

**MICHIGAN DEPARTMENT OF TREASURY
REVENUE ADMINISTRATIVE BULLETIN 1989-10**

Approved: March 31, 1989

**INCOME TAX - TAX EXEMPT STATUS OF INCOME
FROM UNITED STATES OBLIGATIONS**

RAB-89-10. The purpose of this Bulletin is to describe the Michigan income tax treatment of income from obligations of the United States and United States agencies.

Basis of Michigan Law

The Michigan Income Tax Act, MCL 206.30(l), defines taxable income as "adjusted gross income as defined in the internal revenue code subject to the following adjustments" However, income subject to taxation by the State of Michigan does not include all income subject to federal taxation. 31 USC 3124 indicates that states of the United States are prohibited from taxing any income or gain from obligations of the United States or its agencies if the legislation creating the federal agency or giving it authority to issue obligations contains specific language exempting it from state income taxes. Michigan taxpayers' federal incomes are adjusted so that the state does not tax income exempt under 31 USC 3124. The statutory adjustments relating to United States obligations are found in MCL 206.30(l)(c) and (d).

MCL 206.30(l)(c) states:

Add losses on the sale or exchange of obligations of the United States government, the income of which this state is prohibited from subjecting to a net income tax, to the extent that the loss has been deducted in arriving at federal adjusted gross income.

MCL 206.30(l)(d) states:

Deduct, to the extent included in federal adjusted gross income, income derived from obligations, or the sale or exchange of obligations, of the United States government which this state is prohibited by law from subjecting to a net income tax, reduced by any interest on indebtedness incurred in carrying the obligations and by any expenses incurred in the production of that income to the extent that the expenses, including amortizable bond premiums, were deducted in arriving at federal adjusted gross income.

Dividends or interest received from an investment company, and included in federal adjusted gross income, may be exempt if the distributions reported to the investor consist of bonds exempt under 31 USC 3124. Revenue Administrative Bulletin 1986-3 discusses the taxability of income from mutual funds and unit investment trusts when income distributed from these funds and trusts is exempt from

state tax under 31 USC 3124. The resulting income, gain or loss is subjected to the treatment stated in MCL 206.30(l)(c) and (d).

The following are examples of United States Obligations and the Michigan tax status of the interest income or dividend income derived from these obligations:

1. Items not subject to Michigan income tax, MCL 206.1 et seq., because the items are exempt from state taxation under 31 USC 3124.

A. The following U.S. Obligations are exempt:

U.S. Government Bonds

U.S. Saving Bonds - Series E, F, G and H

U.S. Government Certificates

U.S. Treasury Bills and Notes

Note: Treasury Bill Futures are not U.S. Obligations.

B. Obligations issued by the following U.S. Agencies are exempt:

Banks for Cooperatives

Central Banks for Cooperatives

Commodity Credit Corp.

Consolidated Bonds

Consolidated Discount Notes

Consolidated System Bond, Series L

Consolidated Systemwide

Discount Notes

District of Columbia

Farm Credit Banks

Farmer Home Corp.

Federal Deposit Insurance Corp.

Federal Farm Credit Bank

Federal Farm Loan Corp.

Federal Farm Mortgage Corp.

Federal Financing Banks

Federal Home Loan Banks

Federal Housing Administration (General Insurance Fund Debentures)

Federal Intermediate Credit Banks

Federal Intermediate Credit Corp.

Federal Land Banks

Federal Land Banks Association

Federal Savings and Loan Insurance Corporation
Home Owner's Loan Corp.
Joint Stock Land Banks
Maritime Administration
Production Credit Association
Small Business Administration
Student Loan Marketing Association
Tennessee Valley Authority (bonds only)
U.S. Housing Authority
U.S. Maritime Commission
U.S. Possessions (obligations Puerto Rico, Virgin Islands, etc.)
U.S. Postal Service (bonds)

C. The following debentures issued under the General Insurance Fund are exempt:

Interest from debentures issued under War Housing Insurance Law
Interest from debentures to acquire rental housing projects
Interest from Armed Services Housing Mortgage Debentures

D. The following General Services Administration Public Building Trust Participation Certificates are exempt:

1st series A through E
2nd series F
3rd series G
4th series H and I

E. The Guam Obligations issued by Government of Guam are exempt.

Notes: Income from exempt U.S. Obligations received by the taxpayer from Money Market Funds, Money Market Certificates, Mutual Funds, Trusts, etc., generally qualifies for a deduction. [MCL 206.30(l)(d), RAB-86-3]

Losses from exempt U.S. Obligations received by the taxpayer from Money Market Funds, Money Market Certificates, Mutual Funds, Trusts, etc. are generally required to be added back. [MCL 206.30(l)(c), RAB-86-3]

1. Items subject to Michigan income tax, MCL 206.1 et seq., because the items are not exempt from state taxation under 31 USC 3124.

A. The following U.S. Obligations are taxable:

Government National Mortgage Association (debentures, notes, and participation certificates)
Federal National Mortgage Association participation and other instruments (debentures, notes, and participation certificates)
Federal Home Loan Mortgage Corporation, mortgages and other securities
Federal Housing Administration
U.S. Department of Agriculture Farmers Home Administration Insured Notes
Export-Import Bank of Washington, D.C.
International Bank for Reconstruction and Development (World Bank)
Participation Certificates issued by the Federal National Mortgage Association
Building and Loan Associations
Credit Union Share Accounts
District of Columbia Armory Board
Federal Savings and Loan Associations
Panama Canal Bonds
Philippine Bonds
U.S. Government Insured Merchant Marine Bonds

B. The following are also examples of federal obligations that are taxable:

Interest-bearing certificates issued in lieu of tax-exempt securities, such income losing its identity when merged with other funds
Debentures issued to mortgages or mortgages foreclosed under the provisions of the National Housing Act
Promissory notes of a federal instrumentality
Federal Home Loan Time deposits
Federal Savings and Loan Insurance Corporation secondary reserve prepayments
Government National Mortgage Association participation certificates and on Federal Home Loan Mortgage Corporation participation certificates in mortgage pools
U.S. Postal Service Certificates and savings deposits
Participating loans in the Federal Reserve System for member banks (Federal Funds)
Farmer's Home Administration