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# This Week in State Tax (TWIST)

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TENNESSEE

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## Tennessee: Department Revises Position on FDII

Tennessee's Franchise and Excise Tax Manual contains a plethora of information on these taxes, including covering conformity to certain federal provisions. Under IRC section 250 corporations are allowed a deduction equal to 37.5 percent of their foreign derived intangible income or FDII. The Department historically took the position, as outlined in the manual, that any deduction for FDII taken for federal income tax purposes was disallowed in computing Tennessee corporate excise tax. On January 26, 2023, the state published an overview of upcoming updates to the Franchise and Excise Tax Manual. One of those updates relates to the FDII deduction. Notably, the Department has reviewed this issue and determined that while Tennessee has decoupled from IRC section 250 for purposes of GILTI, it has not decoupled for purposes of the FDII deduction. Therefore, in computing "net earnings" under Tenn. Code Ann. § 67-4-2006, taxpayers are entitled to the full amount of the IRC section 250(a) deduction to which it is entitled under federal law as it relates to FDII. Please contact Taylor Sorrells with questions.

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