

D. Interest Income on Government Obligations (G.S. 105-130.3, G.S. 105-130.5)

1. North Carolina Obligations (17 NCAC 05C.0401)

Net interest income received by a corporation on obligations of the State of North Carolina and any of its cities, towns or counties is exempt from income taxes imposed by this State.

2. Obligations of Other States (17 NCAC 05C.0402)

Net interest income earned by a corporation on its investments in obligations issued by states and their political subdivisions other than the State of North Carolina, represents taxable income and is subject to this State's income tax.

3. U.S. Obligations (17 NCAC 05C.0403)

Net interest income earned on bonds, notes or other obligations of the United States or its possessions is exempt from income taxation in this State so long as interest on obligations of the state of North Carolina and its political subdivisions is exempt from income taxes imposed by the United States.

Net interest from obligations issued under the borrowing power of a Federal Land Bank, a Federal Home Loan Bank, a Federal Intermediate Credit Bank, Farm Home Administration, Export-Import Bank of the U.S., Tennessee Valley Authority, Banks for Cooperatives, Student Loan Marketing Association, Federal Farm Credit Bank, Federal Financing Bank, Federal Savings and Loan Insurance Corporation, Commodity Credit Corporation, Resolution Funding Corporation, Production Credit Association, and United States Postal Service is considered to be interest from obligations of the United States and is tax exempt.

4. Sales or Exchanges (17 NCAC 05C.0404)

- a. Gain or loss realized on the sale or other disposition of any type of obligation of the United States or its possessions, the State of North Carolina (which are not exempted by the specific obligation), or its political subdivisions, any other state or its political subdivisions, or of any other government is a taxable transaction and must be included in the computation of a corporation's State taxable income.
- b. Gain or loss realized on the sale or other disposition of obligations is not included in taxable income if North Carolina law under which the obligations were issued specifically exempts the gain or interest from taxation.

Examples:

- i. Interest on bonds, notes debentures or other evidence of the indebtedness issued under G.S. 131E-28 by the North Carolina Hospital Authorities, including gain from the sale or exchanges of these obligations.
- ii. Interest and gain derived from obligations issued by the North Carolina Housing Finance Agency under G.S. 122A-19.
- iii. Interest and gain derived from bonds issued under the Joint Municipal Electric Power and Energy Act under G.S. 159B-26.

5. Obligations of Federal National Mortgage Association (17 NCAC 05C.0405)

Interest income or other income realized on obligations of Federal National Mortgage Association is taxable income.

6. Mortgage Backed Certificate Guaranteed by Federal Agencies (17 NCAC 05C.0406)

Interest paid by the issuer to the holder of a mortgage backed certificate guaranteed by the Federal Government, corporations formed by the Federal Government and/or Federal Agencies is not income from an obligation of the United States Government and is taxable.

7. Repurchase Agreements (17 NCAC 05C.0407)

Income attributable to or received from repurchase agreements of U.S. government securities, an agreement to repurchase securities at an agreed price and date, is not considered income derived directly from federal obligations and is taxable income.