This memorandum supersedes memorandum TSB-M-86-(8)I dated December 18, 1986 which should be destroyed.

**New York Tax Treatment of Interest Income on Federal, State and Municipal Bonds and Obligations**

The taxation of interest income for New York State and New York City personal income tax purposes generally conforms to the federal income tax treatment. However, there are exceptions in the case of certain bonds and obligations issued by the United States government, its possessions and agencies, and by states other than New York and their political subdivisions and agencies. The interest income on these bonds and obligations may be taxable for federal purposes but not for New York purposes or vice-versa.

Interest income that is exempt from federal income tax but subject to New York income tax must be added to federal adjusted gross income in computing New York adjusted gross income. (Sections 612(b) (1) and (b) (2) of the Tax Law.) Interest income that is subject to federal income tax but exempt from New York income tax must be subtracted from federal adjusted gross income in computing New York adjusted gross income. (Sections 612(c) (1) and (c) (2) of the Tax Law.) An addition or subtraction modification is not required if the interest income is exempt from both federal and New York income taxes.

The above additions and subtractions also apply to any interest income received from a mutual fund, unless the fund is a regulated investment company.1 If the fund is a regulated investment company, the following rules apply:

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1 Regulated Investment Companies are defined in section 851 of the Internal Revenue Code. Most mutual funds are regulated investment companies under that section. If you are not sure of the status of a particular fund, you should contact the fund or your investment advisor.
(1) The addition modification must always be made for the portion of a dividend received by the taxpayer that is attributable to interest earned by the fund on obligations that are exempt from federal income tax but subject to New York income tax.

(2) The subtraction modification applies only if the fund meets the 50% "U.S. Obligations" asset requirement under section 612(c) (1) of the Tax Law. If this requirement is met, the subtraction must be made for the portion of a dividend received by the taxpayer that is attributable to interest earned by the fund on obligations that are subject to federal income tax but exempt from New York income tax.  

The following updated list, which is not all inclusive, indicates whether the interest income on certain bonds and obligations is subject to New York tax. In addition, those obligations marked with an asterisk (*) are deemed to be "U.S. Obligations" for purposes of determining whether a regulated investment company meets the 50% asset test previously described.

<table>
<thead>
<tr>
<th>Agency and Obligations</th>
<th>Subject to New York State Income Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>*Banks for Cooperatives - Interest on Bonds and Debentures</td>
<td>No</td>
</tr>
<tr>
<td>Bonds and Obligations of States other than New York</td>
<td>Yes</td>
</tr>
<tr>
<td>*Certificate of Accrual Treasuries (CATS)</td>
<td>No</td>
</tr>
<tr>
<td>*Coupon Treasury Receipts (CTRS)</td>
<td>No</td>
</tr>
<tr>
<td>*Easy Growth Treasury Receipts (ETRS)</td>
<td>No</td>
</tr>
</tbody>
</table>

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2 A regulated investment company which meets the 50% asset requirement is required to send a written notice to its investors telling them the portion of the dividend which is subject to the subtraction modification. For more information concerning the 50% asset requirement, see TSB-M-86-(7)I, TSB-M-92-(4)I and section 112.3(a) of the Personal Income Tax Regulations.
### Agency and Obligations

Export-Import Bank of the United States (Eximbank):
- *a) Series 1978-B Debentures* 
  - No
- *b) Participation Certificates* 
  - Yes

Farmers Home Administration - Notes:
- a) Interest Paid by Maker 
  - Yes
- *b) Interest Paid by United States Government* 
  - No

Federal Farm Credit Banks Funding Corporation:
- *a) Farm Credit Banks - Interest on Bonds and Debentures* 
  - No
- *b) Consolidated Systemwide Notes and Bonds* 
  - No

*Federal Home Loan Bank - Interest on Bonds and Debentures* 
- No

Federal Home Loan Mortgage Corporation (Freddie Macs) 
- Yes

*Federal Housing Authority Debentures* 
- No

*Federal Intermediate Credit Banks - Interest on Bonds and Debentures* 
- No

*Federal Land Bank - Interest on Bonds and Debentures* 
- No

Federal National Mortgage Association (Fannie Mae):
- a) Interest on Bonds and Debentures (all tax years) 
  - Yes
- b) Guaranteed Participation Certificates
  - 1. Tax Years Beginning Prior to 1/1/77 
    - No
  - 2. Tax Years Beginning After 12/31/76 
    - Yes

*Financing Corporation (FICO)* 
- No

*General Services Administration Participation Certificates* 
- No

Government National Mortgage Association (Ginnie Mae) 
- Yes

Grace Lines, SS Santa Lucia Bonds (Prud. Grace Line) 
- Yes

*Guam* 
- No

*Home Owners Loan Corporation* 
- No

Housing Finance Agency - New York State 
- No
<table>
<thead>
<tr>
<th>Agency and Obligations</th>
<th>Subject to New York State Income Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inter-American Development Bank Bonds</td>
<td>Yes</td>
</tr>
<tr>
<td>Interest on Federal Income Tax Refunds</td>
<td>Yes</td>
</tr>
<tr>
<td>International Bank for Reconstruction &amp; Development (World Bank)</td>
<td>Yes</td>
</tr>
<tr>
<td>Jonathan Development Corporation (Obligations Guaranteed Under New Communities Act of 1968 (42 USCA 3902))</td>
<td>Yes</td>
</tr>
<tr>
<td>Lake Placid Housing Development Funding Corporation</td>
<td>No</td>
</tr>
<tr>
<td>Niagara Falls Bridge Commission</td>
<td>No</td>
</tr>
<tr>
<td>Niagara Hydro Housing Corporation Bonds</td>
<td>Yes</td>
</tr>
<tr>
<td>*Northern Mariana Islands and its Authorities (Both Principal and Interest)</td>
<td>No</td>
</tr>
<tr>
<td>*Panama Canal Bonds Specifically Exempt from Tax by U.S.C. Section 744 &amp; 745 - Interest on Bonds</td>
<td>No</td>
</tr>
<tr>
<td>Port Authority of New York</td>
<td>No</td>
</tr>
<tr>
<td>Post Savings Certificates - Not Obligations Incurred for Credit Purposes</td>
<td>Yes</td>
</tr>
<tr>
<td>&quot;Project Notes&quot; (Housing &amp; Urban Development):</td>
<td></td>
</tr>
<tr>
<td>a) Issued by Other States</td>
<td>Yes</td>
</tr>
<tr>
<td>*b) Issued by United States Territories and Possessions</td>
<td>No</td>
</tr>
<tr>
<td>*Puerto Rico:</td>
<td></td>
</tr>
<tr>
<td>a) Government of, or by its Authority</td>
<td>No</td>
</tr>
<tr>
<td>b) Water Resources - 4.2% Bonds Due 1/1/89 - Interest on Bonds</td>
<td>No</td>
</tr>
<tr>
<td>Repurchase Agreements Whose Subject Matter is U.S. Government Obligations (See TSB-M-88-(5)I)</td>
<td>Yes</td>
</tr>
<tr>
<td>*Resolution Funding Corporation (REFCO)</td>
<td>No</td>
</tr>
</tbody>
</table>
Agency and Obligations

* Separate Trading of Registered Interest and Principal of Securities (STRIPS) No

Small Business Administration Bonds Yes

State of Israel Same as Federal

*Student Loan Marketing Association (Sallie Mae) No

*Tennessee Valley Authority No

*Treasury Bond Receipts (TBRS) No

*Treasury Investment Growth Receipts (TIGRS) No

United Nations Bonds Same as Federal

United States Merchant Marine Ship Notes
United States Retirement Bonds (Purchases Under Self-Employed Retirement Plan or IRA Plan) No

*United States Savings Bonds No

United States Treasury Bills:
  * a) Interest No
  b) Gain on Sale Yes

United States Treasury Notes:
  * a) Interest No
  b) Gain on Sale Yes

*Virgin Islands No

Washington, D.C.:
  a) Metropolitan Area Transit Authority Yes
  b) Housing and Urban Development Yes

Zero Coupon Bonds:
  * a) Treasury Receipt Issues (Examples TIGRS, CATS, TBRS, CTRS, ETRS or STRIPS) No
  b) State and municipals other than New York Yes