



Department of Taxation and Finance

Important

Article 32 of the Tax Law was repealed, effective for tax years beginning on or after January 1, 2015, by Part A of Chapter 59 of the Laws of 2014. As a result, this TSB-M is obsolete and cannot be relied upon for tax years on or after that date insofar as the TSB-M addresses matters relating to Article 32.

For additional information concerning the Article 32 repeal, see [Transitional Filing Provisions for Taxpayers Affected By Corporate Tax Reform Legislation](#).

This TSB-M begins on page 2 below.

Deduction for Interest Income on Obligations of the
United States, New York and Political Subdivisions of New York

Section 1453(e)(12) of Article 32 of the Tax Law and 20 NYCRR 18-2.4(b)(12) allow a banking corporation, in computing entire net income, to deduct from federal taxable income 22½ percent of interest income on obligations of New York State or of any political subdivision of New York State or on obligations of the United States, other than obligations held for resale in connection with regular trading activities. Section 18-2.4(b)(12) of the Bank Tax regulations further provides that

"The term 'obligation' refers to obligations incurred in the exercise of the borrowing power of New York State or any of its political subdivisions or of the United States. This term does not refer to a guarantee of the debt of a third party. The following are examples of instruments that are not obligations incurred in the exercise of the borrowing power of New York State or any of its political subdivisions or of the United States:

- (i) guaranteed student loans,
- (ii) industrial development bonds issued pursuant to Article 18-A of the New York State General Municipal Law,
- (iii) Federal National Mortgage Association mortgage backed securities, and
- (iv) Government National Mortgage Association mortgage-backed securities."

The purpose of this memorandum is to provide guidance as to what constitutes interest income on obligations of New York State or its political subdivisions or on obligations of the United States.

The terms "interest income" and "political subdivision" shall be interpreted in the same manner as they have been interpreted for purposes of Section 103(a)(1) of the Internal Revenue Code, which excludes from gross income interest on certain governmental obligations including obligations of a state or a political subdivision of a state. The term "obligations of the United States" shall be interpreted, to the extent possible, in the same manner as under 31 USC § 3124, which exempts obligations of the United States from taxation by a state or political subdivision of a state.

S Obligations of the United States that qualify for the 22½ percent deduction:

United States treasury bills

United States treasury bonds

United States treasury notes

United States savings bonds

S Obligations of New York State that qualify for the 22½ percent deduction:

New York State bonds

New York State bond anticipation notes

New York State anticipation notes in the form of commercial paper

New York State tax and revenue anticipation notes

S Examples of obligations of political subdivisions of New York State that qualify for the 22½ percent deduction:

Obligations of counties, cities, towns, villages, school districts and fire districts located in New York State

Bonds of the Triborough Bridge Authority

Bonds of the Port of New York Authority

Bonds and notes of the Genesee Valley Regional Market Authority

S Examples of obligations that do not qualify for the 22½ percent deduction:

Obligations of states other than New York

Obligations of political subdivisions of states other than New York

Obligations of instrumentalities and political subdivisions of the United States including the District of Columbia

Obligations of the territories or possessions of the United States

Industrial development bonds issued pursuant to Article 18-A of the New York State General Municipal Law

Federal National Mortgage Association mortgage-backed securities

Government National Mortgage Association mortgage-backed securities

Student loans guaranteed by the United States

Student loans guaranteed by New York State

This TSB-M applies to taxable years beginning on or after January 1, 1985.