

8002.0300 SUBTRACTION FOR INTEREST ON U.S. GOVERNMENT OBLIGATIONS.

Subpart 1. **Conditions for qualification.** Minnesota Statutes, section 290.0132, subdivision 2, allows an individual taxpayer, an estate, or a trust to subtract the amount of interest earned on certain obligations of the United States government from federal taxable income. To qualify for this subtraction, the obligation must meet the following conditions:

A. For the purposes of these conditions, "interest" includes:

(1) income reported federally as ordinary income pursuant to sections 454 and 1271 through 1286 of the Internal Revenue Code of 1986, as amended through June 30, 2001; and

(2) dividends from regulated investment companies as defined by section 851(a) or (g) of the Internal Revenue Code of 1986, as amended through June 30, 2001, to the extent that the income of the regulated investment company is derived from interest on federal obligations and is reported federally as dividend income by shareholders.

B. The obligation must be an obligation of the United States of America, whether through an agency, authority, commission, or instrumentality of the United States, and must be exempt from state taxation under federal law.

C. The obligation must be in writing, bear interest, contain a binding promise by the United States to pay specified sums on specified dates, and be specifically authorized by Congress. Open accounts and other unsettled claims or demands are not obligations of the United States for the purposes of this part.

D. The obligation must be a direct and primary obligation of the United States. If the primary obligor is not the United States and the United States is merely an insurer or guarantor and has only a secondary or contingent liability, the interest income is not exempt. If the primary obligor is not the United States but the United States pays all or part of the interest on the obligation, the interest income is not exempt. If the obligation was originally a private obligation and if the obligee later gives up all rights against the original obligor as part of an insurance endorsement or otherwise, and agrees to look only to the United States for payment of both principal and interest, then the obligation has become a primary obligation of the United States and the interest income from it is exempt from state taxation.

E. The interest income on the obligation must have been included in federal taxable income for the taxable year that subtraction is claimed. If only a portion of the interest income on an obligation has been included in federal taxable income, only the included portion may be subtracted. Where the interest is in the form of dividends from a regulated investment company and all of the regulated investment company's interest is derived from interest on obligations that are exempt from state taxation by federal law, the full amount of the dividends received by shareholders may be subtracted. Where less than the full amount is derived from interest on exempt obligations, the amount to be subtracted is determined as follows:

Regulated investment company's interest income on federal obligations less expenses attributable to such income	÷	Regulated investment company's taxable income as defined by section 852(b)(2) of the Internal Revenue Code of 1986, as amended through March 15, 2002, before deduction for dividends paid	=	Percent of federally taxable ordinary income dividends received by shareholders that qualify as exempt
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In the case of a series fund, as defined by the Internal Revenue Code, section 851 (g), the portion of the dividends paid that is exempt from Minnesota income tax must be determined on a fund-by-fund basis.

Subp. 2. **Exhibits.** Subpart 3 contains a list of securities that are exempt from Minnesota income tax and for which a subtraction is allowed. Subpart 4 contains a list of securities that are subject to Minnesota income tax and for which no subtraction is allowed. Subparts 5 and 6 contain lists of various federal agencies or related organizations that either generally issue exempt obligations or generally issue taxable obligations. These lists are not intended to be conclusive on the taxable status of any particular obligation issued by or in conjunction with a listed agency or organization. Even though a listed agency generally only issues either exempt obligations or taxable obligations, it does not follow that each and every obligation carrying the name of that particular agency is either exempt or taxable. An agency may issue its own obligations that are exempt and also may handle private obligations that are not exempt. For example, the agency may administer, purchase and sell, insure, or guarantee an otherwise private obligation. Such action by the agency does not convert a private obligation into a direct and primary obligation of the United States of America and, therefore, does not make the private obligation tax exempt. The taxable status of each obligation must be determined separately in accordance with subpart 1, items A to E.

Subp. 3. **Exempt obligations listed by name of security.**

	Name of Security	Agency	Authority as amended through 11-30-02
A.	Banks for Cooperatives bonds	Banks for Cooperatives	12 USC S 2134
B.	Consolidated collateral trust debentures	Federal Intermediate Credit Banks	12 USC S 2077
C.	Consolidated discount notes	Federal Home Loan Banks	12 USC S 1433
D.	Consolidated Federal Farm Loan bond	Federal Land Banks	12 USC S 2023
E.	Consolidated Federal Home Loan Bank notes	Federal Home Loan Banks	12 USC S 1433

F.	Farmers Home Administration notes, as defined in <i>Tobak v. Commissioner</i>	Farmers Home Administration	31 USC S 3124, <i>Tobak v. Commissioner</i> , docket number 2244 Minn. Tax Court (March 10, 1977)
G.	Federal Farm Credit Banks consolidated systemwide bonds and notes	Federal Land Banks, Federal Intermediate Credit Banks	12 USC SS 2023, 2077, and 2134
H.	Industrial Development Bonds of East Samoa	American Samoa	48 USC S 1670
I.	Proprietary zero-coupon certificates	U.S. Treasury Department	31 USC S 3124
J.	Puerto Rico bonds	Puerto Rico	48 USC S 745
K.	U.S. savings bonds	U.S. Treasury Department	31 USC SS 3105 and 3124
L.	U.S. Treasury bills	U.S. Treasury Department	31 USC SS 3104 and 3124
M.	U.S. Treasury bonds	U.S. Treasury Department	31 USC SS 3102 and 3124
N.	U.S. Treasury certificates of indebtedness	U.S. Treasury Department	31 USC SS 3104 and 3124
O.	United States notes	U.S. Treasury Department	31 USC SS 3103 and 3124
P.	United States Postal Service bonds	U.S. Postal service	39 USC S 2005
Q.	Virgin Islands general obligation bonds	Virgin Islands	48 USC S 1574(b)(ii)(A)
R.	Virgin Islands Public Improvement bonds	Virgin Islands	48 USC S 1574(b)(i)

Subp. 4. **Taxable obligations listed by name of security.**

	Name of Security	Agency	Authority as amended through 11-30-02
A.	Certificate of beneficial interest (CBI's)	Export-Import Bank of the U.S. (Eximbank)	12 USC SS 635 and 635d
B.	Certificate of beneficial ownership (CBO's)	Farmers Home Administration	7 USC SS 1922-1928
C.	Eximbank debentures	Export-Import Bank of the U.S. (Eximbank)	12 USC S 635
D.	Federal Assets Financing Trust participation certificates	Government National Mortgage Association (GNMA)	12 USC SS 1717(c) and 1721
E.	Federal Assets Liquidation Trust participation certificates	Government National Mortgage Association (GNMA)	12 USC SS 1717(c), 1721, and 1723 c
F.	Government Mortgage Liquidation Trust Participation certificates	Government National Mortgage Association (GNMA)	12 USC SS 1717(c) and 1721
G.	GNMA mortgage-backed bonds	Government National Mortgage Association (GNMA)	12 USC SS 1717(c) and 1721
H.	GNMA pass-through Securities	Government National Mortgage Association (GNMA)	12 USC SS 1717(c) and 1721
I.	Guaranteed mortgage certificates (GMC's)	Federal Home Loan Mortgage Corporation	12 USC SS 1452(d) and 1455
J.	Mortgage participation certificates (PC's)	Federal Home Loan Mortgage Corporation	12 USC SS 1452(d) and 1455

K.	National Government Securities Trust	Government National Mortgage Association (GNMA)	12 USC SS 1717(c) and 1721
L.	New communities debentures	Privately issued under HUD program	42 USC SS 3902 and 4514
M.	Participation certificates (PC's)	Export-Import Bank of the U.S. (Eximbank)	12 USC S 635
N.	Rural Telephone debentures	Rural Electrification Administration	7 USC S 947(a)
O.	SBIC debentures	Small Business Investment Companies	15 USC S 687(e)
P.	Small Business Administration notes	Small Business Administration	15 USC S 633

Subp. 5. Agencies which generally issue exempt obligations.

Notice: This listing is only a guide and is not conclusive on the issue of the taxable status of an obligation. Each obligation issued by a listed agency must be separately analyzed according to subpart 1, items A to E.

	Name of Agency	Types of Securities	Authority as amended through 11-30-02
A.	Bank for Cooperatives	Notes, debentures, and other obligations	12 USC S 2134
B.	Commodity Credit Corporation	Bonds, notes, debentures, and other similar obligations	15 USC S 713a-5
C.	Farm Credit System Financial Assistance Corporation	Notes, bonds, debentures, and other obligations	12 USC S 2278b-10
D.	Federal Deposit Insurance Corporation	All notes, debentures, bonds, or other obligations	12 USC S 1825

E.	Federal Farm Credit Administration	Obligations	12 USC SS 2023, 2077, 2098, 2134, and 2278(b)-10
F.	Federal Home Loan Banks	Notes, debentures, bonds, and other obligations	12 USC S 1433
G.	Federal Intermediate Credit Banks	Notes, bonds, and debentures	12 USC S 2077
H.	Federal Land Bank Associations	Notes, bonds, debentures, and other obligations	12 USC S 2098
I.	Federal Land Banks	(a) Mortgages held by the instrumentality	12 USC S 2023
		(b) Notes, bonds, debentures and other obligations	12 USC S 2023
J.	Federal Savings & Loan Insurance Corporation	All notes, debentures, bonds, or other obligations	12 USC S 1725(e)
K.	Financing Corporation	Notes, debentures, and other obligations	12 USC S 1441
L.	General Insurance Fund of the Department of Housing and Urban Development, including	Debentures	
	(1) Rental Housing Insurance		i. 12 USC S 1713(i)
	(2) Rental Housing Project		ii. 12 USC S 1747g(g)
	(3) War Housing Insurance		iii. 12 USC S 1739(d)
	(4) Armed Services Housing		iv. 12 USC S 1748b(f)
	(5) National Defense Housing Insurance		v. 12 USC S 1750c(d)
	(6) Neighborhood Conservation Housing Insurance		vi. 12 USC S 1715k (h)(7)

M.	Guam	Bonds	48 USC S 1423a
N.	Production Credit Associations	Notes, debentures, and other obligations	12 USC S 2077
O.	Puerto Rico	Obligations	48 USC S 745
P.	Resolution Funding Corporations	All notes, debentures, bonds, and other obligations	12 USC S 1441a
Q.	Student Loan Marketing Association	Bonds and notes	20 USC S 1087-2
R.	Tennessee Valley Authority	Bonds	16 USC S 831n-4(d)
S.	U.S. Postal Service	Obligations	39 USC S 2005(d)(4)
T.	Virgin Islands	Bonds	48 USC S 1574

Subp. 6. Agencies or organizations which generally issue taxable obligations.

Notice: This listing is only a guide and is not conclusive on the issue of the taxable status of an obligation. Each obligation issued by a listed agency must be separately analyzed according to subpart 1, items A to E.

	Name of Agency or Organization	Types of Securities	Authority as amended through 11-30-02
A.	Asian Development Bank	Obligations	22 USC SS 285-285t
B.	College Construction Loan Insurance Association	Obligations	20 USC S 1132, P.L. 104-208 S 603
C.	District of Columbia Armory Board	Obligations	31 USC S 3124(a)

D.	Environmental Financing Authority	Obligations	33 USC S 1281 note, P.L. 92-500 S 12(j)
E.	Export-Import Bank	Notes, debentures, bonds, or other obligations	12 USC SS 635-635n
F.	Farmers Home Administration	Obligations	7 USC SS 1922-1928
G.	Federal Financing Bank	Obligations	12 USC S 2288
H.	Federal Home Loan Mortgage Corporation	Obligations	12 USC S 1455
I.	Federal National Mortgage Association (FNMA)	Obligations, mortgage-backed securities, subordinated obligations, participation certificates (PCs)	12 USC S 1719(e)
J.	Federal Reserve banks	Obligations	12 USC S 548
K.	Government National Mortgage Association (GNMA)	Obligations, mortgage-backed securities, participation certificates (PCs)	12 USC SS 1717(c), 1721, and 1723c
L.	Inter-American Development Bank	Obligations	22 USC SS 283-283z
M.	International Bank for Reconstruction and Development (World Bank)	Obligations	22 USC SS 286-286r
N.	International Monetary Fund	Obligations	22 USC SS 286-286r
O.	Maritime Administration Merchant Marine	Private obligations guaranteed by agency	46 USC S 1273
P.	National Consumer Cooperative Bank	Obligations	12 USC S 3017(c)

- Q. Small Business Administration Notes 15 USC S 633
- R. Small Business Investment Companies Debenture bonds, promissory notes, and other obligations 15 USC S 687(e)

Statutory Authority: *MS s 270.06; 270C.06; 290.52*

History: *17 SR 1670; 27 SR 1664; L 2005 c 151 art 1 s 114; L 2016 c 158 art 3 s 31*

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