

CALIFORNIA FRANCHISE TAX BOARD

Legal Ruling No. 337

June 27, 1969

DEDUCTION OF BONUS INTEREST ON INVESTMENT CERTIFICATES ISSUED BY S&L

Syllabus:

Bonus interest on investment certificates accrued during, but paid after, a three-year period is deductible in the year accrued.

Advice has been requested as to the proper year to deduct bonus interest earned on investment certificates issued by state and federal savings and loan associations. The certificates carry a regular rate of interest which is paid to the holder quarterly. In addition, extra or "bonus" interest is paid on those certificates which are held three years or more. The bonus interest is accumulated during the first three years the certificate is outstanding by quarterly additions to a deferred credit account. After three years the total accumulated amount is paid to the certificate holder and, thereafter, both regular and bonus interest is paid quarterly. When a certificate is held less than three years, the holder either receives none of the bonus interest or receives a reduced amount.

Section 24403 of the Revenue and Taxation Code allows deduction of the return paid, or credited on, or apportioned to withdrawable shares. Federal regulations 26 C.F.R. 1.591-1(b) and (c) allow deduction of the total amount of bonus interest credited or allocated by savings and loan associations to their shares in the year so credited or allocated notwithstanding that a portion of the bonus interest may be retained upon early redemption of the shares.

Accordingly, it is concluded that the total amount of bonus interest credited to the investment certificate is deductible in the year credited.

In the event a certificate is not held three years the association's gross income will include the difference between the amount of bonus interest credited and deducted and the amount paid.