DEPARTMENT OF STATE REVENUE

Information Bulletin #78
Income Tax
November 2022
Effective Date: Upon Publication
(Replaces Bulletin #78, dated January 2003)

SUBJECT: Foreign Source Dividend Deduction

REFERENCES: IC 6-3-2-12

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SUMMARY OF CHANGES
Aside from nonsubstantive, technical changes, this bulletin has been changed to reflect the updated definition of "foreign source dividend."

INTRODUCTION
The purpose of this bulletin is to provide guidance concerning the foreign source dividend deduction, which 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 included in a corporation's federal taxable income, which also includes any amount that a taxpayer is required to include in its gross income under Section 951 and 951A of the Internal Revenue Code (Sub-part F - Controlled Foreign Corporations). Further, for tax years beginning after December 25, 2016, foreign source dividends include the gross amount of repatriated dividends under IRC Section 965 and included in Indiana adjusted gross income. In addition, for tax years beginning after December 31, 2017, foreign source dividends include the amount of global intangible low-taxed income ("GILTI") included in federal taxable income prior to the IRC section 250 deduction. However, it does not include any amount that is treated as a dividend under Section 78 of the Internal Revenue Code (the "gross-up") and it does not include any dividend deducted or excluded from federal taxable income.

"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.

If a corporation files on a consolidated or combined basis, the percentage ownership threshold is determined separately for each corporation. In addition, the foreign source dividend is not allowable in determining a corporation's net operating loss for Indiana purposes.

If you have any questions concerning this bulletin, please contact the Tax Policy Division at taxpolicy@dor.in.gov.

Robert J. Grennes, Jr.
Commissioner

Posted: 04/26/2023 by Legislative Services Agency
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