defined in §1.1291–9(j)(2)(i), in deter-
moving its net capital gain for a tax-
able year, may either—
(A) Calculate and report the amount
of each category of long-term capital
gain provided in section 1(h) that was
recognized by the PFIC in the taxable
year;
(B) Calculate and report the amount
of net capital gain recognized by the
PFIC in the taxable year, stating that
that amount is subject to the highest
capital gain rate of tax applicable to
the shareholder; or
(C) Calculate its earnings and profits
for the taxable year and report the en-
tire amount as ordinary earnings.

(ii) Effective date. Paragraph (a)(2)(i)
of this section is applicable to sales by
QEFs during their taxable years ending
on or after May 7, 1997.

(b) Other rules. [Reserved]

(c) Application of rules of inclusion
with respect to stock held by a pass
through entity—(1) In general. If a do-
mestic pass through entity makes a
section 1295 election, as provided in
paragraph (d)(2) of this section, with
respect to the PFIC shares that it
owns, directly or indirectly, the domes-
tic pass through entity takes into ac-
count its pro rata share of the ordinary
earnings and net capital gain attrib-
utable to the QEF shares held by the
pass through entity. A U.S. person that
indirectly owns QEF shares through
the domestic pass through entity ac-
counts for its pro rata shares of ordi-
nary earnings and net capital gain at-
tributable to the QEF shares according
to the general rules applicable to inclu-
sions of income from the domestic pass
through entity. For the definition of
pass through entity, see §1.1295–1(j).

(2) QEF stock transferred to a pass
through entity makes a section 1295 election. If a share-
holder transfers stock subject to a sec-
tion 1295 election to a domestic pass
through entity of which it is an inter-
est holder and the pass through entity
makes a section 1295 election with re-
spect to that stock, as provided in
§1.1295–1(d)(2), the shareholder takes
into account its pro rata shares of the
ordinary earnings and net capital gain
attributable to the QEF shares under
the rules applicable to inclusions of in-
come from the pass through entity.

(ii) Pass through entity does not make a
section 1295 election. If the pass through
entity does not make a section 1295
election with respect to the PFIC, the
shares of which were transferred to the
pass through entity subject to the 1295
election of the shareholder, the share-
holder continues to be subject, in its
capacity as an indirect shareholder, to
the income inclusion rules of section
1293 and reporting rules required of
shareholders of QEFs. Proper adjust-
ments to reflect an inclusion in income
under section 1293 by the indirect
shareholder must be made, under the
principles of §1.1291–9(f), to the basis of
the indirect shareholder’s interest in
the pass through entity.

(3) Effective date. Paragraph (c) of this
section is applicable to taxable years of
shareholders beginning after December

[T.D. 8750, 63 FR 14, Jan. 2, 1998. Redesig-
nated and amended by T.D. 8870, 65 FR 5779,
5781, Feb. 7, 2000]

§ 1.1294–0 Table of contents.
This section contains a listing of the
headings for §1.1294–1T.

§1.1294–1T Election to extend the time for pay-
ment of tax on undistributed earnings of a
qualified electing fund.

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(b) Election to extend time for payment of
tax.
(1) In general.
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(3) Undistributed earnings.
(1) In general.
(2) Effect of loan, pledge or guarantee.
(3) Time for making the election.
(1) In general.
(2) Exception.
(d) Manner of making the election.
(1) In general.
(2) Information to be included in the elec-
tion.
(e) Termination of the extension.
(f) Undistributed PFIC earnings tax liabil-
ity.
(g) Authority to require a bond.
(h) Annual reporting requirement.

[T.D. 8750, 63 FR 13, Jan. 2, 1998]

§ 1.1294–1T Election to extend the time
for payment of tax on undistributed
earnings of a qualified electing
fund (temporary).

(a) Purpose and scope. This section
provides rules for making the annual