

1 Department of Revenue

2

3 Adopted Permanent Rules Relating to United States Interest

4 Subtraction

5

6 Rules as Adopted

7 8002.0300 SUBTRACTION FOR INTEREST ON UNITED STATES GOVERNMENT

8 OBLIGATIONS.

9 Subpart 1. Conditions for qualification. Minnesota

10 Statutes, section 290.01, subdivision 19b, clause (1), allows an

11 individual taxpayer, an estate, or a trust to subtract the

12 amount of interest earned on certain obligations of the United

13 States government from federal taxable income. To qualify for

14 this subtraction, the obligation must meet the following

15 conditions:

16 A. For the purposes of these conditions, "interest"

17 includes:

18 (1) income reported federally as ordinary income

19 pursuant to ~~the Internal Revenue Code~~, sections 454 and 1271

20 through 1286 of the Internal Revenue Code of 1986, as amended

21 through December 31, 1992; and

22 (2) dividends from regulated investment companies

23 as defined by ~~the Internal Revenue Code~~, ~~sections~~ section 851(a)

24 or (h) of the Internal Revenue Code of 1986, as amended through

25 December 31, 1992, to the extent that the income of the

26 regulated investment company is derived from interest on federal

27 obligations and is reported federally as dividend income by

28 shareholders.

29 B. The obligation must be an obligation of the United

30 States of America, whether through an agency, authority,

31 commission, or instrumentality of the United States, and must be

32 exempt from state taxation under federal law.

33 C. The obligation must be in writing, bear interest,

34 contain a binding promise by the United States to pay specified

35 sums on specified dates, and be specifically authorized by

1 Congress. Open accounts and other unsettled claims or demands
2 are not obligations of the United States for the purposes of
3 this part.

4 [For text of item D, see M.R.]

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

17 Regulated investment	Regulated investment		Percent of
18 company's interest	company's taxable		<u>federally</u>
19 income on federal ÷	income as defined	=	<u>taxable</u>
20 obligations less	<u>by section 852(b)(2)</u>		<u>ordinary</u>
21 expenses	<u>of the Internal</u>		<u>income</u>
22 attributable to	<u>Revenue Code of</u>		dividends
23 such income	<u>1986, as amended</u>		received by
24	<u>through December</u>		shareholders
25	<u>31, 1992, before</u>		that qualify
26	<u>deduction for</u>		as exempt
27	<u>dividends paid</u>		
28			

29 In the case of a series fund, as defined by the Internal
30 Revenue Code, section 851(h), the portion of the dividends paid
31 that is exempt from Minnesota income tax must be determined on a
32 fund-by-fund basis.

33 Subp. 2. Exhibits. Subpart 3 contains a list of
34 securities that are exempt from Minnesota income tax and for
35 which a subtraction is allowed. Subpart 4 contains a list of
36 securities that are subject to Minnesota income tax and for
37 which no subtraction is allowed. Subparts 5 and 6 contain lists
38 of various federal agencies or related organizations that either
39 generally issue exempt obligations or generally issue taxable
40 obligations. These lists are not intended to be conclusive on
41 the taxable status of any particular obligation issued by or in
42 conjunction with a listed agency or organization. Even though a

1 listed agency generally only issues either exempt obligations or
 2 taxable obligations, it does not follow that each and every
 3 obligation carrying the name of that particular agency is either
 4 exempt or taxable. An agency may issue its own obligations that
 5 are exempt and also may handle private obligations that are not
 6 exempt. For example, the agency may administer, purchase and
 7 sell, insure, or guarantee an otherwise private obligation.
 8 Such action by the agency does not convert a private obligation
 9 into a direct and primary obligation of the United States of
 10 America and, therefore, does not make the private obligation tax
 11 exempt. The taxable status of each obligation must be
 12 determined separately in accordance with subpart 1, items A to E.

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

14	Name of Security	Agency	Authority as amended through 6-15-92
19	A. Banks for Cooperatives bonds	Banks for Cooperatives	12 USC S 2134
22	B. Farmers Home Administration notes, as defined in Tobak v. Commissioner	Farmers Home Administration	31 USC S 3124, Tobak v. Commissioner, docket number 2244 Minn. tax court (March 10, 1977)
30	C. Consolidated collateral trust debentures	Federal Intermediate Credit Banks	12 USC S 2077
34	D. Consolidated discount notes	Federal Home Loan Banks	12 USC S 1433
37	E. Consolidated Federal Home Loan Bank notes	Federal Home Loan Banks	12 USC S 1433
40	F. Consolidated Federal Farm Loan bond	Federal Land Banks	12 USC S 2023
43	G. Federal Farm Credit Banks consolidated systemwide bonds and notes	Federal Land Banks, Federal Intermediate Credit Banks	12 USC SS 2023, 2077, and 2134
48	H. U.S. freedom shares	U.S. Treasury Department	31 USC S 3124
51	I. U.S. savings bonds	U.S. Treasury Department	31 USC SS 3105 and 3124
54	J. U.S. Treasury bills	U.S. Treasury Department	31 USC SS 3104 and 3124
57	K. U.S. Treasury bonds	U.S. Treasury Department	31 USC SS 3102 and 3124

1			
2	L.	U.S. Treasury	U.S. Treasury
3		certificates of	Department
4		indebtedness	
5			31 USC SS
6	M.	United States notes	3104 and 3124
7			
8			
9	N.	Industrial	U.S. Treasury
10		Development Bonds	Department
11		of East Samoa	
12			31 USC SS
13	O.	Proprietary	3103 and 3124
14		zero-coupon	
15		certificates	
16			
17	P.	United States	American
18		Postal Service	Samoa
19		bonds	
20			48 USC S 1670
21	Q.	Virgin Islands	U.S. Treasury
22		general obligation	Department
23		bonds	
24			31 USC S 3124
25	R.	Virgin Island	U.S. Postal
26		Public Improvement	service
27		bonds	
28			39 USC S 2005
29	S.	<u>Puerto Rico bonds</u>	<u>Puerto Rico</u>
30			<u>48 USC S 745</u>

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

32	Name of Security	Agency	Authority
33			as amended
34			through
35			6-15-92
36			
37	A.	Certificate of	Export-Import
38		beneficial interest	Bank of the U.S.
39		(CBI's)	(Eximbank)
40			12 USC SS 635
41	B.	Eximbank debentures	and 635d
42			
43			
44			
45	C.	Participation	Export-Import
46		certificates	Bank of the U.S.
47		(PC's)	(Eximbank)
48			12 USC S 635
49	D.	Federal Assets	Government
50		Financing Trust	National Mortgage
51		participation	Association
52		certificates	(GNMA)
53			12 USC SS
54	E.	Federal Assets	Government
55		Liquidation Trust	National Mortgage
56		participation	Association
57		certificates	(GNMA)
58			12 USC SS
59	F.	GNMA	Government
60		mortgage-backed	National Mortgage
61		bonds	Association
62			(GNMA)
63			12 USC SS
64	G.	GNMA pass-through	Government
65		Securities	National Mortgage
66			Association
67			(GNMA)
68			12 USC SS
69	H.	Government Mortgage	Government
70		Liquidation Trust	National Mortgage

1	Participation	Association	and 1721
2	certificates	(GNMA)	
3			
4	I. National Government	Government	12 USC SS
5	Securities Trust	National Mortgage	1717(c)
6		Association	and 1721
7		(GNMA)	
8			
9	J. Mortgage participation	Federal Home	12 USC SS
10	certificates (PC's)	Loan Mortgage	1452(d)
11		Corporation	and 1455
12			
13	K. Guaranteed mortgage	Federal Home	12 USC SS
14	certificates (GMC's)	Loan Mortgage	1452(d)
15		Corporation	and 1455
16			
17	L. New communities	Privately issued	42 USC SS
18	debentures	under HUD	3902 and
19		program	4514
20			
21	M. Certificate of	Farmers Home	7 USC SS
22	beneficial	Administration	1922-1928
23	ownership (CBO's)		
24			
25	N. SBIC debentures	Small Business	15 USC S
26		Investment	687(e)
27		Companies	
28			
29	O. Rural Telephone	Rural	7 USC S 947(a)
30	debentures	Electrification	
31		Administration	
32			
33	P. Small Business	Small Business	15 USC S 633
34	Administration	Administration	
35	notes		
36			

37 Subp. 5. Agencies which generally issue exempt obligations.

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

42	Name of	Types of	Authority
43	Agency	Securities	as amended
44			through
45			6-15-92
46			
47	A. Bank for Cooperatives	Notes, debentures,	12 USC S
48		and other	2134
49		obligations	
50			
51	B. Commodity Credit	Bonds, notes,	15 USC S
52	Corporation	debentures, and other	713a-5
53		similar obligations	
54			
55	C. Federal Deposit	All notes, debentures,	12 USC S
56	Insurance Corporation	bonds, or other	1825
57		obligations	
58			
59	D. Federal Farm Credit	Obligations	12 USC
60	Administration		SS 2023,
61			2027,
62			2098,
63			2134, and
64			2278(b)-10
65			
66	E. Federal Home Loan	Notes, debentures,	12 USC S

1	Banks	bonds, and other	1433
2		obligations	
3			
4	F. Federal Intermediate	Notes, bonds, and	12 USC S
5	Credit Banks	debentures	2079
6			
7	G. Federal Land Bank	Notes, bonds,	12 USC S
8	Associations	debentures, and other	2098
9		obligations	
10			
11	H. Federal Land Banks	(a) Mortgages held by	12 USC S
12		the instrumentality	2023
13		(b) Notes, bonds,	12 USC S
14		debentures, and other	2023
15		obligations	
16			
17	I. Federal Savings & Loan	All notes, debentures,	12 USC S
18	Insurance Corporation	bonds, or other	1725(e)
19		obligations	
20			
21	J. General Insurance Fund	Debentures	
22	of the Department of		
23	Housing and Urban		
24	Development, including		
25	(1) Rental Housing	i.	12 USC S
26	Insurance		1713(i)
27	(2) Rental Housing	ii.	12 USC S
28	Project		1747g(g)
29	(3) War Housing	iii.	12 USC S
30	Insurance		1739(d)
31	(4) Armed Services	iv.	12 USC S
32	Housing		1748b(f)
33	(5) National Defense	v.	12 USC S
34	Housing Insurance		1750c(d)
35	(6) Neighborhood	vi.	12 USC S
36	Conservation		1715k
37	Housing Insurance		(h)(7)
38			
39	K. Production Credit	Notes, debentures,	12 USC S
40	Associations	and other	2077
41		obligations	
42			
43	L. Puerto Rico	<u>Bonds Obligations</u>	48 USC S
44			745
45			
46	M. Tennessee Valley	Bonds	16 USC S
47	Authority		831n-4(d)
48			
49	N. U.S. Postal Service	Obligations	39 USC S
50			2005(d)(4)
51			
52	O. Virgin Islands	Bonds	48 USC S
53			1574
54			
55	P. Farm Credit	Notes, bonds,	12 USC S
56	System Financial	debentures, and	2278b-10
57	Assistance	other	
58	Corporation	obligations	
59			
60	Q. Financing	Notes,	12 USC S
61	Corporation	debentures, and	1441
62		other	
63		obligations	
64			
65	R. Guam	Bonds	48 USC S
66			1423a
67			
68	S. Resolution	All notes,	12 USC S
69	Funding	debentures,	1441a
70	Corporations	bonds, and	
71		other	

1 obligations
 2
 3 T. Student Loan Bonds and 20 USC S
 4 Marketing notes 1087-2
 5 Association
 6

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

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

13	Name of Agency	Types of Securities	Authority
14	or Organization		as amended
15			through
16			6-15-92
17			
18	A. Asian Development Bank	Obligations	22 USC SS
19			285-285t
20			
21	B. District of Columbia	Obligations	31 USC S
22	Armory Board		3124(a)
23			
24	C. Environmental Financing	Obligations	33 USC S
25	Authority		1281 note,
26			P.L. 92-500
27			S 12(j)
28			
29	D. Export-Import Bank	Notes, debentures,	12 USC SS
30		bonds, or other	635-635n
31		obligations	
32			
33	E. Farmers Home	Obligations	7 USC SS
34	Administration		1922-1928
35			
36	F. Federal Home Loan	Obligations	12 USC S
37	Mortgage Corporation		1455
38			
39	G. Federal National	Obligations,	12 USC S
40	Mortgage Association	mortgage-backed	1719(e)
41	(FNMA)	securities,	
42		subordinated	
43		obligations,	
44		participation	
45		certificates (PC's)	
46			
47	H. Government National	Obligations,	12 USC SS
48	Mortgage Association	mortgage-backed	1717(c),
49	(GNMA)	securities,	1721, and
50		participation	1723c
51		certificates (PC's)	
52			
53	I. Inter-American	Obligations	22 USC SS
54	Development Bank		283-283z
55			
56	J. International Bank for	Obligations	22 USC SS
57	Reconstruction and		286-286r
58	Development (World		
59	Banks)		
60			
61	K. International Monetary	Obligations	22 USC SS
62	Fund		286-286r
63			
64	L. Maritime	Private obligations	46 USC S
65	Administration Merchant	guaranteed by	1273

1	Marine	agency	
2			
3	M. National Consumer	Obligations	12 USC S
4	Cooperative Bank		3017(c)
5			
6	N. New community	Bonds, debentures,	42 USC SS
7	development	notes, and other	3902 and
8	corporations	obligations issued	4514
9		on behalf of private	
10		new community	
11		developers and state	
12		land development	
13		agencies which are	
14		guaranteed by HUD	
15			
16	O. Small Business	Debenture bonds,	15 USC S
17	Investment Companies	promissory notes, and	687(e)
18		other obligations	
19			
20	P. Federal Financing Bank	Obligations	12 USC S
21			2288
22			
23	Q. Federal Reserve banks	Obligations	12 USC S
24			548
25			
26	R. College	Obligations	20 USC S
27	Construction		1132
28	Loan Insurance		
29	Association		
30			
31	S. Small	Notes	15 USC S
32	Business		633
33	Administration		
34			

35
36 RELETTERING. In the next edition of Minnesota Rules, the
37 revisor of statutes shall place all items in part 8002.0300,
38 subparts 3, 4, 5, and 6 in alphabetical order and reletter
39 accordingly.