

Revenue Ruling No. 07-001
May 4, 2007
Individual Income Tax

Taxability of Money Transferred from DROP Accounts to an IRA

Purpose

The purpose of this Revenue Ruling is to address whether or not money transferred from a deferred retirement option plan (DROP) account into an individual retirement account (IRA) will be taxable for Louisiana individual income tax purposes and whether these amounts will be taxable for Louisiana income tax purposes when withdrawn from an IRA.

Background/Analysis

La. R.S. 11:405 provides for a state tax exemption for benefits paid out under the provisions of Chapter 1, Title 11. R.S. 11:405 state in pertinent part:

§ 405 Exemption from execution; exception. Any annuity, retirement allowance or benefit, or refund of contributions, or any optional benefit or any other benefit paid or paid to any person under the provisions of this Chapter is exempt from any state or municipal tax and is exempt from levy and sales, garnishment, attachment, or any other process whatsoever, except as provided in R.S. 11:292, and is unassignable.

Money in DROP accounts qualify as retirement benefits or allowances under the statute and are exempt from Louisiana individual income tax when withdrawn from the account. As stated in Revenue Ruling 03-008, benefits paid by the self-directed sub-accounts within DROP accounts are exempt from state taxation because these benefits are paid under the provisions of Chapter 1 Title 11. However, disbursements from other retirement accounts such as IRAs are not benefits paid under the provisions of Chapter 1 Title 11 of the Revised Statutes; therefore, the Louisiana Revised Statutes do not provide an exemption for disbursements from IRAs.

Ruling

For Louisiana individual income tax purposes, retirement benefits paid under the provisions of Chapter 1 Title 11 of the Louisiana Revised Statutes, including disbursements of money from DROP accounts, are exempt from state taxation. However, once funds are transferred to an IRA, any payments from the IRA are not exempt under the provisions of Chapter 1 Title 11.

Cynthia Bridges

Secretary

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.