



SC REVENUE RULING #87-4

SUBJECT: Exempt Interest

SUPERSEDES: All previous documents and any oral directives in conflict herewith.

REFERENCE: S.C. Code Section 12-7-430

AUTHORITY: S.C. Code Section 12-3-170

SCOPE: A Revenue Ruling is the Commission's official interpretation of how tax law is to be applied to a specific set of facts. A Revenue Ruling is public information and remains a permanent document until superseded by a Regulation or is rescinded by a subsequent Revenue Ruling.

Question:

Is interest income from securities commonly known as G.N.M.A. securities exempt from taxation by South Carolina?

Facts:

The taxpayer has invested in securities issued by approved entities and guaranteed by the Government National Mortgage Association under 12 U.S.C. Sec. 1721(g).

Law:

South Carolina Code Section 12-7-430(b) exempts from income interest upon obligations of the United States.

The United States Code Section 12-7-430(b) exempts from income interest upon obligations of the United States.

The United States Code, Title 31, Section 3124 dealing with the exemption from taxation by a State or political subdivision of a State of stocks and obligations of the United States Government provides:

(b) The tax status of interest on obligations and dividends, earnings, or other income from evidences of ownership issued by the Government or an agency and the tax treatment of gain and loss from disposition of those obligations and evidences of ownership is decided under the Internal Revenue Code of 1954...

Internal Revenue Code Section 103(h) defines federally guaranteed obligations and 103(h) (3) specifically enumerates exceptions:

(A) Certain insurance programs. An obligation shall not be treated as federally guaranteed by reason of

(i) any guarantee by the Federal Housing Administration, the Veteran's Administration, the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, or the Government National Mortgage Association.

Conclusion:

Interest income from securities guaranteed by the Government National Mortgage Association is not exempt from taxation by South Carolina as they are not direct obligations of the United States Government.

SOUTH CAROLINA TAX COMMISSION

s/S. Hunter Howard Jr.

S. Hunter Howard, Jr., Chairman

s/John M. Rucker

John M. Rucker, Commissioner

s/Howard E. Duvall Jr.

Howard E. Duvall, Jr., Commissioner

Columbia, South Carolina
April 22, 1987