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## Letter Ruling 91-4: Income Tax Treatment of Interest Paid by a Massachusetts Branch of a Federally Chartered Out-of-State Credit Union

July 8, 1991

You represent ("The Credit Union"), a federally chartered credit union with a main office and a branch office [outside Massachusetts], and a second branch office in Massachusetts (the "Massachusetts branch"). You ask whether interest paid by the Credit Union to depositors who establish their accounts at the Massachusetts branch is Part A income, currently taxable at a twelve percent rate, or Part B income, currently taxable at a 6.25 percent rate, for purposes of determining the depositors' Massachusetts personal income tax liability. We rule that interest paid to such depositors is Part B income.

### Facts

In March 1989, the Credit Union acquired by merger [a federally chartered credit union located in] Massachusetts ("[The Old Credit Union]"). As a result of the merger, [the Old Credit Union] ceased to exist, and the Credit Union assumed control of [the Old Credit Union's] accounts. The Credit Union currently operates the[Old] Credit Union as a Massachusetts branch under the Credit Union's name. The Massachusetts branch operates as a full service credit union offering such services as share (savings) accounts, share draft (checking) accounts, individual retirement accounts, consumer loans, student loans, home equity loans for real estate located in Massachusetts, and the sale of money orders, traveler's checks and MBTA passes.

### Discussion

General Laws Chapter 62, § 2(b)(1) provides, in pertinent part, that Part A gross income shall be the total interest, dividends and capital gain net income included in Massachusetts gross income, other than....[i]interest and dividends from savings deposits....savings accounts, share or share savings accounts....in any national bank, federal savings and loan association, federal savings bank or federal credit union located in the commonwealth.... G.L. c. 62, § 2(b)(1)(A).

All interest income that falls within the exceptions enumerated in Section 2(b)(1)(A),(B), is Part B income. G.L. c. 62, § 2(b)(2). <sup>1</sup>

Interest from accounts established by depositors at a Massachusetts branch of a federal credit union whose main office is located outside Massachusetts is interest from an account in a federal credit union located in the commonwealth within the meaning of G.L. c. 62, § 2(b)(1)(a). Therefore such interest income is Part B income to the federal credit union's depositors. However, interest from accounts established by depositors at a federal credit union office located outside Massachusetts is interest from an account at a federal credit union located outside Massachusetts, regardless of whether the federal credit union operates a branch located in Massachusetts. Interest from such accounts is therefore Part A income to the federal credit union's depositors.

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## Conclusion

Interest paid by the Credit Union to depositors who establish their accounts at the Massachusetts branch is Part B income for purposes of determining the depositors' Massachusetts personal income tax liability. However, interest paid on accounts established by depositors at the Credit Union's [out-of-state] offices is Part A income to the depositors.

Very truly yours,  
/s/Mitchell Adams  
Mitchell Adams  
Commissioner of Revenue  
July 8, 1991  
LR 91-4

## Footnotes:

<sup>1</sup> For 1989 and 1990 taxable years such interest income was considered Part C income, taxable at a rate of five percent. St. 1989, c. 287, §§ 18, 19.