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Directive 86-3: Interest Earned On Bank Repurchase Agreements

FACTS: Taxpayer Smith enters into a bank repurchase agreement with Safety Bank & Trust in which Taxpayer Smith purchases Treasury obligations for a specified amount. Safety Bank & Trust will repurchase the obligations from Taxpayer Smith within 90 days for the specified amount, including interest. The Treasury obligations remain in the possession of Safety Bank & Trust at all times.

ISSUE: Must Taxpayer Smith include the interest earned on the bank repurchase agreement in Part A income?

DISCUSSION: Massachusetts gross income is divided into two classes, Part A and Part B gross income. G.L. c. 62, § 2(b). Part A income is comprised of interest, dividends, and net capital gain other than interest and dividends from savings deposits in banking institutions in Massachusetts. G.L. c. 62, § 2(b)(1). Part B income is all other income subject to taxation. G.L. c. 62, §2(b)(2). A bank repurchase agreement is not a savings deposit, but is in effect a loan by a bank customer to a bank. Consequently, interest earned on a bank repurchase agreement is Part A income, taxable at a rate of 10%.

DIRECTIVE: Taxpayer Smith must include the interest earned on the bank repurchase agreement in Part A income, taxable at the rate of 10%. This directive is prospective in effect and revokes Letter Ruling 78-2.

REFERENCE: G.L. c. 62, § 2(b)(1), (2).

[/s/Ira A. Jackson](#)

Ira A. Jackson
Commissioner of Revenue

June 12, 1986

DOR-D 86-3

This Directive represents the official position of the Department of Revenue on the application of the law to the facts as stated. The Department and its personnel will follow this Directive, and taxpayers may rely upon it, unless it is revoked or modified pursuant to 830 CMR § 62C.01(5)(e). In applying this Directive, however, the effect of subsequent legislation, regulations, court decisions, Directives, and TIRs must be considered, and Department personnel and taxpayers may rely upon this Directive only if the facts, circumstances and issues presented in other cases are substantially the same as those set forth in this Directive.

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