INFORMATION BULLETIN #78

INCOME TAX

JANUARY 2003

(Replaces Bulletin #78 dated September 1987)

DISCLAIMER: Information bulletins are intended to provide nontechnical assistance to the general public. Every attempt is made to provide information that is consistent with the appropriate statutes, rules and court decisions. Any information, which is not consistent with the law, regulations, or court decisions is not binding on either the Department or the taxpayer. Therefore, the information provided herein should serve only as a foundation for further investigation and study of the current law and procedures related to the subject matter covered herein.

SUBJECT: Foreign Source Dividend Deduction

REFERENCE: IC 6-3-2-12

A deduction is provided for foreign source dividends in the computation of Indiana Adjusted Gross Income.

DEFINITIONS:

"Foreign source dividend" is a dividend from a foreign corporation, which also includes any amount that a taxpayer is required to include in its gross income under Section 951 of the Internal Revenue Code (Sub-part F – Controlled Foreign Corporations) but does not include any amount that is treated as a dividend under Section 78 of the Internal Revenue Code (gross-up).

“Foreign Corporation” is defined under IRC Section 7701(a)(5) as any corporation formed outside the United States.

Computation of deduction:

The amount of deduction is determined by the percentage of voting stock owned, by the taxpayer, in the foreign corporation computed as follows:

1. The deduction is 100% of the foreign source dividends included in **adjusted** gross income if the taxpayer owns at least 80% of the total combined voting power of all classes of stock of the foreign corporation from which the dividend is derived.

2. The deduction is 85% of the foreign source dividends included in **adjusted** gross income if the taxpayer owns at least 50% but less than 80% of the total combined voting power of all classes of stock of the foreign corporation from which the dividend is derived.

3. The deduction is 50% of the foreign source dividends included in **adjusted** gross income if the taxpayer owns less than 50% of the total combined voting power of all classes of stock of the foreign corporation from which the dividend is derived.

Kenneth L. Miller
Commissioner