

Colorado and federal law exempt from state taxation interest income on obligations of the U.S. government. Federal law further exempts from state taxation interest income on obligations of some, but not all, U.S. government owned enterprises. Taxpayers may claim a subtraction on their Colorado income tax return for any exempt income included in their federal taxable income.

This publication is designed to provide general guidance regarding the Colorado subtraction for U.S. government interest and is intended to supplement guidance provided in the [Colorado Individual Income Tax Guide](#) and [Colorado Corporate Income Tax Guide](#). Nothing in this publication modifies or is intended to modify the requirements of Colorado's statutes and regulations. Taxpayers are encouraged to consult their tax advisors for guidance regarding specific situations.

Exempt income

Income from stocks and obligations, including interest thereon, is exempt from Colorado income tax. Additionally, federal law exempts from state taxation interest income on obligations from certain U.S. government owned enterprises. Taxpayers may claim a Colorado income tax subtraction for these types of tax-exempt income, to the extent that they are included in the taxpayer's federal taxable income.

Exempt U.S. obligations

A subtraction is allowed for certain types of income from U.S. government obligations to the extent such income is included in federal taxable income. The subtraction applies to interest income on obligations of the United States and its possessions, as well as any income from stocks or obligations of the United States government. Subtraction-eligible income includes interest on U.S. Treasury bonds, notes, bills, certificates, and savings bonds.

Exemption under other federal laws

Additionally, a variety of federal laws establish state income tax exemptions for certain specific types of income. Taxpayers may claim a Colorado subtraction for any of the following types of income to the extent that it is included in their federal taxable income. The following list may not be exhaustive. Taxpayers may [request a General Information Letter](#) regarding the Colorado tax treatment of other types of government interest or income not specifically addressed below.

- **Commodity Credit Corporation:** Income derived from bonds, notes, debentures, and other similar obligations issued by Commodity Credit Corporation. 15 U.S.C. § 713a-5.
- **Federal Deposit Insurance Corporation:** Interest derived from notes, debentures, bonds, or other such obligations issued by Federal Deposit Insurance Corporation. 12 U.S.C. § 1825.
- **Federal Farm Credit Banks:** Income from consolidated systemwide notes, bonds, debentures, and such obligations issued jointly and severally under 12 U.S.C. § 2153 by banks of the Federal Farm Credit System. 12 U.S.C. § 2023; 12 U.S.C. § 2077; 12 U.S.C. § 2098; and 12 U.S.C. § 2134.
- **Federal Home Loan Banks:** Interest derived from notes, debentures, bonds, and other obligations issued by Federal Home Loan Banks and from consolidated Federal Home Loan bonds and debentures. 12 U.S.C. § 1433.
- **National Credit Union Administration Central Liquidity Facility:** Income from the notes, bonds, debentures, and other obligations issued on behalf of the Central Liquidity Facility. 12 U.S.C. § 1795k(b).
- **Tennessee Valley Authority:** Interest from bonds issued by the Tennessee Valley Authority. 16 U.S.C. § 831n-4(d).
- **United States Postal Service:** Interest from obligations issued by the United States Postal Service. 39 U.S.C. § 2005(d)(4).

Mutual funds

A taxpayer who receives income attributable to tax-exempt bonds, notes, debentures, or obligations from a mutual fund may claim a subtraction for that income in the same manner as if the taxpayer held the bonds, notes, debentures, or obligations directly, to the extent such income is included in their federal taxable income. If the fund invests exclusively in tax-exempt bonds, notes, debentures, or obligations, the taxpayer may subtract the full amount of income from the mutual fund that is included in their federal taxable income. If the fund invests both in tax-exempt bonds, notes, debentures, or obligations and other, non-exempt assets, the taxpayer may subtract only the amount of income from the mutual fund that is attributable to tax-exempt bonds, notes, debentures, or obligations and included in their federal taxable income.

Repurchase agreements

Interest income earned on short-term agreements to repurchase U.S. government obligations is not exempt from Colorado income tax. Taxpayers may not subtract interest income from repurchase agreements on their Colorado income tax returns.

Territorial obligations

Interest income from the obligations of certain U.S. territories is exempt from both federal and state taxation. No Colorado subtraction is allowed for interest on bonds and obligations of the following territories because such income is not included in federal taxable income:

- **American Samoa.** 48 U.S.C. § 1670(b)(1).
- **Guam.** 48 U.S.C. § 1423a.
- **Northern Mariana Islands.** 48 U.S.C. § 1801.
- **Puerto Rico.** 48 U.S.C. § 745.
- **Virgin Islands:** 48 U.S.C. §§ 1403 and 1574(b)(iii)(B).

Non-exempt income and obligations

Not all income from U.S. government sources is tax-exempt. No subtraction is allowed for any obligation or payment from the U.S. government for services rendered or for income from instruments issued by private financial institutions and guaranteed by the U.S. government. Furthermore, interest paid by U.S. government-sponsored enterprises is taxable unless it is expressly exempted under federal law.

Additionally, taxpayers may not subtract on their Colorado returns any interest paid by international institutions or by state or local governments.

Federal Reserve Bank

Dividend income member banks receive from the Federal Reserve Bank as set forth in 12 U.S.C. § 289 is not exempt from Colorado income tax. Taxpayers cannot claim a Colorado subtraction for this dividend income.

U.S. government-sponsored enterprises

Interest on bonds, certificates, or obligations issued by certain U.S. government-sponsored enterprises is not exempt from Colorado income tax. Taxpayers cannot claim a Colorado subtraction for interest on bonds, certificates, or obligations issued by any of the following U.S. government-sponsored enterprises:

- 1) Federal Home Loan Mortgage Corporation (Freddie Mac)
- 2) Federal National Mortgage Association (Fannie Mae)
- 3) Government National Mortgage Association (Ginnie Mae)

Obligations of international institutions

Taxpayers may not claim a Colorado subtraction for interest from international institutions, such as:

- 1) Asian Development Bank
- 2) Inter-American Development Bank
- 3) International Bank for Reconstruction and Redevelopment

State and local bonds

Interest on state and local bonds is generally exempt from federal income tax and therefore not included in federal taxable income. However, any state and local bond interest, other than interest from the State of Colorado or any political subdivision thereof, is subject to Colorado income tax and therefore must be added to federal taxable income.

The required addition does not include any amortization of the bond premium and is reduced by the amount of the deductions required by the Internal Revenue Code to be allocated to the interest income.

Additional resources

The following is a list of statutes, regulations, forms, and guidance pertaining to the Colorado subtraction for U.S. government interest. This list is not, and is not intended to be, an exhaustive list of authorities that govern the tax treatment of every situation. Individuals and businesses with specific questions should consult their tax advisors.

Statutes and regulations

- § 39-22-104. Income tax imposed on individuals, estates, and trusts.
- § 39-22-304. Net income of corporation.
- Rule 39-22-104(4)(a). Repurchase Agreements.

Forms and guidance

- [Tax.Colorado.gov](https://tax.colorado.gov)
- [Colorado Individual Income Tax Guide](#)
- [Colorado Corporate Income Tax Guide](#)