

CALIFORNIA FRANCHISE TAX BOARD

Legal Ruling No. 008

June 27, 1958

INTEREST: TAXABILITY OF INTEREST FROM CITY OF HONOLULU BONDS

Syllabus:

Interest from bonds issued by the City of Honolulu is nontaxable under the Personal Income Tax Law.

Advice is requested as to whether interest from bonds issued by the City of Honolulu is taxable under the Personal Income Tax Law.

It has been a fundamental judicial proposition that a territorial government and the municipal corporations therein are instrumentalities established by Congress for carrying on one of the functions conferred on it by the Constitution. Consequently, a state has no power to tax bonds issued by a municipal corporation within a territory in the absence of specific congressional authority (51 American Jurisprudence 298).

There has been no specific authorization to tax the income from bonds or securities of the Territory of Hawaii or of the City and County of Honolulu. We are, therefore, without authority to tax the interest from said bonds.

Franchise Tax Board regulations recognize this conclusion with respect to territorial bonds (Reg. 17130(b)) and the conclusion extends to the territorial instrumentalities, including municipalities.