

Chapter 04 Interest Income

- 100 Interest received by or credited to the taxpayer constitutes gross income and is fully taxable, unless specifically exempt or excluded by statute. Interest income includes but is not limited to, interest on savings or other bank deposits; interest on coupon bonds; interest on an open account, a promissory note, a mortgage, or a corporate bond or debenture; the interest portion of a condemnation award; usurious interest; interest on legacies; and interest on life insurance proceeds held under an agreement to pay interest thereon.
- 101 Miss. Code Ann. Section 27-7-15(4)(d) provides that gross income does not include interest on obligations of the United States or its possessions, securities issued under the provisions of the Federal Farm Loan Act of 1916, bonds issued by the War Finance Corporation, or obligations of the State of Mississippi or its political subdivisions.
- 102 31 U.S.C. Section 3124(a) prohibits states from imposing an income tax on interest income from direct obligations of the United States government. In addition, the enabling legislation for many federal obligations and or instrumentalities prohibit state taxation on income.
- 103 "Obligations of the United States" refers to obligations issued to secure credit to carry on the necessary functions of government. United States obligations can also be defined as government obligations used to finance the national debt. Examples of United States obligations include U.S. Treasury Securities such as savings bonds, Treasury bills, bonds, notes and certificates.
- 104 Interest on obligations of the State of Mississippi and any political subdivision thereof is wholly exempt from tax. The term "obligations of the State of Mississippi" means any obligation backed by the credit of the State of Mississippi. "Any political subdivision" means any county, city or town including special districts such as road, water, sewer, reclamation, drainage, levee, school or similar districts. Interest received upon obligations of any state or its political subdivisions other than Mississippi is taxable.
- 105 Interest income earned in connection with repurchase agreements is subject to tax. A repurchase agreement is an agreement with a commitment by the seller (dealer) to buy a security back from the purchaser (customer) at a specified price at a designated future date. It represents a collateralized short-term loan where the collateral may be a federal obligation such as a treasury security or federal agency security. The interest earned is interest on a loan of funds rather than a direct payment of interest on a federal obligation; therefore, it does not qualify for exemption.
- 106 A taxpayer's pro rata portion of interest dividends distributed by a Regulated Investment Company, as defined in I.R.C. Section 851, is nontaxable to the extent that such pro rata portion represents interest received by the Regulated Investment Company from governmental securities which would be exempt for Mississippi income tax purposes if such governmental securities were directly held by the taxpayer.

- 107 If the governmental agency merely acts as guarantors on loans made by a private lender, such loans are not construed to be direct obligations of the government and the interest accruing on such loans is taxable. A governmental obligation that is secondary, indirect or contingent, such as a guaranty of a non-governmental obligor's primary obligation to pay the principal amount of and interest on a note, is not an obligation of the type exempted under 31 U.S.C. Section 3124(a).
- 108 Taxable interest income includes, but is not limited to, interest earned on obligations from the following agencies, organizations and associations:
1. Building and Loan Associations
 2. Credit Unions
 3. Export-Import Bank of the United States
 4. Farmers Home Administration
 5. Federal Agricultural Mortgage Corporation (Farmer Mac)
 6. Federal Home Loan Mortgage Corporation (Freddie Mac)
 7. Federal Housing Administration
 8. Federal National Mortgage Association (Fannie Mae)
 9. Government National Mortgage Association (Ginnie Mae)
 10. Merchant Marine (Maritime Administration)
 11. Money Market Certificates
 12. Mortgage Participation Certificates
 13. Postal Savings Account
 14. Savings and Loan Associations
 15. Small Business Administration
 16. Asian Development Bank
 17. Inter-American Development Bank
 18. International Bank for Reconstruction and Development (World Bank)
 19. Washington D.C. Metro Area Transit Authority
- 109 Tax-exempt interest includes, but is not limited to, interest earned on obligations from the following agencies, organizations or associations:
1. U. S. Treasury
 2. Government of American Samoa
 3. Government of Guam
 4. Government of Puerto Rico
 5. Government of Virgin Islands
 6. Government of Northern Mariana Islands
 7. Bank for Cooperatives
 8. Commodity Credit Corporation
 9. Farm Credit Banks
 10. Farm Credit System Insurance Corporations
 11. Federal Deposit Insurance Corporation
 12. Federal Financing Bank
 13. Federal Home Loan Banks
 14. Federal Intermediate Credit Banks

15. Federal Land Bank Associations
16. Financial Assistance Corporation
17. Financing Corporation
18. General Services Administration (GSA)
19. Housing and Urban Development – General Insurance Fund
 - i. Armed Services Mortgage Insurance
 - ii. Mutual Mortgage Insurance Fund
 - iii. National Defense Housing Insurance
 - iv. Rental Housing Insurance
 - v. War Housing Insurance
20. National Credit Union Administration Central Liquidity Facility
21. Production Credit Association
22. Student Loan Marketing Association (Sallie Mae)
23. Tennessee Valley Authority (TVA)
24. United States Postal Service

110 Interest received from a federal or state government that was earned on other than investment obligations, such as interest on tax refunds, is subject to Mississippi income tax and should be included in gross income.

111 (Reserved)

35.III.2.04 revised effective January 1, 2020

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- 100 ~~As a general rule, i~~Interest received by or credited to the taxpayer constitutes gross income and is fully taxable, unless specifically exempt or excluded by statute. Interest income includes but is not limited to, interest on savings or other bank deposits; interest on coupon bonds; interest on an open account, a promissory note, a mortgage, or a corporate bond or debenture; the interest portion of a condemnation award; usurious interest; interest on legacies; and interest on life insurance proceeds held under an agreement to pay interest thereon.
- 101 Miss. Code Ann. Section 27-7-15(4)(d) provides that gross income does not include interest on obligations of the United States or its possessions, securities issued under the provisions of the Federal Farm Loan Act of 1916, bonds issued by the War Finance Corporation, or obligations of the State of Mississippi or its political subdivisions.
- 102 31 U.S.C. Section 3124(a) prohibits states from imposing an income tax on interest income from direct obligations of the United States government. In addition, the enabling legislation for many federal obligations and or instrumentalities prohibit state taxation on income.
- 1031 ~~United States Government. Interest on the obligations of the United States, its instrumentalities, its possessions or upon securities issued under authority of an act of Congress is wholly exempt from tax. The term "Obligations of the United States" refers to obligations issued to secure credit to carry on the necessary functions of government. United States obligations can also be defined as means any United States Government obligations used to finance the national debt, e. g. Examples of United States obligations include U.S. Treasury Securities such as savings bonds, Treasury bills, bonds, notes and certificates. notes, bonds or certificates, U.S. Treasury bills or other instruments acknowledged by the U.S. Secretary of Treasury as an obligation of the United States.~~
- 1042 ~~State Government.~~Interest on ~~the~~obligations of the State of Mississippi and any political subdivisions thereof is wholly exempt from tax. The term "obligations of the State of Mississippi" means any obligation backed by the credit of the State of Mississippi. "Any political subdivision" means any county, city or town ~~obligation,~~including special districts such as road, water, sewer, reclamation, drainage, levee, school or similar districts. Interest received upon obligations of any state or its political subdivisions other than Mississippi is taxable.
- 1053 Interest income earned in connection with repurchase agreements is subject to tax. A repurchase agreement is an agreement with a commitment by the seller (dealer) to buy a security back from the purchaser (customer) at a specified price at a designated future date. It represents a collateralized short-term loan where the collateral may be a federal obligation such as a treasury security or federal agency security. The interest earned is interest on a loan of funds rather than a direct payment of interest on a federal obligation; therefore, it does not qualify for exemption.

1063 A taxpayer's pro rata portion of interest dividends distributed by a Regulated Investment Company, as defined in I.R.C. Section 851, ~~of the Internal Revenue Code of 1986~~, is nontaxable to the extent that such pro rata portion represents interest received by the Regulated Investment Company from governmental securities which would be exempt for Mississippi income tax purposes if such governmental securities were directly held by the taxpayer.

1074 If the governmental agency merely acts as guarantors on loans made by a private lender, such loans are not construed to be direct obligations of the government and the interest accruing on such loans is taxable. A governmental obligation that is secondary, indirect or contingent, such as a guaranty of a non-governmental obligor's primary obligation to pay the principal amount of and interest on a note, is not an obligation of the type exempted under 31 U.S.C. Section 3124(a).~~Interest income on obligations issued by or guaranteed by the following governmental Federal agencies is classified as follows:~~

1085 Taxable interest income includes, but is not limited to, interest earned on obligations from the following agencies, organizations and associations:~~Examples of Taxable Interest Income:~~

1. Building and Loan Associations
2. Credit Unions
3. Export-Import Bank of the United States
4. Farmers Home Administration
5. Federal Agricultural Mortgage Corporation (Farmer Mac)
6. Federal Home Loan Mortgage Corporation (Freddie Mac)
7. Federal Housing Administration
8. Federal National Mortgage Association (Fannie Mae)
9. Government National Mortgage Association (Ginnie Mae)
10. Merchant Marine (Maritime Administration)
11. Money Market Certificates
12. Mortgage Participation Certificates
13. Postal Savings Account
14. Savings and Loan Associations
15. Small Business Administration
16. Asian Development Bank
17. Inter-American Development Bank
18. International Bank for Reconstruction and Development (World Bank)
19. Washington D.C. Metro Area Transit Authority

1. ~~Federal National Mortgage Association~~
2. ~~Government National Mortgage Association~~
3. ~~Federal Home Loan Mortgage Corporation~~
4. ~~U. S. Department of Agriculture Farmers Home Insured Notes~~
5. ~~Inter-American Development Bank~~
6. ~~International Bank of Reconstruction and Development (World Bank)~~
7. ~~Merchant Marine Bonds~~
8. ~~Federal Housing Administration~~

~~10906~~ Tax-exempt interest includes, but is not limited to, interest earned on obligations from the following agencies, organizations or associations: ~~Examples of Nontaxable Interest Income:~~

1. U. S. Treasury
 2. Government of American Samoa
 3. Government of Guam
 4. Government of Puerto Rico
 5. Government of Virgin Islands
 6. Government of Northern Mariana Islands
 7. Bank for Cooperatives
 8. Commodity Credit Corporation
 9. Farm Credit Banks
 10. Farm Credit System Insurance Corporations
 11. Federal Deposit Insurance Corporation
 12. Federal Financing Bank
 13. Federal Home Loan Banks
 14. Federal Intermediate Credit Banks
 15. Federal Land Bank Associations
 16. Financial Assistance Corporation
 17. Financing Corporation
 18. General Services Administration (GSA)
 19. Housing and Urban Development – General Insurance Fund
 - i. Armed Services Mortgage Insurance
 - ii. Mutual Mortgage Insurance Fund
 - iii. National Defense Housing Insurance
 - iv. Rental Housing Insurance
 - v. War Housing Insurance
 20. National Credit Union Administration Central Liquidity Facility
 21. Production Credit Association
 22. Student Loan Marketing Association (Sallie Mae)
 23. Tennessee Valley Authority (TVA)
 24. United States Postal Service
- ~~1. U. S. Treasury Bonds, Notes, Bills and Savings Bonds~~
 - ~~2. Federal Land Bank~~
 - ~~3. General Service Administration (GSA)~~
 - ~~4. Tennessee Valley Authority (TVA)~~
 - ~~5. U. S. Postal Service~~
 - ~~6. Export-Import Bank of the United States~~
 - ~~7. Federal Home Loan Bank~~
 - ~~8. Federal Intermediate Credit Bank~~
 - ~~9. Federal Farm Credit~~
 - ~~10. Central Banks for Cooperative~~
 - ~~11. Small Business Administration (SBA)~~
 - ~~12. Washington Metropolitan Area Transit Authority~~

13.—Regional Banks for Cooperatives

~~1107~~ (Reserved) Interest received from a federal or state government that was earned on other than investment obligations, such as interest on tax refunds, is subject to Mississippi income tax and should be included in gross income.

~~1108~~ (Reserved)

35.III.2.04 revised effective ~~July 15, 2019~~ January 1, 2020