

1981 S.C. Op. Atty. Gen. 13 (S.C.A.G.), 1981 S.C. Op. Atty. Gen. No. 81-3, 1981 WL 96530

Office of the Attorney General

State of South Carolina

Opinion No. 81-3

January 12, 1981

**\*1 SUBJECT: Income—Taxability of Interest Paid On a Certificate of Deposit Issued By the Federal Home Loan Bank.**

Interest paid on a certificate of deposit issued by the Federal Home Loan Bank is exempt from income taxation.

To: Mr. C. H. Brooks  
Director  
Income Tax Division

QUESTION:

Does interest received from a certificate of deposit issued by the Federal Home Loan Bank constitute taxable income?

APPLICABLE LAW:

[§§ 12-1-60\(2\)](#) and [12-7-560\(4\)](#), 1976 Code of Laws.

DISCUSSION:

[Section 12-1-60\(2\)](#) provides in part that:

‘Both the principal and interest of all \* \* \* and certificates of indebtedness, heretofore or hereafter issued, by or on behalf of the United States Government \* \* \* shall be exempt from all State \* \* \* and all other taxes \* \* \*.’

[Section 12-7-560\(4\)](#) provides that:

‘The words ‘gross income’ do not include the following items, which shall be exempt from taxation under this chapter:

(4) Interest upon obligations of the United States or its possessions or of this State of any political subdivision thereof;’

Two questions thus exist. First, whether the Federal Home Loan Bank is an instrumentality of the United States and, second, whether the certificate is the obligation of the United States.

The bank is an instrumentality of the Federal Government.

‘We hold that all Federal Home Loan Banks within the System are, and operate as, public banking agencies and instrumentalities of the federal government, \* \* \*.’ [Fahey v. O'Melveny & Myers](#), 200 F.2d 420, 446.

A certificate of deposit is a written acknowledgment by a bank of receipt of a sum of money on deposit which bank promises to pay, thereby creating a debtor-creditor relationship. (See 6 Words and Phrases, [Certificate of Deposit](#), and 10 Am.Jur.2d,

Banks, § 455.) Section 12, U.S.C.A. 14211(e) authorizes the bank to 'accept deposits made by members of such bank or by any Federal Home Loan Bank or other instrumentality of the United States, upon such terms and conditions as the board may prescribe \* \* \*.'

The certificate is thus the obligation of the bank and the interest paid thereon would fall within the provisions of §§ 12-1-60(2) and 12-7-560(4).

CONCLUSION:

Interest paid on a certificate of deposit issued by the Federal Home Loan Bank is exempt from income taxation.

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