

Income/Franchise:

Iowa DOR Says Parent's Gain from Sale of Q-Sub Stock May be Excluded from Q-Sub's Income

Declaratory Order, Docket No. 207171, Iowa Dept. of Rev. (11/18/22). The Iowa Department of Revenue (Department) issued a declaratory order concluding that gain realized by a parent S corporation (which elected to be taxed as an S corporation for federal and Iowa income tax purposes, and which was *neither* a financial institution *nor* subject to Iowa franchise tax) for the sale of stock of a wholly owned qualified subchapter S subsidiary (Q-Sub) that is a financial institution may be excluded from the calculation of the Q-Sub's net income for Iowa franchise tax purposes. In doing so, the Department explained that, under the provided facts for federal income tax purposes, the sale of the Q-Sub's stock would be treated as a transfer of assets and the Q-Sub's status as a new corporation following the sale would be disregarded; accordingly, "any gain associated with the transfer of assets would be realized by the parent corporation," rather than the Q-Sub, and such treatment "would not change for Iowa purposes." The Department also explained that if there is no gain from this transaction realized by the Q-Sub for federal income tax purposes, then there is no gain to be included in the Q-Sub's net income calculation for Iowa franchise tax purposes. Please contact us with any questions.

URL: <https://itrl.idr.iowa.gov/Browse/OpenFile/6224%7C%7CA11%7C%7CA11>

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