

Administrative Release No. 10

Subject: Maryland Taxation of Income from “Ginnie Maes”

I. General

A. This release answers the question of whether income received from securities issued directly by the Government National Mortgage Association (GNMA) and income from securities issued by private issuers (sometimes called “Ginnie Maes”), and guaranteed by GNMA, are exempt from Maryland income taxation. Maryland exempts interest on obligations of the United States from taxation. Therefore, the question restated is whether the sources of income referred to are interest on U.S. obligations.

B. The Government National Mortgage Association (GNMA) was organized as a government agency in 1968 to perform certain functions in the secondary mortgage market. It is involved in two different types of securities sold to investors in the open market:

1. GNMA directly issued securities, with its own promise to pay; and
2. Private seller issued securities, with GNMA guaranteeing payment.

II. Interest income

A. Securities issued directly by GNMA provided for governmental management and were components of mortgage pools owned by GNMA. This type of direct government involvement and promise to the underlying security holders made these securities exempt from Maryland tax as obligations of the United States. However, since GNMA has ceased issuing such obligations, this exemption is no longer relevant for Maryland tax purposes.

B. Interest income from securities that are sold by private issuers with payment guaranteed by GNMA is not exempt from Maryland taxation. These securities, although commonly referred to as “Ginnie Maes,” are only guarantees by the United States and not U.S. obligations. Governmental liability for the payment of interest is contingent upon the nonperformance of the private issuer, who is the payer of the interest.

C. For all tax years beginning after December 31, 1983, interest received from securities of private issuers is taxable, because it is not considered interest on U.S. obligations and may not be subtracted from federal adjusted gross income on the Maryland return..

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