

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)

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 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.

Gain or loss realized on the sale or other disposition of obligations of the State of North Carolina or its political subdivisions issued before July 1, 1995 is not included in taxable income if North Carolina law under which the obligations were issued specifically exempts the gain or interest from taxation.

Example 1: 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.

Example 2: Interest and gain derived from obligations issued by the North Carolina Housing Finance Agency under G.S. 122A-19.

Example 3: Interest and gain derived from bonds issued under the Joint Municipal Electric Power and Energy Act under G.S. 159B-26.

Example 4: Interest on bonds, notes, debentures, or other evidence of indebtedness issued by the North Carolina Medical Care Commission under the Health Care Facilities Finance Act under the provisions of G.S. 131A-21. Gain from the sale or exchange of these obligations may also be excludible.

Example 5: Interest and gain on bonds issued by the North Carolina State Ports Authority under G.S. 143B-456(g).

Example 6: Interest on bonds, notes, debentures, and any other evidence of indebtedness issued by a North Carolina Housing Authority (including any corporate agent authorized by Article 1 of Chapter 157 of the General Statutes to exercise the powers of the authority) under the provisions of G.S. 157-26. Gain from the sale or exchange of these obligations is not excludible.

Example 7: Interest on bonds issued by the authorities created under the Industrial and Pollution Control Facilities Financing Act, G.S. 159C-14.

Example 8: Income from securities, evidence of indebtedness, and shares of capital stock issued by a corporation to promote, develop, and advance the prosperity and economic welfare of the State of North Carolina under the provisions of G.S. 53A-15. Gain from the sale or exchange of such obligations is excludible.

Example 9: Income from bonds issued by boards of trustees of State supported colleges and universities in North Carolina including any gain from the sale or exchange of such bonds under G.S. 116-183 and G.S. 116-196.

Example 10: Interest and gain received from bonds and notes issued under the provision of the Higher Education Facilities Act by the North Carolina Educational Facilities Finance Agency under G.S. 115E-21.

Example 11: Interest and gain received on obligations issued under Chapter 122D (the North Carolina Agriculture Finance Act) by the North Carolina Agriculture Finance Authority under G.S. 122D-14.

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.