

situation described in paragraph (a)(2)(iv) of this section.

(c) *Examples.* The application of the foregoing rules may be illustrated by the following examples:

Example 1. X Corporation and Y Corporation compute their taxable income on the basis of the calendar year, and both corporations use an accrual method of accounting. On December 31, 1954, Y Corporation acquires the assets of X Corporation in a transfer to which section 381(a)(2) applies. By reason of State law, Y Corporation assumes responsibility for all of the obligations for which X Corporation is then, or may become, liable. The parties have no knowledge of any specific obligations of X Corporation which are not yet fixed and ascertainable, but it is agreed to reduce the amount of consideration that Y Corporation is to transfer in exchange for the assets of X Corporation by \$5,000 to reflect any unforeseen contingent liabilities of X Corporation for which Y Corporation might subsequently become liable. After the date of the transfer, a claim for damages on account of the alleged negligence of an alleged agent of X Corporation is filed. After commencement of legal action by the claimant and in order to eliminate the possibility of injury to its business, Y Corporation settles the claim in 1955 by paying the claimant the amount of \$3,000. Assuming that such sum would have been deductible under section 162 if paid by X Corporation, Y Corporation is entitled to deduct such sum in accordance with the provisions of section 381(c)(16) and this section in computing its taxable income for 1955, since the claim gave rise to a liability after the date of transfer, the parties were not aware of a specific obligation, and the specific obligation was not reflected in the consideration transferred by Y Corporation in exchange for the assets of X Corporation.

Example 2. Assume the same facts as in *Example (1)*, except that the claim for damages was filed prior to the transfer of X Corporation's assets to Y Corporation, but the parties considered the chances for recovery by the claimant so remote that no specific amount other than the \$5,000 reduction in consideration for all contingent liabilities as a whole is reflected in the consideration transferred by Y Corporation in exchange for the assets of X Corporation. Assuming that such sum would have been deductible under section 162 if paid by X Corporation, the \$3,000 paid by Y Corporation in 1955 is deductible in accordance with the provisions of section 381(c)(16) and this section in 1955.

Example 3. Assume the same facts as in *Example (1)*, except that the parties consider the chances of recovery by the claimant of sufficient probability that Y Corporation reduces the amount of consideration it trans-

fers in exchange for the assets of X Corporation by \$1,000 in addition to the \$5,000 reduction for all other contingent liabilities. The \$3,000 paid by Y Corporation in 1955 is not deductible under section 381(c)(16) and this section, since the specific obligation was reflected in the consideration transferred by Y Corporation in exchange for the assets of X Corporation. The deductibility of the payment is accordingly governed by the provisions of section 381(c)(4) and the regulations thereunder. Similarly, if in this case Y Corporation had transferred \$10,000 less in consideration for the assets of X Corporation because of this particular claim, Y Corporation would not be entitled to any deduction for the \$3,000 paid in 1955 under section 381(c)(16) and this section, and the deductibility of the payment would be governed by the provisions of section 381(c)(4) and the regulations thereunder. If the date of transfer of X Corporation's assets had occurred prior to the effective date of subchapter C, chapter 1 of the Internal Revenue Code of 1954, applicable to a reorganization, no deduction would be allowed to Y Corporation under that section.

[T.D. 6750, 29 FR 11267, Aug. 5, 1964]

§ 1.381(c)(17)-1 Deficiency dividend of personal holding company.

(a) *Carryover requirement.* If a determination (as defined in section 547(c)) establishes that a distributor or transferor corporation in a transaction to which section 381(a) applies is liable for personal holding company tax imposed by section 541 (or by a corresponding provision of prior income tax law) for any taxable year ending on or before the date of distribution or transfer, then in computing such tax the deduction described in section 547 shall be allowed pursuant to section 381(c)(17) to such corporation for the amount of deficiency dividends paid by the acquiring corporation with respect to the distributor or transferor corporation. Except as otherwise provided in this section, the provisions of section 547 and the regulations thereunder apply with respect to a deficiency dividend deduction allowable pursuant to section 381(c)(17).

(b) *Deficiency dividends paid by the acquiring corporation with respect to the distributor or transferor corporation.* A deficiency dividend paid by the acquiring corporation with respect to the distributor or transferor corporation is a distribution that would satisfy the definition of a deficiency dividend under

section 547(d)(1) if paid by the distributor or transferor corporation to its own shareholders except that it shall be paid by the acquiring corporation to its own shareholders and shall be paid after the date of distribution or transfer and on, or within 90 days after, the date of the determination but before the acquiring corporation files claim under paragraph (c) of this section.

(c) *Claim for deduction.* A claim for a deduction under this section shall be made by the acquiring corporation on Form 976, and shall be filed within 120 days after the date of the determination. The form shall contain, or be accompanied by, the information required under paragraph (b)(2) of § 1.547-2 in sufficient detail to properly identify the facts with the distributor or transferor corporation and the acquiring corporation. The statement required with respect to the shareholders on the date of payment of the deficiency dividend shall relate to the shareholders of the acquiring corporation, and the required certified copy of the resolution authorizing the payment of the dividend shall be that of the board of directors, or other authority, of the acquiring corporation. Necessary changes may be made in Form 976 in order to carry out the provisions of this paragraph. The claim shall be filed with the district director for the internal revenue district in which the return of the distributor or transferor corporation to which such claim relates was filed.

(d) *Effect on dividends paid deduction.* A deficiency dividend paid by the acquiring corporation, which is allowable as a deduction to a distributor or transferor corporation pursuant to section 381(c)(17), shall not become a part of the dividends paid deduction of the acquiring corporation under section 561 for any taxable year.

(e) *Successive transactions to which section 381(a) applies.* The provisions of this section shall apply in the case of successive transactions to which section 381(a) applies. Thus, if X Corporation transfers its assets to Y Corporation in a transaction to which section 381(a) applies and if Y Corporation transfers its assets to Z Corporation in a subsequent transaction to which sec-

tion 381(a) applies, then, subject to the provisions of this section, X Corporation may take a deficiency dividend deduction for the amount of deficiency dividends paid by Z Corporation with respect to X Corporation.

(f) *Example.* The provisions of this section may be illustrated by the following example:

Example. M Corporation, a personal holding company, computes its taxable income on the basis of the calendar year. On December 31, 1956, N Corporation acquires the assets of M Corporation in a transaction to which section 381(a) applies. On July 31, 1958, a determination (as defined in section 547(c)) establishes that M Corporation is liable for the taxable year 1955 for personal holding company tax in the amount of \$35,500 based on undistributed personal holding company income of \$42,000 for such taxable year. N Corporation complies with the provisions of this section and on September 30, 1958, distributes \$42,000 to its shareholders as deficiency dividends with respect to M Corporation's taxable year 1955. The distribution of \$42,000 by N Corporation is a taxable dividend under section 316(b)(2) regardless of whether N Corporation is a personal holding company for the taxable year 1958 or whether it had any current or accumulated earnings and profits. See *Example (3)* in paragraph (e) of § 1.316-1. Because N Corporation has paid deficiency dividends of \$42,000 in accordance with this section, M Corporation is entitled to a deficiency dividend deduction of \$42,000 for the taxable year 1955 and is thus relieved of its liability for personal holding company tax of \$35,500 for such taxable year. To prevent a duplication of deductions, the amount distributed by N Corporation in 1958 does not become a part of N Corporation's dividends paid deduction under section 561 for any taxable year.

[T.D. 6532, 26 FR 409, Jan. 19, 1961, as amended by T.D. 7604, 44 FR 18661, Mar. 29, 1979; T.D. 7767, 45 FR 11264, Feb. 6, 1981]

§ 1.381(c)(18)-1 Depletion on extraction of ores or minerals from the waste or residue of prior mining.

(a) *Carryover requirement.* Section 381(c)(18) provides that the acquiring corporation in a transaction described in section 381(a) shall be considered as though it were the distributor or transferor corporation after the date of distribution or transfer for the purpose of determining the applicability of section 613(c)(3) (relating to extraction of ores or minerals from the ground). Thus, an acquiring corporation which has acquired the waste or residue of