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Mass v. Franchise Tax Board

Court of Appeal, Second District, Division 3, California - August 15, 2019 - Cal.Rptr.3d - 2019 WL 3823675 - 19 Cal. Daily Op. Serv. 8154

Taxpayers filed a complaint for refund of taxes paid on interest dividends that they received as a result of holding shares in a regulated investment company that received 12.41% of its interest income from its holdings in California municipal bonds, which were interest dividends that, taxpayers contended, were exempt from taxation under the state constitution.

The Superior Court determined that the interest dividends were taxable. Taxpayers appealed.

The Court of Appeal held that the statute pursuant to which the interest dividends were taxed did not run afoul of state constitutional provision that interest on bonds issued by the state or local government in the state was exempt from taxes on income.

State statute taxing interest dividends that taxpayers received as a result of holding shares in a regulated investment company that received 12.41% of its interest income from its holdings in California municipal bonds did not run afoul of state constitutional provision that interest on bonds issued by the state or local government in the state was exempt from taxes on income.

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