

CALIFORNIA FRANCHISE TAX BOARD

Legal Ruling No. 323

May 3, 1967

Deductions Allocable to Exempt Income

Syllabus:

In accordance with Howard v. Franchise Tax Board, 243 A.C.A. 632 (July 14, 1966) legal fees, accounting fees, and similar expenses paid by California residents in defending against Federal tax deficiencies involving taxable years during which they were nonresidents are not deductible. Such costs come within the prohibition of Section 17285(a) which disallows expenses allocable to income exempt from California tax.

The interest expense paid on deficiencies determined by the Federal proceedings is not connected with exempt income within the meaning of Section 17203 or allocable to it under Section 17285(a); accordingly, it is a deductible expense.

Legal Ruling No. 085 is withdrawn.