

CALIFORNIA FRANCHISE TAX BOARD

Legal Ruling No. 192

December 5, 1956

TAXES PAID OTHER STATES OR COUNTRIES: COMPUTATION OF RESIDENT'S CREDIT FOR TAXES PAID OTHER STATES

Syllabus:

Resident taxpayer's credit for income tax paid to another state is not limited to that portion of tax paid other states which the income taxed in both states bears to balance subject to tax in the state of nonresidence.

The purpose of the tax credit provisions of the Personal Income Tax Law, as applied to California residents, was to protect them from double taxation resulting from overlapping jurisdictions. At the same time it was intended that there would be no reduction in the California tax on income which is not subject to tax by any other state. Thus Section 25(a) of the Personal Income Tax Act of 1935 imposed the limitation which now appears in Section 18001(c) which reads:

"(c) The credit shall not exceed such proportion of the tax payable under this part as the income subject to tax in the other state or country and also taxable under this part bears to the taxpayer's entire income upon which the tax is imposed by this part."

While the credit is limited to a proportion of the taxes paid to the other jurisdiction in the case of nonresident individuals (Section 18002(c)), resident trusts and estates (Section 18004(a)), resident beneficiaries of estates and trusts (Section 18005(a)), and in connection with tax credits of partners (Section 18006(b)), such limitation was not made applicable to resident individuals. It must be concluded therefore that Section 18001(c) contains the only limitation on the amount of tax credit which is to be allowed in a situation to which Section 18001 is applicable.