

Government Bond & Obligation Interest (code 71)

Utah Code §59-10-114(2)(a) & (f) (<https://le.utah.gov/asp/codelookup/codelookup.asp?section=59-10-114>)

Also see Pub 33, *Interest from U.S. Government Obligations* (<http://tax.utah.gov/forms/pubs/pub-33.pdf>).

Utah Municipal Bonds

Interest earned on Utah municipal bonds is **exempt** from Utah income tax.

- Municipal bond interest is usually **excluded from federal adjusted gross income**. In these cases, do not subtract municipal bond interest.
- Some municipal bond interest is **included in federal adjusted gross income**, (e.g., Build America Bonds, etc.). In these cases, deduct Utah municipal bond interest from Utah taxable income. Enter the non-taxable subtraction on TC-40A, Part 2, using code 71.

Keep all records and documentation to support this subtraction

U.S. Government Obligations

Interest earned on U.S. Government obligations is **exempt** from Utah income tax. These obligations include:

- Treasury bills
- Treasury notes
- E, EE, H, HH, and I bonds

The following income is **NOT** exempt from Utah income tax:

- Interest or dividends from Federal National Mortgage Association (FNMA) and Government National Mortgage Association (GNMA).
- Interest on IRS or other federal agency refunds.

The following conditions determine if the instrument qualifies as a U.S. Government obligation (see U.S. Supreme Court decision, *Smith vs. Davis*, 323 U.S. 111 (1944)). The instrument must:

1. be a written document,
2. bear interest,
3. contain a binding promise by the U. S. Government to pay a specific sum on a specific date, and
4. have congressional authorization to pledge the full faith and credit of the United States in support of the promise to pay.

You may only deduct interest or dividend income from U. S. Government obligations included in your federal adjusted gross income. Before entering an amount, subtract any related interest expense on money borrowed to purchase the obligation or security.

Keep all records, forms and worksheets to support this subtraction.