



**Revenue Ruling
No. 06-003**

**May 10, 2006
Corporation Income and Franchise Taxes**

**Calculation of the Domestic Production Activities Deduction for
Louisiana Corporation Income Tax Purposes**

Purpose

The primary purpose of this Revenue Ruling is to provide guidance to Revenue employees and taxpayers in calculating the IRC §199 Domestic Production Activities Deduction for Louisiana corporation income tax purposes.

Discussion

On October 22, 2004, President Bush signed into law the American Jobs Creation Act which included a tax benefit for certain domestic production activities. The deduction is calculated by first taking the qualified production activity gross receipts and then reducing them by the cost of goods sold, direct expenses and a portion of indirect expenses. This amount is the taxpayer's qualified production activity income. The deduction is equal to the lesser of the taxable income derived from a qualified production activity or the taxable income for the taxable year multiplied by the applicable percentages. The applicable percentage for 2005 and 2006 is 3 percent. The percentage increases to 6 percent in 2006 through 2009 and nine percent in 2010 and after. The following activities are qualified production activities:

1. The manufacture, production, growth or extraction in whole or significant part in the United States of tangible personal property, software development or music recordings;
2. Film production, provided at least 50 percent of the total compensation relating to the production services were performed in the United States;
3. Construction or substantial renovation of real property in the United States including residential property and commercial buildings and infrastructure;
4. Production of electricity, natural gas or water in the United States; or
5. Engineering and architectural services performed in the United States and related construction to real property.

Additionally, the deduction is limited to fifty percent of the W-2 wages paid by the taxpayer during the calendar year that ends in such taxable year.

Section 199 also provides that all members of an expanded affiliated group are treated as a single corporation for section 199 purposes. An expanded affiliated group for section

199 purposes is an affiliated group as defined in the internal revenue codes associated with consolidated returns except the 80% rule is replaced by a 50% rule. Under proposed federal regulations, the deduction is allocated among members of the expanded affiliated groups in proportion to each member's respective amount of qualified production activity income.

Rulings

How will the IRC § 199 deductions be allocated among members of a federal expanded affiliated group for the purposes of calculating Louisiana corporation tax? How will the individual corporation determine the portions of the total amount allocated to it that is attributable to allocable income, apportionable income or income not taxed by Louisiana?

The amount of Section 199 deduction attributed to each member of an expanded affiliated group will be the amount determined under federal law and regulations. In general, for federal purposes corporate members of expanded affiliated groups are treated as a single taxpayer for the purpose of computing the section 199 deduction allowed all members in total. Following the proposed federal regulations, that total deduction is allocated among members of the expanded affiliated group in proportion to each member's respective amount of qualified production activity income (QPAI). The proposed federal regulations also provide that if a member has negative qualified production activity income (QPAI) the qualified production activity income of that member shall be treated as zero. The federal regulations recognize this will at times cause a member with no taxable income or no wages to be allocated Section 199 deductions.

Once the domestic production activities deduction allocated to a corporation is determined, further allocation is necessary to determine the extent to which the deduction is attributable to allocable income, apportionable income or income that will not bear Louisiana income tax. To accomplish this:

1. The federal basis QPAI of the corporation will be segregated into QPAI that is allocable income, QPAI that is apportionable income and QPAI that is not subject to Louisiana income tax.
2. The domestic production activities deduction will be attributed to each classification to the extent of the ratio of each classification's QPAI to total QPAI for all classifications.
3. Any negative QPAI amounts will be treated as zero.

The domestic production activities deduction attributed to allocable income will be considered a deduction in computing Louisiana net allocable income to the extent of the ratio of allocable QPAI allocable to Louisiana to total allocable QPAI.

The domestic production activities deduction attributed to apportionable income will be considered a deduction in computing Louisiana net apportionable income to the extent of the ratio of apportionable QPAI apportionable to Louisiana to total apportionable QPAI.

The domestic production activities deduction attributed to income not subject to Louisiana income tax shall not be allowed as a deduction.

Example:

Following IRS Regulations The Jay Frost Corporation has been allocated \$10,000 of domestic production activities deduction. The Jay Frost Corporation has two major sources of income. The construction division contributed \$150,000 of QPAI to the expanded affiliated groups' domestic production activities deduction, while the oil and gas production division contributed an additional \$150,000 of QPAI.

Step 1. The federal basis QPAI of the corporation will be segregated into QPAI that is allocable income, QPAI that is apportionable income and QPAI that is not subject to Louisiana income tax:

Allocable QPAI	Apportionable QPAI	QPAI not Taxed by LA
\$150,000	\$150,000	-0-

Step 2. The domestic production activities deduction will be attributed to each classification to the extent of the ratio of each classification's QPAI to total QPAI for all classifications.

	Allocable QPAI	Apportionable QPAI	QPAI not Taxed by LA
	\$150,000	\$150,000	-0-
Ratio	.50	.50	
QPAI	\$ 5,000	\$ 5,000	

The Jay Frost Corporation is allowed to include \$5,000 as a deduction in computing total allocable income and \$5,000 as a deduction computing apportionable income.

Cynthia Bridges
Secretary

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<p>A Revenue Ruling is issued under the authority of LAC 61III.101 (C). A Revenue Ruling is written to provide guidance to the public and to Department of Revenue employees. It is a written statement issued to apply principles of law to a specific set of facts. A Revenue Ruling does not have the force and effect of law and is not binding on the public. It is a statement of the department's position and is binding on the department until superseded or modified by a subsequent change in statute, regulation, declaratory ruling, or court decision.</p>
