



Revenue Information Bulletin

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Corporation Income Tax, Individual Income Tax, Income Tax on Estates and Trusts, Partnership Income Tax Returns

Implications of the Corporation Income Tax Exemptions for Dividends and Interest

Purpose

The purpose of this Revenue Information Bulletin is to review the corporation income tax exemptions for dividends and interest and the effect of these exemptions on the tax calculations for other types of taxpayers.

Discussion

Act 401 of the 2005 Regular Session enacted R.S. 47:287.738(F), which exempts dividend and interest income from corporation income tax, while allowing corporations an election to be taxed on interest income from fifty percent or more owned subsidiaries. This discussion is limited to the issue of exempt dividends and interest.

Corporation Income Tax

Louisiana Revised Statute 47:287.81 provides, “In computing Louisiana net income or Louisiana taxable income no deduction shall in any case be allowed in respect of any amount otherwise allowable as a deduction which is attributable to income which, for any reason whatsoever, will not bear the tax imposed by this Part.”

With regard to exempt dividends and interest this means the expenses incurred in the production of the dividend and interest income are not deductible. One item often affected by this disallowance is interest expense. The amount of interest expense attributable to interest income, and therefore not deductible, can be computed using the processes described in the regulation LAC 61:I.1130(B)(1). This regulation can be found on the Department’s web site <http://www.revenue.louisiana.gov> under Publications/Tax Manuals/Corporation Income and Franchise Tax Statutes and Regulations. At the issuance date of this RIB the direct link is [http://www.revenue.louisiana.gov/forms/publications/6600\(1_06\).pdf](http://www.revenue.louisiana.gov/forms/publications/6600(1_06).pdf).

The provisions of Act 401 apply to all tax computed under the corporation income tax provisions. Therefore, dividends and interest are exempt for cooperatives, shipowners’ protection and indemnity associations, political organizations, and homeowners associations who are subject to the corporation income tax.

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Individual Income Tax

Act 401 has no effect on individual income tax. The Department has received some returns on which an individual shareholder of an S-corporation attempted to exclude from their individual return the interest that came to them from the S-corporation. No deduction is allowed on the individual return as a result of Act 401. The individual income tax is based on tax table income and tax table income is defined in R.S. 47:293. Tax table income is federal adjusted gross income as modified by the adjustments specified in R.S. 47:293. There is no adjustment for dividend or interest income other than the adjustments for U.S. Government interest and the interest from obligations of other states that predate the provisions of Act 401.

Income Tax on Estates and Trusts

As with individual income tax, Act 401 has no effect on the fiduciary income tax (the tax on estates and trusts). The fiduciary income tax calculation begins with federal items of income and expense as modified by adjustments specified in the Louisiana statute. There are no modifications related to Act 401.

Partnership Returns

Louisiana Revised Statute 47:287.93(A)(5) provides, "For purposes of this Part only, estates, trusts, and partnerships having a corporation as a member or beneficiary shall compute, allocate, and apportion their income or loss within and without this state in accordance with the processes and formulas prescribed by this Part, and the share of any corporation member or beneficiary in the net income or loss from sources in this state so computed shall be allocated to this state in the return of such corporation."

As a result of this provision, when computing income on the partnership informational return for a partner that is a corporation, dividends and interest shall be exempt to the extent they are exempt for corporation income tax and any expenses that would be disallowed for corporation income tax will be disallowed in the partnership return calculation.

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