



# Interest from U.S. Government Obligations

## Questions & Answers About Tax-free Government Bonds & Utah Individual Income Tax

Utah State Tax Commission  
 210 North 1950 West  
 Salt Lake City, Utah 84134  
 801-297-2200  
 1-800-662-4335  
[tax.utah.gov](http://tax.utah.gov)



If you need an accommodation under the Americans with Disabilities Act, email [taxada@utah.gov](mailto:taxada@utah.gov), or call 801-297-3811 or TDD 801-297-2020. Please allow three working days for a response.

### General Information

Utah law allows taxpayers to subtract interest or dividends earned on qualifying U.S. government obligations from their federal adjusted gross income. This publication identifies the types of obligations that are tax-free on the Utah individual income tax return.

See Utah Code §59-10-114(2)(a).

### Questions & Answers

**Q: Why is the interest from U.S. government obligations tax-free in Utah?**

**A:** Federal obligations are exempt from tax by states or local governments when they are issued to secure credit to carry on the necessary functions of government.

**Q: What kind of U.S. government income is tax-free in Utah?**

**A:** Income from the following sources is exempt from Utah income tax:

- Interest income on bonds or other direct obligations of the U.S. government or its possessions (treasury bonds, treasury notes, treasury bills, certificates and savings bonds).
- Interest or dividends on bonds or securities issued by entities exempt from state income taxes under federal law. See the detailed list following these questions.

**Q: How can I tell which obligations are tax-free?**

**A:** U.S. obligations exempt from state taxation must:

1. be a written document,
2. bear interest,
3. contain a promise by the U.S. government to pay a specific sum on a specific date, and
4. have congressional authorization which pledges the full faith and credit of the U.S. government.

(See U.S. Supreme Court decision under *Smith v. Davis*, 323 U.S. 111(1944).)

**Q: May I subtract all of my income and dividends from tax-free U.S. government obligations?**

**A:** No. Exempt U.S. government interest claimed as a subtraction from Utah income must be reduced by the following expenses if these expenses were claimed as deductions from your federal taxable income:

- Interest on money you borrowed to buy or carry the bonds or securities.
- Ordinary and necessary expenses to produce exempt income.

**Q: How do I subtract this income?**

**A:** Claim this subtraction on Utah from TC-40A, Part 2. Use code 71.

**Q: What types of income received from the U.S. government is taxable under Utah state law?**

**A:** Income from the following sources is subject to Utah income tax:

- Interest or dividends from the Federal National Mortgage Association (FNMA) and Government National Mortgage Association (GNMA).
- Refunds or interest on refunds from the Internal Revenue Service or any other federal agency or department. See below for details.

### Exempt U.S. Government Obligations

The following income received from U.S. government obligations is exempt from Utah income tax:

- **United States Treasury bonds, notes, bills, certificates and savings bonds – E, EE, H, HH and I bond interest is exempt**
- **Banks for Cooperatives** – Income from notes, debentures and other obligations issued by Banks for Cooperatives
- **Commodity Credit Corporation** – Interest from bonds, notes, debentures and other obligations issued by Commodity Credit Corporation

- **Farm Credit System Financial Assistance Corporation (Financial Assistance Corporation)** – Interest from notes, bonds and other obligations issued by the Financial Assistance Corporation
  - **Federal Deposit Insurance Corporation** – Interest derived from notes, bonds and other obligations issued by Federal Deposit Insurance Corporation
  - **Federal Farm Credit Banks** – Income from consolidated system-wide notes, bonds and other obligations issued jointly and severally by Banks of the Federal Farm Credit System
  - **Federal Financing Bank** – Income from obligations issued by the Federal Financing Bank
  - **Federal Home Loan Banks** – Interest from notes, bonds and other obligations issued by Federal Home Loan Banks and from consolidated Federal Home Loan bonds and debentures
  - **Federal Intermediate Credit Banks** – Income from notes, bonds and other obligations issued by Federal Intermediate Credit Banks
  - **Federal Land Bank and Federal Land Bank Association** – Income from notes, bonds and other obligations issued by Federal Land Banks and Federal Land Bank Associations
  - **Federal Savings and Loan Insurance Corporation** – Interest from notes, bonds and other obligations issued by Federal Savings and Loan Insurance Corporation
  - **Financing Corporation (FICO)** – Interest from obligations issued by the Financing Corporation
  - **General Insurance Fund:**
    - a. Interest from debentures issued by the General Insurance Fund under the War Housing Insurance Law
    - b. Interest derived from debentures issued by the General Insurance Fund to acquire rental housing projects
    - c. Interest derived from Armed Services Housing Mortgage Insurance Debentures issued by the General Insurance Fund
    - d. General Insurance Fund of the Department of Housing and Urban Development
    - e. Interest from National Defense Housing Insurance debentures issued by the General Insurance Fund
    - f. Interest from Mutual Mortgage Insurance Fund debentures issued by the General Insurance Fund
    - g. Interest from debentures issued by the General Insurance Fund under the Neighborhood Conservation Housing Insurance Law
  - **GSA Public Building Trust Participation Certificates** – Income from First Series, Series A through E; Second Series, Series F; Third Series, Series G; Fourth Series, Series H and I
  - **National Credit Union Administration Central Liquidity** – Interest from notes, bonds and other obligations issued on behalf of the Central Liquidity Facility
  - **Participation Certificates in the Federal Assets Financing Trust** – Income from Series A through D, due in 1987 and 1988; and income from Participation Certificates in the Federal Assets Liquidation Trust, Series B, due in 1987, issued by the Federal National Mortgage Association as trustee (the Government National Mortgage Association is the current trustee)
  - **Production Credit Association** – Income from notes and other obligations issued by Production Credit Association
  - **Resolution Funding Corporation** – Interest from obligations issued by the Resolution Funding Corporation
  - **Student Loan Marketing Association** – Interest from obligations issued by the Student Loan Marketing Association
  - **Tennessee Valley Authority** – Interest from bonds issued by the Tennessee Valley Authority
  - **Territorial Obligations:**
    - a. American Samoa – Interest from industrial development bonds for Eastern Samoa issued by the government of Samoa
    - b. Guam – Interest from bonds issued by the government of Guam
    - c. Northern Mariana – Interest from bonds or other obligations issued by the government of the Northern Mariana Islands
    - d. Puerto Rico – Interest from bonds issued by the government of Puerto Rico
    - e. Virgin Islands – Interest from bonds issued by the government of the Virgin Islands
- Note:** Interest in these U.S. territorial obligations is not currently included in federal adjusted gross income. Do not subtract such interest from Utah adjusted gross income in computing Utah taxable income.
- **U.S. Postal Service** – Interest from obligations issued by the U.S. Postal Service

## Non-U.S. Government Obligations

The Following are NOT Considered U.S. Government Obligations and are NOT exempt from Utah income tax.

This list is NOT all-inclusive.

- **Asian Development Bank Bonds**
- **Export-Import Bank of the United States** debentures
- **Federal Home Loan Mortgage Corporation** – Participation certificates, discount notes and guaranteed mortgage certificates
- **Federal National Mortgage Association** – Short-term notes, mortgage backed pass-through securities, dividends and other obligations from FNMA stock
- **Government National Mortgage Association** – Participation certificates, graduated payments, mortgage-backed bonds and mortgage-backed pass-through securities
- **Interest on refunds or refunds** from the Internal Revenue Service or any other federal agency or department
- **Federal or State Savings and Loan Associations**
- **International Bank for Reconstruction and Development**
- **Inter-American Development Bank**
- **Panama Canal Bonds**

## Verification Required

All subtractions from Utah income for U.S. government interest will be subject to audit. You must keep the following documents to support claimed amounts:

- Any information about U.S. government obligations and related interest.
- If the source of the U.S. government obligation interest is a trust, partnership or S corporation, you must provide a statement from the entity identifying the sources and

amounts of interest earned. A federal or Utah Schedule K-1 is not sufficient, unless it cites the source and amount of interest.

- If the source of the U.S. government obligation interest is from a mutual fund, you must provide a statement from the mutual fund identifying the percent of mutual fund income earned from U.S. government obligations, the source of the U.S. government obligations, and the percent of U.S. government obligation interest earned from each source. A form 1099 is not sufficient if it does not provide the detail listed above.