

CALIFORNIA FRANCHISE TAX BOARD

Legal Ruling No. 115

May 12, 1958

PRODUCTION CREDIT ASSOCIATIONS: INTEREST ON GOVERNMENT BONDS

Syllabus:

Interest received on federal securities by production credit associations is includible in their gross income and taxable at the current financial rate.

The X Production Credit Association was chartered under the Farm Credit Act of 1933 for the purpose of making farm loans to members. It is a taxable financial association which is permitted a deduction for business done for or with members under section 24405. During the year in question it received interest income from federal securities in addition to deriving income from business with members. Advice is requested whether the interest received from federal securities was derived from business activities for or with their members.

Section 24272 specifically includes interest from federal bonds in gross income of banks and financial corporations. Since the Association is not exempt under Chapter 4 of the Bank and Corporation Tax Law, it is taxable to the extent of its entire income in the absence of some other provision in the law conferring immunity. Its principal source of income, interest from loans to members, enjoys such immunity through section 24405, but no immunity is provided for interest from federal bonds. Therefore, such interest is includible in its gross income and is taxable at the current financial rate.