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Income/Franchise:
Indiana DOR Explains Definition and Computation of Foreign Source Dividend Deduction

Income Tax Information Bulletin #78, Ind. Dept. of Rev. (11/22). The Indiana Department of Revenue issued a bulletin addressing the foreign source dividend deduction for Indiana adjusted gross income tax purposes, which explains that a "foreign source dividend" is a dividend from a foreign corporation included in a corporation's federal taxable income and encompasses any amount that a taxpayer is required to include in its gross income under Internal Revenue Code (IRC) sections 951 and 951A. The bulletin also explains that 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. Furthermore, it explains that "foreign source dividends" for Indiana purposes does not include any amount that is treated as a dividend under IRC section 78, and does not include any dividend deducted or excluded from federal taxable income.
URL: https://www.in.gov/dor/files/reference/ib78.pdf

The bulletin provides that the amount of the Indiana foreign source dividend deduction is determined by the percentage of voting stock owned by the taxpayer in the foreign corporation and is 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; and
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.

Moreover, the bulletin explains that if a corporation files on an Indiana consolidated or combined basis, the percentage ownership threshold is determined separately for each corporation. Lastly, the bulletin provides that the foreign source dividend is not allowable in determining a corporation's net operating loss for Indiana tax purposes. Please contact us with any questions.

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