



The Commonwealth of Massachusetts

Department of Revenue

Leverett Saltonstall Building,

100 Cambridge Street, Boston 02204

L. JOYCE HAMBERS
COMMISSIONER

April 21, 1981

("Company A") does business in Massachusetts and New Hampshire. It employs Massachusetts and New Hampshire residents for work in either state. ("Company B"), located in Massachusetts, issues payroll checks to Company A's employees.

Company A maintains a federal security participation daily interest account ("Account") with the ("Bank"), a Massachusetts bank. The Account earns interest daily, calculated by reference to the Bank's yield on certain federal securities, less 0.25%. The Bank does not classify the Account as a deposit.

Company A employees may participate in the Company A Account through payroll deductions. An employee may withdraw any portion of his funds or the interest attributable thereto by notifying Company B. Company B adds the amount of the withdrawal to the employee's next paycheck.

You ask whether interest received by Company A employees on amounts paid into Company A's Account is subject to Massachusetts income taxation, and, if so, at what rate.

Interest, other than interest on Massachusetts savings deposits, is taxed at the rate of 10%, plus surtax. (M.G.L. c. 62, s. 4).

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Non-residents of Massachusetts are subject to Massachusetts income taxation on their Massachusetts gross income which is

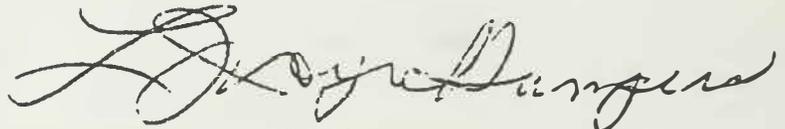
"...gross income derived from or effectively connected with any trade or business, including employment carried on by the taxpayer in the [C]ommonwealth or derived from the ownership of any interest in real or tangible personal property located in the [C]ommonwealth."
(M.G.L. c. 62, s. 5A).

Based on the foregoing, it is ruled that:

- (1) Interest earned on amounts contributed to the Account by Company A employees who are Massachusetts residents is subject to Massachusetts income taxation at the rate of 10%, plus surtax.
- (2) Interest earned on amounts contributed to the Account by Company A employees who are New Hampshire residents is not subject to Massachusetts income taxation.

Nothing in this ruling is to be construed as exempting employees who are New Hampshire residents from Massachusetts income taxation on their Massachusetts earnings.

Very truly yours,



Commissioner of Revenue

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LR 81-35