Income/Franchise:
Indiana: Tax Base and Apportionment Calculations for Foreign Corporation in Toll Manufacturing Arrangement

Revenue Ruling 2024-02CCP, Ind. Dept. of Rev. (1/3/25). An Indiana Department of Revenue ruling involving a foreign corporation (domiciled outside the United States) that is a partner in a United States partnership ("toll manufacturer") with which it engages in a contract manufacturing arrangement wherein i) the partnership performs the manufacturing activity in various states (including Indiana) but does not take title to the inventory/raw materials during production, and ii) the foreign corporation subsequently sells the finished goods to the toll manufacturer for ultimate sale to customers nationwide concludes that, based on the provided information, the foreign corporation:
URL: https://iar.iga.in.gov/register/20250122-IR-045250013NRA

1. Must exclude its income from the sale of finished goods to the toll manufacturer for Indiana adjusted gross income tax purposes, and
2. Correspondingly, must exclude any such receipts from the sale of finished goods to the toll manufacturer from its Indiana apportionment factor.

Under the facts, the foreign corporation and toll manufacturer have a unitary relationship; the foreign corporation has Indiana nexus due to its partnership interest in the toll manufacturer doing business in Indiana; and the foreign corporation does not have US payroll or property – other than the raw materials and work in process inventory used in the toll manufacturing process. Additionally, the ruling notes that the foreign corporation is protected from US federal income taxation on its income pursuant to a tax treaty between the corporation and its resident nation; however, the foreign corporation is *not* protected from federal income taxation on its income derived from the toll manufacturer.

Pursuant to these facts, the ruling explains that because application of the treaty with the corporation's federal taxable income results in it *not* including its profit/loss from the sale of finished goods to the toll manufacturer on Line 1 of its federal corporate income tax return, such income is also excluded from its Indiana adjusted gross income. However, because the corporation's income from its ownership in the toll manufacturer must be included in the corporation's federal taxable income, it also must include its share of income from the toll manufacturer in its Indiana adjusted gross income. Moreover, to prevent any unfair representation of its income from an apportionment perspective, the corporation's receipts from the sale of finished goods to the toll manufacturer must be excluded from its Indiana apportionment factor – from both its numerator and denominator – but the foreign corporation must include its share of the toll manufacturer's receipts for Indiana apportionment purposes. Please contact us with any questions.

— Tom Engle (St. Louis)
Manager
Deloitte Tax LLP
tengle@deloitte.com

Joe Garrett (Birmingham)
Managing Director
Deloitte Tax LLP
jogarrett@deloitte.com

Copyright © 2025 Deloitte Development LLC
All rights reserved.

This communication contains general information only, and none of Deloitte Touche Tohmatsu Limited ("DTTL"), its global network of member firms or their related entities (collectively, the "Deloitte organization") is, by means of this communication, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser.

No representations, warranties or undertakings (express or implied) are given as to the accuracy or completeness of the information in this communication, and none of DTTL, its member firms, related entities, employees or agents shall be liable or responsible for any loss or damage whatsoever arising directly or indirectly in connection with any person relying on this communication. DTTL and each of its member firms, and their related entities, are legally separate and independent entities.

About Deloitte
Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited ("DTTL"), its global network of member firms, and their related entities (collectively, the "Deloitte organization"). DTTL (also referred to as "Deloitte Global") and each of its member firms and related entities are legally separate and independent entities, which cannot obligate or bind each other in respect of third parties. DTTL and each DTTL member firm and related entity is liable only for its own acts and omissions, and not those of each other. DTTL does not provide services to clients. Please see www.deloitte.com/about to learn more.

Deloitte provides industry-leading audit and assurance, tax and legal, consulting, financial advisory, and risk advisory services to nearly 90% of the Fortune Global 500® and thousands of private companies. Our professionals deliver measurable and lasting results that help reinforce public trust in capital markets, enable clients to transform and thrive, and lead the way toward a stronger economy, a more equitable society and a sustainable world. Building on its 175-plus year history, Deloitte spans more than 150 countries and territories. Learn how Deloitte's approximately 415,000 people worldwide make an impact that matters at www.deloitte.com.

Copyright © 2025 Deloitte Development LLC
All rights reserved.