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Letter Ruling 92-2: Income Tax Treatment of Interest Paid by a Massachusetts Branch of a Federally-Chartered Out-of-State Savings Bank

March 27, 1992

You represent ("the Savings Bank"), a federally chartered stock savings bank with a main office and seven branch offices in [another state] and an eighth branch office in Massachusetts, (the "Massachusetts Branch"). You ask whether interest paid by the Savings Bank to depositors who establish and maintain 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 5.95 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

[P]ursuant to federal law, the Savings Bank purchased certain assets and assumed certain liabilities of the Massachusetts branch of [another bank]. The Savings Bank acquired the assets and liabilities from which had taken over the [bank]. Pursuant to the federal interstate branching provisions of 12 C.F.R. 556.5, the federal Office of Thrift Supervision has authorized the Savings Bank to operate the Massachusetts branch.

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]nterest 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).

Under federal law, stock savings banks are included within the definition of federal savings banks. See 12 U.S.C. § 1462(5); 12 C.F.R. 552.1(a), 552.3. Thus, if a federally chartered stock savings bank is located in Massachusetts, the interest it pays is interest from a federal savings bank located in the Commonwealth within the meaning of G.L. c. 62, § 2(b)(1)(A). In Letter Ruling 91-4, we determined that a Massachusetts branch of a federally chartered credit union with a main office outside Massachusetts was a federal credit union located in the Commonwealth for purposes of Section 2(b)(1)(A). No provision of federal or state law compels a different result for federally chartered savings banks. Therefore, we rule that the Massachusetts branch of a federally chartered

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savings bank with a main office outside Massachusetts is a federal savings bank located in the Commonwealth. Interest from accounts established by depositors at such a Massachusetts branch is thus Part B income. However, interest from accounts established by depositors at a federally chartered savings bank office located outside Massachusetts is interest from an account at a federally chartered savings bank located outside the Commonwealth, regardless of whether the federal savings bank operates a branch located in Massachusetts. Interest from such accounts is therefore Part A income to the federal savings bank's depositors.

Conclusion

Interest paid by the Savings Bank 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 any of the Savings Bank's [out-of-state] offices is Part A income to the depositors.

Very truly yours,
Mitchell Adams
Commissioner of Revenue
March 27, 1992
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