TAXABLE YEAR

2015

Dividend Income Deduction — Water's-Edge Filers

CALIFORNIA SCHEDULE

H (100W)

Attach to Form 100W. Attach additional sheets if necessary.

Corporation name	California corporation number

Part I Elimination of Intercompany Dividends (R&TC Section 25106)

	(a) Dividend payer	(b) Dividend payee
1		
2		
3		

	(c) Total amount of dividends received	(d) Amount that qualifies for 100% elimination	(e) Amount from column (d) paid out of current year earnings and profits	(f) Amount from column (d) paid out of prior year earnings and profits	(g) Balance column (c) minus column (d)
1					
2					
3					
4		●			

Enter total amounts of each column on line 4 above. Enter total from Part I, line 4, column (d) on Form 100W, Side 2, line 10.

Part II Deduction for Qualifying Dividends Paid to a Member of a Water's-Edge Combined Report (R&TC Section 24411)

(Foreign dividends paid by partially included members of a water's-edge combined report cannot be computed on this schedule.)

	(a) Dividend payer	(b) Name of member of the water's-edge group receiving dividend
1		
2		
3		

	(c) Percentage of ownership of dividend payer	(d) Amount of qualifying dividends received by payee (see instructions)	(e) Amount from column (d) paid out of current year earnings and profits	(f) Amount from column (d) paid out of prior year earnings and profits	(g) Deductible dividends column (d) X .75 or 100% dividends from construction projects
1					
2					
3					
4	Total amounts in column (g). Enter here and on Form 100W, Side 2, line 11a				●

Part III Deduction for Dividends Paid to a Corporation by an Insurance Company (R&TC Section 24410)

	(a) Dividend payer	(b) Dividend payee
1		
2		
3		

	(c) Percentage of ownership of dividend payer (must be at least 80%)	(d) Total insurance dividends received	(e) Qualified dividend percentage (see instructions)	(f) Amount of qualified insurance dividends column (d) x column (e)	(g) Deductible dividends 85% of column (f)
1					
2					
3					
4	Total amounts in column (g). Enter here and on Form 100W, Side 2, line 11b				●

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2015 Instructions for Schedule H (100W)

Dividend Income Deduction — Water's-Edge Filers

Important Information

Revenue and Taxation Code (R&TC) Section 24410 was repealed and re-enacted to allow a "Dividends Received Deduction" for qualified dividends received from an insurer subsidiary. The deduction is allowed whether or not the insurer is engaged in business in California, if at the time of each payment at least 80% of each class of stock of the insurer was owned by the corporation receiving the dividend. For taxable years beginning on or after January 1, 2004, and before January 1, 2008, an 80% deduction was allowed for qualified dividends. For taxable years beginning on or after January 1, 2008, the deduction is increased to 85%. A portion of the dividends may not qualify if the insurer subsidiary paying the dividend is overcapitalized for the purpose of the dividends received deduction. See Specific Instructions, Part III, for more information.

In *Farmer Bros. Co. v. Franchise Tax Board* (2003) 108 Cal App 4th 976, 134 Cal Rptr. 2nd 390, the California Court of Appeal found R&TC Section 24402 to be unconstitutional. A statute that is held to be unconstitutional is invalid and unenforceable. Therefore, R&TC Section 24402 deduction is not available.

For taxable years beginning on or after January 1, 2008, dividend elimination is allowed regardless of whether the payer/payee are taxpayer members of the California combined unitary group return, or whether the payer/payee had previously filed California tax returns, as long as the payer/payee filed as members of a comparable unitary business outside of California when the earnings and profits (E&P) from which the dividends were paid arose.

In addition, dividend elimination is allowed for dividends paid from a member of a combined unitary group to a newly formed member of the combined unitary group if the recipient corporation has been a member of the combined unitary group from its formation to its receipt of the dividends. E&P earned before becoming a member of the unitary group do not qualify for elimination. See R&TC Section 25106 for more information.

Specific Instructions

California follows the federal dividend distributions ordering rule where dividends are deemed to be paid out of current year E&P first, and then layered back on a last-in, first-out (LIFO) basis.

A corporation may eliminate or deduct dividend income when certain requirements are met. The available eliminations or deductions are described in the next column.

Part I – Elimination of Intercompany Dividends

A corporation may eliminate dividends received from unitary subsidiaries but only to the extent that the dividends are paid from unitary earnings and profits accumulated while both the payee and payer were members of the combined report. See R&TC Section 25106 for more information.

Complete Part I and enter the total of Part I, line 4, column (d) on Form 100W, Side 2, line 10.

Part II – Deduction for Qualifying Dividends Paid to a Member of a Water's-Edge Combined Report

R&TC Section 24411 allows a 75% deduction of qualifying dividends received and included in the water's-edge return. Both business and nonbusiness dividends qualify for the dividend deduction. The allowable business dividend deduction is determined by multiplying the total dividend deduction (business and nonbusiness) by the ratio of business dividends to total dividends. The remaining dividend deduction is the nonbusiness dividend deduction.

A deduction of 100% is provided for dividends derived from certain foreign construction projects. A construction project is defined as an activity related to alteration or improvement of land. The construction project, the location of which is not subject to the taxpayer's control, must be undertaken for an entity, including a governmental entity, that is not affiliated with the taxpayer. See R&TC Section 24411 for more information.

In no event will an R&TC Section 24411 deduction be allowed with respect to a dividend for which a deduction was allowed under R&TC Section 24410 or which was eliminated under R&TC Section 25106.

Current year qualifying dividends are dividends received by any current member of the water's-edge group from a corporation (regardless of the place of incorporation) if both the following conditions are met:

- The average of the payer's property, payroll, and sales factors within the U.S. is less than 20%.
- More than 50% of the total combined voting power of all classes of voting stock is owned directly or indirectly by a member of the water's-edge group at the time the dividend is received.

The payer need not be in a unitary relationship with the recipient or any other member of the water's-edge group.

Intercompany dividends received within the current year's water's-edge group should be eliminated pursuant to R&TC Section 25106 before computing the dividend deduction.

Report the dividends received from certain foreign constructions projects in Part II, column (g). Write the dividend payer's name and label dividends received from certain foreign construction projects as "FCP" in Part II, column (a).

Complete Schedule H (100W), Part II and enter the total of Part II, line 4, column (g) on Form 100W, Side 2, line 11a. For Part II, column (d), if any portion of a dividend also qualifies for the intercompany elimination in Part I, enter the balance from Part I, column (g) in Part II, column (d).

Part III – Deduction for Dividends Paid to a Corporation by an Insurance Company

R&TC Section 24410 provides that a corporation that owns 80% or more of each class of stock of an insurer is entitled to an 85% dividends received deduction for qualified dividends received from that insurer. The deduction would be allowed regardless of whether the insurer does business in California.

The amount of the dividends that qualify for the dividends received deduction is the total amount of dividends received from that insurer, multiplied by the insurer's qualified dividend percentage. The qualified dividend percentage is determined under R&TC Section 24410(c).

To complete Part III:

1. Fill in columns (a) through (c).
2. Enter in column (d) the total amount of insurance dividends received.
3. Enter the qualified dividend percentage in column (e).
4. Multiply the amount in column (d) by the qualified dividend percentage in column (e) and enter that amount in column (f).
5. Multiply the amount in column (f) by 85% and enter the result in column (g).
6. Total amounts in Part III, line 4, column (g). Enter the amount from Part III, line 4, column (g) on Form 100W, Side 2, line 11b.

The calculation of the qualified dividend percentage should be presented in a supplemental schedule that is attached to the taxpayer's return. That schedule should identify the amount of the net written premiums for all the insurance companies in the commonly controlled group for the preceding five years (including an identification of property/casualty premiums, life insurance premiums, and financial guarantee premiums), the relative weight given to each class of net written premiums, and the total income of the insurance companies in the commonly controlled group (including premium and investment income for the preceding five years). See R&TC Section 24410 for more information.