



## Exempt Obligations

Bulletin GIT-5

### **Introduction**

*In general, interest and dividends are taxable and must be included in gross income on your New Jersey income tax return. However, New Jersey law exempts certain income from tax including:*

- *Interest and gains from obligations of the State of New Jersey or any of its political subdivisions*
- *Interest and gains from direct obligations of the Federal government, such as U.S. Savings Bonds*
- *Certain distributions from “New Jersey Qualified Investment Funds”*
- *Distributions paid by mutual funds to the extent the distributions are attributable to interest earned on Federal obligations*
- *Earnings on qualified withdrawals from qualified state tuition program accounts, including the New Jersey Better Educational Savings Trust Program (NJBEST) accounts*

*This bulletin explains how to report taxable and tax-exempt interest income on your New Jersey income tax return, and provides a list of obligations which are exempt from New Jersey income tax.*

### **General Information**

#### **Exempt Obligations**

Interest and gains received from obligations of the State of New Jersey or any of its political subdivisions are not includable in gross income (subject to tax) on your New Jersey income tax return (Form NJ-1040 or Form NJ-1040NR). This exemption includes interest and gains on obligations issued by counties, municipalities, school or other districts, and New Jersey agencies and authorities. Also, interest and gains from certain Federal obligations are exempt from State or local taxation by State or Federal law.

#### **Reporting Tax-Exempt Interest**

If you file a New Jersey resident income tax return (Form NJ-1040), you must show the amount of exempt interest earned on Line 15b (Form NJ-1040). If the amount of exempt interest you report is more than \$10,000, you must include an itemized schedule, by source. This does not change your tax-exempt interest to taxable interest. Taxable interest is reported separately on Line 15a (Form NJ-1040). The nonresident return (Form NJ-1040NR) does not have a separate line for reporting exempt interest.

**NOTE:** Do not include exempt interest on the taxable interest income line on your return, since tax-exempt interest is not part of New Jersey gross income.

## Taxable Obligations

Interest and gains from obligations of states and their political subdivisions (other than New Jersey and its political subdivisions) are fully taxable for New Jersey income tax purposes, *even though such interest and gains may be exempt for Federal income tax purposes.*

All taxable interest income must be reported on your New Jersey income tax return at Line 15a, Form NJ-1040 or Line 15, Column A, Form NJ-1040NR. Likewise, gains from the sale of obligations whose interest is taxable must be taken into account when computing your net gain from the disposition of property. See *Gain or Loss From Sale* below.

## Gain or Loss From Sale

In determining net gains or income from disposition of property for New Jersey income tax purposes (e.g., capital gains), do not include income or gains from obligations whose interest is exempt from New Jersey tax. Likewise, losses from sales of exempt obligations may not be deducted when computing net gains (or losses) on Schedule B, Form NJ-1040 (or Part I, Form NJ-1040NR).

## Qualified Investment Funds

Distributions and gains from a New Jersey “qualified investment fund” are excludable from income to the extent that the distributions and gains come from the qualified exempt obligations held by the fund.

To be a “qualified investment fund” the fund must:

- Be a regulated investment company;
- Have 80% or more of its investments (other than cash or receivables) in obligations that are exempt from New Jersey income tax; and
- Complete and retain Form IF-1, Certification of Qualified Investment Fund, to document its status. This certification need not be filed with the Division but must be made available upon request.

A fund may hold up to 20% of its investments in obligations that are not tax-exempt. The portion of the fund’s distributions and gains which comes from those taxable investments must be reported as dividends and/or capital gains (as indicated on your Form 1099) on your New Jersey income tax return (Line 16 and Schedule B, Form NJ-1040 or Lines 16 and 18, Column A, Form NJ-1040NR).

A fund that is a qualified investment fund for New Jersey purposes is required to notify its shareholders by February 15 of the portion of their distribution that may be excluded from gross income. You should contact your broker to determine if yours is a “qualified investment fund” for New Jersey income tax purposes.

## Mutual Funds

The distributions received by shareholders of regulated investment companies, commonly referred to as “mutual funds,” are subject to the New Jersey gross income tax as distributions constituting dividends and/or capital gains, unless the fund is a “qualified investment fund” for New Jersey purposes (see *Qualified Investment Funds* above), or the distributions are attributable to interest earned on Federal obligations. (Interest on Federal obligations is excludable

whether or not such obligations are held by a “qualified investment fund.”) Taxable distributions should be included on Line 16 and/or Line 2, Schedule B, Form NJ-1040 or Lines 16 and/or 18, Column A, Form NJ-1040NR. The tax-exempt portion of any distribution is reported on Line 15b, Form NJ-1040. The nonresident return does not have a line for reporting the tax-exempt portion.

### **Unit Investment Trusts**

Interest received by a shareholder in a unit investment trust is exempt from New Jersey income tax, provided that the investments of the trust consist of exempt obligations.

### **State Tuition Program Accounts**

Earnings on qualified withdrawals from qualified state tuition program accounts, including the New Jersey Better Educational Savings Trust (NJBEST) accounts, are exempt from New Jersey income tax. If you file a New Jersey resident income tax return, you must show the amount of tax-exempt interest earned on Line 15b (Form NJ-1040). The nonresident return does not have a line for reporting exempt interest.

Earnings on nonqualified withdrawals from qualified state tuition program accounts, including NJBEST accounts, however, are taxable. Taxable interest is reported on Line 15a, Form NJ-1040 or Line 15, Column A, Form NJ-1040NR. Taxable dividends and/or capital

gains (as indicated on Form 1099) must be reported on Line 16 and/or Line 2, Schedule B, Form NJ-1040 or Lines 16 and/or 18, Column A, Form NJ-1040NR.

### **Nonresidents**

When completing the New Jersey nonresident income tax return (Form NJ-1040NR), complete Column A as if you were a resident of New Jersey. Report interest and dividends in Column A only if they would have been taxable to a New Jersey resident. When completing Column B, however, do not report any interest or dividends unless they were earned as part of a business activity in New Jersey.

Personal interest and dividends (even if from a New Jersey bank or broker) should not appear in Column B. If you have an entry in Column A of the NJ-1040NR that represents personal interest or dividends, report “0” on the corresponding line in Column B.

### **Taxability of Federal and New Jersey Obligations**

A partial list of various Federal and New Jersey securities follows, together with an indication of whether the interest and gain from each are taxable (T) or exempt (E). Remember, do not include interest income or gain from the sale of exempt obligations in your New Jersey taxable income.

## Federal Securities

| Security                                                   | Interest | Capital Gain |
|------------------------------------------------------------|----------|--------------|
| Asian Development Bank                                     | T        | T            |
| Bank for Cooperatives                                      | E        | E            |
| Certificate of Accrual on Treasury Securities (CATS)       | E        | E            |
| EE Bonds (Series EE)                                       | E        | E            |
| Environmental Financing Authority                          | T        | T            |
| Export-Import Bank of the United States (“Eximbank”):      |          |              |
| a) Series 1978—B Debentures                                | E        | E            |
| b) Participation Certificates                              | T        | T            |
| Farmers Home Administration                                | E        | E            |
| Federal Deposit Insurance Corporation Obligations          | E        | E            |
| Federal Farm Credit Systems Obligations                    | E        | E            |
| Federal Financing Bank                                     | E        | E            |
| Federal Home Loan Bank                                     | E        | E            |
| Federal Home Loan Mortgage Corporation                     | T        | T            |
| Federal Housing Authority (F.H.A.)                         | E        | E            |
| Federal Intermediate Credit Banks                          | E        | E            |
| Federal Land Banks                                         | E        | E            |
| Federal National Mortgage Association (Fannie Mae):        |          |              |
| a) Guaranteed Participation Certificates                   | T        | T            |
| b) Interest on Bonds and Debentures                        | T        | T            |
| Federal Savings and Loan Insurance Corporation Obligations | E        | E            |
| General Services Administration                            | E        | E            |
| Government National Mortgage Association (Ginnie Mae)      | T        | T            |
| Guam                                                       | E        | E            |
| H & HH Bonds (Series H & HH)                               | E        | E            |
| H.U.D./New Communities                                     | E        | E            |

**Federal Securities (continued)**

| <b>Security</b>                                                                             | <b>Interest</b> | <b>Capital Gain</b> |
|---------------------------------------------------------------------------------------------|-----------------|---------------------|
| H.U.D. Public Housing Notes and Bonds:                                                      |                 |                     |
| a) If issued in New Jersey                                                                  | E               | E                   |
| b) If issued in other states                                                                | T               | T                   |
| c) If issued in D.C., Puerto Rico, or the Virgin Islands                                    | E               | E                   |
| Inter-American Development Bank Bonds                                                       | T               | T                   |
| International Monetary Fund and Bank for Reconstruction and Development (World Bank)        | T               | T                   |
| Jonathan Development Corporation (Obligations Guaranteed Under New Communities Act of 1968) | T               | T                   |
| Merchant Marine                                                                             | E               | E                   |
| Panama Canal Zone Bonds (exempt under 31 U.S.C. 744 & 745)                                  | E               | E                   |
| Production Credit Associations                                                              | E               | E                   |
| Puerto Rico                                                                                 | E               | E                   |
| Puerto Rico Water Resources—4.2% bonds due 1/1/89—                                          |                 |                     |
| Interest on Bonds                                                                           | E               | E                   |
| R.F.K. Stadium Bonds                                                                        | T               | T                   |
| Small Business Administration                                                               | E               | E                   |
| Student Loan Marketing Association (Sallie Mae)                                             | E               | E                   |
| Tennessee Valley Authority                                                                  | E               | E                   |
| Treasury Investment Growth Receipt (TIGR)                                                   | E               | E                   |
| U.S. Postal Service                                                                         | E               | E                   |
| U.S. Treasury                                                                               | E               | E                   |
| U.S. Treasury Bills (T-Bills)                                                               | E               | E                   |
| USAVE Certificates—Farmers Home Administration                                              |                 |                     |
| Insured Loan Notes                                                                          | Partially       | —                   |
| Virgin Islands                                                                              | E               | E                   |
| Washington Metropolitan Area Transit Authority Bonds                                        | T               | T                   |

## Bonds Issued by New Jersey Authorities

| <b>Name of Authority</b>                                                      | <b>Interest</b> | <b>Capital Gain</b> |
|-------------------------------------------------------------------------------|-----------------|---------------------|
| Convention Hall Authorities                                                   | E               | E                   |
| County and Municipal Sewerage Authorities                                     | E               | E                   |
| County Improvement Authorities                                                | E               | E                   |
| County Solid Waste Disposal Financing                                         | E               | E                   |
| County Solid Waste Management Authorities                                     | E               | E                   |
| Delaware Memorial Bridge                                                      | E               | E                   |
| Delaware River and Bay Authority                                              | E               | E                   |
| Delaware River Joint Toll Commission                                          | E               | E                   |
| Delaware River Port Authority                                                 | E               | E                   |
| Economic Development Authority                                                | E               | E                   |
| Educational Facilities Authority                                              | E               | E                   |
| First Class County Recreation Authority                                       | E               | E                   |
| Hackensack Meadowlands                                                        | E               | E                   |
| Health Care Facilities Financing Authority                                    | E               | E                   |
| Highway Authority (includes Garden State Parkway and<br>Cape May-Lewes Ferry) | E               | E                   |
| Incinerator Authorities                                                       | E               | E                   |
| Industrial Pollution Control Financing Authority                              | E               | E                   |
| Municipal Utilities Authorities                                               | E               | E                   |
| New Jersey Building Authority                                                 | E               | E                   |
| New Jersey Expressway Authority                                               | E               | E                   |
| New Jersey Housing Finance Agency                                             | E               | E                   |
| New Jersey Mortgage Finance Agency                                            | E               | E                   |
| New Jersey Turnpike Authority                                                 | E               | E                   |
| Parking Authorities                                                           | E               | E                   |
| Port Authorities                                                              | E               | E                   |
| Port Authority of New York and New Jersey                                     | E               | E                   |
| Sanitary Sewer District Authorities<br>of 1st and 2nd Class Counties          | E               | E                   |
| South Jersey Port Corporation                                                 | E               | E                   |
| Sports and Exposition Authorities                                             | E               | E                   |

## For More Information

### By Phone

- Call the Division of Taxation's Customer Service Center at **609-292-6400**.
- Text Telephone Service (TTY/TDD) for Hard-of-Hearing Users: **1-800-286-6613** (toll-free within NJ, NY, PA, DE, and MD) or **609-984-7300**. These numbers are accessible *only* from TTY devices. Submit a text message on any tax matter and receive a reply through NJ Relay Services (711).

### Online

- Division of Taxation Web site:  
[www.state.nj.us/treasury/taxation/](http://www.state.nj.us/treasury/taxation/)
- E-mail: [nj.taxation@treas.state.nj.us](mailto:nj.taxation@treas.state.nj.us)
- Subscribe to *NJ Tax E-News*, the Division of Taxation's online information service, at:  
[www.state.nj.us/treasury/taxation/listserv.html](http://www.state.nj.us/treasury/taxation/listserv.html)

### In Writing

New Jersey Division of Taxation  
Information and Publications Branch  
PO Box 281  
Trenton, NJ 08695-0281

## Order Forms and Publications

- Call the Forms Request System at **1-800-323-4400** (within NJ, NY, PA, DE, and MD) or **609-826-4400**. Touch-tone phones only.
- Call NJ TaxFax at **609-826-4500** from your fax machine's phone.
- Visit the Division of Taxation's Web site:  
[www.state.nj.us/treasury/taxation/](http://www.state.nj.us/treasury/taxation/)