds are collected by the Plan Agent.

The Plan Agent will make every effort to invest funds promptly, and in no event more than 30 days after the Plan Agent receives a dividend or distribution, except where postponement is deemed necessary to comply with applicable provisions of the federal securities laws.

Funds sent to the Plan Agent for voluntary additional share investment may be recalled by the participant by written notice received by the Plan Agent not later than two business days before the next distribution payment date. If for any reason a regular monthly distribution is not paid by the Fund, funds for voluntary additional share investment will be returned to the participant, unless the participant specifically directs that they continue to be held by the Plan Agent for subsequent investment.

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## **ADDITIONAL INFORMATION (Unaudited)**

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Since November 1, 2007: (i) there have been no material changes in the Fund's investment objectives or policies that have not been approved by the shareholders; (ii) there have been no changes in the Fund's charter or by-laws that would delay or prevent a change in control of the Fund which have not been approved by the shareholders; (iii) there have been no material changes in the principal risk factors associated with an investment in the Fund (other than the imbalance in the RP market discussed in Note 6 of the financial statements); and (iv) there have been no changes in the persons who are primarily responsible for the day-to-day management of the Fund's portfolio.

Additional information, if any, relating to the Fund's directors and officers, in addition to such information as is found elsewhere in the Annual Report, may be requested by contacting the Fund at the address provided in this report.

Notice is hereby given in accordance with Section 23(c) of the Investment Company Act of 1940 that the Fund may from time to time purchase its shares of common stock in the open market.

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## **PROXY VOTING POLICY AND PROCEDURES (Unaudited)**

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Although the Fund does not typically hold voting securities, the Fund's Board of Directors has adopted proxy voting procedures whereby Duff & Phelps Investment Management Co., the Fund's investment adviser (the "Adviser"), would review any proxy solicitation materials on a case-by-case basis and would vote any such securities in accordance with the Adviser's good faith belief as to the best interests of the Fund and its shareholders. These proxy voting procedures may be changed at any time or from time to time by the Fund's Board of Directors. A description of the policies and procedures that the Fund uses to determine how to vote proxies relating to portfolio securities during the most recent 12-month period ended June 30 are available without charge, upon request, by calling toll free (800) 243-4361 ext. 4941 and on the Securities Exchange Commission's (SEC) website at <http://www.sec.gov>.

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## **AVAILABILITY OF QUARTERLY SCHEDULE OF INVESTMENTS (Unaudited)**

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The Fund files its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. The Fund's Forms N-Q are available on the SEC's website at <http://www.sec.gov>. The Fund's Forms N-Q may also be reviewed and copied at the SEC's Public Reference Room in Washington, DC. Information on the operation of the Public Reference Room may be obtained by calling (202) 551-8090. The Fund's Form N-Q is also available, without charge, upon request, by calling toll free (800) 243-4361 ext. 4941.

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## **ANNUAL CERTIFICATIONS (Unaudited)**

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In June 2008, the Fund submitted a CEO annual certification to the New York Stock Exchange (“NYSE”) in which the Fund’s principal executive officer certified that he was not aware, as of the date of the certification, of any violation by the Fund of the NYSE’s Corporate Governance listing standards. In addition, as required by Section 302 of the Sarbanes-Oxley Act of 2002 and related SEC rules, the Fund’s principal executive and principal financial officers have made quarterly certifications, included in filings with the SEC on Forms N-CSR and N-Q, relating to, among other things, the Fund’s disclosure controls and procedures and internal control over financial reporting.

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## **PRIVACY PRINCIPLES OF THE FUND (Unaudited)**

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The Fund is committed to maintaining the privacy of its shareholders and to safeguarding their non-public personal information. The following information is provided to help you understand what personal information the Fund collects, how the Fund protects that information and why, in certain cases, the Fund may share information with select other parties.

Generally, the Fund does not receive any non-public personal information relating to its shareholders, although certain non-public personal information of its shareholders may become available to the Fund. The Fund does not disclose any non-public personal information about its shareholders or former shareholders to anyone, except as permitted by law or as is necessary in order to service shareholder accounts (for example, to a transfer agent or third party administrator).

The Fund restricts access to non-public personal information about its shareholders to employees of the Adviser, the Fund’s administrator and their respective affiliates with a legitimate business need for the information. The Fund maintains physical, electronic and procedural safeguards designed to protect the non-public personal information of its shareholders.

## DIRECTORS OF THE FUND (Unaudited)

Information pertaining to the Directors of the Fund is set forth below. Directors who are not deemed to be “interested persons” of the Funds, as defined in the Investment Company Act of 1940, as amended (the “1940 Act”) are referred to as “Independent Directors.” Directors who are deemed to be “interested persons” of the Fund are referred to as “Interested Directors.” “Fund Complex” consists of the Fund and any other investment companies managed by Virtus Investment Partners Inc. (“Virtus”) or its affiliates.

### Independent Directors

Name, Address and Age	Positions Held with Fund	Term of Office and Length of Time Served	Principal Occupation(s) During Past 5 Years	Number of Portfolios in Fund Complex Overseen by Director	Other Directorships Held by the Director
Francis E. Jeffries c/o Duff & Phelps Investment Management Co. 200 South Wacker Drive Suite 500 Chicago, IL 60606 Age: 78	Director and Chairman of the Board	Term expires in 2009; Director since 1991	Chairman of the Board of Duff & Phelps Utility and Corporate Bond Trust Inc. (“DUC”) since November 1992 (President of the Fund and DUC, January 2000-February 2004); Chairman of the Board of DNP Select Income Fund Inc. (“DNP”) since May 2005 (Vice Chairman, April 2004-May 2005); Chairman of the Board of Phoenix Investment Partners, Ltd. (“PXP”), November 1995-May 1997; Chairman and Chief Executive Officer, Duff & Phelps Corporation, June 1993-November 1995 (President and Chief Executive Officer, January 1992-June 1993); Chairman of the Board of Duff & Phelps Investment Management Co. 1988-1993	3	
Nancy Lampton <sup>(1)</sup> c/o Duff & Phelps Investment Management Co. 200 South Wacker Drive Suite 500 Chicago, IL 60606 Age: 66	Director and Vice Chairman of the Board	Term expires in 2009; Director since 2005	Chairman and Chief Executive Officer, Hardscuffle Inc. (insurance holding company) since January 2000; Chairman and Chief Executive Officer, American Life and Accident Insurance Company of Kentucky since 1971	3	Director, Constellation Energy Group, Inc. (public utility holding company); Advisory Board Member, Thorium Power, Inc. (designer of non-proliferative fuel for nuclear energy needs)
Geraldine M. McNamara c/o Duff & Phelps Investment Management Co. 200 South Wacker Drive Suite 500 Chicago, IL 60606 Age: 57	Director	Term expires in 2011; Director since 2003	Private investor since July 2006; Managing Director, U.S. Trust Company of New York 1982-July 2006	51	
Eileen A. Moran c/o Duff & Phelps Investment Management Co. 200 South Wacker Drive Suite 500 Chicago, IL 60606 Age: 54	Director	Term expires in 2010; Director since 1996	Senior Vice President for Strategic Initiatives, PSEG Services Corporation since January 2008; President and Chief Executive Officer, PSEG Resources L.L.C. (investment company) since 1990	3	
Christian H. Poindexter c/o Duff & Phelps Investment Management Co. 200 South Wacker Drive Suite 500 Chicago, IL 60606 Age: 70		Term expires in 2011; Director since 2008	Retired Executive Committee Chairman, Constellation Energy Group, Inc. (public utility holding company) since March 2003 (Executive Committee Chairman, July 2002-March 2003; Chairman of the Board, April 1999-July 2002; Chief Executive Officer, April 1999-October 2001; President, April 1999-October 2000) Chairman, Baltimore Gas and Electric Company, January 1993-July 2002 (Chief Executive Officer January 1993-July 2000; President, March 1998-October 2000; Director, 1988-2003	3	Director, The Baltimore Life Insurance

<b>Name, Address and Age</b>	<b>Positions Held with Fund</b>	<b>Term of Office and Length of Time Served</b>	<b>Principal Occupation(s) During Past 5 Years</b>	<b>Number of Portfolios in Fund Complex Overseen by Director</b>	<b>Other Directorships Held by the Director</b>
Carl F. Pollard <sup>(1)</sup> c/o Duff & Phelps Investment Management Co. 200 South Wacker Drive Suite 500 Chicago, IL 60606 Age: 70	Director	Term expires in 2011; Director since 2006	Owner, Hermitage Farm L.L.C. (thoroughbred breeding) since January 1995; Chairman, Columbia Healthcare Corporation 1993-1994; Chairman and Chief Executive Officer, Galen Health Care, Inc. March-August 1993; President and Chief Operating Officer, Humana Inc. 1991-1993 (previously Senior Executive Vice President, Executive Vice President and Chief Financial Officer)	3	Chairman of the Board and Director, Churchill Downs Incorporated
David J. Vitale c/o Duff & Phelps Investment Management Co. 200 South Wacker Drive Suite 500 Chicago, IL 60606 Age: 62	Director	Term expires in 2009; Director since 2005	Senior Advisor to the CEO, Chicago Public Schools since April 2007; Chief Administrative Officer, Chicago Public Schools April 2003-April 2007; Private investor November 2002-April 2003; President and Chief Executive Officer, Board of Trade of the City of Chicago, Inc. March 2001-November 2002; Retired executive 1999-2001; Vice Chairman and Director, Bank One Corporation, 1998-1999; Vice Chairman and Director, First Chicago NBD Corporation, and President, The First National Bank of Chicago, 1995-1998; Vice Chairman, First Chicago Corporation and The First National Bank of Chicago, 1993-1998 (Director, 1992-1998; Executive Vice President, 1986-1993)	3	Director, UAL Corporation (airline holding company), ISO New England Inc. (not for profit independent system operator of New England's electricity supply), Ariel Capital Management, LLC, Ark Investment Corp. and Wheels, Inc. (automobile fleet management)

### Interested Directors

<b>Name, Address and Age</b>	<b>Positions Held with Fund</b>	<b>Term of Office and Length of Time Served</b>	<b>Principal Occupation(s) During Past 5 Years</b>	<b>Number of Portfolios in Fund Complex Overseen by Director</b>	<b>Other Directorships Held by the Director</b>
Philip R. McLoughlin <sup>(2)</sup> c/o Duff & Phelps Investment Management Co. 200 South Wacker Drive Suite 500 Chicago, IL 60606 Age: 62	Director	Term expires in 2010; Director since 1996	Partner, CrossPond Partners LLC (investment management consultant) since 2006. Retired investment management executive since 2004. Consultant to PXP, 2002-2004; Chief Executive Officer of PXP, 1995-2002 (Chairman 1997-2002, Director 1995-2002); Executive Vice President and Chief Investment Officer, The Phoenix Companies, Inc. ("PNX") 1989-2002;	69	Director, Argo Group International Holdings, Ltd. (insurance holding company) and The World Trust Fund (investment trust)
Nathan I. Partain <sup>(3)</sup> Duff & Phelps Investment Management Co. 200 South Wacker Drive Suite 500 Chicago, IL 60606 Age: 52	Director, President and Chief Executive Officer	Term expires in 2010; Director since 2007	President and Chief Executive Officer of DUC since February 2004; President and Chief Investment Officer of the Adviser since April 2005 (Executive Vice President 1997-2005); President and Chief Executive Officer of DNP since February 2001 (Chief Investment Officer since January 1998; Executive Vice President, April 1998-February 2001; Senior Vice President January 1997-April 1998); Director of Utility Research, Duff & Phelps Investment Research Co. 1989-1996 (Director of Equity Research, 1993-1996 and Director of Fixed Income Research, 1993)	3	Director, Otter Tail Corporation (manages diversified operations in the electric, plastics, manufacturing, health services, food ingredient processing and other business operations sectors)

<sup>(1)</sup> Elected to his or her position on the board by the holders of the preferred stock, voting as a separate class.

<sup>(2)</sup> Mr. McLoughlin is an Interested Director because his participation in certain pension plans maintained by PNX and its affiliates may be deemed to constitute a material business relationship with Virtus within the meaning of section 2(a)(19) of the 1940 Act.

<sup>(3)</sup> Mr. Partain is an Interested Director because he is an officer and employee of the Adviser.

## MANAGEMENT OF THE FUND (Unaudited)

The officers serve until their respective successors are chosen and qualified. The Fund's officers receive no compensation from the Fund, but are also officers of the Adviser or Virtus and receive compensation in such capacities. Information pertaining to Nathan I. Partain, the President and Chief Executive Officer of the Fund, is set forth on page 22 of this report. Information pertaining to the other officers of the Fund is set forth below.

Name, Address and Age	Position(s) Held with Fund and Length of Time Served	Principal Occupation(s) During Past 5 Years
T. Brooks Beittel Duff & Phelps Investment Management Co. 200 South Wacker Drive Suite 500 Chicago, IL 60606 Age: 58	Secretary since 2005	Senior Vice President of the Adviser since 1993 (Vice President 1987-1993); Secretary and Senior Vice President of DNP since 1995 (Treasurer 1995-2002); Secretary of DUC since 2005
Timothy M. Heaney Virtus Investment Partners, Inc. 100 Pearl Street Hartford, CT 06103 Age: 43	Chief Investment Officer since 2004 (Vice President and Portfolio Manager since 1997; Portfolio Manager 2002-2004)	Senior Managing Director, Fixed Income, Phoenix Investment Counsel, Inc. since 2006 (Managing Director, Fixed Income, Phoenix Investment Counsel, Inc. 1997-2006; Director, Fixed Income Research 1996-1997, Investment Analyst 1995-1996)
Lisa H. Leonard Virtus Investment Partners, Inc. 100 Pearl Street Hartford, CT 06103 Age: 44	Vice President since 2006	Vice President of the Adviser since 2006; Director, Fixed Income Research, Phoenix Investment Counsel, Inc. since 1998 (Director, Investment Operations 1994-1998, Fixed Income Trader 1987-1993)
Alan M. Meder Duff & Phelps Investment Management Co. 200 South Wacker Drive Suite 500 Chicago, IL 60606 Age: 49	Treasurer since 2000; Principal Financial Officer, Chief Financial Officer and Assistant Secretary since 2002	Senior Vice President of the Adviser since 1994; Treasurer of DUC since 2000; Principal Financial Officer, Chief Financial Officer and Assistant Secretary of DUC since 2002
Joyce B. Riegel Duff & Phelps Investment Management Co. 200 South Wacker Drive Suite 500 Chicago, IL 60606 Age: 54	Chief Compliance Officer since 2003	Senior Vice President and Chief Compliance Officer of the Adviser since 2004 (Vice President and Compliance Officer 2002-2004); Chief Compliance Officer of DUC since 2003 and Chief Compliance Officer of DNP since 2004; Vice President and Chief Compliance Officer, Stein Roe Investment Counsel LLC 2001-2002

## Directors

Francis E. Jeffries, CFA, *Chairman*  
Nancy Lampton, *Vice Chairman*  
Philip R. McLoughlin  
Geraldine M. McNamara  
Eileen A. Moran  
Nathan I. Partain, CFA  
Christian H. Poindexter  
Carl F. Pollard  
David J. Vitale

## Officers

Nathan I. Partain, CFA, *President & Chief Executive Officer*  
T. Brooks Beittel, CFA, *Secretary*  
Timothy M. Heaney, CFA, *Vice President & Chief Investment Officer*  
Lisa H. Leonard, *Vice President*  
Alan M. Meder, CFA, CPA, *Treasurer & Assistant Secretary*  
Joyce B. Riegel, *Chief Compliance Officer*

## Investment Adviser

Duff & Phelps Investment Management Co.  
200 South Wacker Drive  
Suite 500  
Chicago, IL 60606  
Call toll-free (800) 243-4361 ext. 4941  
(860) 263-4941  
www.dpimc.com

## Administrator

Princeton Administrators, LLC  
P.O. Box 9095  
Princeton, NJ 08543-9095

## Custodian

State Street Bank and Trust Company  
One Heritage Drive  
North Quincy, MA 02171

## Transfer Agent

American Stock Transfer & Trust Company  
6201 15th Avenue  
Brooklyn, NY 11219  
Call toll free (800) 937-5449

## Independent Registered Public Accounting Firm

Ernst & Young LLP  
233 South Wacker Drive  
Chicago, IL 60606

## Legal Counsel

Mayer Brown LLP  
71 South Wacker Drive  
Chicago, IL 60606

This report is for stockholder information.  
This is not a prospectus intended for use in  
the purchase or sale of Fund shares.

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# DTF Tax-Free Income Inc.

## Annual Report October 31, 2008

