Tax Insights

A Publication of the Stradley Ronon
Tax Practice Group

WWW.STRADLEY.COM

AUGUST 28, 2019

Stradley Ronon Stevens & Young, LLP
2005 Market Street
Suite 2600
Philadelphia, PA 19103-7018
215.564.8000 Telephone
215.564.8120 Facsimile
www.stradley.com

With other offices in:
Washington, D.C.
New York
New Jersey
Illinois
Delaware

IRS Provides GILTI Relief

The IRS, in Notice 2019-46 (https://www.irs.gov/pub/irs-drop/n-19-46.pdf), announced that the U.S. Department of Treasury (Treasury Department) and the IRS intend to issue regulations that permit a domestic partnership or S corporation to apply the rules in proposed regulation Section 1.951A-5 for tax years ending before June 22, 2019 (Proposed Regulations). (See our prior coverage here (https://www.stradley.com/insights/publications/2018/09/tax-insights-september-26-2018).) This would be in place of the rules under final regulations published on June 21 (Final Regulations). (See our prior coverage here (https://www.stradley.com/insights/publications/2019/06/tax-insights-june-19-2019).) The Proposed Regulations, which were issued in 2018, provided a hybrid approach to the treatment of a domestic partnership that is a U.S. shareholder of a controlled foreign corporation (CFC). The Final Regulations, which were published on June 21, did not adopt the hybrid approach with respect to domestic partnerships in the Proposed Regulations. This Notice, which may be relied on until regulations are issued, are a result of the Treasury Department and the IRS realizing that some entities may have issued K-1s consistent with the Proposed Regulations and prior to the release of the Final Regulations and need related relief. Accordingly, if a domestic partnership or S corporation has satisfied certain notification and reporting requirements, such entity may apply the rules in proposed regulation Section 1.951A-5 and also may avoid the application of certain penalties.

California Court of Appeals Upholds Tax on RIC Distributions

The California Court of Appeals has ruled (https://www.stradley.com/-/media/files/publications/2019/08/201931608sttdocscamassvftbcoa.pdf?la=en&hash=797AC8E1E16EB9CA6F2BBFEBC15B7F9A) that California resident taxpayers were not entitled to a refund of California taxes paid on interest dividends received from a regulated investment company (RIC). The taxpayers contended that the interest dividends they received should not be subject to California income tax because the interest was derived from California municipal bonds. Under Section 17145 of the California Code, a RIC may report exempt-interest dividends only if:

- the entity qualifies as a RIC under the Internal Revenue Code of 1986, as amended, and
- at the close of each quarter of its taxable year, at least 50% of the value of its total assets consists of obligations the interest on which is exempt from taxation by the State of California when held by an individual.

The taxpayers argued that the tax they paid on the interest they received from the RIC that had less than 50% invested in bonds that were exempt from California tax, violated the California Constitution because they were essentially paying tax on bonds that the state exempts from taxation. The court rejected the taxpayers' argument stating that the taxpayers did not establish that Section 17145 violated the California Constitution.

IRS Released Applicable Federal Rates for September 2019

The IRS released Rev. Proc. 2019-20 (https://www.irs.gov/pub/irs-drop/rp-19-20.pdf), which sets forth the applicable federal rates for September 2019.

For more information, contact Christopher C. Scarpa at 215.564.8106 or cscarpa@stradley.com or Jacquelyn Gordon at 215.564.8176 or jgordon@stradley.com.