

**New York State Department of Taxation and Finance**  
**Taxpayer Services Division**  
**Technical Services Bureau**

TSB-M-95 (4) I  
Income Tax  
January 29, 1996

This memorandum supersedes memorandum  
TSB-M-86-(8)I dated December 18, 1986  
which should be destroyed.

**New York Tax Treatment of Interest Income**  
**on Federal, State and Municipal Bonds and Obligations**

The taxation of interest income for New York State and New York City personal income tax purposes generally conforms to the federal income tax treatment. However, there are exceptions in the case of certain bonds and obligations issued by the United States government, its possessions and agencies, and by states other than New York and their political subdivisions and agencies. The interest income on these bonds and obligations may be taxable for federal purposes but not for New York purposes or vice-versa.

Interest income that is exempt from federal income tax but subject to New York income tax must be added to federal adjusted gross income in computing New York adjusted gross income. (Sections 612(b) (1) and (b) (2) of the Tax Law.) Interest income that is subject to federal income tax but exempt from New York income tax must be subtracted from federal adjusted gross income in computing New York adjusted gross income. (Sections 612(c) (1) and (c) (2) of the Tax Law.) An addition or subtraction modification is not required if the interest income is exempt from both federal and New York income taxes.

The above additions and subtractions also apply to any interest income received from a mutual fund, unless the fund is a regulated investment company.<sup>1</sup> If the fund is a regulated investment company, the following rules apply:

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<sup>1</sup> Regulated Investment Companies are defined in section 851 of the Internal Revenue Code. Most mutual funds are regulated investment companies under that section. If you are not sure of the status of a particular fund, you should contact the fund or your investment advisor.

- (1) The addition modification must always be made for the portion of a dividend received by the taxpayer that is attributable to interest earned by the fund on obligations that are exempt from federal income tax but subject to New York income tax.
- (2) The subtraction modification applies only if the fund meets the 50% "U.S. Obligations" asset requirement under section 612(c) (1) of the Tax Law. If this requirement is met, the subtraction must be made for the portion of a dividend received by the taxpayer that is attributable to interest earned by the fund on obligations that are subject to federal income tax but exempt from New York income tax.<sup>2</sup>

The following updated list, which is not all inclusive, indicates whether the interest income on certain bonds and obligations is subject to New York tax. In addition, those obligations marked with an asterisk (\*) are deemed to be "U.S. Obligations" for purposes of determining whether a regulated investment company meets the 50% asset test previously described.

<u>Agency and Obligations</u>	<u>Subject to New York State Income Tax</u>
*Banks for Cooperatives - Interest on Bonds and Debentures	No
Bonds and Obligations of States other than New York	Yes
*Certificate of Accrual Treasuries (CATS)	No
*Coupon Treasury Receipts (CTRS)	No
*Easy Growth Treasury Receipts (ETRS)	No

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<sup>2</sup> A regulated investment company which meets the 50% asset requirement is required to send a written notice to its investors telling them the portion of the dividend which is subject to the subtraction modification. For more information concerning the 50% asset requirement, see TSB-M-86-(7)I, TSB-M-92-(4)I and section 112.3(a) of the Personal Income Tax Regulations.

<u>Agency and Obligations</u>	<u>Subject to New York State Income Tax</u>
Export-Import Bank of the United States (Eximbank):	
*a) Series 1978-B Debentures	No
b) Participation Certificates	Yes
Farmers Home Administration - Notes:	
a) Interest Paid by Maker	Yes
*b) Interest Paid by United States Government	No
Federal Farm Credit Banks Funding Corporation:	
*a) Farm Credit Banks - Interest on Bonds and Debentures	No
*b) Consolidated Systemwide Notes and Bonds	No
*Federal Home Loan Bank - Interest on Bonds and Debentures	No
Federal Home Loan Mortgage Corporation (Freddie Macs)	Yes
*Federal Housing Authority Debentures	No
*Federal Intermediate Credit Banks - Interest on Bonds and Debentures	No
*Federal Land Bank - Interest on Bonds and Debentures	No
Federal National Mortgage Association (Fannie Mae):	
a) Interest on Bonds and Debentures (all tax years)	Yes
b) Guaranteed Participation Certificates	
*1. Tax Years Beginning Prior to 1/1/77	No
2. Tax Years Beginning After 12/31/76	Yes
*Financing Corporation (FICO)	No
*General Services Administration Participation Certificates	No
Government National Mortgage Association (Ginnie Mae)	Yes
Grace Lines, SS Santa Lucia Bonds (Prud. Grace Line)	Yes
*Guam	No
*Home Owners Loan Corporation	No
Housing Finance Agency - New York State	No

<u>Agency and Obligations</u>	<u>Subject to New York State Income Tax</u>
Inter-American Development Bank Bonds	Yes
Interest on Federal Income Tax Refunds	Yes
International Bank for Reconstruction & Development (International Bank Bonds) (World Bank)	Yes
Jonathan Development Corporation (Obligations Guaranteed Under New Communities Act of 1968 (42 USCA 3902))	Yes
Lake Placid Housing Development Funding Corporation	No
Niagara Falls Bridge Commission	No
Niagara Hydro Housing Corporation Bonds	Yes
*Northern Mariana Islands and its Authorities (Both Principal and Interest)	No
*Panama Canal Bonds Specifically Exempt from Tax by U.S.C. Section 744 & 745 - Interest on Bonds	No
Port Authority of New York	No
Post Savings Certificates - Not Obligations Incurred for Credit Purposes	Yes
"Project Notes" (Housing & Urban Development):	
a) Issued by Other States	Yes
*b) Issued by United States Territories and Possessions	No
*Puerto Rico:	
a) Government of, or by its Authority	No
b) Water Resources - 4.2% Bonds Due 1/1/89 - Interest on Bonds	No
Repurchase Agreements Whose Subject Matter is U.S. Government Obligations (See TSB-M-88-(5)I)	Yes
*Resolution Funding Corporation (REFCO)	No

<u>Agency and Obligations</u>	<u>Subject to New York State Income Tax</u>
*Separate Trading of Registered Interest and Principal of Securities (STRIPS)	No
Small Business Administration Bonds	Yes
State of Israel	Same as Federal
*Student Loan Marketing Association (Sallie Mae)	No
*Tennessee Valley Authority	No
*Treasury Bond Receipts (TBRs)	No
*Treasury Investment Growth Receipts (TIGRS)	No
United Nations Bonds	Same as Federal
United States Merchant Marine Ship Notes	Yes
United States Retirement Bonds (Purchases Under Self-Employed Retirement Plan or IRA Plan)	No
*United States Savings Bonds	No
United States Treasury Bills:	
*a) Interest	No
b) Gain on Sale	Yes
United States Treasury Notes:	
*a) Interest	No
b) Gain on Sale	Yes
*Virgin Islands	No
Washington, D.C.:	
a) Metropolitan Area Transit Authority	Yes
b) Housing and Urban Development	Yes
Zero Coupon Bonds:	
*a) Treasury Receipt Issues (Examples TIGRS, CATS, TBRs, CTRs, ETRs or STRIPS)	No
b) State and municipals other than New York	Yes