

STATE OF DELAWARE
DEPARTMENT OF FINANCE

DIVISION OF REVENUE
DIRECTOR'S RULING 71-11

November 17, 1971

SUBJECT: Net Operating Losses - Subchapter "S" Corporation

Chapter 19, Title 30, Delaware Code, has been amended by adding the following new paragraph to Section 1902 (b):

"(b) The following corporations shall be exempt from taxation under this chapter:

9. A small business corporation having a valid election under Subchapter "S" of the Internal Revenue Code of 1954 in effect for any entire income year beginning on or after January 1, 1971; provided that if on the last day of such income year any of the stockholders of such corporation are nonresident individuals (as defined in Section 1104 of this title), such corporation shall be subject to the tax imposed by this chapter on that percentage of its taxable income equal to the percentage of its stock owned by nonresident individuals on such day. "

It is our interpretation that residents of the State of Delaware who are stockholders of a Subchapter "S" corporation would be treated in the same manner as under the laws of the United States referring to federal income taxes. Thus, the income or loss as computed for federal tax purposes, for residents will be reported on the Delaware return (subject to modifications under Section 1106 of 30 Delaware Code), in the same manner as to the Internal Revenue Service.

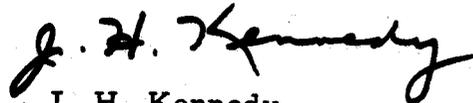
Any unused net operating loss of the Subchapter "S" corporation (which heretofore has been taxed in the State of Delaware as a corporation) will not be allowed on the Individual return.

DIRECTOR'S RULING 71-11

A net operating loss of a Subchapter "S" corporation for years beginning with January 1, 1971 will be treated in the same manner as described in Director's Ruling 71-10 dated November 16, 1971.

The undistributed share of profits of a Subchapter "S" corporation earned prior to January 1, 1971 will be treated as ordinary income upon distribution to Delaware resident stockholders.

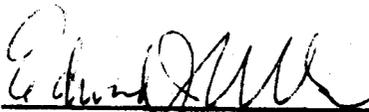
The taxpayer shall adjust the basis of his stock to comply with the provisions of Section 1149 of 30 Delaware Code.



J. H. Kennedy
Director of Revenue

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CONCURRED:



Edward J. Wilson
Deputy Attorney General