Income Tax - Information Release

IT 1992-01 – Exempt Federal Interest Income

Introduction

This information release lists exempt federal interest income. Taxpayers are entitled to deduct in their computation of "income" such amounts that would otherwise be taxable but which are exempt from Ohio taxation by reason of the constitution, treaties, or statutes of the United States.

NOTE: This is not an all-inclusive list. Taxpayers can deduct other interest only if they can establish that such interest is not subject to Ohio income tax. See R.C. 5747.01(A)(3), 5747.01(S)(4), 5747.08(D), and 5733.40(A)(1) and (2).

Observation/ Law

1. Division (a) of 31 U.S.C. §3124 exempts from state income taxation "stocks and obligations of the United States Government", as well as "the interest on the obligation(s)"

2. Other interest income exempt from state taxation due to additional federal statutes:
   a. Banks' notes, debentures and other obligations issued for cooperatives (12 U.S.C. §2134);
   b. Commodity credit corporation's bonds, notes, debentures, and other similar obligations (15 Federal Trade Commission);
   c. Farm credit system financial assistance corporation's (Financial Assistance Corporation) notes, bonds, debentures, and other similar obligations (12 U.S.C. §2278b-10);
   d. Federal Deposit Insurance Corporation's notes, bonds, debentures or other such obligations (12 U.S.C. §1825);
   e. Federal Farm Credit Banks' consolidated system-wide notes, bonds, debentures, and other similar obligations (12 U.S.C. §2023);
   f. Federal Home Loan Banks' notes, bonds, debentures and other similar obligations or consolidated

* An information release does not create legal obligations by its own force. Only an administrative rule can "confer the force of law on a requirement." See Progressive Plastics, Inc. v. Testa, 133 Ohio St.3d 490, 2012-Ohio-4759.
Federal home loan bonds and debentures (12 U.S.C. §1441);
g. Federal intermediate credit banks' notes, bonds, debentures and other similar obligations (12 U.S.C. §2204 and 2023) (Treated as a subclass of Fed. Farm Credit Bank);
h. Federal Land Banks and Associations' notes, bonds, debentures or other such obligations (12 U.S.C. §2098);
i. Federal Savings and Loan Insurance Corporations' notes, bonds, debentures or other such obligations, (12 U.S.C. §1825);
j. Financing corporation's (FICO) obligations (12 U.S.C. §1441(e)(8));
k. General Insurance Fund's debentures issued:
   i. Under the War Housing Insurance Law (12 U.S.C. §1739(d)),
   ii. To acquire rental housing projects (12 U.S.C. §1747g(g)), and
   iii. Under the Armed Services Housing Mortgage Insurance (12 U.S.C. §1748b(f));
l. National Credit Union Administration Central Liquidity Facility's notes, bonds, debentures and other similar obligations (12 U.S.C. §1795k(b));
m. Production Credit Association's notes, debentures, and other similar obligations (12 U.S.C. §2077);
o. Student Loan Marketing Association's obligations (20 U.S.C. §1087-2(b)(2));
p. Tennessee Valley Authority's bonds (16 U.S.C. §831n-4(d));
r. Export-Import Banks of the United States' obligations (12 U.S.C. §635(d));
s. District of Columbia's obligations;
t. Farmers Home Corporation's obligations (12 U.S.C. §2023);
u. Federal Farm Loan Corporation's obligations (12 U.S.C. §2023);
v. Federal Housing Administration's obligations (12 U.S.C. §1723a(c));
w. Home Owner's Loan Corporation's obligations (12 U.S.C. §1463 - abolished 1953);
x. Joint Stock Land Banks' farm loan bonds and mortgages (12 U.S.C. §2098);
y. Maritime Administration's Merchant Marine Bonds (12 U.S.C.);
z. Small Business Administration's obligations (15 U.S.C. §633);
aa. U.S. Housing Authority's obligations (42 U.S.C. §1437(i));
bb. Territorial Obligations:
   ii. Guam - Interest from bonds issued by the Government of Guam (48 U.S.C. §1423a),
   iii. Northern Mariana - Interest from bonds or other obligations issued by the Government of the Northern Mariana Islands (48 U.S.C. §1801) and § 607 of the Covenant to Establish a Commonwealth of the Northern Mariana Islands,
   iv. Puerto Rico - Interest from bonds issued by the Government of Puerto Rico (48 U.S.C. §745), and
   v. Virgin Islands - Interest from bonds issued by the Government of the Virgin Islands (48 U.S.C. §1574(b)(ii)(A)).

Special Notes. While the preceding is a list of federal income items that are exempt from state taxation, when filing out your tax return, please remember the following:

1. Interest income from repurchase agreements involving exempt federal obligations is not deductible federal interest income for Ohio tax purposes. See Associated Estate Corporation v. Limbach (May 11, 1990), BTA Case No.s 87-H-743, 87-G-744 and 87-D-756 and Park Poultry Inc. v. Limbach (May 3, 1991),
BTA Case No. 88-F-205. See also Hartzell v. Limbach (August 23, 1991), BTA Case No. 89-F-590.

2. Interest Income received from the IRS on a tax refund is not exempt federal interest for Ohio tax purposes. See Gerald R. and Judith K. Beck v. Limbach (Oct. 13, 1989) BTA Case No. 87-G-1163.

3. Interest income derived from Government National Mortgage Association’s (Ginnie Mae) securities is not exempt federal interest for Ohio tax purposes. See Rockford Life Insurance Co. v. Department of Revenue, 112 ILL 2d 174, 492 NE 2d 1278 (1986)

4. Interest income, derived from any of the obligations listed above, owned indirectly through owning shares in a mutual fund is deductible exempt federal interest for Ohio tax purposes.
   a. If the fund invests exclusively in exempt federal obligations listed above, the entire amount of the distribution (income) from the fund is deductible.
   b. If the fund invests in both exempt and nonexempt obligations:
      i. The amount or percentage of the distribution that the mutual fund identifies as income derived from exempt federal obligations is deductible, or
      ii. The amount of the distribution multiplied by the ratio of the fund’s investments in exempt U.S. obligations to the fund’s total investments, but only if the mutual fund does not identify an exempt amount or percentage. In computing the ratio, you should use the year-end amounts if the ratios have remained consistent; otherwise, you should use an average of the ratios from the fund’s quarterly financial reports.

Guidance

The above-listed amounts, to the extent included federal adjusted gross income for individuals, federal taxable income for estates/ trusts, or an investor’s distributive share of income for the purpose of calculating a pass-through entity’s tax liability, should be deducted or excluded in computing each tax. If the taxpayer or qualifying entity believes an amount not listed here is deductible under applicable law, the taxpayer or qualifying entity should, when filing his/her/its return, attach a statement explaining the income deducted and detailing the federal or state authority permitting the deduction.

Questions?

Taxpayers may visit www.tax.ohio.gov. Questions may be submitted by clicking on the “Contact” link found at the top right of the page and then choosing the “Email Us” option. Taxpayers with additional questions regarding this subject may contact Individual Income Taxpayer Services at 1-800-282-1780.