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SC TECHNICAL ADVICE MEMORANDUM #87-4

TO: Mr. Marvin Davant, Director  
Field Services Division

FROM: John Swearingen, Manager  
Tax Policy and Procedures Department

DATE: April 9, 1987

SUBJECT: Exempt Interest

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

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

SCOPE: A Technical Advice Memorandum is a temporary document issued to an individual within the Commission, upon request, and it applies only to the specific facts or circumstances related in the request. Technical Advice Memorandums have no precedential value and are intended for internal use only.

Question:

Is interest income from securities commonly known as XYZ securities exempt from taxation by South Carolina?

Facts:

The taxpayer has invested in securities issued by approved entities and guaranteed by the XYZ 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, 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 XYZ Association is not exempt from taxation by South Carolina as they are not direct obligations of the United States Government.